

Public consultation on ICP CF 9.4 Supervisory Reporting

Survey response 1

Please provide your information:
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Do you agree with your responses being made public on the IAIS website?
Yes

General comments on Introductory Guidance
The IAA notes that IAIS consults at the same time on paragraph 47 of ComFrame. According to proposed paragraph, "the ICS implementation assessment methodology also sets out how the specificities of the Final US Aggregation Method as the US implementation of the ICS should be considered in the ICS implementation assessment". The IAA believes it is unclear how the Final US Aggregation Method accounts for differences of the methodologies. This applies e.g. to MOCE, discounting rates and internal models under the ICS. IAA notes that there would be need either to revisit the paragraphs in the consultation or to revisit the definitions of the concepts used in CF 9.4 in the ICS implementation assessment methodology.

Comment on guidance ICP CF 9.4.0.1

General comments on standard and guidance ICP CF 9.4.a (reporting of ICS results)

Comment on standard ICP CF 9.4.a

Comment on guidance ICP CF 9.4.a.1
The IAA believes it would be useful to have a few years of fairly detailed solvency projections, on the assumption of no capital injections or dividends.

Comment on guidance ICP CF 9.4.a.2
The group-wide supervisor may require the Head of the IAIG to report its ICS results more frequently than annually under certain conditions, such as a material acquisition or disposal, a significant change in the risk profile, the occurrence of a material event, or upon the request of the group-wide supervisor. More frequent regular reporting could also be required to enable effective supervision. In the case, the group-wide supervisor might allow simplified calculations of ICS.
If solvency is reported only annually, it is possible that the information is up to 15 months out of date. Therefore, we understand the need for more frequent reporting. However, we believe that for calculations other than the annual one, and their reporting, simplified methods could be used.

Comment on guidance ICP CF 9.4.a.3 and Annex F

Comment on guidance ICP CF 9.4.a.4 and Annex G

General comments on standard and guidance ICP CF 9.4.b (reporting of ICS ratio)

Comment on standard ICP CF 9.4.b
Comment on guidance ICP CF 9.4.b.1
Comment on guidance ICP CF 9.4.b.2
Some elements of the ICS calculation could be treated as either deductions from capital or capital charges. Where material, the IAIG should note which treatment has been applied in such cases, and the impact on the ICS ratio (as this may generate inconsistency between insurers).
General comments on standard and guidance ICP CF 9.4.c (reporting of entities included and those excluded in ICS calculation)
Comment on standard ICP CF 9.4.c
Comment on guidance ICP CF 9.4.c.1
Comment on guidance ICP CF 9.4.c.2
General comments on standard and guidance ICP CF 9.4.d (reporting of ICS consolidated balance sheet)
Comment on standard ICP CF 9.4.d
Comment on guidance ICP CF 9.4.d.1
The ICP needs to be clear on whether this is the GAAP of the head of the group, or the collection of local GAAPs. Also, consideration could be given to making it a requirement that the reconciliation includes written commentary on each adjustment to facilitate supervisory understanding.
General comments on standard and guidance ICP CF 9.4.e (reporting of underlying valuation of ICS balance sheet items)

Comment on standard ICP CF 9.4.e

CF 9.4.e requires the Head of the IAIG to report on the value of various items. The third bullet under “Liabilities” requires the reporting of the liabilities “as replicable by a portfolio of assets”. We note that CF 9.4.e refers to portfolios where insurance obligations are replicated reliably using financial instruments used in the replication. The value of the liabilities depends on the replicating portfolio and not on a specific discount rate. As mentioned under comment 1, IAIS should consider the fact that in US the discounting method is not based "replicable by a portfolio of assets".

CF 9.4.e also requires disclosure of the MOCE in the valuation of insurance liabilities. As mentioned under comment 1, IAIS should consider the fact that in the US there is currently no requirement to define a MOCE.

We also note that appendix F shows how the reported data can be used when assessing capital adequacy. This does not take into account the specificities of international groups where there may be companies with explicit or implicit MOCE, or companies that do not calculate MOCE at all. In practice, in the analysis of the prudence of the calculations, the share of insurance liabilities should be identified by each calculation method, at least the share of insurance liabilities where MOCE is not calculated at all. We recommend that:

- 1) In the ICS Summary - between the current lines 30 and 31 of the annex G of ICP 9, we recommend inserting a new line 31 - Breakdown into method how margin over current estimate (MOCE) is considered – for current period and prior period.
- 2) In the annex F, the 5th bullet point
 - reviewing the breakdowns of insurance liabilities by line of business, by bucket, and separating the current estimate and MOCE could be made clearer by being changed as follows:
 - reviewing the breakdowns of insurance liabilities by the method how MOCE is considered in the calculation of insurance liabilities, line of business, by bucket, and separating the current estimate and MOCE
- 3) In CF 9.4.e, under Liabilities, the second bullet point
 - the value of insurance liabilities with a breakdown of:
 - o current estimate by main lines of business; and
 - o margin over current estimate (MOCE);
 could be made clearer by being changed as follows:
 - the value of insurance liabilities with a breakdown into method how margin over current estimate (MOCE) is considered and each of these with a breakdown of:
 - o current estimate by main lines of business; and
 - o margin over current estimate (MOCE);

We also note that, in the third bullet point, the sentence "Information on the value of insurance liabilities based on the discounting curves used and that as replicable by a portfolio of assets.", the word "and" should be replaced by "or".

So, the sentence would be: "Information on the value of insurance liabilities based on the discounting curves used or that as replicable by a portfolio of assets."

Comment on guidance ICP CF 9.4.e.1

Comment on guidance ICP CF 9.4.e.2

A preferred LoB split and LoB definitions could be provided to move IAIGs towards greater consistency.

Comment on guidance ICP CF 9.4.e.3

Comment on guidance ICP CF 9.4.e.4

General comments on standard and guidance ICP CF 9.4.f (reporting of information on ICS capital resources)

Comment on standard ICP CF 9.4.f

Comment on guidance ICP CF 9.4.f.1

CF 9.4.f.1 relates to financial instruments in general. However, it appears that many of its provisions concern subordinated loans. The IAA proposes that IAIS separates the general provisions from those specifically related to subordinated loans.

General comments on standard and guidance ICP CF 9.4.g (reporting of information on ICS capital requirement covered by standard method)

Comment on standard ICP CF 9.4.g

The third bullet could be phrased a little more clearly, for example: “within each risk category – life risk, non-life risk, catastrophe risk, market risk and credit risk – a breakdown of the sub-risks”

The last bullet requires an insurer to quantify the impact of management actions on the ICS capital requirement, if applicable. In some cases, it might be too penalizing to provide this information for all management actions, so it could be amended to state for material management actions instead.

Comment on guidance ICP CF 9.4.g.1**General comments on standard and guidance ICP CF 9.4.h (reporting of information on ICS capital requirement according to internal model)****Comment on standard ICP CF 9.4.h****Comment on guidance ICP CF 9.4.h.1****Comment on guidance ICP CF 9.4.h.2****General comments on standard and guidance ICP CF 9.4.i (reporting of additional information)****Comment on standard ICP CF 9.4.i****Comment on guidance ICP CF 9.4.i.1**

The second bullet point of 9.4.i.1 allows the supervisor to require reporting the results of sensitivity analysis, and the list of assumptions to be used is open-ended. It is common for companies to stress-test their results (financial condition tests and ICS tests), but the objectives of these tests differ. The IAA believes that not all results of company-initiated stress tests should be reported and, if supervisors require stress tests, they define the minimum set of stress tests that the companies must perform. We also think that supervisors should exercise discretion in order to avoid the potentially unnecessary burden of multiple calculations.

Do you have views about how the draft ICS-related standard CF 9.4 should be assessed in the context of the Final US Aggregation Method?

As already noted in our response under General Comments on Introductory Guidance, the IAA believes that there is a need to revisit these paragraphs once the Final US Aggregation Method has been finalized. IAA remains available to contribute during the implementation process. We consider that, as the high-level-principles of ICS have been defined, the implementation of the Final US Aggregation Method is primarily technical in nature and not political.