ICS Consultation Document – Responses to Comments on Aggregation and Diversification (Section 9.2.7)

9 March 2016

About this slide deck

1. This is the next tranche of resolutions of ICS Consultation Document (ICS CD) responses and comments received from IAIS Members and Stakeholders.

2. Member comments are grouped, noting that:

   i. Members who provided confidential responses are not explicitly identified, but the total number of responses received is reported; and

   ii. it is the policy of some Members to not comment on public consultations.

3. Stakeholder comments are presented on a thematic basis.

4. Note that a single response to both questions is provided in the last slide.

Glossary of Member Acronyms/ Shortened Names

AMF	Autorité des Marchés Financiers, Quebec, Canada
BaFin	Federal Financial Supervisory Authority, Germany
BMA	Bermuda Monetary Authority
CIRC	China Insurance Regulatory Commission
EIOPA	European Insurance and Occupational Pensions Authority
Hong Kong	Office of the Commissioner of Insurance
MAS	Monetary Authority of Singapore
NAIC	National Association of Insurance Commissioners, United States
OSFI	Office of the Superintendent of Financial Institutions, Canada
Russia	Central Bank of the Russian Federation

IAIS

13.4.5 Aggregation and Diversification - Q 153

153. Is the use of a variance-covariance matrix approach appropriate for the example standard method for the ICS capital requirement? If not, please explain what other approach would be more appropriate and why.

AMF, BaFin, BMA, EIOPA, MAS, OSFI, and six other Members support the use of a variance-covariance matrix for the standard method.

There was majority support from stakeholders for the use of variance-covariance matrices.

A few stakeholders specifically disagreed with this approach, preferring an internal model approach, and noting the difficulty of assessing correlations in the tails of distributions.

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13.4.5 Aggregation and Diversification - Q 154

154. Which approach (i.e. single or multiple steps) should the IAIS adopt for the example standard method for the ICS capital requirement and why? If a multiple steps approach is recommended, please describe and explain why this will be appropriate.

BaFin, BMA, EIOPA, MAS, and 5 other Members support the use of a multiple steps approach for the standard method.

The reasons given for supporting a multiple steps approach included that it is more practicable to derive and validate and it is simpler as it requires fewer correlations to be specified. Several implementation issues, including recognition of geographical diversification and the need for appropriate calibration, were also noted.

OSFI supported the use of a single step approach.

The majority of stakeholders supported the use of a multiple steps approach and several indicated that either approach could be adopted in the standard approach.

One stakeholder stated a preference for a single step approach.

Responses to questions 153 and 154

IAIS Response: For the development of the ICS standard method, the IAIS will continue to explore using a variance–covariance approach that uses multiple steps.