Suggestions on Insurance Capital Standard

18 June, 2015

The General Insurance Association of Japan

Main Points of the GIAJ's Suggestions

1. The ICS should be used as an "Early Warning Indicator" (*not an intervention point*) until convergence among jurisdictions is achieved in light of the apprehension of the following situation.

2. Unconcerted scheme change of capital standards in limited number of jurisdictions could lead to **excessive additional capital requirements on IAIGs**, hence:

   - **Fungibility of capital should be recognized;**
   - **"Capital Protectionism"** *(overly conservative, unilateral local requirements)* **must be avoided.**

Usage of ICS

- We suggest using ICS *(for the time being until convergence among jurisdictions is achieved)* as:
  - "Early Warning Indicator" (***not to be used as an intervention point***)
  - "Communication Facilitator" in supervisory colleges

  in order to **avoid the harmful situation** illustrated in the next slide.

- Advantages of introducing ICS as an EWI:
  - Facilitate understanding of IAIGs in supervisory colleges
  - Promulgate the global standard as a target to be pursued by respective local solvency regulators
  - **Reliability and robustness of the standards can be enhanced over time**, without causing unintended consequences.

Convergence of Consolidated and Single Entity-based Standards (1)

Potential harmful effect caused by unconcerted scheme change for single entity-based standards in a limited number of jurisdictions

1. With the fungibility of capital being recognized, **no additional capital is needed**. The IAIG holds **more capital ($230) as a whole than the $200 required** by the ICS.
2. However, if the local single entity-based regime in **only jurisdiction B is changed**, the IAIG would **need to procure additional capital** for a Capital **Add-on of $20** at Entity B.

>> Unconcerted scheme changes for single entity-based standards in a limited number of jurisdictions should be avoided.

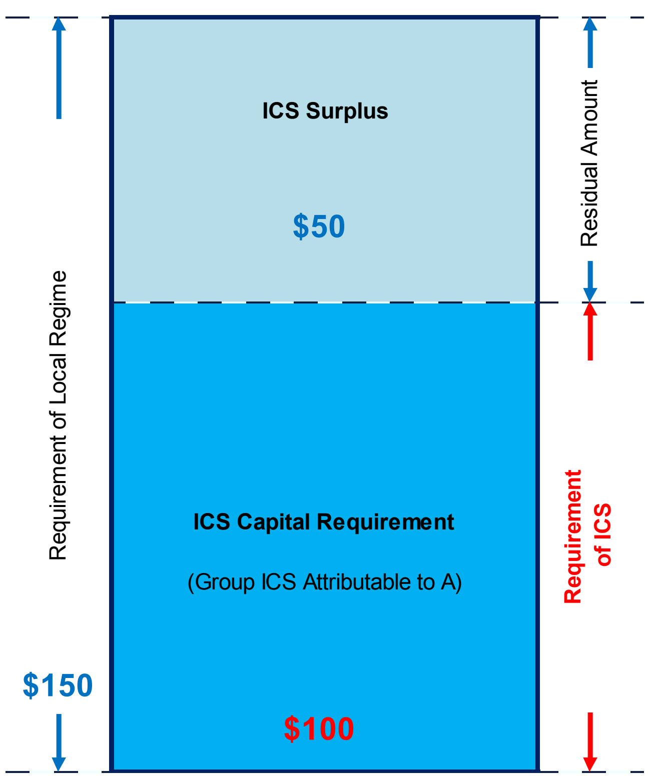
Assumptions:

1. This IAIG holds total capital of $230 ($150 in A, $80 in B).

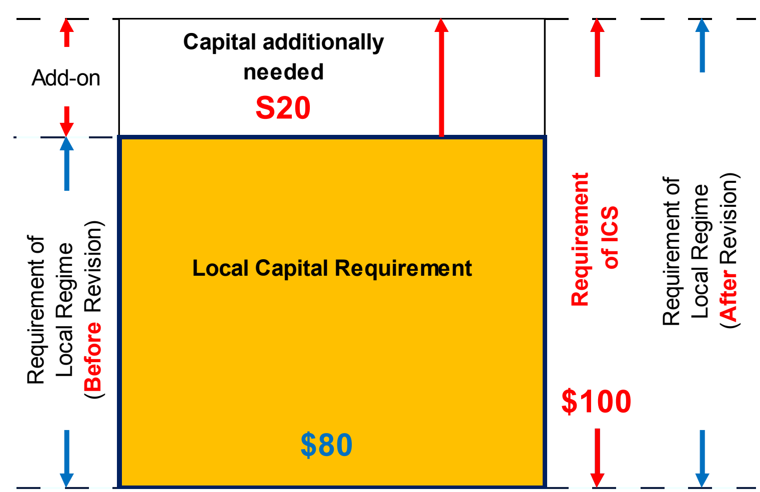
2. Entities A and B have the same portfolio.

3. Group ICS Requirement is $200 (= $100 X 2).

Entity A within Group in country A



Entity B within Group in country B



Convergence of Consolidated and Single Entity-based Standards (2)

Ideal situation achieved by a harmonized scheme change for single entity-based standards in all jurisdictions

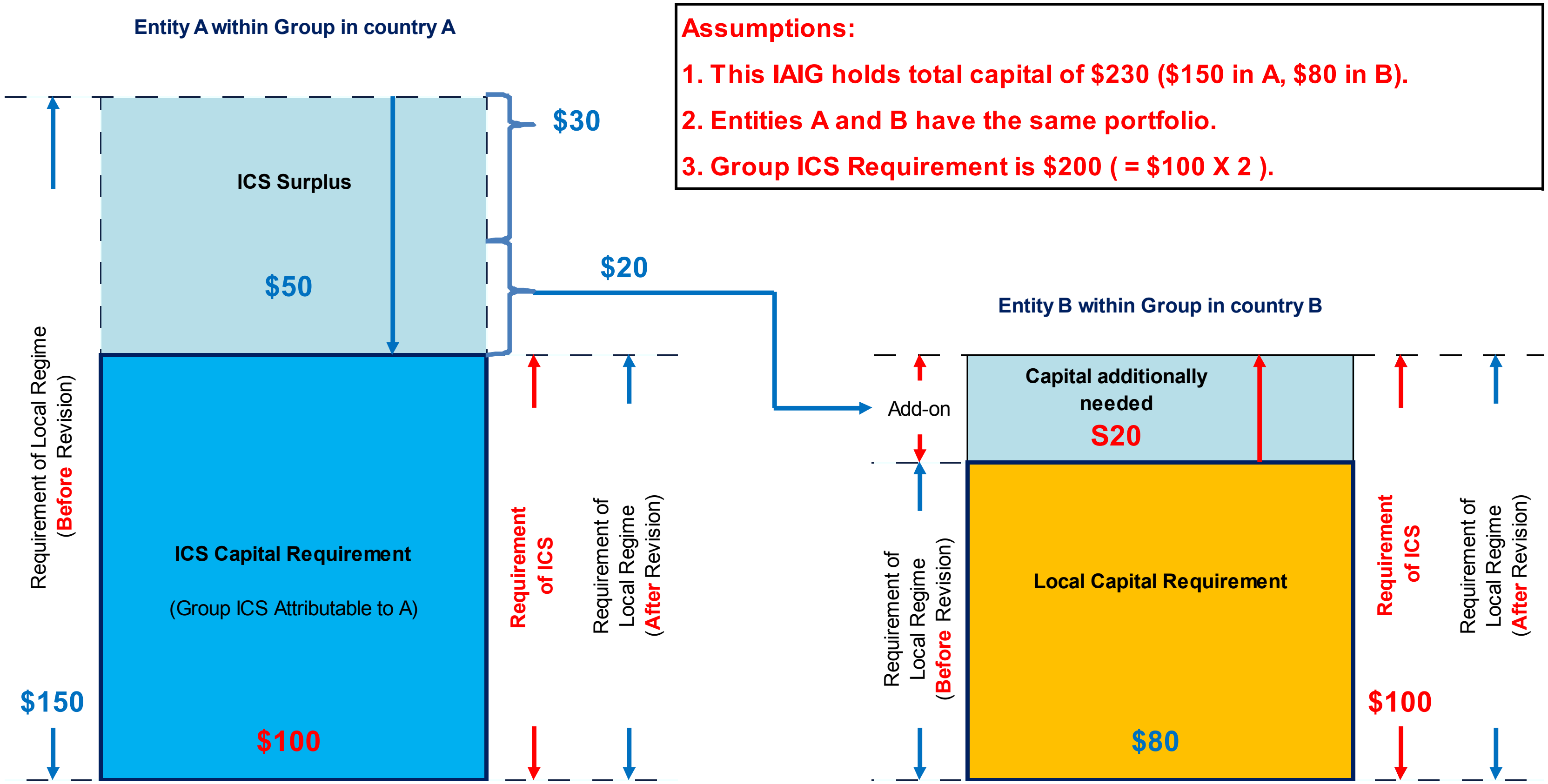
1. With the fungibility of capital being recognized, **no additional capital is needed**. The IAIG holds **more capital ($230) as a whole than the $200 required** by the ICS.
2. With the local single entity-based regimes in **A and B being converged with the ICS, no additional capital is needed**, as the surplus portion ($20 out of $50) may be transferred to B to cover $20; the remaining $30 may be **held anywhere most effective**.
3. Capital fungibility is the key.
4. "Capital protectionism" (overly conservative, unilateral local requirements) must be avoided.

Assumptions:

1. This IAIG holds total capital of $230 ($150 in A, $80 in B).

2. Entities A and B have the same portfolio.

3. Group ICS Requirement is $200 (= $100 X 2).



Fungibility of Capital

- Recognition of the fungibility of capital and thereby having capital be effectively utilized is consistent with the ICS Principle 2 (policyholder protection and financial stability).
  - ➢ Financial stability will be promoted since capital can be transferred anywhere, anytime it is required.
  - ➢ It does not compromise local capital standards and policyholder protection will not be hindered.

- If capital fungibility is not recognized:
  - ➢ Effective capital utilization will be hindered.
  - ➢ IAIGs may be compelled to hold excessive capital.
  - ➢ As a result, capital costs will lead to higher insurance premiums, which will be disadvantageous to policyholders.