2.8 Incremental costs and benefits

Q1 Section 2.8 What are the incremental costs associated with the changes that would have to be made solely for the adoption of the ICS as a PCR?

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
CLHIA	Canada	No	The Canadian Life and Health Insurance Association Inc. ("CLHIA") is a voluntary trade association whose member companies account for 99 percent of Canada's life and health insurance business. The CLHIA is also an active participant in the Global Federation of Insurance Associations ("GFIA"). Our comments in this submission add to the comments in the GFIA submission on this consultation. The CLHIA appreciates the opportunity to comment on the current design of the ICS. In making our comments, we are drawing on our experiences in Canada in the approximate decade long development of the new capital regime effected in Canada in 2018 known as "LICAT". LICAT is in many ways similar in concept to the ICS. The CLHIA applauds the IAIS for continually striving to make improvements in the development of the ICS, particularly in recognition of the substantially challenging undertaking to derive a capital standard that works globally. As our overarching comment on "incremental costs", in the context of the aspect of "benefits" in Question 2, at this current stage of development, the CLHIA is concerned that the costs of implementing an international capital standard exceed the benefits. Costs and efforts to implement the ICS are not trivial. Companies in jurisdictions implementing IFRS 17 will have additional resource issues.	

China Banking and Insurance Regulatory Commission (CBIRC)	China	No	To integrate ICS as a PCR into domestic regulatory system not only requires the revision of corresponding laws and regulations, but also needs supporting human resources as well as data collection, analysis, and disclosure system. Thus the integration of ICS as a PCR would require a sufficiently long transitional period.	
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	Conversion costs, such as the development of dedicated reporting tools and costs related to training. Ongoing annual costs, such as the annual resources needed for the reporting.	
Insurance Europe	Europe	No	GENERAL COMMENTS Insurance Europe welcomes the opportunity to provide input on the developments of the global Insurance Capital Standard version 2.0. Given the ambition to finalise ICS 2.0 by the end of 2019, there is significant work needed to ensure the ICS properly reflects the underlying insurance business models and identifies and measures the risks which they face. While ICS 2.0's purpose is to test the framework, it is important that the ICS is a risk-based framework which uses a consistent, consolidated approach based on a market consistent valuation. It is key that it is appropriately designed and calibrated so that the results of the testing period are meaningful. In fact, the more appropriate the design of the ICS in the confidential reporting phase, the more likely it is that the adoption of an implementable version of the ICS is achievable. A number of improvements have been made in the design of the ICS over recent years, and these are very much welcome by the European industry. Continuous dialogue and exchanges with the industry in the coming months are key to allow these improvements to be discussed thoroughly so that decisions are well-informed and flaws are minimised. In response to the draft ICS 2.0, as presented in the consultation paper, Insurance Europe would like to emphasise the following views:	

			With respect to valuation: A market-adjusted valuation approach is supported, but only if the discount rates for liabilities reflect the long-term nature of the insurance business model and the ALM techniques employed by insurers. When valuing long-term liabilities, an adjustment to the risk-free curve is a prerequisite of a MAV approach. The proposed methodology for deriving the risk-free yield is appropriate. The liquid part of the curve should be based on swaps/government bonds and the illiquid part determined by extrapolation towards a Long-Term Forward Rate (LTFR). The LTFR does not need to be updated annually. It is intended to be a stable, long-term parameter. Annual updates only serve to introduce spurious accuracy into the framework. The IAIS should further investigate potential ways of addressing forced selling risk. Several features of the IAIS's current proposals (application ratios, eligibility criteria, cashflow matching etc.) have been included to address the risk of forced asset sales but there may be better approaches to dealing with this risk. The bucketing concept for valuation has the advantage of enabling IAIGs to calculate portfolio specific adjustments where individual liability characteristics warrant this. Significant improvements continue to be needed to develop an adjustment to the risk-free curve which achieves the IAIS's objective of developing an adjustment "to reflect the long-term nature of insurance contracts and mitigate potential excessive volatility in capital resources" The own assets / own spreads approach is the appropriate proposal for the Top Bucket. However, some of the eligibility criteria should be relaxed. In particular, there should be an option to use internal credit ratings, and asset eligibility criteria should permit the use of a wider range of long-term assets to back long term liabilities. The current design of the Middle Bucket provides a good starting point for further development, but significant improvements are required. o The adjustment should recognise the contribution of long-term equity, property, infrastructure and other non-fixed income assets within prudentially sound ALM approaches. o The eligibility criteria are too onerous and too narrowly defined.	

			Given the high degree of basis risk inherent in the use of a reference portfolio, the IAIS should aim to minimise the liabilities that are eligible only for the General Bucket. The proposed Basis Risk Mitigation Mechanisms are a welcome inclusion in the General Bucket approach. An adjustment to the LTFR should also be included which is reflective of the investment returns which insurers can be expected to earn over very long time horizons. The IAIS should undertake extensive testing of any proposed valuation approaches to ensure that they work as intended both in the current economic climate but also in stressed market environments. Testing against periods of financial stress should be performed by the IAIS, with no additional burden on companies. With respect to MOCE: While Insurance Europe acknowledges the need to ensure an orderly transfer in case of failure, it doubts whether MOCE is the appropriate way to perform this function. Insurance Europe believes that the introduction of a MOCE could lead to potentially unfavourable consequences. Insurance Europe does not support the IAIS approach on the C-MOCE aimed at increasing the liabilities for all companies at all times. Instead, if it was decided that MOCE is needed, it should be assessed against the existing capital requirements. A company should calculate its MOCE and its MCR; as long as the MCR is higher than MOCE, supervisors should be reassured that MOCE is available to support transfer in case of failure (and supervisory intervention at MCR). With respect to capital resources: The recognition of Tier 2 non-paid-up capital resources should not be restricted to mutuals. Tier 2 non-paid-up capital resources should form part of the tier 2 capital resources, and should be subject to the normal capital composition limits. Further, the current 10% limit for Tier 2 non-paid-up capital resources is overly restrictive. The restriction in tier 2 financial resources for residual maturities less than 5 years is very restrictive and could lead to uncertainty, so it should be removed.	

			There should be no distinction in capital composition limits for mutuals and non-mutuals, in order to avoid an unlevel-playing field. Tier 1 limited capital composition limit of 10% of the ICS capital requirement is too onerous. 20% of total unlimited capital resources would be more appropriate. With respect to the tax treatment The ICS approach capping the post-shock net DTA at the net DTL is too stringent and does not reflect economic reality. The ICS approach should recognise the loss absorbency of deferred taxes and the ability of future profits to support this, subject to insurers demonstrating that these future profits will be available. With respect to the design and calibration of capital requirements in the standard model: The risk charges for the ICS should measure and calibrate capital requirements by identifying and investigating the actual risks that insurers are exposed to. It is key to recognise in the calibrations the difference in risk exposures based on whether a company is exposed to forced sales of assets or not. The current design of the interest rate risk submodule is unnecessarily complex and its calibration is too onerous. The combination of the impacts of multiple scenarios does not reflect any real economic outcome and the aggregation across multiple scenarios makes it challenging to interpret and communicate. The aggregation of the interest rate risk in multiple currencies is also not appropriate. Long-term investors in corporate bonds, such as insurance companies, are exposed to default risk and not spread risk. Therefore, the calibration of the capital requirements for loans and bonds should not be based on measuring exposure to spreads. The calibration of the capital requirements for loans and bonds based on measuring exposure to spreads is more consistent and economically correct where the impact of changes in spreads is recognised in both the assets and liabilities. The current design of the equity risk submodule requires improvements: o The equity segmentation should take into account existing evidence that a tailored calibration of capital charges is more appropriate where the nature and risk profile of a	

			particular asset differs from the "basket" that it is placed in. o The prudential treatment of equity infrastructure investments and long-term equity should be aligned to the true risks to which insurers are exposed via the introduction of separate sub-risk modules tailored to these asset classes. o The equity implied-volatility shock is not appropriate and should be removed as the market price shocks implicitly include volatility. o An anticyclical tool should be introduced within the equity risk submodule. Offsetting effects within the mortality stress should be considered. The shock should be applied to all policies and both positive and negative impacts on NAV should be taken into account. The application of homogenous risk groups within the mass lapse stress is excessive. In addition, offsetting effects should be considered, the capital charge for lapse risk should be determined at entity level and not at the level of homogeneous risk groups. Capital charges for currency risk should not include currency translation risk. This risk neither impacts policyholder protection nor financial stability. The current approach to aggregation and diversification is overly simplistic for IAIGs and has the potential to misstate capital requirements. The use of management actions should not be unduly restricted. There should be an appropriate recognition of premium increase management actions for life reinsurance business, repricing, MVA and dynamic investment strategies, provided that they reflect the product features and current practice. The IAIS should permit the use of internal credit ratings where external ratings are not available. With respect to internal models: Allowance of internal models in the monitoring period is very much welcome. Internal models bring significant value to both companies and supervisors by providing a deep understanding of a company's business and capital management. The monitoring period will be the opportunity to note how internal models can play a role in strengthening the whole standard, by allowing to capture complex risks and structures not addressed by the standard method. In that respect, internal models are a	

			key tool and should be a permanent part of the ICS framework, as a necessary alternative to the standard method. With respect to reporting: The current templates were designed for data collection aimed at further developing the framework. They are very detailed, granular and complex, and create significant burden on companies. Insurance Europe doubts that supervisors are able to review this very detailed information on a timely basis. It suggests reducing the volume of required information (including granularity) and re-focusing the templates on the main issues needed for confidential reporting. In fact, Insurance Europe urges the IAIS to develop reporting templates for the monitoring period of ICS 2.0. These templates should be less granular, detailed and burdensome for IAIGs, and should be publicly consulted on ahead of finalisation by the IAIS. More broadly on the ICS development, Insurance Europe reiterates its key views as follows: A fundamental aspect of having a global capital standard is the concrete translation of the standard in all jurisdictions. An international standard can achieve its aims only if it is implemented consistently across jurisdictions. The IAIS, representing the global supervisory community, should enhance its discussions on the strategic objectives related to the ICS. It should aim to have thorough discussions on the potential positive or negative impact of the ICS on: o competitiveness of global market players: ICS should not lead to the creation of competitive disadvantages for some jurisdictions vs others. o performance of the ICS in times of financial market turbulence: ICS should be designed and tested against normal market conditions, but also against stressed periods to ensure that it would support policyholder protection and financial stability at all times. For example, while simplified types of design (on eg valuation) may not raise particular concerns in normal times, the IAIS should question whether such simplifications would not trigger concerning results in turbulent times - due to the	

			measurement simplifications and not due to actual problems in the financial position of a company. o the ability of insurers to continue to invest in long-term economic growth: the ICS should aim to support asset/liability management and appropriately measure actual investment risks faced by insurers in their investment. Unnecessarily conservative calibrations of capital requirements on investments will lead to artificial distortions of insurers asset allocations and will ultimately impact their natural ability to support long-term investment and growth. o availability and cost of products: the IAIS should put all necessary efforts in ensuring that the ICS is appropriately representing the insurance business models and should avoid unnecessarily conservative measurement of the business, which could in many cases make products valued by consumers unviable. The IAIS should make proposals for simplifications and the possibility of applying a proportionality approach to the various reporting elements, in line with the risk exposures of undertakings. The IAIS should acknowledge in its timetable and planning that further work would likely be needed before ICS is finalised for adoption. The IAIS needs to foresee appropriate time to consider the conclusions and results of the 5-year confidential reporting period in the design and calibration of the ICS. Ahead of implementation, ICS needs to consider transitional and grandfathering provisions. The European insurance industry considers Solvency II to be the most conservative and sophisticated prudential regime in the world, and thus expects that a reviewed version of Solvency II would be considered as an appropriate implementation of the ICS. Any implementation of ICS in Europe would eventually be considered by European co-legislators through the lens and tools of the existing prudential regime, which in fact applies to all European insurers, not just IAIGs. From this perspective, it is key that ICS is designed in a way that works for companies other than IAIGs. Insurance Europe appreciates the comparability objective of the ICS. It therefore notes	

			that a supervisory agreement on implementation should refer to a common set of key elements (eg consolidated group approach, market-adjusted valuation, risk-based capital calculated on a 99.5% 1-year VaR). ANSWER TO QUESTION 1 Insurance Europe welcomes that the IAIS is taking interest in the cost of implementation of the ICS. It notes that: - While the question is perfectly valid and should remain a focus for discussion in the coming years, it is very difficult to make an overall assessment of costs today, given that implementation costs will very much depend on what needs to be implemented, and this is not clear as ICS is being developed. - From a European perspective, the current regime (Solvency II) is already a very conservative implementation of existing IAIS ICPs so any cost of implementation would be judged as an incremental cost, based on assessing the differences between the implementable ICS and the Solvency II regime. - Today the ICS already requires substantial resources from companies engaged in field testing. - In principle, costs of implementation of any regime are linked to the wide set of actions that are needed to transform a theoretical framework into a practical one, including those related to installing necessary IT systems and setting up processes at group level. - European insurers do not support any scenario in which two capital regimes would run in parallel. Not only that such a scenario would cause a significant distortion in business management and steering, but it would also lead to unnecessary high costs that would put significant pressure on the industry and its ability to play its key role in the economy and society. Insurance Europe notes that the IAIS should take interest in investigating potential	

			consequences of current proposals on wider policy objectives. For example, ICS creates disincentives to infrastructure investment because of the lack of recognition of internal credit ratings. This leads to inappropriate capital charges and an inappropriate recognition in the discount rate for the valuation of liabilities.	
German Insurance Association	Germany	No	We estimate a great amount of initial costs for installing all necessary IT systems and processes at group level. Furthermore, data selection, data validation, preparation of reporting sheets and all other tasks related to the reporting from different entities within the group would require a significant effort each year.	
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	Conversion costs, such as the development of dedicated reporting tools and costs related to training. Ongoing annual costs, such as the annual resources needed for the reporting.	
Global Federation of Insurance Associations	Global	No	The Global Federation of Insurance Associations (GFIA) welcomes the opportunity to comment on ICS version 2.0. From an operational point of view, incremental costs associated with adopting the ICS as a Prescribed Capital Requirement (PCR) will include increased costs relating to internal reviews of the process for determining capital requirements, costs of developing systems and providing staffing resources for the cash flow calculations and risk measurement, internal audit costs, as well as the costs of external audit. These costs will increase if the ICS is adopted as a PCR in addition to existing national requirements. Some firms may also be faced with the incremental cost of raising additional capital to be able to meet the ICS as PCR, particularly if the ICS is adopted by national authorities as a general capital standard for all solo entities, and not just a standard for IAIGs. As an example of an unintended consequence, ICS Version 2.0 as currently being	

			consulted on would provide disincentives to insurers to invest in certain assets as it currently does not recognise the use of internal ratings of assets where there is no external credit rating (such as infrastructure) meaning that such assets would attract an inappropriate capital charge while at the same time not given appropriate recognition in setting the discount rate for the valuation of liabilities. This would be inconsistent with the G20 aims of improving the environment for infrastructure projects and results in sub-optimal outcomes for policyholders. For the Standard Method calculation, internal validation by the IAIGs themselves and validation by the supervisory authority should be sufficient. Additional costs from third party validation should not be imposed. While GFIA welcomes that the IAIS is now giving consideration to the degree of disruptive and costly change the ICS could create, particularly given the differences in capital regimes around the world, GFIA would encourage further work to understand the market impacts of ICS as PCR. GFIA would encourage the IAIS to share early its expectations on the frequency with which firms need to submit their ICS ratios, to enable firms to develop systems and allocate resources appropriately.	
Dai-ichi Life Holdings, Inc.	Japan	No	All the participants relating to ICS should have solid consensus about the definition and the interpretation of PCR before the implementation. If any ambiguity remained at the inception of ICS, insures would keep more conservable capital than supervisors would expect, that means more cost of capital would be imposed unnecessarily. We expect the raise of incremental cost for additional system development and human resources for cash flow calculation and risk measurement. The amount of the costs depends on the period from reference date to submission due and submission frequency (annually, semi-annually, quarterly, etc.). This reporting period is an important factor for how we will cope with IT development and human resources. Therefore, we would like to ask IAIS to decide reporting period and frequency at early	

			stage. With regard to standard model, auditing internally or by supervisors are enough to justify the correctness of available capital and risk amount. Additional cost which is, for example, imposed by third party verification, should not be imposed.	
General Insurance Association of Japan	Japan	No	The personnel costs necessary to calculate and verify the ICS ratio and related systems development costs are incremental costs associated with the changes that would have to be made solely for the adoption of the ICS as a PCR.	
The Life Insurance Association of Japan	Japan	No	- The LIAJ believes that there should be a common understanding of the definition and interpretation of PCR among stakeholders prior to the implementation of the ICS. The implementation of the ICS without such understanding, might force insurers to hold capitals more conservatively than the level authorities would assume, which will result in the increased costs of capital for insurers. - In addition, the implementation of overly conservative intervention measure for PCR should be avoided. For example, it is undesirable to set rigid measures that drive immediate intervention when the ICS ratio falls below a certain level. Such measures could force insurers to hold overly conservative capitals and increase the costs of raising capitals. - Insurers are expected to incur additional costs, such as system development and securing human resources, in cash flow calculation and risk measurement. These costs, however, may depend on the length of period from the reference date of calculation to the submission date of the results, and the frequency of submitting the results (annually/quarterly). In the view of system development and securing human resources, the components mentioned above are important, thus, the LIAJ urges the IAIS to reach the conclusion on these components in the early stage. - With regard to the standard method, at a minimum, validating adequacy of available	

			capital and risk amount would be carried out for ensuring that they are accurately calculated within standardised method, thereby, internal validation by IAIGs and supervisory validation would be enough for this purpose. Accordingly, the LIAJ believes that incremental costs, such as arising from requiring validation by third party should not be imposed on IAIGs.	
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	Supervisory authorities should manage two tracks of supervision- one is ICS and the other is local standard. Even though they emerge two standards, they cannot help revising current law system to fit in ICS.	
Aegon NV	The Netherlands	No	GENERAL COMMENTS ON ICS CONSULTATION Aegon NV welcomes the opportunity to respond to the IAIS Public Consultation Document, Risk-based Global Insurance Capital Standard Version 2.0. Aegon's purpose is to help people achieve a lifetime of financial security. We fulfill this purpose by providing insurance protection, lifetime income, and other financial services products to customers across the globe. Based in the Netherlands, Aegon's largest operations are in the United States, where we operate under the Transamerica brand. We also have significant operations in Europe and Asia. We congratulate the IAIS on its progress to date on the Insurance Capital Standard (ICS). Aegon supports the aspiration of a single, global regulatory capital standard, as such a standard would advance the interests of Aegon and our customers by streamlining regulation, facilitating entry into new markets, and reducing costs. We have devoted thousands of employee hours into supporting the ICS initiative, primarily through field testing work. At the same time, we are aware that regulatory capital standards can have profound impacts on our business model and competitive position. For us this means that our practical support of a global capital standard is contingent on meeting four criteria:	

			1. The standard must avoid creating duplicative regulation; 2. The standard must apply in all major jurisdictions; 3. The standard must apply broadly across the industry; and 4. The standard must reflect both the economics and long-term nature of the life insurance business. If these criteria are not satisfied, a global standard may impede Aegon from fulfilling our purpose of helping people achieve a lifetime of financial security, either because the standard impairs the viability of certain products and/or because it puts us at a disadvantage relative to competitors. Under those circumstances, a global standard may also negatively impact customers, the industry as a whole, and financial stability. Under those circumstances we could not support it. As detailed below, the ICS, as currently proposed in the consultation, fails to meet many if not all of our criteria. We believe, however, our concerns can be addressed prior to the planned implementation in 2025. Our concerns, as aligned with our four criteria, are as follows: 1. The ICS may result in duplicative regulation In recent years the IAIS has positioned the ICS as a supplemental measure of capital, applicable only to IAIGs and G-SIIs. Previous consultations have included the sentence: "Supervisors may adopt additional arrangements that set higher standards or higher levels of minimum capital," indicating an intent to subject insurers to jurisdictional regimes in addition to the ICS. We have long been unpersuaded by the public policy merits of a second, supplemental	

			regulatory capital regime. Aegon is currently subject to Solvency II, arguably the most advanced capital regime in the world. Adding the ICS on top of Solvency II makes little sense. It would impose enormous costs, complicate risk and capital management, confuse market participants, and potentially compromise policyholder protection. Rather than fostering a "common language" in a supervisory college setting, a supplemental ICS would create a second language, hindering communication and blurring issues. With that concern in mind, we are encouraged to see the removal of the aforementioned language in this latest consultation. This suggests that the IAIS could reposition the ICS as a reference point for local group regimes rather than a supplemental regime. Aegon would welcome such a development, as we believe strongly that Solvency II should be the European Union's implementation of the ICS. 2. The ICS will not apply consistently in all major jurisdictions Aegon welcomes the additional clarity on the ICS process as provided by the November 2017 "Kuala Lumpur agreement." The KL agreement establishes a way forward that includes a five-year "monitoring period" following the anticipated adoption of ICS 2.0 in November 2019. At the same time, the KL agreement indicates that none of the relevant authorities in the United States intend to adopt the ICS as developed by the IAIS. The KL agreement indicates that U.S. authorities are instead developing group capital approaches based on an aggregation concept, contravening ICS Principle 1 that the ICS is a consolidated group-wide standard. Because over one-quarter of the global insurance market is based in the United States, the KL agreement effectively acknowledges that a truly global insurance capital standard is not politically achievable at this time. Because of the U.S. disinclination to adopt the ICS as promulgated by the IAIS,	

			continued development of the ICS creates playing field concerns for Aegon, given the jurisdictional profile of our group. The EU's Solvency II "works" for Aegon because it includes a critically important "equivalence" provision that enables our U.S. operation to apply U.S. solvency rules within Solvency II group capital requirements on a "Deduction & Aggregation" (D&A) basis. "Equivalence" therefore allows Aegon to compete on a level playing field with other carriers in the United States. The ICS, however, lacks equivalence provisions. Given that the U.S. does not intend to adopt the ICS as developed by the IAIS, application of the ICS to Aegon would have the effect of reversing the playing field benefits of Solvency II equivalence. Again, this concern would be addressed if the ICS serves as a benchmark for various regimes and if Solvency II, including D&A, serves as the EU's implementation of the ICS. 3. The ICS may not apply broadly across the industry The consultation continues to position the ICS as a capital measure applicable to IAIGs and G-SIIs while being silent about potential applicability to non-IAIGs. On a fundamental level, we do not see why capital standards should only apply to a subset of insurers. The potential limited application of the ICS also creates playing field concerns. For instance, it is worth noting that the insurer most similar to Transamerica in the U.S. in terms of size and market presence is not an IAIG. With playing field concerns in mind, we are concerned about the proposed insertion of the ICS into IAIG supervisory college discussions during the monitoring period and prior to formal implementation. While the proposed role of the supervisory colleges during the monitoring period (paragraphs 73-75 of the consultation) is somewhat reassuring, we do not believe that it is possible to guarantee that the ICS will not influence perceptions of solvency and soundness. Moreover, during this time the ICS will have no legal standing. It will continue to be calculated on a basis that is approximate and unaudited, and that lacks formal controls. As a consequence, we believe that introducing the ICS into the supervisory college setting is not appropriate.	

			We believe it could effectively circumvent the authority of legislative bodies, and we are wary of and opposed to the potential use of "soft law" to implement the ICS in Europe. For all of these reasons we believe that during the monitoring period the ICS should be reported only to group-wide supervisors and withheld from broader supervisory college discussion. 4. The ICS is not sufficiently tailored for the economics and long-term nature of the life insurance industry Finally, we are concerned that the ICS as currently proposed does not adequately or appropriately reflect the economics and long-term nature of the life insurance business. This could have damaging impacts to the industry's willingness and ability to provide needed risk protection for consumers. First, little work has been done to substantiate the calibration level of 99.5% over one year. This calibration is sourced from the banking industry and results in an inappropriate application of banking approaches to a long term risk protection business. Second, the proposed ICS compounds concerns about calibration by adding a large buffer to the valuation of liabilities, the Margin over Current Estimate (MOCE). It is interesting that supervisors have yet to achieve consensus about MOCE after years of discussion. We are persuaded that the "prudence" MOCE is fully redundant and that economic capital theory indicates that the "cost of capital" MOCE is partially redundant. In practice, the current approach to MOCE leads to a total provision for risk–including capital requirements–that is well in excess of the calibration level. Third, the construct of the ICS is inconsistent with its characterization as a "minimum standard". The ICS is poorly suited to be a "minimum". It attempts to be highly calibrated, yet at the same time simple and approximate. The combination of the two	

			could bind insurers to a capital measure that poorly reflects their actual risks. For example, the ICS takes a very approximate and deliberately prudent approach to reflect taxes even though tax benefits can significantly mitigate losses. This suggests that the ICS is not currently fit for purpose as a "minimum". Fourth, we believe that supervisors should share our concerns that the volatility of the ICS may foster procyclicality. A primary source of this concern is the market-adjusted valuation (MAV) valuation basis. While some welcome improvements to MAV have been made, the reference "three bucket" approach still exposes insurers to volatility from credit spread movements. Moreover, while we acknowledge concerns about providing incentives to invest in higher risk assets, the proposed ICS fails to acknowledge that spread widening is actually beneficial for many long-term businesses due to an improved reinvestment environment. The combination of these factors -- high calibration, significant approximations, and potential procyclicality -- is likely to impact industry business models. Evidence is accumulating in Europe that Solvency II is inadvertently leading insurers to withdraw from providing products with long-term guarantees, one of the industry's core competencies and a specialty that is much needed in an era in which employer-provided guaranteed pension schemes are increasingly rare around the world. We believe that supervisors would be well advised to examine these impacts before concluding that the ICS is an appropriate standard to apply globally. Because of its failure to satisfy our four criteria, Aegon does not support the ICS as currently proposed. Our playing field concerns can be addressed by positioning the ICS as a reference point for local regimes, with Solvency II, including D&A, serving as the EU implementation. Our concerns about the substantive elements of the standard can be addressed by refining the ICS to reduce the calibration and volatility of the standard. We look forward to working with the IAIS to address these concerns. * * *	

			The consultation focuses on selected elements within the ICS that are of interest to the IAIS in its efforts to finalize ICS 2.0. In our response, we have focused on the subset of these elements that are of greatest interest and importance to Aegon. This does not necessarily mean that we support the proposed ICS on elements that are outside the scope of the current consultation. SPECIFIC RESPONSE TO Q1 The incremental costs of an ICS will depend on what the ICS will look like and how it will be implemented. The consultation document refers to the ICS as a minimum standard. This seems to imply that regional regimes will co-exist next to the ICS. This would lead to tremendous costs in terms of reporting, technology, risk management, and compliance. Multiple standards would also be confusing to the market, leading to extra funding costs. In addition, the costs are a function of the extent to which existing systems and processes can be leveraged and the extent to which simplifications can be employed. A single ICS that fully replaces current standards would avoid many of these costs and result in the largest benefits since it would create a level playing field without the confusion created by dual standards. The 2017 Kuala Lumpur agreement indicates that such an outcome is currently not plausible.	
Legal & General	UK	No	The incremental cost will depend heavily on the final basis of the ICS. Some examples include: - If ICS ends up being a biting PCR (even if only for a short time before appropriate optimisation takes place) then there will be significant effort required to change various internal processes to allow for that.	

			- If the ICS Top Bucket ended up differing significantly from the Solvency II Matching Adjustment then there would be significant cost and management time required to set up additional processes to manage the various portfolios required. When Solvency II Matching Adjustment was introduced we were required to set up complex and expensive funding vehicles at short notice and we are very keen not to repeat that experience. - If ICS introduces new and complex methodology requirements then there will be a cost associated with educating internal and external counterparties accordingly. - The cost of setting up the processes and models to calculate capital requirements will depend on the specification of the stresses and the level of consistency with existing metrics, in particular Solvency II SCR. The specification of the MOCE may add additional complexity and cost on top of this. - Each additional basis that is required both during and after the monitoring period (i.e. Standard Method/Internal Model, MAV/GAAP Plus, different MOCEs) will add extra cost. - The extent to which ICS and IFRS metrics differ will determine the extent to which internal processes such as hedging strategy and risk management would take on added complexity to satisfy the needs of all metrics. However, in the most optimistic scenario we would expect relatively little incremental cost to be incurred.	
Association of British Insurers	United Kingdom	No	From an operational point of view, incremental costs associated with adopting the ICS as a Prescribed Capital Requirement (PCR) will include increased costs relating to the internal review of the process for the determination of the capital requirement, internal audit costs, as well as the costs of external audit.	

			These costs will increase if the ICS is adopted as a PCR in addition to existing national requirements. Some firms may also be faced with the incremental cost of raising additional capital to be able to meet the ICS as PCR, particularly if the ICS is adopted by national authorities as a general capital standard for all solo entities, and not just a standard for IAIGs. In addition to the cost to firms and supervisors of implementation of the ICS, the IAIS in finalising its proposals should also evaluate the impact that the ICS may have on policyholders and society. Regulation comes with a cost which ultimately impacts on prices, investment choices, policy returns and the provision of insurance. It is therefore important that in finalising the ICS that the IAIS ensure that it's approach to valuation is consistent with insurers' long term investment horizons, economic reality, the manner in which insurers manage their assets and liabilities and wider societal aims such as the G20's aims of improving the environment for infrastructure projects. ICS Version 2.0 as currently being consulted on would be inconsistent with the G20 aims, as it provides disincentives to insurers to invest in such assets. In particular, it currently does not recognise the use of internal ratings of assets where there are no external credit ratings (such as infrastructure), meaning that such assets would attract an inappropriate capital charge, while at the same time not being given appropriate recognition in setting the discount rate for the valuation of liabilities. The ABI encourages the IAIS to consider the G20's objectives, and policyholder and societal implications more generally, as it finalises its proposals.	
National Association of Mutual Insurance Companies	United States	No	General Comments The National Association of Mutual Insurance Companies (NAMIC) welcomes the opportunity to comment on the consultation document on the Insurance Capital Standard 2.0 (hereinafter "Consultation Document").	

			NAMIC is the largest property/casualty insurance trade association in the country, with more than 1,400 member companies representing 40 percent of the total market. NAMIC supports regional and local mutual insurance companies on main streets across America and many of the country's largest national insurers. NAMIC member companies serve more than 170 million policyholders and write more than $253 billion in annual premiums. Our members account for 54 percent of homeowners, 43 percent of automobile, and 35 percent of the business insurance markets. Through our advocacy programs we promote public policy solutions that benefit NAMIC member companies and the policyholders they serve and foster greater understanding and recognition of the unique alignment of interests between management and policyholders of mutual companies. NAMIC members have a keen interest in IAIS efforts to protect those policyholders in the most cost-effective and efficient manner possible, recognizing that added costs to the system result in higher costs to the policyholders. While NAMIC appreciates the IAIS efforts to address some of the issues mutual insurance groups face that may differ from public insurance groups regarding the Insurance Capital Standard, there remain foundational concerns, generally, with the lack of jurisdictional flexibility, and specifically, with the use of ICS 2.0 as the reference formula by which to compare all other approaches. The presumption of accuracy of this formula is one with which we strongly disagree. While NAMIC is submitting separate technical comments on the Insurance Capital Standard (ICS), we join the American Insurance Association (AIA), the Property Casualty Insurers Association of America (PCI), and the Reinsurance Association of America (RAA) in a joint letter to Jonathan Dixon and Victoria Saporta raising concerns from all property casualty trade associations in the United States. We also support, in general, the comments from the NAIC and GFIA. NAMIC's general thoughts on the Consultation Document are as follows:	

			I. JURSIDICTIONAL FLEXIBILITY a. THE AGGREGATED APPROACH In the U.S. significant efforts are already underway at the state and Federal Reserve level to calculate the level of group capital for insurers on an aggregated basis. The NAIC is preparing field testing specifications for an aggregated approach to begin in 2019. The Federal Reserve is working with the NAIC to develop their own insurance group capital standard on an aggregated basis for those insurance groups they supervise. NAMIC asserts that considering the focus in both fora on an aggregated approach to group capital, the time has come for the IAIS to recognize that an aggregated approach can adequately address the solvency of insurance groups. The NAIC is working on a group capital calculation that is based on the aggregation of legal entity capital requirements. In this effort they have recognized that U.S. RBC has included a group capital requirement for some time, but it was only applied to groups with an insurance underwriting company as its top tier company and it included capital charges for all of the entities under the top tier company. Interestingly this is the structure for most mutual insurers. The RBC for companies with an insurance underwriting company as the parent organization have been held responsible for group capital since RBC was designed in the early 1990s. The U.S. RBC for such companies includes a factor to assess the capital of all subsidiaries and affiliates, both insurance and non-insurance, both domestic and foreign and including banks and other financial institutions. The NAIC effort at this time is to determine the best way to refine the factors for non-insurance regulated entities and foreign insurance entities, and to apply the same concepts to other insurance groups with a non-insurance holding company at the head of the group. Field testing specifications will be finalized in November and the testing will begin before 2019. Another consideration is that in 2017 the EU and U.S. executed an agreement to mutually recognize each other's group capital approaches in the Bilateral Agreement between the United States of American and the European Union on Prudential	

			Measures Regarding Insurance and Reinsurance. The document, known as the Covered Agreement, was entered into acknowledging that the U.S. approach was an aggregated calculation and not a consolidated approach to group capital. Another similar agreement with the United Kingdom is currently being negotiated. Agreements including mutual recognition can be an alternative to the ICS 2.0 that will recognize different jurisdictional approaches to group supervision and group capital. This could be an important, efficient and more realistic approach to a global group capital standard than the reference ICS 2.0 proposed in the Consultation Document. Using a mutual recognition approach, the IAIS would have a base of information that would help identify trends and identify the level of safety of insurance groups in the mutually agreeing jurisdictions. Most importantly this approach would be achievable by far more countries than a prescriptive consolidated group capital mandate. With the understanding of the differences between the approaches, supervisors in supervisory colleges would be able to ask questions and understand the capital model other domiciliary jurisdictions were using. NAMIC asserts that understanding of different regulatory approaches is truly the key in any case. Any jurisdiction that thinks a consolidated international formula provides all of the information they need about the companies doing business in their countries will be disappointed at the least and may be the victim of much more significant impacts at worst. There is no doubt that an aggregated approach will be taken in the U.S. and may be taken in other countries as well. While this may not achieve the absolute comparability that some in the IAIS seek to achieve, it does result in an estimation of group capital that may not differ materially from the consolidated approach. And an aggregated approach will be at least as comparable as an individual insurance group's internal model approach currently pursued by Solvency II advocates. NAMIC understands the IAIS' desire to achieve a consistent, comparable group capital standard for internationally active insurance groups. Notwithstanding this desire, it is an unachievable goal with the differences between the jurisdictions that are involved in the IAIS. In the event that one or more large jurisdictions decides not to comply with the	

			requirement or to drastically diverge from the ICS methodology by using and aggregation or internal model approach, the IAIS will fall very far short of the consistency goal. This lack of consistent agreement to the standard will undoubtedly have a chain reaction globally that will likely mean the loss altogether of any global capital standard. In the alternative, infusing more flexibility in the design of the standard could result in much more widespread adoption and a successful result for all. It seems that the time has come for flexibility and cooperation. b. REMOVE DISCOUNTING FOR NON-LIFE RESERVES Second, the IAIS needs to clarify in the final version of ICS 2.0 that reserves set for claims filed under short-duration contracts issued by property/casualty insurers will not be subject to discounting, especially for jurisdictions with conservative reserving requirements that provide for prudence. Eliminating regulatory prudence and then adding a discount, only to reconsider the variations in systems under a P-MOCE seems unnecessarily complex. With this understanding about property/casualty reserve discounting, it follows that any MOCE should also be eliminated as well. If a jurisdiction has decided to use reserving to address the need for conservatism instead of creating a risk margin to do so, MOCE serves no purpose except to complicate the calculation. Effort in this draft to allow regulatory discretion is one way to accomplish the goal, but it if there is no value to discounting at all then why put companies through the unnecessary process. This issue is addressed in the response to the questions herein, and we have been assured that such is the intention of the consultation draft, but a clarification of this issue or allowance of flexible treatment is vitally important to property/casualty insurers and should be provided in the final version of ICS 2.0. c. 99.5% VAR TOO PRESCRIPTIVE FOR GLOBAL GROUP CAPITAL STANDARD While the EU already has a 99.5% VaR over one-year group capital requirement, this is not the case for every member of the IAIS. In addition, there is no evidence that this level of capital requirement has achieved any better results than the lower levels of capital requirements in other jurisdictions. In fact, requiring all jurisdictions to hold groups to a near 100% group capital requirement would require significant additional	

			capital in a specific group of conservative instruments. The benefits expected from this higher level would not materialize. Worth noting is that no rational capital requirement level would have protected AIG from its very serious solvency crisis. Only closer supervisory attention to the risks presented by the entities within the group will protect against a major crisis. This cannot be resolved by capital requirements alone. The 99.5% VaR requirement is not appropriate for several reasons: - It does not provide the flexibility required in several jurisdictions with other regulatory requirements and other supervisory tools to address solvency questions. - It results in unnecessary levels of trapped capital invested in low performing investments. - It does not actually address the risks of a financial crisis. In most jurisdictions there are legal requirements other than capital that address concerns about the solvency of insurance groups. Other regulatory requirements and supervisory tools can include: - Annual independent audits - Annual ORSA filings and stress tests - Market conduct and financial examinations - Identification of hazardous financial condition beyond the capital trends - Disclosures of corporate governance structure - Investment limitations - Supervisory college reviews	

			- Required supervisory approval for extraordinary dividends - Regular financial analysis of capital trend tests, risk profiles, reporting of material enterprise risks to the group These are simply a few of the solvency requirements included among U.S. state regulation that also help supervisors to identify financial, governance and other legal concerns long before they are presenting solvency issues. Certainly these additional tools are not used in all jurisdictions in the world, but failing to consider the whole regulatory environment in global jurisdictions can result in an excessive, duplicative requirement with no additional value. NAMIC asserts that a complex global group capital standard that will create disruption and volatility in global insurance markets for more than a decade, will not have the intended effect. Instead of reducing risk of systemic impacts it could create such disruption that enterprise risks will increase for most of the industry impacted by the standard. In addition, the shrinking capacity of the insurance market created by increased capital requirements will have the effect of increasing prices for consumers buying insurance and of reducing product availability further generating negative economic impacts for consumers and the global economy. The attempt to expand the focus of the ICS for non-GSII companies, beyond policyholder protection, creates these significant issues. Increased capital requirements cannot be viewed in a vacuum that ignores the impact on overall insurance capacity and the chilling effect on innovation. Policyholders need more than solvency regulation. They need market capacity and product availability that addresses their evolving needs and prices unencumbered by excessive regulatory costs and high capital requirements. "Protection" of policyholders should incorporate both solvency to pay claims and other obligations to policyholders balanced with continued product availability, fair pricing and innovation.	

			Looking at capital requirements in isolation of the entire spectrum of issues that impact customers is short-sighted. Instead of a focus on capital alone, we would recommend a solvency assessment system that recognizes a balance between capital requirements, enterprise risk management, insurance product availability, and guaranty fund systems to pay claims of policyholders of companies that fail. Even if we reject all of the studies and reports about the lack of systemic risk posed by the industry, assume the goal is to address systemic risk, and accept that some action is needed to address systemic risk, there is no evidence that increased capital standards will diminish systemic risk. It is like putting a Band-Aid on a broken leg - it may provide an unsubstantiated sense that something has been done but will do nothing to address the real problem. We strongly believe that the only goal of capital requirements for companies that are not deemed systemically risky should be on a "gone concern" basis focusing on policyholder protection. The protection of creditors and investors is not the province of insurance regulation and results in unnecessarily high capital requirements. Since other supervisors are involved in the regulation of entities outside of the insurance sector, the supervisory college is the best place to address the issues that arise outside the context of insurance regulation. II. ICS 2.0 AS THE REFERENCE FORMULA A reference ICS 2.0 approach to insurance capital will not produce "comparability" even if all countries used the same valuation model, qualifying capital, target level and specific capital formula. The application of the same capital standard to unique companies that come from very different regulatory environments with very different economic and political goals will not produce comparable conclusions about capital or solvency. Every country has a unique regulatory system with unique features that influence the solvency of the companies doing business in that regulatory environment. None of these systems are right or wrong, they are just different. The level of supervision of insurers is sound and while the means are different, they have all found	

			effective ways to supervise their insurance industry taking into account their unique political and rule-making environments. But it is important to recognize that these are not comparable systems - the companies from these countries do not have comparable regulatory oversight. Any effort to designate a single capital standard should be principle-based, outcomes-focused and fluid enough to recognize these very major differences in approach. It should not depend on specific numeric outcomes to prove outcomes comparability. A successful global effort would not create unnecessary competitive issues for companies domiciled in one well-supervised jurisdiction over companies from another. The IAIS should instead focus on enhancing mutual understanding of different regulatory approaches. We propose a flexible and dynamic capital assessment that would recognize and improve understanding of diverse, successful approaches to solvency regulation and would create a principle-based, outcomes-focused approach for regulatory capital assessments. - To enhance understanding, the IAIS should work with supervisors to develop a comparison of each of the regulatory environments, which will facilitate understanding of each regulatory philosophy and how the checks and balances work in different jurisdictions. This tool should be enhanced by regulators from each jurisdiction periodically to reflect the changing regulatory framework and impacts on insurer solvency and financial stability. While this could start with the FSAPs for each jurisdiction, this is more than a comparison of FSAP findings as it would include features that are not part of the ICPs that jurisdictions have implemented to address solvency, market conduct and policyholder protection beyond the ICP requirements. - To enhance consistency, any capital proposal should provide the outcomes and principles desired; should consider local capital requirements and differences in other regulatory requirements and supervisory tools. NAMIC believes that a system that builds on the local jurisdictional capital frameworks	

			and considers a balance between comparability and disruption should be allowed under a flexible approach to the ICS. Despite NAMIC's continued objection to the inflexible approach and the designation of the ICS 2.0 as the reference ICS, we do have responses to questions as updates to ICS 2.0 are made. Response to Q1. NAMIC asserts that a balancing of the costs and the benefits is critical to assure that the ICS does not include inefficient, overly complex methodologies intended to address problems that can be more efficiently targeted on a company-by-company basis. In fact, any standard setting effort that ignores the economic realities of the added capital requirement could have unintended consequences of increasing insurance rates, shrinking capacity and driving capital away from insurance. We have concerns that the ICS 2.0 consultation draft could even increase systemic risk in the well-functioning insurance sector. 1. Costs to Supervisors and Individual Companies to Implement The standards as currently proposed will require supervisors and companies in countries that have not adopted Solvency II or IFRS to make significant changes in their financial reporting and reserving practices. To comply with the market adjusted valuation methodology requires use of a "current estimate" of liabilities. The concept behind the "current estimate" is defined in the consultation draft as one that "reflects the expected present value of all relevant future cash flows that arise in fulfilling insurance obligations using unbiased, current assumptions." NAMIC commented on the added cost of applying this market consistent accounting methodology to the IASB in 2013. The proposed valuation methodology in the consultation draft is very similar to the IASB Insurance Contracts Exposure Draft ("IASB ED") issued that year. U.S. property-casualty insurers, supervisors and statement users alike agreed that the proposed changes to insurance accounting did not provide adequate benefits to outweigh the extensive costs that would be incurred. In fact, for property-casualty	

			contracts the view was widely held that international convergence would be much more likely around a GAAP methodology. The adoption of an IFRS-based valuation approach for the ICS will result in very similar costs for insurers not currently reporting on this basis. a. Cost of Converting to Unbiased Probability-Weighted Cash Flow Reserving For non-life companies, the requirement to move to a "current estimate" liability approach is not unlike the unbiased probability-weighted cash flow reserving in IFRS 17. This change alone will have a significant impact on cost and will provide the least benefit for non-life companies. The proposed unbiased probability-weighted cash flow methodology is not a comparable substitute for existing incurred reserves under a management's best estimate (MBE) approach. The existing MBEs have been developed using a variety of deterministic projection methods. The substitution of the time-tested and validated variety of actuarially accepted projection methods with one stochastic model that has not been actuarially validated for non-life purposes will not be beneficial to supervisors or companies. For implementation, both companies and supervisors will have to hire more actuaries, accountants and systems experts or engage more consultants because the reserving process itself will require a complete overhaul for most property/casualty insurers. Currently, reserving processes focus on determining the ultimate nominal loss and, from that, the appropriate loss reserve to book. In other words, the focus is on the ultimate loss and not the timing or amounts of incremental losses. Property/casualty actuaries will need to develop, test and validate new methodologies to address these reserving estimation requirements. More accounting experts will be required to track the many new variables introduced and explain the complex drivers of financial results to supervisors and other users. Companies and supervisors will need to change IT systems and processes to shift to a cash flow approach. For Companies, many new information technology systems, software and employees will be required to set up and monitor the new processes and track the new variables required by the consultation draft.	

			Even after implementation, supervisors and companies will continue to incur added costs to reestablish the significance of the data reflected by the new information produced. It will take at least a decade to gather enough historical data using this new methodology to provide meaningful loss development information. From an accounting perspective there will be added cost for investment professionals, auditing and actuarial validation. The need for talent to address the reserving changes will be not only a transitional, but an ongoing and expensive cost consideration. The exact costs are very difficult to determine with accuracy, but it will likely be much greater than anyone is currently anticipating. b. Cost to Determine Appropriate Discount Rates Discounting liabilities to achieve the market consistent valuation adds another cost consideration. The current business model for short-duration property/casualty insurers is inconsistent with a discounting requirement. Insurers are not able to settle claims with policyholders on a present value basis, therefore the discounting of reserves would result in an inflation of equity that will report more dividend capacity than should exist. Overall, application of discounting required by the consultation draft is fraught with uncertainties, assumptions, and formidable challenges that will result in significant new costs. But the industry will also pay from a solvency perspective. Property/casualty insurers and regulators have always managed claim reserves on a more conservative, nominal, undiscounted basis using management's best estimate approach. Reserves are an important feature that protect the policyholders and assure that the money needed to pay claims is available. Insurers holding inadequate reserves often struggle to meet their claim obligations when they are due. A.M. Best reports that inadequate reserving is the number one reason for insurer insolvencies. NAMIC members care about this issue because insurance insolvencies affect all companies in the U.S. All insurers doing business in every state are assessed for the	

			costs of the policyholder claims filed against insolvent insurance companies through the guaranty fund system. Trends toward a present value measurement will not produce more adequate reserves. Instead these trends may lead to less reserve discipline. Appropriate discount rate setting is not a precise science and minor errors in assigning the appropriate rate can have disastrous results in this industry. 2. Costs to Policyholders While Principle 2 sets out the goal of protecting policyholders, it has been shown time and time again that increased capital requirements will have a direct impact on prices paid by consumers. Economic studies conducted on the impacts of increased capital requirements for both property-casualty (Shapiro and Mathur, Unnecessary Injury: The Economic Costs of Imposing New Global Capital Requirements On Large U.S. Property and Casualty Insurers," http://www.sonecon.com/docs/studies/Report_on_Capital_Standards_for_PC_Insurers-Shapiro-Mathur-Sonecon-Final-November-15-2014.pdf (November 2014)) and life insurance products (Oliver Wyman, "The Consumer Impact of Higher Capital Requirements on insurance Products," http://responsibleregulation.com/wp-content/uploads/2013/05/Pricing-impact-study-Oliver-Wyman-April-10-2013.pdf (April 10, 2013)) predict significantly increased pricing of products and/or reduction in capacity or products offered. The same has been proven in the banking and mortgage industries as well. Changing one factor impacting an industry like capital requirements may in the short-run appear to provide more economic protection from companies failing, but if those same companies can no longer compete on price or must shrink their insurance offerings, the IAIS may not have achieved any goal except the disruption of a well-functioning industry. A consideration of policyholder protection should also include protection of their access to a competitive, innovative industry that offers a broad array of products that meet their insurance needs. If adopted, the ICS 2.0 consultation draft would certainly impact availability of current product offerings. While consumers might initially adjust to changes in availability or increases in price, the impact on innovation will negatively affect insurance products for decades to come by slowing innovation and ultimately causing a slow decline of the	

			insurance industry. This should not be the result of an IAIS standard. 3. Costs to the Economy and Potential Relationship to Systemic Risk The macroeconomic effects on the industry will be equally problematic. The decision to designate some insurers as GSIIs or SIFIs was made based on a conclusion that their failure would create or add to systemic risk. The group of insurers segmented by ComFrame as IAIGs were not selected as a result of their potential effect on the economy but were based on their size and operations in more than three countries. There is no assertion that the failure of any of these companies would create systemic risk. And yet the decision to subject these companies to additional capital requirements was made. Even for GSIIs the IAIS is moving away from a focus on entities and looking at an activities-based approach to addressing systemic risk. Additional capital requirements will primarily serve to shrink capacity to write new business and will likely impact investment practices. Higher capital charges in restricted capital resources could well reduce IAIG investment returns. Lower profitability in the insurance sector could then render insurance less attractive to investors and lenders. If there is reduced capital flowing toward insurance underwriting, capacity will shrink. Capital requirements that are not consistent with the risks of the IAIG have consequences as well. Overstatement and understatement of the risk of various segments can lead to insolvencies and product availability crisis. Consolidation in the industry is a definite possibility in such a situation as small and medium-sized insurers are more affected by regulatory costs and additional capital requirements. [Insurance Europe, "Why Insurers Differ from Banks"]. This is especially true for mutual insurers with limited sources of new capital. All of these effects of higher capital requirements are counter-intuitive as a solution for systemic risk. Insurers have a role in the economy as a risk-absorber and an institutional investor providing counter-cyclical stability in sectors that can be subject to market fluctuations. High and/or inappropriate capital requirements that will lead to shrinking capacity, limited investment diversity and industry consolidation will have an	

			overall negative effect on the economy and will increase the potential of systemic risk not reduce it.	
State Farm Insurance Companies	United States	No	State Farm Mutual Automobile Insurance Company ("State Farm Mutual") respectfully offers the following comments regarding the proposed International Association of Insurance Supervisors (IAIS) Insurance Capital Standard (ICS). State Farm Mutual is a United States mutual insurance company established in 1922 and is the parent of the State Farm group of companies. Headquartered in Bloomington, Illinois, State Farm Mutual itself is the largest insurer of automobiles and, through its subsidiaries, the largest insurer of homes in the United States. State Farm Mutual and its subsidiaries comprise eleven property and casualty insurance companies, three life insurance companies, and a small number of noninsurance entities, including State Farm Bank. State Farm Mutual is regulated by the State of Illinois Department of Insurance as its domiciliary regulator for financial strength and governance, and is also prudentially supervised by the Board of Governors of the Federal Reserve as a savings and loan holding company. For the reasons set forth below, State Farm Mutual advocates for the development of an alternative to the proposed International Association of Insurance Supervisors (IAIS) Insurance Capital Standard (ICS) that is more accommodating of the established regulatory and legal environment in the United States. In addition to concerns regarding the separation of legal entities, we are concerned that the IAIS proposal will generate costs that far outweigh any perceived benefits and will inject uncertainty into well-functioning and highly regulated insurance markets. State Farm Mutual is not an internationally active insurance group, but has closely followed and participated in the IAIS process of developing an ICS through various trade and business associations. At this juncture, State Farm Mutual has the following concerns regarding the ICS effort: - The end result ICS is duplicative of what could be achieved in the U.S. through	

			existing means and supervisory cooperation (e.g. risk based capital standards and regulation, and supervisory colleges), especially given the adoption of the Insurance Core Principles by jurisdictions around the world. - The process did not employ meaningful cost-benefit analysis reflecting the practical real-world difficulties in trying to converge and establish a centralized one-size fits all worldwide capital requirement. Instead, it attempts to merge longstanding and widely diverse economic, judicial, and regulatory regimes into a paradigm reflective of jurisdictions where price regulation generally does not exist. - Insurance company parents of a holding company in the United States, like State Farm Mutual, already are required to meet minimum solvency standards that carefully evaluate its assets and liabilities, including the ownership of the subsidiaries through existing Risk Based Capital laws. - The process has generated regulatory uncertainty that undercuts efficient long-term planning, all of which needlessly impose additional costs on insurance customers. State Farm Mutual recognizes it is not solitary in these concerns, as many other U.S. insurers have voiced similar concerns to prior consultations. One of the most troubling aspects of the ICS - the presumed fungibility of capital across an insurance group - is worthy of additional discussion. This approach is in direct conflict with numerous existing insurance regimes, laws, or holding company requirements in multiple jurisdictions. Even if one maintains that a jurisdiction is free not to adopt a tenet of the ICS because of conflict with existing laws, one must also acknowledge the impact of the very existence of an ICS on those bodies of law. The longstanding legal framework governing insurance in the United States provides for the creation and regulation of distinct legal entities within a group. In the insurance context, this framework is designed to uphold the sanctity of contracts between policyholders and the individual legal entity with which they have contracted. Further, it	

			is designed to protect consumers by restricting or inhibiting the inappropriate manipulation of capital availability and flows within the group, and allows for entities to address consumers' unique and often vastly different geographical and jurisdictional risks. In addition, state insurance laws generally regulate the types and amount of investments that can be held by insurers, further reflecting the robust nature of solvency regulation in the United States. Making insurance capital in the United States fungible is untenable where the prices are regulated and subject to regulator approval and, in many instances, modifications. In fact, the combination of regulation of pricing and state solvency laws in the United States are a unified, inseparable body of law. The regulation of the price of insurance is a fundamental distinction that runs counter to the fungibility of capital. Generally speaking, the price of insurance is regulated at the individual state level. In such cases, the pricing of insurance sometimes yields to short-term parochial interests, which runs counter to the financial strength of the individual legal entities. As a result, enabling or requiring the movement of capital between affiliates jeopardizes the solvency of individual insurers, distorting both the real solvency of the individual company and its real rate needs. Further, it encourages inappropriate subsidization of insurance rates to the detriment of that individual insurer's policyholders, policyholders with other affiliated insurers, and the entire marketplace. While no system is perfect, this individual legal entity framework and regulatory solvency mechanisms focusing on policyholder protection have been extraordinarily successful in protecting insurance consumers. Well-established federal law in the United States retains for the individual states the authority to regulate the business of insurance, which is the framework upon which the system is built. U.S. federal law provides that "no Act of Congress shall be construed to invalidate, impair, or supersede any law enacted by any state for the purpose of regulating the business of insurance." To impose an ICS, the premise which implicitly presumes the fungibility of capital, is in direct conflict with this insurance regulatory framework. Indeed, the European Union recently recognized as much with the joint	

			issuance of the United States policy statement on group capital that accompanied the signing of the U.S.-EU Covered Agreement. The ICS Principle 2 states, "the main objectives of the ICS are protection of policyholders and to contribute to financial stability." Nonetheless, the consultation does not reconcile itself with the underlying consumer protections already working in the United States. If uprooted by the imposition of an ICS that only addresses one aspect of consumer protection, numerous other existing consumer protections could be nullified under the legal entity regulatory structure. For these reasons, State Farm Mutual respectfully recommends that the IAIS consider alternatives for evaluating insurance capital that will better leverage, and be less disruptive of, existing systems in the U.S. We would welcome the opportunity to discuss these concerns further in greater detail. Thank you for the opportunity to comment.	
RAA	United States and many other jurisdicitons	No	The adoption of a MAV valuation-based ICS as a PCR would involve very significant incremental costs for US non-life IAIG's. The MAV approach is significantly different than U.S. GAAP and statutory accounting valuation models, particularly with respect to the valuation of non-life insurance reserves. Implementing the MAV would involve material costs for each IAIG, because U.S. non-life reserves are not valued on this basis and because the necessary IT systems to support it do not exist. Importantly, the internal control systems and processes that support financial reporting would also have to be re-engineered from the ground up to support the MAV valuation basis. While this discussion focuses on MAV, many other elements of the ICS would similarly involve the development of new IT resources and internal control processes to support such reporting to supervisors. Additionally, some IAIG's may have to raise additional capital to meet the ICS requirement as a PCR. This is particularly true for groups that rely on SVO-based ratings or that have used senior subordinated debt as a capital resource; only two examples of many areas in the ICS that appear unnecessarily conservative.	

			The RAA has joined other U.S. property casualty trade associations in a separate letter to Jonathan Dixon addressing our concerns about the readiness of the ICS 2.0 draft as a fit for purpose requirement and the need for the IAIS to consider alternative, yet comparable approaches (i.e. on a supervisory outcome basis), being developed in other jurisdictions.	
American Academy of Actuaries	United States of America	No	October 30, 2018 Mr. Jonathon Dixon Secretary General International Association of Insurance Supervisors c/o Bank for International Settlements CH-4002 Basel Switzerland Re: Risk-based Global Insurance Capital Standard Version 2.0 (ICS 2.0) Public Consultation Document (July 31, 2018) Dear Secretary General Dixon, On behalf of the Solvency Committee of the American Academy of Actuaries, I appreciate the opportunity to provide comments on the International Association of Insurance Supervisors' (IAIS) Risk-based Global Insurance Capital Standard Version 2.0 (ICS 2.0) public consultation document, dated July 31, 2018. Below are the committee's specific responses to sections 5.1 Market Adjusted Valuation (MAV) Approach, 5.2 Margin Over Current Estimate (MOCE), 7.3 Risk Mitigation, 7.5 Management Actions, 7.10 Premium and Claims Reserve Risks, 7.11 Catastrophe Risk, 7.12 Interest Rate Risk, 7.13 Non-Default Spread Risk, 7.16 Currency Risk, 7.18 Credit Risk, 7.19 Operational Risk, 7.20	

			Aggregation/Diversification of ICS Risk Charges, and 9.1 GAAP with Adjustments, organized by question number. ***** Thank you for this opportunity to provide our views on the ICS 2.0 public consultation. If you have any questions or would like to discuss this letter in more detail, please contact Nikhail Nigam, the Academy's policy analyst for risk management and financial reporting issues, at +1 202-223-8196 or nigam@actuary.org. Sincerely, Elizabeth K. Brill, MAAA, FSA Chairperson, Solvency Committee Risk Management and Financial Reporting Council American Academy of Actuaries cc: Steven J. Dreyer, Director, Federal Insurance Office, U.S. Department of Treasury Commissioner Katherine L. Wade, Chair, International Insurance Relations (G) Committee, National Association of Insurance Commissioners David K. Sandberg, Chair, Insurance Regulation Committee, International Actuarial Association Tom Sullivan, Associate Director, Board of Governors of the Federal Reserve System	
Cincinnati Insurance Company	United States of America	No	GENERAL COMMENT ON ICS 2.0. [1] The IAIS is seeking feedback on its Risk-based Global Insurance Capital Standard (ICS) Version 2.0, through a public consultation document, which is also part of ComFrame. [2] As we have stated many times in similar sets of consultation comments, our company does not believe that the world needs a set of Insurance Core Principles (ICPs), either as a standalone regulatory	

			code or one enhanced and amplified for IAIGs under ComFrame, nor does the world need the Risk-based Global Insurance Capital Standard (ICS) Version 2.0 currently under development by the IAIS. We also object to the program under which the International Monetary Fund (IMF) grades the U.S. insurance regulatory system on its compliance with the ICPs. [3] The core principles upon which the U.S. insurance regulatory system is premised have functioned perfectly for over 150 years and do not need an overhaul by the International Association of Insurance Supervisors (IAIS) or by its ostensible parent organization, the Financial Stability Board (FSB). [4] Therefore, we object to the Risk-based Global Insurance Capital Standard (ICS) Version 2.0 under development by the IAIS. There is no need for the IAIS to promulgate a Risk-based Global Insurance Capital Standard (ICS). The U.S. and other regulatory regimes are capable of regulating insurance capital standards on their own without interference by the IAIS. [5] Unlike most IAIS consultations, this one did not offer a "General Comment" opportunity. Therefore, our answer to Q1 is intended as a general comment on this consultation and ICS 2.0. [6] Given the substance of the forgoing comments, we see no need to answer Q2 through Q198.	
Prudential Financial, Inc.	United States of America	No	General Comment on Public Consultation on Risk-based Global Insurance Capital Standard Version 2.0 Prudential Financial, Inc. (Prudential Financial) thanks the International Association of Insurance Supervisors (IAIS) for the opportunity to comment on the July 31, 2018 Risk-based Global Insurance Capital Standard (ICS) Version 2.0 consultation document. We remain committed to the further development of global regulatory standards - including a group capital standard - for the insurance sector provided they appropriately account for the diversity of insurance markets around the globe and the economics of the life insurance business. Life insurance is a diverse and local business model. Risks are generally written by local companies to meet very local consumer and societal needs. These risks are often determined by specific cultural or economic factors as well as unique public policy and	

			social safety net frameworks in jurisdictions. Overly prescriptive global standards - if implemented - could undermine the role insurers play in society and the ability of governments to achieve public policy objectives. With respect to the ICS, the following questions should be sufficiently addressed and mutually agreed upon by all IAIS members to avoid such unintended outcomes: + Are jurisdiction specific product designs, risk mitigation and ALM accounted for? + Is loss absorption capacity appropriately reflected? + Are liquidity, capital, and other prudential concerns properly distinguished? + Are there already relevant and sufficient supervisory tools in place to address the objective of the global standard/policy measure? Jurisdictional supervisors should always be afforded appropriate deference and flexibility to make key jurisdictional adjustments to global standards - including the ICS - as needed so they sufficiently account for the needs and specificities of their market. Prudential Financial has been highly engaged in the ICS project since its inception; we have responded to all public consultations and recently completed our fifth ICS field test exercise. Through our ongoing engagement we have thoroughly and thoughtfully assessed the framework and developed well-informed positions on its various facets. While we have observed meaningful improvement in the ICS over time, we believe the current version of the framework remains deeply flawed and likely to cause adverse impacts to insurance markets and stakeholders around the world. The flaws we observe have been recurring points of debate between the IAIS and industry stakeholders; their continued presence in the ICS reflects a conscious decision by the IAIS to disregard stakeholder feedback and instead to risk management. The primary areas of concern include redundant layers of conservatism and flawed approaches to risk management. The primary areas of concern include the following:	

			+ Approach to valuing insurance liabilities - Further alignment is needed between the valuation of insurance liabilities and the assets supporting them. Absent improvement the ICS will serve as a disincentive for proper asset liability management (ALM) and be highly prone to non-economic volatility, procyclicality and inaccurate measures of an internationally active insurance groups (IAIG's) risk exposures and loss absorption capacity (i.e., false positives and negatives). + Inclusion of a Margin Over Current Estimate (MOCE) - The inclusion of a MOCE double counts risks by reducing available capital for risks associated with the uncertainty of liability cash flows which are already captured in required capital. Further, the IAIS has yet to sufficiently justify the need for a MOCE or the basis for not recognizing all margins in reserves - which are backed by tangible assets - as loss absorbing capital resources. + Standard method stresses that exceed the targeted calibration level (i.e., 1 in 200-year stress) or are structurally flawed - Prudential Financial continues to believe the design and calibration of the standard method stresses, particularly those which are the most impactful for long term insurance liabilities, must be enhanced to align with the targeted calibration for the ICS. ---- The measure of interest rate risk should be improved by: modulating tail shocks to reflect the reduced relevance of short term interest rate movements on future rates; improving the underlying valuation approach to properly reflect insurer ALM practices; and not applying the stresses to debt issued by the IAIG. ----The recently added non-default spread risk (NDSR) should be removed from the ICS as it does not represent a relevant risk for typical life insurers given their long investment horizon and buy and hold investment strategy, as well as the short-lived nature of spread fluctuations. To the extent it has relevance, it should be part of a liquidity stress analysis, not part of a capital adequacy analysis.	

			---- The equity level and volatility shocks should be applied simultaneously to appropriately capture the benefit of risk mitigation through auto rebalancing features. Further, other risk-mitigation techniques, including dynamic hedging for products such as variable annuities, should be recognized regardless of their maturity date. ---- The mortality/longevity stress should be targeted at the trend component of the risk, which is the primary way the risks manifest themselves for insurers with significant, credible claims experience - not stresses to base rates. In addition, the diversification benefit between longevity and mortality continues to be overly conservative and should be refined. ---- The mass lapse charge should be specified relative to the best estimate (e.g., as an additive stress) as opposed to an absolute lapse rate. Regional and product idiosyncrasies are reflected in best estimate assumptions and the mass lapse charge should be sensitive to these. ---- Expense risk can be directly managed and mitigated by the IAIG's management and thus should not be part of the ICS. + Disconnect from other IAIS policy measures - Over the course of the project, Prudential Financial has observed that development of the ICS has been independent from and without meaningful regard to other policy measures of the IAIS. Ensuring appropriate asset liability management, risk management, governance, performance of control functions, liquidity management, etc. are of equal - if not greater - importance than the capital framework. Proper emphasis and weighting must be placed on each of these tools to ensure appropriate supervisory and management outcomes are achieved. The IAIS must reassess and rework the ICS to ensure its Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) is a holistic and appropriately balanced resource for the sector.	

			If not sufficiently addressed, the concerns noted above will result in an ICS that hinders insurer's ability to provide sound life insurance and retirement products and associated stable long-term capital investment - the antithesis of the goals of the IAIS and the principles guiding the development of the ICS and counter to public policy objectives around the world (e.g., promoting economic growth, supporting aging societies, closing the protection gap, funding infrastructure projects, etc.). In addition, and of equal concern to the technical items noted above, is the lack of clarity stakeholders have at this advanced stage of the project - i.e., IAIS adoption of ICS Version 2.0 scheduled for November 2019 - on significant overarching questions. For example: + What do ICS results tell an end user (e.g., insurer, supervisor, other stakeholders)? What defines a "good" or "acceptable" ICS ratio or a "fit for purpose" framework? + How should stakeholders think of potential divergences between ICS results and statutory results at the entity and/or group level or with rating agency frameworks? + How will a level playing field be maintained between IAIGs and competitors that are not subject to the ICS? What impact would an unlevel playing field have on markets and stakeholders? + How will the ICS perform through the cycle and under stress? + What is the basis for the IAIS' claim that the adoption of the ICS as a Prescribed Capital Requirement (PCR) is expected to provide benefits for IAIGs, policyholders, financial stability and consumer protection (paragraph 58 of the consultation)? Has the IAIS assessed the potential impact of the ICS to these stakeholders, objectives and/or looming societal challenges (e.g., aging societies, protection gap, etc.)? It is incumbent on the IAIS to address these questions before adopting ICS Version 2.0.	

			Based on the work to date, it is highly unlikely that the IAIS would be able - or willing - to accomplish the degree of change needed to sufficiently resolve the concerns and flaws stakeholders have repeatedly raised ahead of adopting ICS Version 2.0. However, the five-year monitoring period that follows (2020 to 2024) offers a sufficient runway to achieve such an objective. Prudential Financial believes framing of the monitoring period within the consultation document offers a foundation for an appropriate structure for continued assessment and improvement of the ICS but falls short of what will ultimately be necessary to deliver an ICS that does not trigger unintended consequences. We believe the foundation provided in the consultation document must be expanded to include the following essential elements for the monitoring period to be successful: + It must be framed as a period of continued development of the ICS; + The IAIS must communicate that all information reported to supervisors and the IAIS is for informational purposes only and cannot be used as a basis for supervisory actions; + The process must be underpinned by strong and transparent governance: ---- A monitoring period governance committee should be established and comprised of members of the Executive Committee (ExCo), Policy Development Committee (PDC), Capital and Solvency Working Group (CSWG), and select group wide supervisors (GWSs). The committee should regularly seek input and feedback from IAIGs that report ICS results to their GWS; ---- The monitoring period governance committee should issue a guidance paper that outlines the process for reporting and analyzing results, resolution of open questions, making modifications to the ICS, assessing the alternative methods to an ICS (GAAP with Adjustments, the Aggregation Method, the use of internal models) and national discretions, etc.;	

			+ Recurring workshops must be held, at which the monitoring period governance committee conducts substantive discussions on the quantitative and qualitative results of ICS reporting with the IAIGs and GWSs that provide data; + A robust monitoring period launch workshop should be held ahead of the first reporting cycle in 2020 to ensure that insurance groups and their supervisors - some of which may have limited or no experience with the ICS - have a sufficient understanding of what the ICS is (and is not), the technical specifications and files that will be used, and the governance processes that will guide the monitoring period; + Impact analysis must be conducted in addition to reporting the reference method (for MAV and any "other methods" the GWS requests) to help identify sources of potential unintended consequences; this analysis should include: ---- Calculation of results under various market scenarios/sensitivities with some mutually agreed upon by the monitoring period governance committee, GWSs and IAIGs and others driven solely by the GWS; ---- An assessment of the impacts the ICS is expected to have on products, business lines, consumers, financial markets, etc. + GWSs should be required to complete annual surveys on their experience working with the ICS, including the appropriate and usefulness - or lack thereof - of the information it provides. Aggregate and qualitative results of the surveys should be shared during the monitoring period workshops; + There must be substantive engagement on the appropriateness of the ICS framework/results and the impact assessments by senior levels of the IAIS (i.e., beyond the ExCo and PDC members appointed to the monitoring period governance committee), jurisdictional supervisors, IAIGs, public policy officials, and the Financial	

			Stability Board (FSB). + Prudential Financial views the IAIS' adoption of ICS Version 2.0 in November 2019 as the adoption of a provisional ICS framework that is subject to change and improvement throughout the monitoring period. The monitoring period must culminate with a final public consultation on the ICS and formal IAIS votes on whether the reference method ICS is "fit for purpose" and if alternative methods to an ICS will be recognized by the IAIS. Our responses to the questions included in the consultation document expand upon the points highlighted above. Prudential Financial has a vested interest in ensuring the final version of the ICS is a tool that offers benefits to insurance supervisors, the insurance industry, financial markets, and most importantly policyholders and consumers around the world. We will continue to seek opportunities to constructively engage with the IAIS and other stakeholders to help achieve this objective and would welcome the opportunity to discuss the information included in our response should the IAIS wish to do so. Response to Question 1 Adoption of the ICS as a PCR would result in a variety of unnecessary costs to insurers, supervisors, consumers and stakeholders more broadly. Given remaining uncertainty over the ultimate form of the ICS, including the extent to which alternative methods are deemed "outcome equivalent", it is impossible to provide a monetary estimate. However, we foresee the following types of costs: + Consumers - In its current form, we believe the ICS would drive the insurers to which it applies to no longer underwrite long-term risks or only do so at costs that would be prohibitively expensive for consumers. Therefore, consumers would face either absorbing the significantly higher cost of coverage or foregoing protection from various risks they are exposed to.	

			+ General public - To the extent the insurance sector scaled back or ceased to assume long-term risks from consumers the costs associated with the underlying risks could ultimately be transferred to the public - e.g., social safety nets. + Financial markets - If the insurance sector were to scale back or cease to assume long-term risks from consumers its appetite for long-term financial assets (e.g., long-term fixed income investments) would also diminish which would drive up borrowing costs for issuers and slow overall economic growth. + Insurers - System modification and process standardization - e.g., IAIGs would need to modify and/or develop system capabilities and capacity to report ICS results on a recurring basis - would also create costs. As the IAIS knows, field testing has been a best efforts exercise with varying levels of resources and precision applied by volunteers and thus the gaps in moving to an ongoing production state would likely vary from company to company. These costs could increase exponentially if an internal model-based approach was permitted and a flawed standard method compelled insurers to pursue the type of process European insurers were pressured into under Solvency II. More broadly, imposing an ICS on IAIGs would create an unlevel playing field across sector and within markets between the carriers that are subject to it and those that are not. + Shareholders - Together, the impact of higher overhead expenses and lost profits from scaled back insurer portfolios (e.g., no longer underwriting profitable long-term risks, lower investment income, etc.) would diminish returns to shareholders. Additionally, in its current form, the ICS could produce understated and volatile capital ratios that result in an unfavorable or negative perception in the market place. While based on the results of a flawed framework, this perception could influence debt and equity investors, rating agencies and other counterparties, and thereby adversely impact both the sector's ability to attract and retain investors and the cost of capital.	

			+ Regulators - An ICS would add one more point of data for supervisors to assess, resulting in some degree of incremental cost depending upon on what - if any - value an ICS offered, which would likely dictate the level of time and resources applied to it. As noted above, an ICS that permits the use of internal models could drive an exponential increase in costs as jurisdictions would need to obtain expertise and resources to perform the model validation process.	
American Property Casualty Insurance Association (APCI)	USA	No	The costs associated with the adoption of the ICS for IAIGs (and potentially other insurers to the extent that the ICS informs the supervision of non-IAIGs by supervisors) have the potential to be quite high. Considering the stark differences between the market adjusted valuation (MAV) approach and current practices in the U.S., it is likely that U.S. groups and supervisors will have to expend significant resources to fully understand and implement MAV as the valuation approach of the ICS. While U.S. groups and supervisors have decades of regulatory expertise with generally accepted accounting standards, the adoption of a MAV-based ICS and PCR would require the development of entirely new internal systems. The high cost and questionable benefit of MAV is why U.S. members support an aggregation approach, which would require relatively little incremental cost with clearer benefits as it is aligned with our legal entity capital regime and integrated with the full slate of existing regulatory tools, processes and technologies. The IAIS should also consider the costs to U.S. regulators of adopting a MAV-based ICS as a PCR. Indeed, many regulators around the world would find themselves being pressured to adopt a new system that employs valuation methods that are foreign to their current practices, with the associated heavy costs. In developing markets, these costs may hit exceptionally hard. We recently heard from a supervisor in a developing market that an ICS based on MAV would be impossible for them to implement. While MAV's advocates at the IAIS may have the political strength to force the MAV-based ICS on developing markets in a theoretical setting, the IAIS may be setting the ICS up for failure if the final product is one that supervisors are unwilling or unable to adopt.	

			As an additional related matter, we agree with our other colleagues in the U.S. property and casualty insurance sector on some fundamental concerns about the current direction of this project. We are concerned that the rush to adopt ICS 2.0 may be perilous for its ultimate success. In short, this process needs to slow down. Deadlines serve a purpose in project management, but not if they result in bad decisions and unsuitable deliverables. We offer the following observations: -All methods under development require more effort beyond 2019; not just internal models, GAAP Plus and the aggregation method, but MAV as well. --For example, MAV includes recent changes for the middle bucket and the non-default spread charge, both primarily impacting life insurers. More pervasive across all firms include the rationale for MOCE, and the holistic approach to tax effects. --There remain significant aspects that are critically important to certain jurisdictions and for which the ICS does not recognize key proven aspects of the regime; for the U.S., these include (1) the failure of the ICS to recognize that structural subordination is effective in shielding groups from potential impacts of acceleration clauses in senior debt issued by holding companies, and (2) the failure to recognize the NAIC designation process as a proven supervisor-owned and controlled credit assessment process, preferring instead to perpetuate reliance by firms and supervisors alike on the use of credit ratings. Furthermore, an ICS adopted by late 2019 will not be fit for purpose. --As a consequence, any form of the ICS that is somehow anointed by its "adoption" next year will likely require further testing and changes, more so than mere "refinements." --While the monitoring period initiates a new feedback loop with supervisors in colleges, it is just another step along the way for the ICS and should not be hailed as	

			anything more. --Nor can it be deemed fit for purpose until quantitative indications are provided to stakeholders to enable assessments of the ICS' potential impact, and until stakeholders are consulted about those potential impacts. --Decisions are needed on a number of items in the ICS and, even if made by early 2019, they will require multiple iterations of field testing - not just one exercise, and not just monitoring. --Other aspects which have already been decided for the specifications will also require more iterations of testing, to cover more points across an economic cycle --More work needs to be done to understand how ICS 2.0 would impact (a) internal risk management and (b) the wider economy (including impact on long-term investing, the growing protection gap, and economic growth). Finally, we wish to express the view that a fit for purpose ICS is a comprehensive package. The costs associated with the adoption of the ICS for IAIGs (and potentially other insurers to the extent that the ICS informs the supervision of non-IAIGs by supervisors) have the potential to be quite high. Considering the stark differences between the market adjusted valuation (MAV) approach and current practices in the U.S., it is likely that U.S. groups and supervisors will have to expend significant resources to fully understand and implement MAV as the valuation approach of the ICS. While U.S. groups and supervisors have decades of regulatory expertise with generally accepted accounting standards, the adoption of a MAV-based ICS and PCR would require the development of entirely new internal systems. The high cost and questionable benefit of MAV is why U.S. members support an aggregation approach, which would require relatively little incremental cost with clearer benefits as it is aligned with our legal entity capital regime and integrated with the full slate of existing regulatory tools, processes and technologies. The IAIS should also consider the costs to U.S. regulators of adopting a MAV-based ICS as a PCR. Indeed, many regulators around the world would find themselves being pressured to	

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			--A rationale approach to comparability that reflects those realities will holistically assess the impact of both quantitative and qualitative aspects of a regime on the nature, timing and extent of supervisory actions to intervene (or not) with respect to a group's financial position or risk profile and/or the related impact on policyholder protection. --Only when a comprehensive ICS package is adopted, will the IAIS have achieved an ICS that is both fit for purpose from a technical perspective, as well as flexible enough to reflect key proven aspects of regimes that protect policyholders as well as contribute to financial stability.	
Liberty Mutual Insurance Group	USA	No	IAIGs will incur a wide variety of incremental costs if they are required to comply with the ICS as a PCR. New accounting systems will have to be built, new compliance programs put in place, new corporate structures adopted, and new regulatory reports produced, as just a partial list of the direct cost impacts that will occur if the ICS is adopted as a PCR. In addition, using the ICS as a PCR will increase the amount of required capital for insurers and, therefore, the aggregate cost of capital to the industry. Furthermore, there will be an opportunity cost, as insurers will be required to forego exploring new markets or introducing new products because of the adverse consequences such strategic decisions might have on their PCR. Establishing the ICS as a PCR will also have costs for supervisors, because it will be expensive and time consuming to administer. A PCR will also lead to ineffective supervision, because its focus on an artificial formulaic number will distract supervisory attention from more important and informative qualitative factors related to supervising IAIGs. All of this will result in higher premium costs for policyholders and more limited product selection. So, in the end, the incremental costs associated with the changes that would	

			have to be made for the adoption of the ICS as a PCR are massive. We believe the IAIS will put itself in a better position to evaluate the cost and benefits of the ICS if it were to consider at this time several issues that will ultimately impact whether the ICS is ever adopted. These include transitional arrangements from existing regimes to the ICS, the possibility of the ICS being part of the FSAP process, and whether existing jurisdictional frameworks will be considered consistent with the ICS. The consultation focuses on technical issues concerning the ICS formula as if they are well settled. This fails to recognize that many of these technical provisions have only now been introduced to parties who are not engaged in field testing. As a result, this is not an efficient approach to conducting a reasonable cost benefit analysis for parties which have not been engaged in field testing. Consequently, in order to assess the value of these incremental costs the IAIS must consider now whether a PCR is necessary substantively and whether it is appropriate politically. An important part of that assessment is acknowledging more openly than the consultation currently does the development of an aggregation approach by the NAIC. As part of this acknowledgment, the IAIS should provide meaningful information now as to how the IAIS will evaluate whether the Group Capital Calculation the NAIC is developing or any other capital assessment tool is comparable to the ICS. The IAIS cannot ignore these issues and must explain now how it will accommodate these legitimate alternative approaches to assessing capital if it wishes to fairly consider the incremental costs of using the ICS as a PCR.	
MetLife, Inc	USA	No	This question is hard to answer absent fuller development of the ICS. However, we and other volunteer groups currently leverage existing systems and processes and use many simplifications, assumptions and proxies to perform the calculations requested by the IAIS field tests. Incremental costs to companies will be extensive if IAIGs must adopt all MAV ICS processes to calculate a new PCR. Much if not all of this additional transitional cost would be solely born by IAIGs, but we would also be significantly	

			impacted in pricing of products to the extent this new PCR was more of a binding constraint than the local PCR. This could easily result in a competitive disadvantage between IAIGs and non-IAIGs that would not be subject to this group-level PCR, unless of course, the local regime adopted the ICS as the PCR for all insurers in that domestic regime. But this would also be very costly for smaller insurers and could have significant negative impacts for insurance products or retirement solutions that are particular to that country and are not consistent with the design of the ICS. On a broader level, we anticipate that the Market Adjusted Valuation (MAV) approach taken by the ICS could undermine insurers' ability to play their current economic and social role, given the potential disruption to local markets and their own specific regulatory models. This could result in the loss or at least significant reduction of certain product offerings and could add further significant indirect costs to governments and to consumers.	
Northwestern Mutual	USA	No	We offer comments on a limited number of the consultation questions below, from our perspective as a U.S. mutual life insurer whose primary liabilities arise from the participating individual whole life insurance purchased by our policyowners. If the ICS in its current form were to apply to our business, we would anticipate substantial spurious volatility of the company's capital and ICS ratio, and a degree of conservatism that exceeds the targeted confidence level. The costs of this result would be pressure to move away from our traditional participating whole life products that have served consumers well for generations. From that perspective, in our targeted responses below, we seek to address the elements of the ICS where adjustments are most needed to better reflect the actual risk characteristics of the firm's insurance business and supporting investment portfolio, in particular with respect to participating life insurance products.	
Property Casualty Insurers Association of America (PCI)	USA	No	The Property Casualty Insurers Association of America (PCI) appreciates the opportunity to respond to the IAIS' consultation draft on version 2.0 of its Insurance Capital Standard. PCI promotes and protects the viability of a competitive private	

			insurance market for the benefit of consumers and insurers. PCI is composed of approximately 1,000 member companies and 340 insurance and reinsurance groups, representing the broadest cross section of home, auto, and business insurers of any national trade association. PCI members represent all sizes, structures, and regions, which protect families, communities, and businesses in the U.S. and across the globe. PCI members write $245 billion in annual premium, which is 38 percent of the U.S. property casualty insurance marketplace. The adoption of ICS 2.0 by the IAIS and implementation as a PCR in the United States would involve significant tangible incremental costs and questionable benefits. The MAV-based standard approach is aligned neither with generally accepted accounting standards in place in the U.S., nor with state-based regulatory accounting practices. As a consequence, there would be considerable efforts necessary by IAIGs to understand and implement a one-off valuation and capital measurement system and to establish appropriate and ongoing controls over those processes. At the same time, state insurance regulators and their staffs would also have to be trained and develop processes to assess the calculations resulting from a methodology that has no connection to the myriad of other tools, systems, processes and data that they use on a daily basis. Because the ICS is based on a fundamentally different valuation basis and construct than other supervisory tools in the U.S., there is a substantial risk that the signals the ICS may send about the health of an IAIG will conflict with, or be misinterpreted in light of, the wealth of other information available to state regulators. Moreover, compared to U.S. statutory accounting practices and U.S. GAAP which are promulgated by supervisors and accounting standard setters, respectively, and which are subject to supervisory examination and external independent audits, there would be an inherently higher risk of misstatement in the underlying ICS calculations if based on MAV. Because of the disconnect between ICS 2.0 and other regulatory tools available in the United States, there would be no ready means to independently assess if an IAIG's ICS ratio has not been misstated - other than through a complete	

			recalculation. We understand that requiring the ICS to be subject to audit is not under consideration by the IAIS - for now. Should such a requirement become a reality, that would entail additional costs. A more concerning matter involves the impact of implementing ICS 2.0 on the U.S. insurance market, and on the availability and affordability of long-term insurance and retirement security products. The field testing process to date has not involved any market impact studies, nor is it foreseen that the IAIS would perform any such studies prior to adoption of ICS 2.0. It is incumbent upon jurisdictions to understand such market impacts, which may vary considerably from one jurisdiction to the next based on differences in national policies involving the degree of private versus public sector involvement in retirement funding, disaster recovery, catastrophe recovery and loss mitigation, policyholder protection schemes, mortgage financing and credit protection, and more. These are often matters that are beyond the scope of a jurisdiction's insurance supervisory authority, and which cannot be considered in a single capital measure, much less in a manner that will yield comparability across the globe. The benefits of adopting and implementing ICS 2.0 are marginal at best. Policyholder protection, first and foremost, occurs at the legal entity level, for which existing supervisory processes and measures in the United States have not been lacking, nor does ICS 2.0 propose to change. As a consolidated capital framework, ICS 2.0 would involve applying capital measures to balances and activities of the entire group, including those of unregulated non-financial entities. However, it is not evident that a single consolidated ratio which encompasses many different types of unregulated businesses as well as regulated financial entities and which inherently assumes capital is fungible across all those entities and jurisdictions even in times of stress will provide any incremental benefit to insurance supervision in the United States.	

National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	The adoption of ICS 2.0 as a PCR by the United States, in particular the adoption of a market adjusted valuation (MAV) approach, would result in significant incremental costs. The MAV approach is different than U.S. GAAP and significantly different than state-based statutory accounting practices. As a result, there would be considerable effort and burdens on the part of U.S. supervisors and U.S.-based IAIGs to implement a MAV basis of reporting (such as system changes, process changes, staff training, etc.). We are unable to fully identify the extent of changes this would require and are unable to reasonably estimate the incremental cost of implementation. As such we appreciate the IAIS support of developing alternative methods that provide comparable outcomes to the ICS.	

Q2 Section 2.8 Are there any other benefits of adopting the ICS as a PCR? Please explain.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
CLHIA	Canada	No	No	“Comparability of outcomes” is a laudable benefit. However, we perceive that there is pervasive confusion globally over how this phrase will be effected in practice. Without a clear definition for this objective, we are concerned that the benefit of having any sort of global capital standard could be compromised. How ICS is implemented in different jurisdictions could affect comparability of outcomes. If IAIGs are allowed to do either the MAV or GAAP+ after the monitoring period, comparability of outcomes may not be attainable. A fundamental outstanding issue is the extent to which the ICS should align with local accounting standards for the valuation of assets and liabilities. Complicating this issue is the inconsistency of accounting regimes, even after IFRS9/IFRS17 become effective as, for

				example, the U.S. has concluded to proceed with targeted improvements to FASB instead of adopting IFRS.
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	No	
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	No	Adopting the ICS as a PCR will promote effective and globally consistent group supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders, to contribute to global financial stability and to a level playing field across the globe.
Insurance Europe	Europe	No	No	Insurance Europe encourages the IAIS to provide insights and details into its assessment of benefits. The IAIS statement noting that it expects benefits for IAIGs, policyholders, financial stability, consumer protection is very general and broad. The industry would appreciate a better understanding of how the benefits are assessed and looked at. Such details are also important to allow for a cost-benefits analysis of the ICS, which would eventually be part of policymakers' decisions with regards to implementation.
German Insurance Association	Germany	No	No	Solvency II users (especially those who already apply internal models) do not benefit directly from adopting the ICS as a PCR, because they already have an excellent insight into their risk situation.
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	Yes	Adopting the ICS as a PCR will promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders, to contribute to global financial stability and to a level playing field across the globe.
Global Federation of Insurance Associations	Global	No	No	The ICS may allow insurers to compare the prudential soundness of each entity within an IAIG using consistent measures, and this may contribute to a more sophisticated approach to risk management. However, it should be noted that this can only be achieved if the ICS is

				appropriately designed to reflect the specific features of each jurisdiction. GFIA does not consider there are any further benefits to adopting the ICS as a PCR, other than those noted in Paragraph 58 of the consultation paper. GFIA further notes that an incorrect formulation of ICS would result in the IAIS not being able to meet its stated objectives.
Dai-ichi Life Holdings, Inc.	Japan	No	Yes	The ICS possibly have us to compare the soundness of insures with standardized index, that would make IAIGs' risk management more sophisticated way. However, this kind of benefit will be made only when the ICS is well-designed (reflecting a characteristics of each jurisdiction, for instance).
General Insurance Association of Japan	Japan	No	Yes	Adoption of the ICS as a PCR and its implementation as a domestic solvency regulatory requirement will improve consistency and comparability among different regulatory capital regimes. It is also beneficial in that the ICS would share its basic concept with insurers' ERM practices and the IFRS. While the ICS is a consolidated group-wide standard, the group ICS ratio is composed of local entity figures. As such, the possibility remains that each country may implement the ICS to apply it on an entity basis. In such cases, IAIGs need to consider how to maintain and improve individual local entity contributions to the group ICS ratio. Such considerations could place the local entities of IAIGs at a competitive disadvantage against non-IAIGs in the same country/jurisdiction. Therefore, in order to ensure a level playing field among IAIGs and non-IAIGs, it is highly desirable that the rules to be applied to IAIGs and non-IAIGs, on both a consolidated and single entity basis, will achieve convergence based on an economic value-based approach.
The Life Insurance Association of Japan	Japan	No	Yes	• Insurers would be able to compare prudence level of entity within the IAIG by using consistent measures, and this may contribute to the sophisticated risk management and ERM of insurers. However, it should be noted that this will be achieved only when the ICS is appropriately designed to reflect specific features of insurance market in each jurisdiction and also to allow transitional measures based on differences between jurisdictions.

Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	Yes	Adopting the ICS would mean the companies in a jurisdiction are qualified for the international capital standard, and that would help companies to do business in international markets.
Swiss Re	Switzerland	No	Yes	Swiss Re thanks IAIS for the chance to provide comments on the Global Insurance Capital Standard (ICS). We continue to believe that a well-defined, risk-based capital standard for IAIGs could be an improvement for the insurance industry and provide for a global level playing field. We applaud the IAIS for its efforts in this ambitious endeavor. We hope that the ICS will, upon its completion, secure key benefits of most advanced solvency regimes, e.g. Swiss Solvency Test (SST) and Solvency II, namely: • Ability to use internal models for prudential purpose • Recognition of diversification benefits • Benefits of risk mitigation techniques recognized • Economic valuation framework. At the same time, we see grounds for concern that the global ICS, in its current form, will introduce a new additional regulatory capital benchmark, if it is implemented in parallel to existing regimes. Further, we remain concerned that the ICS will limit the use of internal models and undermine progress made by European jurisdictions in introducing economic and risk based solvency regimes. Swiss Re strongly supports a market-consistent approach to liability discounting, using unadjusted (risk-free) interest rates, and remains firmly convinced that any deviation from risk-free discount rates destroys value for all stakeholders. Swiss Re has refrained from taking part in the 2018 Field Testing and will therefore not submit detailed responses to the individual consultation questions. We are following the development of ICS closely and are evaluating whether to participate in the field test 2019.

				In the meantime, we welcome a dialog with the IAIS on any or all of the issues mentioned above.
Aegon NV	The Netherlands	No	Yes	In theory, a global regulatory capital standard would advance Aegon's business interests, provided that 1. The standard avoids duplicative regulation; 2. The standard applies in all major jurisdictions; 3. The standard applies broadly across the industry; and 4. The standard reflects both the economics and long-term nature of the life insurance business. The ICS, as currently proposed in the consultation, fails to satisfy many if not all of our criteria. For example, it seems unlikely that it the ICS will replace current standards in many jurisdictions.
Legal & General	UK	No	Yes	As a UK domiciled firm we do see the development of ICS as being a potentially useful mitigation for uncertainty elsewhere in our regulatory landscape as the UK prepares to leave the EU (or more generally to reduce our future reliance on Solvency II if for whatever reason ICS looks materially more appropriate). Conversely, the introduction of a further capital measure may lead to confusion among some external stakeholders – many of whom will not be technically expert and may have only recently got to grips with the introduction of Solvency II.
Association of British Insurers	United Kingdom	No	No	The ABI does not consider that there are any additional benefits to adopting the ICS as a PCR, other than those noted in Paragraph 58 of the consultation paper. We further note that an incorrect formulation of ICS would result in the IAIS not being able to meet its stated objectives.

National Association of Mutual Insurance Companies	United States	No	No	NAMIC does not believe that any potential benefits to a prescriptive detailed global ICS will outweigh the costs. The ICS will never be adopted consistently by all jurisdictions. This completely obviates any value it would have as a comparable measurement of group capital. Even if it were adopted consistently it would have completely different impacts in different jurisdictions depending on numerous factors including: 1. The other insurance solvency regulations and oversight that exist in the jurisdiction; 2. The state of the economy and the insurance market in the jurisdiction; 3. The political philosophy toward government involvement with insurance in the jurisdiction; 4. The existing capital requirements and quality of oversight for legal entities in the jurisdiction; 5. The quality/volatility of securities markets and currencies in the jurisdiction; and 6. Many other varied natural catastrophe, pandemic, geopolitical, geographic, economic, political and market risks that are not considered within this ICS effort. NAMIC does not believe that the goal of having a comparable approach will be achieved. The only achievable goal is to have some type of reasonable balanced group capital calculation that works for within the individual jurisdictional construct and that can be explained within the supervisory colleges. Any effort beyond this will create cost without benefit.
RAA	United States and many other jurisdicitons	No	Yes	Alternative methods, such as the proposed aggregation method (AM), being developed in the US would be useful to the extent it is tailored to provide comparable supervisory outcomes. The ICS should be designed and implemented to respect the specific features of all significant jurisdictions.

Prudential Financial, Inc.	United States of America	No	No	The IAIS notes in the consultation document that "the development of the ICS is consistent with the IAIS Mission and it is expected that adoption of the ICS as a PCR will provide benefits for IAIGs and policyholders, as well as benefits related to financial stability and consumer protection." To date the IAIS has not explained how an ICS aligns with its mission or how IAIGs, policyholders, financial stability and consumer protection will benefit from the ICS. Explanation and examples of the alignment between an ICS and the IAIS mission and the expected benefits to these stakeholders is necessary and should be provided in advance of the adoption of ICS Version 2.0. We recognize appropriately designed global standards can be beneficial for the industry (insurers and supervisors) and support their development. Given the diversity of insurance markets around the world – e.g., consumer needs, product offerings, level of development, etc. – global standards should be broad and flexible with application decisions left to jurisdictional supervisors based on an assessment of the benefits stakeholders will realize from doing so relative to the costs. Best practices for corporate governance, conduct of business, control functions and supervisor cooperation across jurisdictions are examples of broad issues where global standards can offer meaningful benefits; a one-size-fits all capital standard does not. Finally, as noted in our response to question 1, we believe adopting the ICS as a PCR would result in a wide range of unnecessary costs and detrimental impacts insurance markets and to stakeholders rather than benefits.
American Property Casualty Insurance Association (APCI)	USA	No	No	In Paragraph 58 of the consultation document, the IAIS states that "it is expected that the adoption of the ICS as a PCR will provide benefits for IAIGs". However, the CD does not explain what will be those benefits to IAIGs. In fact, we have stated before that the IAIS has not explained sufficiently the benefits to IAIGs that the IAIS feels should accrue from standard-setting exercises generally. Nearly all of the explanations from the IAIS of standards have given the impression that the standards will impose costs on insurers without any explanation of how the standards will benefit insurers. Presumably, host supervisors should be expected to reduce the regulatory burden on IAIGs in host markets based upon a

				better understanding of the supervision that is being conducted in the home market, but the IAIS has yet to set such expectations for its members. We encourage the IAIS to make it clear that its members should rely more on home supervisors of IAIGs as an end result of standard-setting processes.
Liberty Mutual Insurance Group	USA	No	No	As discussed above, the ICS should not be developed so that it can be implemented as a PCR. The purpose of the ICS should be the protection of policyholders. As we have noted in previous consultations, the PCR is primarily a tool for assessing the capital of a firm on a “going-concern basis.” As such it has little relevance to policyholder protection. The consultation makes it clear that an IAIG which fails to meet the required capital standard must develop a strategy to resolve that condition. The IAIS takes credit for allowing IAIG’s flexibility on how to do that, but obviously fails to understand that the consequence of the use of a PCR is that IAIGs will be forced to manage their businesses to meet the PCR, as has occurred with respect to Solvency II. Thus, faced with the need to comply with a PCR, IAIGs may forego otherwise reasonable business plans such as introducing new products, entering new markets, or engaging in acquisitions or dispositions of entities.
MetLife, Inc	USA	No	No	As stated in response to Q1 above, we are very concerned that the current version of the ICS, which is designed to apply to roughly fifty IAIGs, could lead to an unlevel playing field between IAIGs and non-IAIGs in local markets. Currently, there are significant differences in accounting, solvency and product regulatory requirements between domestic insurance regimes throughout the globe. The ICS as currently designed will likely become a binding constraint on the ability of IAIG’s to offer certain insurance products at a competitive price compared to insurers that only need to meet local solvency requirements.

Property Casualty Insurers Association of America (PCI)	USA	No	No	None of which we are aware. As described in our response to Q1, we have concerns that the purported benefits of the ICS are overstated, particularly with respect to policyholder protection.

End of Section 2.8