6.13 Credit risk

Q198

Q198 Section 6.13.3.1 Do you support the approach used for 2016 Field Testing with respect to allowing the use of external credit ratings for ICS Credit risk purposes? Why or why not?

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
China Insurance Regulatory Commission	China	IAIS Member	No	Yes	
EIOPA	EIOPA	IAIS Member	No	Yes	The use of external ratings has a number of drawbacks. But substituting them with internal ones poses also difficulties: The costs for producing internal ratings can be considerable. Moreover, there have to be mechanisms (for example a supervisory approval process) to safeguard sufficient quality. This is also important to ensure a level-playing field. Therefore the chosen approach seems appropriate.
BaFin	Germany	IAIS Member	No	Yes	Of course, alternative approaches in order to reduce the overreliance on ratings as internal Ratings, the inference of credit risk from market data etc. should be investigated. However, one should keep in mind that such approaches also have a number of drawbacks and that they cannot fully replace external ratings.

Financial Supervisory Service	Korea	IAIS Member	No	Yes	
KNF - Polish Financial Supervision Authority	Poland	IAIS Member	No	Yes	
National Association of Insurance Commissioners	USA	IAIS Member	No	Yes	In general, we support the use of external credit ratings for ICS credit risk purposes. However, our support for the use of external credit ratings is not to the exclusion of allowing other mechanisms that may be in use by some jurisdictions, such as the use of a supervisor-owned process.
Ageas	Belgium	Other	No	Yes	
Canadian Institute of Actuaries	Canada	Other	No	Yes	A key goal should be to have consistency of credit ratings between companies and across jurisdictions. The use of consistent credit rating agencies would help to achieve this.
CLHIA	Canada	Other	No	Yes	The use of consistent credit rating agencies ratings will help achieve the goal of comparability among jurisdictions.
Ping An Insurance (Group) Company of China Ltd.	China	Other	No	Yes	We agree to use the external credit ratings for measurement of credit risk. Meanwhile, we agree that the rating provided by external rating agencies should comply with the recognition standards in Technical Specifications, where the data of rating agencies are public and transparent and the rating mapping standards are based on historical default data, could reflect the consistency of valuation among countries and objectively evaluate the credit risks faced by the companies.
Insurance Europe	Europe	Other	No	Yes	The use of external credit ratings should be allowed, and alternatives should be envisaged when these are not available.

					It should be recognised that in practice it would neither be feasible nor desirable to refrain from any reference to external ratings. Any limitations in this area should take into account the nature, scale and complexity of insurers' business and investments.
Institut des Actuaires	France	Other	No	Yes	
Allianz	Germany	Other	No	Yes	We agree in general with the use of external credit ratings, since this is also consistent with our SII internal modelling approach. However, the usage of internal ratings should also be possible, if they are acknowledged by local regulators in the context of Solvency II internal modelling for certain cases (e.g. for mortgages, corporate loans without any external ratings)
GDV - Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Other	No	Yes	We agree in general with the use of external credit ratings. However, the usage of internal ratings should also be possible, if they are acknowledged by local regulators (e.g. in the context of Solvency II internal modelling for certain cases like mortgages, corporate loans without any external ratings).
Munich Re	Germany	Other	No	Yes	
AIA Group	Hong Kong	Other	No	No	We believe the current approach is reasonable as an interim approach only. We agree that ratings used for local capital requirements should be acceptable to the IAIS and also that local ratings from local rating agencies satisfying appropriate criteria should be recognized. However, we continue to believe that internal ratings based on an internal ratings process that meets certain criteria specified by the IAIS should also be recognized. This is especially an issue in some of our markets where a large percentage of investments are not rated by an agency.

International Actuarial Association	International	Other	No	Yes	See answer to Q200 since the use of external credit ratings implicitly requires some mapping of ratings from different agencies onto a common 'score' (although in practice the IAIS could adopt mappings agreed by others, e.g. those used in Solvency II which we believe are based primarily on work done by the European Banking Authority).
Dai-ichi Life Holdings, Inc.	Japan	Other	No	No	・Some life insurance companies have internal credit ratings based on their own creditable data and control credit risk appropriately. Thus, the use of internal ratings should be discussed. Unless the use of internal ratings is admitted, IAIGs will be less profitable due to narrower investment opportunities. ・The IAIS should take seriously the fact that risk management based on external rating system did not necessarily work in the past financial crises. Japanese life insurance companies are required to have an internal rating system which does not depend excessively on external ratings.
General Insurance Association of Japan	Japan	Other	No	No	The use of external credit ratings should not be allowed. The differences between ratings assigned by credit rating agencies and external ratings, which are expected to emerge due to their varying rating processes, should not be allowed.
The Life Insurance Association of Japan	Japan	Other	No	No	・With regard to assets whose credit can hardly be rated by external agencies, there are some cases where such assets are applied internal credit ratings by insurers based on their own credible data and the credit risk is managed appropriately. We are concerned in the case if the use of internal credit ratings is not allowed options for investments by IAIGs would be reduced, leading to decrease in the profitability. ・The IAIS should take to heart the fact that risk management based on external credit ratings did not necessarily work in past financial crises.
Great Eastern Holdings Ltd	Singapore	Other	No	Yes	External credit rating are easily obtainable and comparable across all IAIGs.

Swiss Re	Switzerland	Other	No	Yes	This approach seems largely appropriate for a standard method. Firms should not be required to develop their own ratings. Nonetheless, we strongly support allowing the use of regulatory approved internal models for credit risk modelling.
American Council of Life Insurers	United States	Other	No	Yes	ACLI supports the use of external credit ratings for credit risk purposes and recommends that the current list of approved agencies be expanded to include Morningstar Credit Ratings, LLC, a rating agency approved by both the National Association of Insurance Commissioners and the United States Securities and Exchange Commission.
MetLife	United States	Other	No	Yes	MetLife supports the use of external credit ratings for credit risk purposes but recommends the IAIS to continue permitting the use of NAIC ratings and expanding the list of acceptable bond rating agencies to permit the use of all acceptable rating agencies approved by the SEC as nationally recognized statistical rating organizations, including Morningstar Credit Ratings, LLC, which is an approved rating agency by both the NAIC and SEC. ICS rating category should specify that ratings conform to a global ratings scale and not to a national ratings scale.
RAA	United States and many other jurisdicitons	Other	No	Yes	
Prudential Financial, Inc.	United States of America	Other	No	Yes	We believe that any international capital standard should take into consideration the standards and practices by which local regulatory bodies supervise their institutions, including through the use of credit designations and similar constructs.

Liberty Mutual Insurance Group	USA	Other	No	Yes	Ratings assigned by NRSROs are the appropriate tool for assessing credit quality. NRSROs have access to a significant amount of non-public information and have insight to the management team's strategy and objectives. As such, they are able to provide a much more reliable assessment of credit quality than if a company were to attempt to assess this internally based on the limited information available publically.
MassMutual Financial Group	USA	Other	No	Yes	We support utilizing external credit ratings to help regulators consistently assess credit quality where available. The rating agencies are global firms; their work is widely accepted as a measure of credit risk. That said, we also strongly support utilizing NAIC ratings where external ratings are not available.

Q199

Q199 Section 6.13.3.1 Does any alternative to the use of ratings issued by credit rating agencies exist in the regulatory framework of your jurisdiction (eg supervisory-owned processes)? Please provide details.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
Bermuda Monetary Authority (BMA)	Bermuda	IAIS Member	No	Yes	NAIC ratings are allowed.
China Insurance Regulatory Commission	China	IAIS Member	No	No	
EIOPA	EIOPA	IAIS Member	No	Yes	Insurers that develop an internal model and obtain supervisory approval for it are allowed to use the results produced by the approved model. The resulting regulatory capital requirement has to correspond to the required safety level specified in the regulatory framework. The insurer can build an internal model for all its risks or certain segments (e.g. market risk, spread risk). The internal model has to meet requirements in terms of data quality, modelling, governance and integration into the decision making of the undertaking.
BaFin	Germany	IAIS Member	No	Yes	Internal model firms under Solvency II can fully use internal ratings if these satisfy certain criteria. Standard formula users can apply internal ratings if these are as conservative as the external ratings. Moreover in some parts relating to insurance (reinsurance) exposures, the Solvency II framework uses the Solvency ratio as a proxy for credit quality.

Financial Supervisory Service	Korea	IAIS Member	No	No	
National Association of Insurance Commissioners	USA	IAIS Member	No	Yes	U.S. state insurance supervisors rely on the NAIC Securities Valuation Office (SVO) to assess the credit quality of unrated debt securities. This is an independent, supervisor-owned process that does not rely exclusively on Nationally Recognized Statistical Rating Organizations (NRSROs). The NAIC SVO designations and other analysis performed by the SVO are used in supervisory processes to monitor insurers' financial condition, including accounting treatment, statutory reporting, and risk-based capital charges. The SVO derives its authority from state investment laws and is governed by the NAIC Valuation of Securities Task Force of the Financial Condition Committee. Further details available upon request.
Ageas	Belgium	Other	No	No	Credit rating agencies are experts on this domain which explains why we suggest to rely on the assessment of these experts.
Canadian Institute of Actuaries	Canada	Other	No	No	
CLHIA	Canada	Other	No	No	
Ping An Insurance (Group) Company of China Ltd.	China	Other	No	Yes	According to C-ROSS rules, credit risk assessment needs to be based on the ratings provided by external rating agencies approved by the regulator. Additionally, the regulator CIRC has the right to ask insurance companies to adjust ratings based on the supervisory judgement, if CIRC conceives the ratings from external rating agencies cannot objectively reflect the asset risks.
Insurance Europe	Europe	Other	No	No	Solvency II allows, as an alternative to external credit ratings, the recognition of credit risk assessment via internal approaches. Solvency II also gives due consideration to the

					difficulties that insurers might face in developing their own risk assessment models: "In order to avoid overreliance on external credit assessment institutions when they use external credit rating assessment in the calculation of technical provisions and the Solvency Capital Requirement, insurance and reinsurance undertakings shall assess the appropriateness of these external credit assessments as part of their risk management by using additional assessments wherever practically possible in order to avoid any automatic dependence on external assessments."
Institut des Actuaires	France	Other	No	Yes	
Allianz	Germany	Other	No	Yes	The usage of internal ratings should also be possible, if they are acknowledged by local regulators in the context of Solvency II internal modelling for certain cases (e.g. for mortgages, corporate loans without any external ratings).
GDV - Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Other	No	Yes	The usage of internal ratings should also be possible, if they are acknowledged by local regulators (e.g. in the context of Solvency II internal modelling for certain cases like mortgages, corporate loans without any external ratings).
Munich Re	Germany	Other	No	Yes	Please refer to Solvency II regulation for details (internal credit risk assessment).
AIA Group	Hong Kong	Other	No	No	
Dai-ichi Life Holdings, Inc.	Japan	Other	No	Yes	・Life insurance companies in Japan are required not to depend on external ratings too much but to have our own credit rating framework.

General Insurance Association of Japan	Japan	Other	No	No	
The Life Insurance Association of Japan	Japan	Other	No	Yes	・Please refer to the comment(s) on Question 198.
Great Eastern Holdings Ltd	Singapore	Other	No	No	NA
Swiss Re	Switzerland	Other	No	Yes	Internal models can be used in Switzerland (SST) and Europe (Solvency II). We strongly support allowing the use of regulatory approved internal models.
MetLife	United States	Other	No	Yes	Please see our response to Q. 200 below.
Prudential Financial, Inc.	United States of America	Other	No	No	While no comprehensive alternative to credit rating agency ratings exists, U.S. NAIC designations are utilized in cases where the credit rating agency process is not sufficient, such as private placements.
MassMutual Financial Group	USA	Other	No	Yes	In our jurisdiction, NAIC ratings of credit quality are used, as we are based in the United States. Where applicable, the NAIC rating is a function of the external rating. However, the NAIC rating also extends beyond external ratings to certain asset classes such as private placement bonds, which external rating agencies do not generally grade.

Q200

Q200 Section 6.13.3.1 Should the IAIS allow the use of ratings and/or designations that are not issued by credit rating agencies, for example, ratings and/or designations that are issued by a supervisory-owned process (eg, the NAIC Securities Valuation Office)? Please explain.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
Bermuda Monetary Authority (BMA)	Bermuda	IAIS Member	No	Yes	Supervisory owned rating processes mitigate reliance on rating agency evaluation. They are not subject to conflict of interest as they are not sponsored by issuers and typically follow prudential processes and valuations.
China Insurance Regulatory Commission	China	IAIS Member	No	No	We view that only rating/designations that reaches the level of ICS requirements for recongizing external rating agencies (for example published rating methodolgoioes, default statistics and rating reports), can be recognized in ICS, to maintain the international compararablity and consistency.
EIOPA	EIOPA	IAIS Member	No	Yes	It has to be ensured that the ratings/designations are of a sufficient quality. This is one of the main purposes of the regulations that credit rating agencies are subject to. As there are no corresponding mechanisms other private ratings/designations should not be allowed. Supervisory-owned processes should be allowed in case they meet appropriate criteria safeguarding sufficient quality. It has also to be ensured that there is no systematic advantage for companies that can use these ratings compared to competitors that have to rely on external ratings.

BaFin	Germany	IAIS Member	No	Yes	Provided that such ratings have a sufficient quality and meet certain criteria such ratings could be used. Supervisory-owned processes could e.g. be allowed in case they meet appropriate criteria safeguarding sufficient quality. It has also to be ensured that there is no systematic advantage for companies that can use these ratings compared to competitors that have to rely on external ratings.
Financial Supervisory Service	Korea	IAIS Member	No	No	
National Association of Insurance Commissioners	USA	IAIS Member	No	Yes	As noted in our response to Q199, the NAIC SVO designations are used as part of the U.S. state insurance supervisors' supervisory process. Conflicts of interest, which may be a concern with the use of ratings issued by credit rating agencies, is not an issue in the case of the NAIC SVO process, as U.S. state insurance supervisors control and govern the nature and scope of the SVO's processes and its credit quality designations. This activity is exercised through public information and meetings, which reinforces the supervisor and NAIC SVO staff relationship. U.S. state insurance supervisors' use of the SVO is consistent with certain mandates of the U.S. Dodd-Frank Act, regarding reduced reliance on external rating agencies for regulatory purposes. Additionally, the Financial Stability Board and the G-20 have issued similar mandates regarding reducing mechanistic reliance on credit rating agency ratings and considering alternatives so that credit ratings agencies are not the sole input to credit risk assessment. The IAIS allowing the use of designations that are issued by a supervisory-owned process would be in line with these domestic and international mandates.
Ageas	Belgium	Other	No	No	

Canadian Institute of Actuaries	Canada	Other	No	Yes	If ratings are used that are sourced from a non-supervisory-owned process, there should be congruity between these ratings and those from a credit rating agency. In the case of the NAIC SVO, there is a mapping available between its ratings and the ratings of the credit rating agencies.
CLHIA	Canada	Other	No	Yes	We agree with the potential for the use of alternative ratings/designations, but on the proviso that there is congruency of outcome with the credit rating agencies.
Ping An Insurance (Group) Company of China Ltd.	China	Other	No	Yes	We agree to adopt a unified and internationally comparable rating standard, to ensure the transparency and international comparability of rating results.
Actuarial Association of Europe	European Union	Other	No	No	For better comparability, where more than one interest rate scenario areis used to assess interest rate risk, we suggest IAIG's individual capital requirement to be based on the respective scenario that shows the maximum impact rather than correlating impacts of more than one stress.
Allianz	Germany	Other	No	Yes	The usage of internal ratings should also be possible, if they are acknowledged by local regulators in the context of Solvency II internal modelling for certain cases (e.g. for mortgages, corporate loans without any external ratings). Regarding other designations: If they either fulfil the criteria for the recognition of rating providers or are acknowledged by local regulators for calculating regulatory capital requirements (e.g. acknowledged for SII internal modelling purposes), then the usage should be allowed. However, usage of other designations shall not be mandatory.
GDV - Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Other	No	Yes	The usage of internal ratings should also be possible, if they are acknowledged by local regulators (e.g. in the context of Solvency II internal modelling for certain cases like mortgages, corporate loans without any external ratings). Regarding other designations: If they either fulfil the criteria for the recognition of rating providers or are acknowledged by local regulators for calculating regulatory

					capital requirements (e.g. acknowledged for SII internal modelling purposes), then the usage should be allowed. However, the use of alternatives (e.g. internal assessments or usage of external rating agencies) should be at the discretion of the companies in order to establish well integrated processes in the enterprise.
Munich Re	Germany	Other	No	Yes	However, the use of alternatives (e.g. internal assessments or usage of external rating agencies) should be at the discretion of the (re-)insurance undertaking in order to establish well integrated processes in the enterprise.
AIA Group	Hong Kong	Other	No	Yes	We strongly think internal rating should be allowed, subject to robust and clearly articulated criteria of such internal rating framework to ensure consistency exists across insurance companies.
International Actuarial Association	International	Other	No	Yes	As per our answer to Q198, some process will be needed to identify how to map the rating from any given external credit rating agency onto a standardised 'score' (although this process might be borrowed from work other regulators have already done in this area). In principle it should be possible to extend this to supervisory-owned processes. How such a process would work for processes owned by supervisors in one jurisdiction when applied to IAIGs and SIIs located in a different jurisdiction is likely to require further work on the part of IAIS.
Dai-ichi Life Holdings, Inc.	Japan	Other	No	Yes	Please refer to the answer for Q198.
General Insurance Association of Japan	Japan	Other	No	No	In view of ensuring a level-playing field and comparability, we are concerned over the expansion of the scope to allow the use of credit assessments (ratings and/or designations) not issued by credit rating agencies based on the BCBS model.

The Life Insurance Association of Japan	Japan	Other	No	Yes	・Please refer to the comment(s) on Question 198. ・In addition, we believe that the IAIS should allow the ratings and/or designations that are issued by supervisory-owned process (e.g. the NAIC Securities Valuation Office) to be used not only in the supervisory jurisdiction that the ratings and/or designations are issued, but also in other jurisdictions.
Great Eastern Holdings Ltd	Singapore	Other	No	No	To allow for comparability across IAIGs.
Swiss Re	Switzerland	Other	No	Yes	See response to question 199 above.
Institute and Faculty of Actuaries	UK	Other	No	No	The use of credit ratings that are not generally available such as those issued by the NAIC Securities Valuation Office could put insurers in other jurisdictions at a disadvantage.
American Council of Life Insurers	United States	Other	No	Yes	ACLI strongly urges the IAIS to continue permitting the use of NAIC ratings and expanding the list of acceptable bond rating agencies to permit the use of all acceptable rating agencies approved by the SEC as nationally recognized statistical rating organizations.
MetLife	United States	Other	No	Yes	We strongly urge the IAIS to continue permitting the use of NAIC ratings and expanding the list of acceptable bond rating agencies to permit the use of all acceptable rating agencies approved by the SEC as nationally recognized statistical rating organizations. We would hope that use of NAIC and SEC ratings could be extended to cover private placement bonds in addition to other publicly traded bonds.
New York Life	United States	Other	No	Yes	Yes, in particular the NAIC SVO ratings should continue to be permitted.

RAA	United States and many other jurisdicitons	Other	No	Yes	
Prudential Financial, Inc.	United States of America	Other	No	Yes	Prudential believes consumers and financial markets will be best served by an ICS that accommodates the diversity of global insurance markets and recognizes existing risk sensitive regulatory tools and frameworks. While there are multiple elements influencing the potential inclusion/exclusion of U.S. NAIC designations from the ICS, the IAIS and its members must consider potential unintended consequences if the ratings are excluded, such as: + potential reductions in the flow of capital to investments which rely on such ratings (e.g. private placement investments, loans, etc.) and; + potential disincentives for jurisdictions around the world to develop risk sensitive frameworks similar to the NAIC.
MassMutual Financial Group	USA	Other	No	Yes	We strongly support the utilization of NAIC ratings, in order to accurately and fairly assess the credit quality of investment portfolios. Particularly, we find that treating all private placement bonds as non-investment grade grossly overstates the credit risk of the portfolio. The NAIC has developed a fair, appropriate and accurate way to measure credit quality at the CUSIP level, and we would encourage the IAIS to leverage this work.
Property Casualty Insurers Association of America (PCI)	USA	Other	No	Yes	Yes. For jurisdictions such as the U.S. where insurance supervisors have developed a rating system, use of that system's ratings/designations should be allowed.

Q200.1

Q200.1 Section 6.13.3.1 If “yes” to Q200, should the IAIS consider modifying the criteria for the recognition of rating providers, taking account of the specific features of the supervisory-owned process? Please explain.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
Bermuda Monetary Authority (BMA)	Bermuda	IAIS Member	No	Yes	Supervisory owned rating processes mitigate reliance on rating agency evaluation. They are not subject to conflict of interest as they are not sponsored by issuers and typically follow prudential processes and valuations. There are fundamental differences in the business model and motivations of rating agencies vs. supervisory owned rating processes that should be accounted for.
EIOPA	EIOPA	IAIS Member	No	Yes	In principle the same criteria should apply. Specificities should of course be taken into account (see answer to the following question). But the criteria should ensure a level of quality that is comparable to external ratings.
BaFin	Germany	IAIS Member	No	Yes	
Financial Supervisory Service	Korea	IAIS Member	No	No	
National Association of Insurance Commissioners	USA	IAIS Member	No	Yes	The current criteria do not reflect the distinctions between credit rating agencies and a supervisory-owned process. The NAIC is exploring a set of criteria which are more appropriate to supervisory-owned processes, such as the SVO, for consideration by the IAIS. Such standards center on two crucial areas: 1) alignment of interest; and 2) competency.

					Alignment of interest could be based on: 1) ownership (either internal or subsidiary); 2) control (demonstrate actual control); and 3) policies (documentation demonstrating actual control over the process, such as the NAIC Securities Valuation Policies and Procedures Manual). Competency requirements could include two categories: 1) individual (analysts should meet certain minimum educational and professional qualifications); and 2) experience (the supervisory-owned process should have analyzed a large percentage of assets over a significant span of time for their local supervisor).
Canadian Institute of Actuaries	Canada	Other	No	No	The use of a rating system that is different from a recognized credit rating agency should be an exception, not the norm. The administration of a credit rating function is a complicated and resource-heavy affair requiring up-to-date information and a complicated administration process. This would be very difficult for most jurisdictions. For this reason, credit rating agencies should be used when they are available.
CLHIA	Canada	Other	No	No	They should not be modified to accommodate other sources of ratings/designations as the credit rating agencies should be the primary source.
GDV - Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Other	No	Yes	See answer to Q 200.
Munich Re	Germany	Other	No	Yes	See Q200.
AIA Group	Hong Kong	Other	No	Yes	See our answer to the prior question.

International Actuarial Association	International	Other	No	Yes	See answer to Q200.
Dai-ichi Life Holdings, Inc.	Japan	Other	No	Yes	Please refer to the answer for Q198.
Swiss Re	Switzerland	Other	No	Yes	This seems reasonable. It depends however on the details of the supervisory-owned process.
MetLife	United States	Other	No	Yes	Please see our response to Q. 198 and 200 above.
Prudential Financial, Inc.	United States of America	Other	No	No	The process should however take into consideration “the possible regional disparities caused by too strict of an adherence to stringent criteria, especially where those criteria may not have a substantive bearing on the credibility of the ratings provided by a particular credit rating agency.”
MassMutual Financial Group	USA	Other	No	Yes	As noted in our response to question 200, we strongly support the utilization of NAIC ratings and support modifying the criteria for the recognition of rating providers to allow the use of supervisory-owned processes.

Q200.2

Q200.2 Section 6.13.3.1 If "yes" to Q200, are the criteria for credit rating agencies appropriate for alternatives to the use of credit rating agencies? Please explain.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
Bermuda Monetary Authority (BMA)	Bermuda	IAIS Member	No	No	There are fundamental differences in the business model and motivations of rating agencies vs. supervisory owned rating processes that should be accounted for.
EIOPA	EIOPA	IAIS Member	No	Yes	As mentioned above private ratings/designations other than from regulated rating agencies should not be accepted. Supervisory-owned processes should in principle meet the same criteria. Specificities should of course be taken into account. But the criteria should ensure a level of quality that is comparable to external ratings. One area where amendments are probably necessary is the "credibility" criterion. There are probably no "independent" parties in case the use of ratings and/or designations that are issued by a supervisory-owned process is obligatory in a jurisdiction. It would have to be explored whether the remaining criteria are sufficient or an alternative criterion should apply. Apart from the modifications mentioned above all the other criteria should apply.
BaFin	Germany	IAIS Member	No	Yes	
Financial Supervisory Service	Korea	IAIS Member	No	No	

National Association of Insurance Commissioners	USA	IAIS Member	No	No	The form and substance of the rating agency regulation is mainly based on the perceived conflict of interest among rating agencies and therefore many of the criteria (based on standards set forth by the IOSCO) revolve around public disclosures. For the reasons described in our responses to Q199, 200 and 200.1, we do not believe the criteria applied to credit rating agencies are appropriate for a supervisory-owned process that is aligned with its insurance supervisors' supervisory needs.
Canadian Institute of Actuaries	Canada	Other	No	Yes	
Allianz	Germany	Other	No	Yes	The general exclusion of internal rating models should be deleted from the requirements. Instead internal rating models, which are acknowledged by local regulators for calculating regulatory capital requirements (e.g. acknowledged for SII internal modelling purposes) should be allowed as well.
GDV - Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Other	No	Yes	The general exclusion of internal rating models should be deleted from the requirements. Instead internal rating models, which are acknowledged by local regulators for calculating regulatory capital requirements (e.g. acknowledged for SII internal modelling purposes) should be allowed as well. Assurance of equivalence to quality standards.
Munich Re	Germany	Other	No	Yes	Assurance of equivalence to quality standards.
AIA Group	Hong Kong	Other	No	No	We favour the allowance of internal rating by an IAIG. However, as the IAIG is not a credit rating agency, some of the criteria as listed in paragraph 746 of the technical specifications (e.g. international access, resources) may not be relevant.

International Actuarial Association	International	Other	No	Yes	See answer to Q200.
Swiss Re	Switzerland	Other	No	Yes	This seems reasonable – this depends, however, on the overall process.
Prudential Financial, Inc.	United States of America	Other	No	Yes	The process should however take into consideration “the possible regional disparities caused by too strict of an adherence to stringent criteria, especially where those criteria may not have a substantive bearing on the credibility of the ratings provided by a particular credit rating agency.”
MassMutual Financial Group	USA	Other	No	No	Since NAIC ratings are reflective of external ratings where applicable, we believe the approach of using the NAIC rating does not ‘lose’ the work of the external rating agencies. An additional approach would be a certain ‘hierarchy’ of assessing credit quality – if a bond is covered by an external rating agency, the external rating is used. If not, the NAIC rating is utilized. Hence the NAIC rating would be filling a gap not covered by the external agency, opposed to fully replacing it.

Q201

Q201 Section 6.13.3.1 Are there any additional factors the IAIS should consider when deciding on whether to allow in the ICS the use of credit assessments (eg ratings or designations) from sources other than credit rating agencies? If "yes", please explain and provide details.

Organisation	**Jurisdiction**	**Role**	**Confidential**	**Answer**	**Answer Comments**
China Insurance Regulatory Commission	China	IAIS Member	No	No	
EIOPA	EIOPA	IAIS Member	No	Yes	One could consider mechanism like "equivalence" assessments or peer reviews to ensure minimum standards for ratings and/or designations that are issued by a supervisory-owned process There has to be an objective approach to determine for each provider of ratings which rating corresponds to which ICS rating category.
Financial Supervisory Service	Korea	IAIS Member	No	No	
Ageas	Belgium	Other	No	No	
Canadian Institute of Actuaries	Canada	Other	No	Yes	It would be appropriate to require that the credit assessment be objective and independent.
CLHIA	Canada	Other	No	Yes	

Ping An Insurance (Group) Company of China Ltd.	China	Other	No	Yes	We suggest that internal rating method could be considered but the rating standards should be set based on unified rating principles and the rating standards should be confirmed by local regulators.
Allianz	Germany	Other	No	No	
GDV - Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Other	No	No	
Munich Re	Germany	Other	No	No	
AIA Group	Hong Kong	Other	No	Yes	Use of internal rating models should be considered as a complementary/alternative source, assuming the model is robust and fit for purpose, which could be determined through an independent review by a third party. A framework should be established to not only articulate but verify the consistency of credit assessments from sources other than credit rating agencies.
International Actuarial Association	International	Other	No	Yes	There seems to be a desire with the regulatory community to encourage firms to reduce their reliance on external credit rating agencies. This would tend to favour some scope to use credit assessments from sources other than (external) credit rating agencies.
Dai-ichi Life Holdings, Inc.	Japan	Other	No	Yes	・Please refer to the answer for Q198.
General Insurance Association of Japan	Japan	Other	No	No	

The Life Insurance Association of Japan	Japan	Other	No	Yes	• Please refer to the comment(s) on Question 198.
Great Eastern Holdings Ltd	Singapore	Other	No	No	
Swiss Re	Switzerland	Other	No	No	
Prudential Financial, Inc.	United States of America	Other	No	No	
MassMutual Financial Group	USA	Other	No	No	

Q202

Q202 Section 6.13.3.2 Is the approach adopted for 2016 Field Testing for commercial and residential mortgage Credit risk charges appropriate for the ICS standard method? Please explain. If “no”, please provide specific proposals for how it should be changed as well as supporting rationale and evidence.

Organisation	**Jurisdiction**	**Role**	**Confidential**	**Answer**	**Answer Comments**
BaFin	Germany	IAIS Member	No	Yes	
Financial Supervisory Service	Korea	IAIS Member	No	No	In 2016 FT, the classification for residential mortgage is rather simplified compared to the commercial mortgage and hence it’s difficult to appropriately calculate the risk. It is recommended to use similar approach as in 2015 consultation document of BASEL III which provides 7 different classes based on LTV and setting risk factor accordingly.
National Association of Insurance Commissioners	USA	IAIS Member	No	Yes	The approach adopted for 2016 Field Testing for commercial and residential mortgage Credit risk charges for the ICS standard method is reasonable and supported by historical data.
Ageas	Belgium	Other	No	Yes	
Canadian Institute of Actuaries	Canada	Other	No	Yes	Methods for commercial and residential mortgages should be consistent with similar requirements for banks. Arbitrage between financial institution types should be avoided.

CLHIA	Canada	Other	No	Yes	The requirements should be consistent for insurers and banks.
Insurance Europe	Europe	Other	No	No	The residential mortgage shocks are too high and fail to reflect a number of key elements specific to jurisdictions where IAIGs operate, including: - Very limited default experience of these assets, often linked to regulatory caps on loan-to-value ratios. - The presence of government support through government guarantees. This is a very good example of how a more tailored approach could be taken for assets, to increase the risk-sensitivity of the framework. Comparability would be maintained, as long as all IAIGs would be charged the same capital for the same risk.
Allianz	Germany	Other	No	No	The current approach based on LTV and DSCR reflects better credit risks associated with commercial loans (compared to previous approach). However, as stated in questions 198-200 the usage of internal ratings (and additionally LGD estimates) would be the preferred solution to allow consistency with SII internal modelling. The usage of internal ratings/LGD estimates should also be possible for residential mortgages, especially because at the moment there is only a flat credit risk charge for performing mortgages without any differentiation.
GDV - Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Other	No	No	The current approach better reflects credit risks associated with commercial loans compared to previous approach. However, the usage of internal ratings (and additionally LGD estimates) would be the preferred solution to allow consistency with SII internal modelling (see answers to Q 198-200). The usage of internal ratings/LGD estimates should also be possible for residential mortgages, especially because at the moment there is only a flat credit risk charge for performing mortgages without any differentiation.

Munich Re	Germany	Other	No	Yes	
AIA Group	Hong Kong	Other	No	Yes	We believe the overall approach is reasonable.
Dai-ichi Life Holdings, Inc.	Japan	Other	No	Yes	・We are comfortable with the general methodology.
General Insurance Association of Japan	Japan	Other	No	No	The approach using DSCR and LTV will be both burdensome and complicated. With regard to DSCR, it is onerous and practically difficult to regularly update data after making investments. Consequently, while this complicated approach will increase the burden on IAIGs, it will contribute less than expected to more elaborate results.
Aegon NV	The Netherlands	Other	No	No	Aegon believes that the 2016 Field Testing approach does not reflect the situation properly in several jurisdictions where mortgages are a key asset class such as the Netherlands. It is an example that shows the complexity of constructing a highly sophisticated, risk sensitive ICS that must work across a range of jurisdictions and which still aims to measure risk accurately with no severe distortions. The residential mortgage shocks are too high for the specific situation of the Dutch market, in which mortgages are an important asset class for insurers, who play an important funding role. Historical defaults on residential mortgage loans have been relatively low in the Netherlands, and are expected to be even lower in the future as legal requirements are pushing down maximum loan-to-value ratios allowed on new mortgage loans. Furthermore, a significant share of the market consists of mortgage loans that are supported by a government guarantee (Nationale Hypotheek Garantie, NHG). The defaults on such loans are very low, with minor losses due to operational risks and the fact that the guarantee has an amortising profile that continues to incentivize repayment over the course of the loan. The 2016 Field Testing approach does not allow for the benefit of these guarantees to be reflected in required capital. In our view, a default shock (based on probability as well as loss given default) that reflects the unique characteristics of the Dutch mortgage market is justified. In

					addition, we believe that a zero % shock for the government guaranteed mortgages is justified as well, in line with Basel III requirements. A more modestly calibrated ICS and/or the allowance of some jurisdictional specific parameter setting could address the problem of setting a suitable stress level.
American Council of Life Insurers	United States	Other	No	Yes	ACLI fully supports the approach adopted for 2016 Field Testing for commercial and residential mortgages.
MetLife	United States	Other	No	Yes	MetLife fully supports the approach adopted for 2016 Field Testing for commercial and residential mortgages and strongly recommends that the same approach be applied to differential mortgage credit quality under the BCR calculation which would provide consistency with ICS calculations.
Prudential Financial, Inc.	United States of America	Other	No	Yes	
MassMutual Financial Group	USA	Other	No	Yes	Overall we are supportive of the current Debt Service Coverage Ratio approach for mortgages. Given that this asset class is significant to many insurers, it is critical to have an approach that fairly assesses the true credit quality of the portfolio.

Q203

Q203 Section 6.13.3.3 Should the IAIS continue to explore a different approach for Credit risk from reinsurance exposures, and in particular, for collateralised reinsurance? Why or why not? If “yes”, please provide specific proposals, rationale and evidence to support the proposals.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
Bermuda Monetary Authority (BMA)	Bermuda	IAIS Member	No	Yes	The current approach is overly conservative and not reflective of a VaR 99.5% scenario as it assumes perfect correlation between the credit risk of reinsurers and financial assets. Both the double default approach and the haircut approach are sounder approaches that should be explored with the aim of replacing the substitution approach.
Office of the Superintendent of Financial Institutions (OSFI)	Canada - OSFI	IAIS Member	No	No	OSFI believes the current substitution approach is appropriate. However, a comprehensive approach to collateral, which uses standardized haircuts for collateral and exposures, could be considered by the IAIS.
BaFin	Germany	IAIS Member	No	No	A haircut approach is appropriate for a standard method.
Financial Supervisory Service	Korea	IAIS Member	No	No	
KNF - Polish Financial Supervision Authority	Poland	IAIS Member	No	Yes	

National Association of Insurance Commissioners	USA	IAIS Member	No	Yes	We would support a different approach on collateral. A "double default" approach and "haircut" approach should both be explored as alternatives. Either has the potential to be an improvement. The "substitution approach" that is currently being used assumes that risk on reinsurance recoverables bears a closer relationship to financial risks than to insurance risks. The ICS is -- quite rightly -- based on concept that we should draw a distinction between the two. Beyond collateral, there are many technical reasons why it is not appropriate to group reinsurance with other credit exposures. These include treatment of spread risk (other credit exposures have a spread, the closest equivalent to a spread for reinsurance exposures is in MOCE) and dependency structure (e.g. catastrophe risk and reinsurance credit risk are closely related).
Ageas	Belgium	Other	No	No	If more information is available, we could be in favour of alternatives. On the other hand, we would like to avoid overcomplexity.
ABIR Association of Bermuda Insurers & Reinsurers	BERMUDA	Other	No	Yes	The credit given for collateral arrangements in the current draft of ICS, whereby the credit rating of the reinsurer is substituted for the credit rating of the collateral provider, does not appear to be appropriate. The risks associated with the reinsurer and the collateral holder are not perfectly correlated and the current approach does not recognise that the reinsurer and the collateral provider both separately need to default in order for the IAIG to suffer a loss. We recommend that ICS continue to explore the “double default” approach, whereby both counterparties need to default to trigger the loss event, for the probability of default (frequency). For the loss-given-default (severity), the amount of exposure to the reinsurance counterparty should be reduced by the amount of collateral available after application of a “haircut” approach to reflect the market / credit risks to which the assets in the collateral are exposed. Diversification should be given between these two approaches since they are not 100% correlated.

Canadian Institute of Actuaries	Canada	Other	No	Yes	We consider both the “double default approach” and the “haircut approach” as reasonable improvements over the “substitution approach”, and encourage further exploring these alternatives.
Insurance Bureau of Canada	Canada	Other	No	Yes	We believe that the IAIS should continue explore other methods as part of the 2016 Field Testing exercise as there may be other approaches that more accurately reflect the credit risk associated with collateralised reinsurance. Any method adopted by the IAIS should allow for a reduction in capital required for excess collateral.
Allianz	Germany	Other	No	Yes	In our opinion the redistribution approach is in general too conservative and should be omitted, because collaterals get the same charges as direct exposures, even though credit risk on collaterals will only materialize, if the connected exposure will default beforehand (“double-default”). Instead calculations should be done after collateral.
GDV - Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Other	No	Yes	Credit risk of reinsurance exposures and credit risk of bond exposures should be calibrated separately. However, the substitution approach for collaterized reinsurance is not appropriate because the joint probability of both the reinsurer and the issuer of collateral defaulting is lower than both probabilities of a single default. Even collateral with a lower rating than the reinsurer reduces the overall risk. Thus, it should reduce the risk charge, too.
Munich Re	Germany	Other	No	Yes	Assure an appropriate recognition of all individual, arrangement specific features (e.g. collateral arrangements).
Global Federation of Insurance Associations	Global	Other	No	Yes	The IAIS should continue to explore other approaches, however, the method adopted should allow for a reduction in capital required for excess collateral.

AIA Group	Hong Kong	Other	No	No	The general approach is reasonable.
General Insurance Association of Japan	Japan	Other	No	No	
Great Eastern Holdings Ltd	Singapore	Other	No	No	NA
Swiss Re	Switzerland	Other	No	Yes	Reinsurance is a risk mitigation tool used by all insurers and should be encouraged. It is expected that the reinsurer will be there to pay claims when due but there is a risk that the reinsurer gets into financial trouble and will be unable to meet its obligations. In general reinsurance companies are supervised around the world in a very similar way to direct insurance companies so the risk of reinsurer failure should be small. In the past when reinsurers have failed, claims have still been paid but not in full. There should be a credit risk applied to reinsurers which should be related to their financial strength but taking into account that a certain level of recoveries are still very likely. Reinsurance that is collateralised typically has lower risk.
RAA	United States and many other jurisdicitons	Other	No	Yes	In general we prefer the double default approach that first considers the default by the reinsurer under its obligations and then considers the potential for collateral default. These risks are not correlated and should be considered separately. Whatever approach is taken the measurement of this risk should take into account all individual contract features including collateral in various forms which may have different risk characteristics (e.g. trust fund collateral, letters of credit, funds held, ceded balances payable and other offset items).
Prudential Financial, Inc.	United States of America	Other	No	Yes	We have no additional comments beyond what is already included in the ICS consultation document.

MassMutual Financial Group	USA	Other	No	Yes	We agree that the underlying risk features of reinsurance are inherently different than the credit exposure of a corporate bond. Additionally, we support the ‘haircut approach,’ which offsets the respective credit risk with the collateral held, with the collateral held subject to a lower haircut.

Q204

Q204 Section 6.13.4 Are there any further comments on Credit risk that the IAIS should consider in the development of ICS Version 1.0? If “yes”, please explain with sufficient detail and rationale.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
China Insurance Regulatory Commission	China	IAIS Member	No	No	
BaFin	Germany	IAIS Member	No	Yes	In the future work, the 0 % charge on sovereign exposures should be (re)investigated in particular with regard to risk sensitivity.
Financial Supervisory Service	Korea	IAIS Member	No	No	
Ageas	Belgium	Other	No	No	
Ping An Insurance (Group) Company of China Ltd.	China	Other	No	No	
Insurance Europe	Europe	Other	No	Yes	Management actions should be considered for credit risk, especially for life insurers and with-profits / unit-linked contracts where insurers share losses. Local authorities’ ability to collect taxes should be out of the scope of credit risk scope, similar to sovereign entities.

Institut des Actuaires	France	Other	No	Yes	Management actions to take into account the loss absorbency of technical provisions regarding future discretionary benefits (as for other market risks).
Allianz	Germany	Other	No	Yes	The assessment focusses on most relevant rating categories 1-4: • Public Sector entities: o Level overall reasonable for all maturities and rating categories o Same charge level for rating categories 1 and 2 not meaningful • Corporate and Reinsurance: o Maturities 0-10 years: Level too high o Maturities 10+: Level overall reasonable o Same charge level for rating categories 1 and 2 not meaningful • Securitizations o Maturities 0-10 years: Level too high o Maturities 10+: Level overall reasonable o Same charge level for rating categories 1 and 2 not meaningful Other receivables/amounts due from agents and brokers: Charge level of 8% is too high. Charges should be significantly lower, since these exposures are typically very small and are adding to portfolio diversification; maturity is typically well below 1 year.
GDV - Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Other	No	Yes	Real estate should be recognised as collateral, too (in case of mortage covered bonds). Moreover, the substitution approach for guarantees and credit derivatives is not appropriate because the joint probability of both the debtor and the warrantor defaulting is lower than both probabilities of a single default. Even guarantees from warrantors with a lower rating than the debtor reduce the overall risk. Thus, they should reduce the risk charge, too. Other receivables (e.g. receivables vs. individual policyholders) should not be handled alike Single Name exposures. We suggest the usage of a loan pool-like approach.

Munich Re	Germany	Other	No	Yes	Other receivables (e.g. receivables vs. individual policyholders) should not be handled alike Single Name exposures. We suggest the usage of a loan pool-like approach similar to Solvency II.
AIA Group	Hong Kong	Other	No	No	
Dai-ichi Life Holdings, Inc.	Japan	Other	No	Yes	・Solvency II will introduce the reduction of credit risk about infrastructure investment, and we believe it should be introduced to ICS.
General Insurance Association of Japan	Japan	Other	No	No	
The Life Insurance Association of Japan	Japan	Other	No	Yes	・The EU Solvency II has been already amended to lower the credit risk charges applicable to infrastructure investments by insurers. We would like the IAIS to consider the introduction of such measures to the ICS.
Great Eastern Holdings Ltd	Singapore	Other	No	No	
Swiss Re	Switzerland	Other	No	No	
MetLife	United States	Other	No	Yes	Fixed Maturity Securities: In our opinion, the IAIS ICS credit risk factors for fixed maturity securities are too high. Methodology for determining the Credit risk charge is inappropriate: The credit risk factors have been developed using Basel single risk factor IRB model and Vasicek's "Distribution of Loan Portfolio Value" – both of which have limitations. The former assumes only a single source of systematic risk and also assumes portfolio invariance. The latter model makes several simplifying assumptions such as same probability of default, same maturity and same pairwise correlation among loans in

					the portfolio. The models don't perform very well in predicting capital needed for debt issued by supervised/regulated industries. The models referenced above do not perform very well against financials and utilities – the two largest suppliers of long maturity fixed income debt. These models explicitly allow the use of internal ratings whereas the ICS rating category must be determined using publicly available ratings. This contradiction is amplified as the model fit with publicly available ratings in not robust (1) . Additional technical criticisms are here (2) . 1.How Well Does the Vasicek-Basel AIRB Model Fit the Data? Evidence from a Long Time Series of Corporate Credit Ratings Data - Paul H. Kupiec, Sept. 2009 2.A Critique of Revised Basel II – Robert A Jarrow, Aug. 2006 Suggestions for Improvement: Industries such as Banking, Insurance and Utilities which are subject to national or global regulations should get a reduced risk charge that reflects the beneficial effects of systematic risk supervision. The risk charges should reflect the empirical default and recoveries observed in these industries. The 3-year Cumulative Default Rates can be segmented by industry – Financials, Industrials, Utility and Economic Region – Developed Economies and Emerging Markets. The mapping of CDR to ICS Rating Category should take into consideration the maturity of fixed income markets and the quality of default data. In addition, MetLife recommends that the ICS rating category should allow for internal credit risk ratings especially if internal ratings are relied upon for asset selection and investment decisions by the insurer. In many cases, internal ratings are more conservative than publicly available ratings. Equity Risk Charge – Subordinated Debt: The technical specifications require all

					subordinated debt and subordinated loans to receive an equity risk charge. This overstates the risk charge. If held as senior tranches of a pool of subordinated debt, subordinated holdings of corporate debt should be evaluated as corporate bonds and receive a credit risk charge and not an equity risk charge.
Prudential Financial, Inc.	United States of America	Other	No	Yes	The “corporate” asset class includes a wide range of investment instruments (e.g. bank loans, private placement notes, etc.) and should be split into more granular categories to account for the significant differences in historical loss for the respective instruments.
MassMutual Financial Group	USA	Other	No	No	

End of Section 6.13