7.18 Credit risk

Q135 Section 7.18 Is the current design of Credit risk appropriate for ICS Version 2.0? If "no", please explain with sufficient detail and rationale.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
Canadian Institute of Actuaries	Canada	No	No	The exclusion of internal ratings in ICS is fundamentally misaligned with sound ALM practices, many of which allow the use of internal ratings subject to appropriate governance. We recommend that internal ratings be allowed within ICS, where these ratings are subject to oversight by the local regulator.
CLHIA	Canada	No	No	The use of internal ratings should be permitted provided there is governance around the internal rating process. Disallowing the use of internal ratings may incent companies to seek out lower quality unrated private bonds, and hence is inconsistent with the goal of encouraging good risk management. Ignoring internal ratings will also discourage insurance institutions investing in infrastructure projects which in general are unrated. This prohibits insurance institutions making investments to support economic growth.
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	Yes	
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	Yes	

Insurance Europe	Europe	No	No	Insurance Europe notes that external ratings are not always available; the current treatment (which considers these as unrated) is overly punitive (see the response to Q136).
Allianz	Germany	No	No	The calibration of credit default, migration and spread risks should be considered together and consistently with the underlying valuation approach. See section on NDSR. Internal ratings should be recognized.
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	Yes	
Global Federation of Insurance Associations	Global	No	No	External ratings are not always available; the current treatment (which considers these as unrated) is overly punitive. See also response to Q136.
International Actuarial Association	International	No	No	The current design includes Surety insurance risk in the Credit risk category. The Insurance Regulation Committee of the IAA views this as inconsistent with the data and with the typical approach to this product for non-life capital requirements in the US. As evidence, we point out (per the 2009 Best's Aggregates & Averages report) that the Accident year 2007 and 2008 loss ratios for the Fidelity/Surety line for the US P&C industry were 33% and 36% respectively. If those lines were highly correlated with overall Credit risk then the loss ratios for those years would not have been so favorable. Hence the design is flawed to the extent it includes the Surety line in Credit risk and not Insurance risk. Similarly, the current design includes contingent credit risk from catastrophes (i.e., the difference between gross and net catastrophe PMLs at a 99.5% VaR) as perfectly correlated with credit risk overall and only partially correlated with catastrophe risk. Those are illogical assumptions, as the principal risk for a catastrophe reinsurer is far more likely to be a 99.5% VaR catastrophe event than a credit market event, given the business model of most reinsurers. (This could be confirmed by evaluating the contribution of various risk components of the ICS for major reinsurers.)
Dai-ichi Life Holdings, Inc.	Japan	No	Yes	

General Insurance Association of Japan	Japan	No	Yes	
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	Yes	
Aegon NV	The Netherlands	No	No	The design is simple. There is insufficient clarity, however, as to the extent to which separate accounts should be included in the assessment of credit risk. Clearly, applying stresses to a significant majority of separate account assets would also lead to a reduction of the associated separate account liability, and we understand that at least some field testing volunteers excluded separate accounts from the credit risk charge in 2018 field testing. The 2018 field testing instructions, however, did not appear to contain an explicit provision excluding separate account assets. Applying a credit risk factor to all separate account assets does not seem appropriate.
Legal & General	UK	No	No	In terms of computational ease and consistency with other risk modules, we believe that a scenario-based approach to determining required capital would be more appropriate than the current factor-based approach. We also have found, through field testing, that our credit risk capital requirement has been materially overstated for certain instruments that are internally rated. Our response to question 144 in this section sets out in more detail our preferred approach to allowing for internal ratings. Subject to the points above, we are broadly supportive of the current calibration of the credit risk charge within ICS.
Association of British Insurers	United Kingdom	No	No	External ratings are not always available; the current treatment (which considers these as unrated) is overly punitive. See also the response to Q136 below.
AIG	United States	No	No	Given that the IAIS recognizes rating agency credit ratings (which are designed and intended for investors and not for regulatory purposes), it is therefore logical to also recognize assessments developed by supervisory organizations, such as the NAIC, expressly for the purpose of providing a prudential view of an obligation's credit risk.

				NAIC designations and all SEC approved NRSROs should be recognized and would enhance the risk-sensitivity of the ICS by: (1) Extending coverage to holdings such as private placements that are not ordinarily assigned rating agency credit ratings (2) Providing a more comprehensive credit risk assessment of securitization exposures, since rating agency ratings are typically designed to address default risk, and may not provide an accurate measure of the credit risk associated with an insurance company's securitization exposures. The NAIC designations reflect: (a) Distressed securities purchased at a significant price discount relative to the current face value of its underlying collateral would serve as a form of buffer or protection against future realized deterioration in credit performance (b) Higher expected recovery rates commensurate with thicker tranches (c) Longer investment horizon for insurance companies whose longer duration liabilities enable the holding of the exposure to maturity and the ultimate realization of cash flows, irrespective of intermediate changes in the market value of the position
National Association of Mutual Insurance Companies	United States	No	No	Credit risk and all other risks and their factors should be determined by the local jurisdictional supervisor. NAMIC disagrees with the mandate of a standard method, the 99.5% VaR calibration level and the IAIS dictating the factors to be used in the formula. Jurisdictional flexibility is the appropriate way to capture these risks with mutual recognition and shared understanding of the jurisdictional approach at supervisory colleges. The ICS is not yet fit for purpose. Significant additional work is needed to achieve an appropriate global capital standard and it may be completely unachievable.
American Academy of Actuaries	United States of America	No	No	The current design includes Surety insurance risk in the Credit risk category. That is inconsistent with the data and with the typical approach to this product for non-life capital requirements in the U.S. As evidence, we point out (per the 2009 Bests Aggregates & Averages report) that the Accident year 2007 and 2008 loss & lae ratios for the Fidelity/Surety line for the U.S. property/casualty industry were 33 percent and 36 percent

				respectively. If those lines were highly correlated with overall Credit risk then the loss ratios for those years would not have been so favorable. Hence the design is flawed to the extent it includes the Surety line in Credit risk and not Insurance risk. Similarly, the current design includes contingent Credit risk from catastrophes (i.e., the difference between gross and net catastrophe PMLs at a 99.5 percent VaR) as perfectly correlated with Credit risk overall and only partially correlated with Catastrophe risk. Those are illogical assumptions, as the principal risk for a catastrophe reinsurer is far more likely to be a 99.5 percent VaR catastrophe event than a credit market event, given the business model of most reinsurers. (This could be confirmed by evaluating the contribution of various risk components of the ICS for major reinsurers.)
Prudential Financial, Inc.	United States of America	No	No	The approach to credit risk should incorporate and accommodate best practices within various jurisdictional regulatory frameworks. For instance, the use of NAIC designations (from the U.S.´ regulatory framework) should be permitted as a proxy rating for credits that would otherwise remain unrated. In addition, we believe the upward recalibration of agricultural and commercial mortgage stress factors results in a stress that is more severe than their risk profile warrants and beyond the ICS intended stress level.
MetLife, Inc	USA	No	No	A major issue with the current design of Credit Risk is the exclusion of NAIC designations and evaluation of credit loss and U.S. SEC nationally recognized statistical rating organizations (NRSROs). The impact of this exclusion is material and described in the following illustrations. Bond Ratings - Loan-backed and Asset-backed Securities The ICS required use of rating agencies' (Moody's, S&P, Fitch) evaluations of credit loss on loan-backed and asset-backed securities (RMBS, CMBS and ABS) overstate the extent of credit loss Rating agencies do not fully consider --extent of credit loss expected, rather they focus on the incidence of loss, or --the investor purchase price paid for RMBS, CMBS and ABS.

				We strongly recommend that the ICS bond rating specifications permit use of the NAIC method of evaluation which more accurately forecasts the extent of loss on securities and the purchase price of securities to determine appropriate capital charges. Private Bond Ratings -- NAIC Ratings and SEC NRSROs The ICS approach to bond ratings unnecessarily penalizes US insurers as most private bonds are not rating agency rated. Securities without a rating agency rating are considered unrated by the ICS and carry a significant capital charge. The NAIC provides ratings for all private bonds that the insurer submits to the NAIC for rating. Most private bonds held by US insurers are NAIC 1 or NAIC 2 rated (investment grade) What is more, the ICS does not recognize all US SEC NRSROs. For example bonds rated by Morningstar Credit Ratings, LLC are considered by the ICS as below investment grade and are assessed the highest capital charge. We welcome the introduction of the supervisor-owned and controlled credit assessment (SOCCA) processes and inclusion of NAIC designations and SEC approved NRSROs for use in both the ICS standard and alternative methods. Commercial Mortgages The ICS Stress Factors, which are based on Basel ratios, are too high for commercial and agricultural mortgages issued by US life insurers We do acknowledge improvement from the original single stress factor for all performing mortgages However, we continue to question the replacement in 2017 of NAIC charges with Basel BCBS based charges and we recommend a jurisdictional (NAIC) vs BCBS approach to the ICS Stress Factors. Therefore we welcome the IAIS proposal to introduce the supervisor-owned and controlled credit assessment (SOCCA) process and strongly support inclusion of NAIC designations and U.S. SEC NRSROs in the SOCCA process. We would also advocate that use of a jurisdictional rating not be restricted to firms within that

				jurisdiction, and that, for example, use NAIC designations and/or U.S. SEC NRSROs ratings be made available to all firms in the same manner as other rating agencies.
Property Casualty Insurers Association of America (PCI)	USA	No	No	The ICS fails 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.

Q136 Section 7.18 Should any modifications be made to the approach for assessing Credit risk within the ICS? If "yes", Please describe.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	No	
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	No	
Insurance Europe	Europe	No	Yes	The IAIS should permit the use of internal ratings, providing the internal rating process is well governed. This will serve to reduce reliance on external rating agencies, support the development of robust internal risk management processes, and promote investment in emerging economies and other sectors (e.g. infrastructure projects) where ECAI ratings are not available. Insurance Europe welcomes the improvements made to the risk factors for residential mortgages, However, certain residential mortgages continue to be subject to excessive risk charges due to unrecognized risk offsets such as collateral (e.g. personal savings) and government guarantees. For a mortgage book in the Netherlands, the historical annual

				losses, (including the financial crisis), are only 3-5 bps, and our estimate of 99.5% economic capital is approximately 1%. The ICS, however, would assess this book as requiring risk capital of upwards of 2%, net of taxes and diversification. Additional work is needed to incorporate the risk offsets on such mortgages.
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	No	
Global Federation of Insurance Associations	Global	No	Yes	The IAIS should permit the use of internal ratings, providing the internal rating process is well governed. This will serve to reduce reliance on external rating agencies (which reduces the potential for systemic risk), support the development of robust internal risk management processes, and promote investment in emerging economies and other sectors (e.g. infrastructure projects) where Credit Rating Agency (CRA) ratings are not available. GFIA endorses the use of supervisor-owned and controlled credit assessment (SOCCA) processes described in Paragraphs 453-455 of the consultation.
International Actuarial Association	International	No	Yes	The Insurance Regulation Committee of the IAA views that as mentioned in the response to Q135, Surety insurance risk should treated as an insurance risk and not a credit risk, and contingent credit risk from a catastrophe should be included with catastrophe risk and not credit risk.
General Insurance Association of Japan	Japan	No	Yes	Changing the risk factor of reinsurance assets in accordance with their duration, and calculating the duration of each reinsurer is too burdensome. Risk factors should only be differentiated by rating categories.
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	No	
Aegon NV	The Netherlands	No	Yes	While we welcome the improvements made to the risk factors for residential mortgages, we believe that certain residential mortgages continue to be subject to excessive risk charges

				due to unrecognized risk offsets such as collateral (e.g. personal savings) and government guarantees. For our mortgage book in the Netherlands, our historical annual losses, (including the financial crisis), are only 3-5 bps, and our estimate of 99.5% economic capital is approximately 1%. The ICS, however, would assess this book as requiring risk capital of upwards of 2%, net of taxes and diversification. We therefore believe that additional work should be done to incorporate the risk offsets on such mortgages. See also Q139 and Q140.
Legal & General	UK	No	Yes	Our suggestions are set out in our response to question 135.
Association of British Insurers	United Kingdom	No	Yes	The IAIS should permit the use of internal ratings, providing the internal rating process is well governed. This will serve to reduce reliance on external rating agencies (which reduces the potential for systemic risk), support the development of robust internal risk management processes, and promote investment in emerging economies and other sectors (e.g. infrastructure projects) where Credit Rating Agency (CRA) ratings are not available.
AIG	United States	No	Yes	The IAIS should recognize NAIC designations which would provide a more meaningful and insurance-appropriate treatment, particularly for positions purchased at a deep discount that have strong expected recoveries. Additionally, the IAIS should consider allowing the use of internal ratings, as long as the internal rating process is well governed. The recognition of NAIC designations and internal ratings would reduce the reliance on external rating agencies, supports the development of robust internal risk management processes and promotes investment in emerging economies and in certain sectors (e.g. infrastructure projects) where NRSRO and ECAI ratings are not available.
National Association of Mutual Insurance Companies	United States	No	Yes	Credit risk and all other risks and their factors should be determined by the local jurisdictional supervisor. NAMIC disagrees with the mandate of a standard method, the 99.5% VaR calibration level and the IAIS dictating the factors to be used in the formula. Jurisdictional flexibility is the appropriate way to capture these risks with mutual recognition and shared understanding of the jurisdictional approach at supervisory colleges. The ICS is

				not yet fit for purpose. Significant additional work is needed to achieve an appropriate global capital standard and it may be completely unachievable.
RAA	United States and many other jurisdicitons	No	Yes	The IAIS should permit the use of internal ratings, providing the internal rating process is well governed. This will serve to reduce reliance on external rating agencies (which reduces the potential for systemic risk), support the development of robust internal risk management processes, and promote investment in emerging economies and other sectors where Credit Rating Agency ratings are not available. RAA supports the use of supervisor-owned and controlled credit assessment (SOCCA) processes described in Paragraphs 453-455 of the consultation.
American Academy of Actuaries	United States of America	No	Yes	As mentioned in the response to Q135, Surety insurance risk should treated as an insurance risk and not a Credit risk, and Contingent Credit risk from a catastrophe should be included with Catastrophe risk and not Credit risk.
Prudential Financial, Inc.	United States of America	No	Yes	The ICS should further delineate the corporate credit holdings classification to better accommodate differences among the broad range of investments – e.g., secured, unsecured, infrastructure, etc.
MetLife, Inc	USA	No	Yes	Please see our response to Q135 above.
Property Casualty Insurers Association of America (PCI)	USA	No	Yes	The ICS should recognize the NAIC designation process as a proven supervisor-owned and controlled credit assessment process, rather than perpetuating reliance by firms and supervisors alike on the use of credit ratings

Q137 Section 7.18 Is the treatment of collateralised reinsurance (ie the substitution approach) reasonable from a Credit risk perspective? If “no”, please discuss and propose ways to address concerns.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	Yes	
International Actuarial Association	International	No	No	The Insurance Regulation Committee of the IAA points out that the substitution approach has an implicit assumption that collateral is only used in the transaction when the counterparty is of unreliable credit quality. That is clearly not the case for the reinsurance market, especially for major reinsurers (as nearly all require a very high credit rating as part of their business model). In that case, collateral is typically used to deal with dispute risk and the ability to enforce judgments. Theoretically, where collateral exists the un-collectability of a reinsurance asset requires the union of two events – both the default of the reinsurer and the decline in value of the collateral. The proposal in paragraph 459 of the consultation document would be one way to reflect this situation. To the extent that the resulting risk is de minimis under this alternative approach, another alternative and less complex approach would be to calculate the adjusted reinsurance exposure by subtracting the collateral from the original reinsurance exposure (assuming that the form of the collateral was acceptable).
Dai-ichi Life Holdings, Inc.	Japan	No	Yes	
General Insurance Association of Japan	Japan	No	Yes	
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	Yes	
Legal & General	UK	No	No	We consider this approach to be overly prudent, primarily because it effectively assumes double default of both primary and secondary reinsurer within a one-year period which would

				appear to be a highly unlikely event. We favour a haircut approach as set out in our response to Q138.
National Association of Mutual Insurance Companies	United States	No	No	Credit risk including collateralized reinsurance and all other risks and their factors should be determined by the local jurisdictional supervisor. NAMIC disagrees with the mandate of a standard method, the 99.5% VaR calibration level and the IAIS dictating the factors to be used in the formula. Jurisdictional flexibility is the appropriate way to capture these risks with mutual recognition and shared understanding of the jurisdictional approach at supervisory colleges. The ICS is not yet fit for purpose. Significant additional work is needed to achieve an appropriate global capital standard and it may be completely unachievable.
American Academy of Actuaries	United States of America	No	No	The substitution approach has an implicit assumption that collateral is only used in the transaction when the counterparty is of unreliable credit quality. That is clearly not the case for the reinsurance market, especially for major reinsurers (as nearly all require a very high credit rating as part of their business model). In that case, collateral is typically used to deal with dispute risk and the ability to enforce judgments. Theoretically, where collateral exists the un-collectability of a reinsurance asset requires the union of two events—both the default of the reinsurer and the decline in value of the collateral. The proposal in paragraph 459 of the consultation document would be one way to reflect this situation. To the extent that the resulting risk is de minimis under this alternative approach, another alternative and less complex approach would be to calculate the adjusted reinsurance exposure by subtracting the collateral from the original reinsurance exposure (assuming that the form of the collateral was acceptable).
Prudential Financial, Inc.	United States of America	No	No	In response to both questions 137 and 138, we note that there are a wide range of collateral structures that can be used to mitigate credit risk arising from reinsurance treaties. In some cases, substituting the risk of the collateral for that of the reinsurer provides an appropriate recognition of the mitigation provided. In other cases, the substitution approach may under-state the extent of mitigation, resulting in over-statement of the residual credit risk. Regardless of the manner in which collateral is recognized, it must not result in any greater risk than for the same uncollateralized exposure. For collateral to be recognized as a risk mitigant, it is necessary to ensure that:

				+ There is a solid legal basis for the collateral recipient to believe that it will be able to obtain control of and realize the value of the collateral when needed; + There would be no material operational impediments that might adversely affect the recipient's ability to liquidate the collateral; and + The value of the collateral must not be positively correlated to the credit quality of the reinsurer. If these conditions are met, then the use of the substitution approach, for the portion of the exposure to the reinsurer that is covered by the value of collateral, would be appropriate. It is possible to achieve even greater risk mitigation from collateral arrangements when the collateral consists of financial instruments that are: + Easily valued in a free and open market; + Easily liquidated when markets are stressed; and + Likely to retain value when the reinsurer defaults. Greater risk mitigation is also obtained in instances where the collateral provider is required to deliver additional collateral when there is a reduction in the value of collateral previously provided.
Property Casualty Insurers Association of America (PCI)	USA	No	No	We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	No	The "substitution approach" assumes that risk on reinsurance recoverables bears a closer relationship to financial risks than to insurance risks. The ICS is -- quite rightly -- based on concept that we should draw a distinction between the two.

Q138 Section 7.18 Does the haircut approach capture the underlying risk of collateralised reinsurance exposures more accurately? Please explain with sufficient detail and rationale.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	Yes	
International Actuarial Association	International	No	No	As stated in our response to Q137: The substitution approach has an implicit assumption that collateral is only used in the transaction when the counterparty is of unreliable credit quality. That is clearly not the case for the reinsurance market, especially for major reinsurers (as nearly all require a very high credit rating as part of their business model). In that case, collateral is typically used to deal with dispute risk and the ability to enforce judgments. Theoretically, where collateral exists the un-collectability of a reinsurance asset requires the union of two events – both the default of the reinsurer and the decline in value of the collateral. The proposal in paragraph 459 of the consultation document would be one way to reflect this situation. To the extent that the resulting risk is de minimis under this alternative approach, another alternative and less complex approach would be to calculate the adjusted reinsurance exposure by subtracting the collateral from the original reinsurance exposure (assuming that the form of the collateral was acceptable).
General Insurance Association of Japan	Japan	No	Yes	
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	No	
Legal & General	UK	No	Yes	The haircut approach is consistent with how we view this risk internally when calculating counterparty capital. For each scenario, we calculate the probability of the reinsurer

				defaulting and the recoverable amount (i.e. reinsurance asset net of collateral asset post allowing for credit/market risk charges) and a recovery assumption to reflect the total recovered assets in excess of the stressed collateral asset (up to the termination amount specified in the contract). Within this we would also allow for the potential for expected future default rates beyond one year to be changed by events during the one year time horizon. For example: • Default rates would not be expected to snap straight back to a long-term average after a significant increase within a single year • Any downgrades within the single year would also be expected to lead to greater defaults in future years.
National Association of Mutual Insurance Companies	United States	No	No	Credit risk and all other risks and their factors should be determined by the local jurisdictional supervisor. NAMIC disagrees with the mandate of a standard method, the 99.5% VaR calibration level and the IAIS dictating the factors to be used in the formula. Jurisdictional flexibility is the appropriate way to capture these risks with mutual recognition and shared understanding of the jurisdictional approach at supervisory colleges. The ICS is not yet fit for purpose. Significant additional work is needed to achieve an appropriate global capital standard and it may be completely unachievable.
American Academy of Actuaries	United States of America	No	Yes	As stated in our response to Q137: the substitution approach has an implicit assumption that collateral is only used in the transaction when the counterparty is of unreliable credit quality. That is clearly not the case for the reinsurance market, especially for major reinsurers (as nearly all require a very high credit rating as part of their business models). In that case, collateral is typically used to deal with dispute risk and the ability to enforce judgments. Theoretically, where collateral exists the un-collectability of a reinsurance asset requires the union of two events—both the default of the reinsurer and the decline in value of the collateral. The proposal in paragraph 459 of the consultation document would be one way to reflect this situation. To the extent that the resulting risk is de minimis under this alternative approach, another alternative and less complex approach would be to calculate the adjusted

				reinsurance exposure by subtracting the collateral from the original reinsurance exposure (assuming that the form of the collateral was acceptable).
Prudential Financial, Inc.	United States of America	No	No	When the conditions listed in in our response to question 137 are met, the collateral recipient would be assured of being able to promptly liquidate the collateral and use the proceeds to offset its credit exposure to the reinsurer. However, it remains exposed to the possibility that the collateral will lose value from the last date the collateral provider was required to determine if additional collateral was needed to the date that the collateral is sold. This risk can be addressed by applying an appropriate haircut or discount to the value of collateral, representing a conservative estimate of the possible loss in value under stressed market conditions. In this arrangement, it would be appropriate to reduce the exposure to the reinsurer by the haircut value of collateral this is required to be provided. If the collateral requirement is sufficient to cover the haircut, then the net exposure can be reduced to zero.
Property Casualty Insurers Association of America (PCI)	USA	No	No	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Yes	Yes.

Q139 Section 7.18 Is the current approach adopted for mortgage credit risk appropriate for ICS Version 2.0? If “no”, please explain with sufficient detail and rationale.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	Yes	All things considered, we can be satisfied with the current approach with mortgage credit risk. The inclusion of the 2017 approach for residential and commercial mortgage loans, employing stress factors consistent with the BCBS model for the banking industry, rescaled for ICS purposes to face the unexpected outcome in 2016 was a significant step ahead.
Insurance Europe	Europe	No	No	See response to Q136
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	Yes	All things considered, we are satisfied with the current approach with mortgage credit risk. The inclusion of the 2017 approach for residential and commercial mortgage loans, employing stress factors consistent with the BCBS model for the banking industry, rescaled for ICS purposes to face the unexpected outcome in 2016 was a significant step ahead.
Dai-ichi Life Holdings, Inc.	Japan	No	Yes	
General Insurance Association of Japan	Japan	No	Yes	
The Life Insurance Association of Japan	Japan	No	No	• Although credit risk factors similar to those of BBB-rated entities are uniformly applied commercial mortgage factor 1 (CM1) for commercial real estate non-recourse loans, CM1 is likely to be used within a wide range of ratings including Aaa. Therefore, in particular for higher quality assets in CM1, credit risk factors should be lowered. • There is a case that a special purpose vehicle / entity that owns the real estate have issued bonds rather than loans even though it’s nature is the same as an non-recourse loan of commercial mortgage (i.e. collateralise single or small number of commercial properties ,and the single or small number of investors invest in one or two debt tranches). In this case, the credit risk factor of the investment in such bonds should be clearly defined as using the factor of a commercial mortgage non-recourse loan rather than a securitised product.

Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	Yes	
American Council of Life Insurers	Office of General Counsel	No	No	The ICS Stress Factors are currently based on Basel ratios and are too high for commercial and agricultural mortgages issued by US life insurers. US life insurer credit history has been significantly stronger than the credit history of bank portfolios, so it would be overly punitive to apply factors based on bank portfolio credit history to insurance company portfolios. For example, US bank portfolio delinquency rates exceeded 4% during the financial crisis. US Life company delinquency rates did not exceed 0.5% over the same time period. ICS Field Testing originally had a single Stress Factor for all performing Mortgages. In 2015 Industry proposed Stress Factors based on the NAIC commercial mortgage categorization method and NAIC charges 2016 Field Testing. The proposal was incorporated into 2016 Field Testing. For 2017 and 2018 NAIC-based charges have been removed and replaced by Basel BCBS based charges. The commercial mortgage categorization method was retained with altered thresholds. ACLI supports the acceptance of jurisdictional approaches to credit risk measurement, including the NAIC designations and U.S. Nationally Recognized Statistical Rating Organizations vs a BCBS approach to ICS Stress Factors.
Aegon NV	The Netherlands	No	No	No, we believe the mortgage credit risk should take consideration of collateral in the form of personal savings as well as government guarantees. This could be included as a separate data entry, reducing the overall exposure, and would not require country-specific or region-specific factors to be developed. See also Q136 and Q140.
Legal & General	UK	No	No	In terms of computational ease and consistency with other risk modules, we believe that a scenario-based approach to determining required capital would be more appropriate than the current factor-based approach.

National Association of Mutual Insurance Companies	United States	No	No	Credit risk and all other risks and their factors should be determined by the local jurisdictional supervisor. NAMIC disagrees with the mandate of a standard method, the 99.5% VaR calibration level and the IAIS dictating the factors to be used in the formula. Jurisdictional flexibility is the appropriate way to capture these risks with mutual recognition and shared understanding of the jurisdictional approach at supervisory colleges. The ICS is not yet fit for purpose. Significant additional work is needed to achieve an appropriate global capital standard and it may be completely unachievable.
Prudential Financial, Inc.	United States of America	No	No	As noted in our response to question 135, we continue to believe the stress factors for mortgage loans, which were recalibrated for the 2017 field test and are based on the BCBS model – a framework best suited for the banking industry, are higher than the risk profile for these assets warrant.
MetLife, Inc	USA	No	No	Please see our response to Q 135 above.
Property Casualty Insurers Association of America (PCI)	USA	No	No	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	No	No.

Q140 Section 7.18 Alternatively, would it be more appropriate for the Credit risk charge to be based on local calibrations of mortgage loans, if reliable local data were available to support geographical differentiation of calibrations? Please explain with sufficient detail and rationale, including potential data sources to enable the calibration.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
Office of the Superintendent of Financial Institutions (OSFI)	Canada - OSFI	No	No	Credit risk factors should generally be uniform across geographies under a standardized approach. Allowing the use of lower factors for particular regions could potentially be one sided, as regions where higher factors are warranted are unlikely to be given equally focused consideration.
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	No	We think that the granularity level reached is detailed enough to get to a fair compromise between geographical differentiations and consistent application of risk charges, so we would refrain from any other refinement with this respect.
Insurance Europe	Europe	No	Yes	See response to Q136
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	No	We think that the granularity level reached is detailed enough to get to a fair compromise between geographical differentiations and consistent application of risk charges, so we would refrain from any other refinement with this respect.
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	Yes	
American Council of Life Insurers	Office of General Counsel	No	Yes	As we noted in our answer to Q. 139, the ICS Stress Factors are currently based on Basel ratios and are too high for commercial and agricultural mortgages issued by US life insurers. US life insurer credit history has been significantly stronger than the credit history of bank portfolios, so it would be overly punitive to apply factors based on bank portfolio credit history to insurance company portfolios. For example, US bank portfolio delinquency rates exceeded 4% during the financial crisis. US Life company delinquency rates did not exceed 0.5% over the same time period. ICS Field Testing originally had a single Stress Factor for all performing Mortgages. In 2015 Industry proposed Stress Factors based on the NAIC commercial mortgage categorization

				method and NAIC charges 2016 Field Testing. The proposal was incorporated into 2016 Field Testing. For 2017 and 2018 NAIC-based charges have been removed and replaced by Basel BCBS based charges. The commercial mortgage categorization method was retained with altered thresholds. ACLI supports the acceptance of jurisdictional approaches to credit risk measurement, including the NAIC designations and U.S. Nationally Recognized Statistical Rating Organizations vs a BCBS approach to ICS Stress Factors.
Aegon NV	The Netherlands	No	Yes	Local experience of defaults would reflect local circumstances which would (implicitly) incorporate the consideration of collateral in the form of personal savings as well as government guarantees. We do not have a public data source, but do have our own experience data for losses from our mortgage portfolio and we would expect other companies have this as well. See also Q136 and Q139
Legal & General	UK	No	Yes	The mortgage loan market is one that is particularly likely to differ significantly from territory to territory and so it would seem logical for the credit risk charge associated with these to be calibrated accordingly, but only in situations where reliable local data is available. However, we are not aware of any such sources of data at this time.
National Association of Mutual Insurance Companies	United States	No	No	Credit risk and all other risks and their factors should be completely determined by the local jurisdictional supervisor. NAMIC disagrees with the mandate of a standard method, the 99.5% VaR calibration level and the IAIS dictating the factors to be used in the formula. Jurisdictional flexibility is the appropriate way to capture these risks with mutual recognition and shared understanding of the jurisdictional approach at supervisory colleges. The ICS is not yet fit for purpose. Significant additional work is needed to achieve an appropriate global capital standard and it may be completely unachievable.

Prudential Financial, Inc.	United States of America	No	Yes	We believe that the calibration of mortgage loan charges, using jurisdictional and geographical historical loss experience, would better reflect the risk profile associated with these assets.
MetLife, Inc	USA	No	Yes	A credit risk charge based on local calibrations of mortgage loans would be consistent with our long-standing support for jurisdictional/supervisor-owned approach to approved ratings for the credit risk module and with our advocacy for NAIC charges vs Basel BCBS based charges for commercial mortgage loans in response to Q 135 above.
Property Casualty Insurers Association of America (PCI)	USA	No	No	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Yes	Yes.

Q141 Section 7.18 Is the inclusion of supervisor-owned and controlled credit assessment processes as a national discretion in the standard method appropriate? Please explain, including any rationale.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	Yes	We support the recognition of supervisors' own ratings, provided that such ratings are of the same quality as other ICS recognized ratings, for example meeting all requirements that have been set in ICS for external credit ratings.

Insurance Authority (IA)	China, Hong Kong	No	No	The SOCCA may be too costly for regulators. Instead, the ICS may allow the GWS to review and approve internal credit rating processes of IAIGs.
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	No	We recognize that the addition of the criteria to include SOCCA in the ICS standard method is a significant improvement in convergence, but we still think that the greater issue with such processes relates to level-playing field. More than a national discretion, it can be considered as Other methods (as are the internal models, for instance). We are fine with what is currently the process, namely with the decision to let SOCCA processes to be part of the ICS standard method as a national discretion or included in other methods to be made by the end of the monitoring period, also to have the chance to see the impact assessment results. Additionally, it is not clear if (and why) other jurisdictional supervisors would accept the impact of NAIC Designations in the calculation of the solvency position of groups which they supervise, as they would have absolutely no control on the process and outcome of such designations (and it is unlikely that the NAIC would be willing to accept responsibility for any potential losses stemming from errors in the designation process).
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	No	We recognize that the addition of the criteria to include SOCCA in the ICS standard method is a significant improvement in convergence, but we still think that the greater issue with such processes relates to level-playing field. More than a national discretion, it can be considered as Other methods (as are the internal models, for instance). We are fine with what is currently the process, namely with the decision to let SOCCA processes to be part of the ICS standard method as a national discretion or included in other methods to be made by the end of the monitoring period, also to have the chance to see the impact assessment results. Additionally, it is not clear if (and why) other jurisdictional supervisors would accept the impact of NAIC Designations in the calculation of the solvency position of groups which they supervise, as they would have absolutely no control on the process and outcome of such designations (and it is unlikely that the NAIC would be willing to accept responsibility for any potential losses stemming from errors in the designation process).

Dai-ichi Life Holdings, Inc.	Japan	No	Yes	Disciplinary treatment should not be done by the reason of lack of external rating. Instead, the inclusion of supervisory controlled credit assessment processes should be accepted as the limited and alternative treatment. For example, the use of NAIC Designations in the US is essential infrastructure to evaluate the credit risk for investment in the privately-placed bond and the asset-backed securities such as RMBS, ABS, CMBS and so on. It would prevent from inventing if the use of NAIC Designations would not be permitted and treated as speculative-grade bond in ICS. We can't accept because fair competitive conditions will be lost if there will be differences of investable assets between entities within the scope of ICS and without the scope by the treatment of NAIC Designations.
General Insurance Association of Japan	Japan	No	Yes	
The Life Insurance Association of Japan	Japan	No	Yes	• The LIAJ believes that the punitive treatment should not be conducted on the grounds that there are no external ratings available. It should be accepted as a limited and alternative treatment where external ratings are not available. • The LIAJ believes that the use of internal credit ratings for internal control by insurers should be permitted on the condition that supervisors approve. It should not be limited to supervisor-owned and controlled credit assessment processes. With regard to "supervisory approval", specific requirements and conditions should be clarified, and due regards should be taken so that the role of insurers as providers of long-term funds in specific jurisdictions not to be impaired by the supervisory regime.
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	No	Supervisor-owned and controlled credit assessment may lack international accessibility and comparability.
American Council of Life Insurers	Office of General Counsel	No	Yes	ICS version 2.0 recognizes agency credit ratings – which are built for their intended audience of investors, and we strongly believe that the ICS should also recognize assessments developed by supervisory organizations, like the NAIC. In addition to being created for a prudential purpose, the NAIC's ratings offer an additional strength of not being influenced by the issuer.

				The exclusion of jurisdictional credit assessment ratings or processes would adversely impact a number of items including (1) loan and asset-backed securities, which requires the use of rating agencies' evaluations of credit loss on loan-backed and asset-backed securities which overstate the extent of credit loss (RMBS, ABS, CMBS); and (2) bond ratings/private placement bonds. Bond ratings/private placement bonds are current treated as non-investment grade because they are not rated by ICS-admitted rating agencies. ACLI supports the recognition of NAIC designations and all U.S. Securities and Exchange Commission ("SEC") approved Nationally Recognized Statistical Rating Organizations ("NRSROs") because such recognition would improve the risk-sensitivity of the ICS by (1) extending coverage to holdings like private placements that are not typically given rating-agency credit ratings; and (2) providing a more comprehensive credit risk assessment of securitization expenses, because rating agency ratings (e.g., Moody's, Fitch, et al) are typically designed only to capture default risk, but not the potentially significant expected recovery – and in some cases, the discounted purchase price and embedded loss buffer, on thicker tranches.
Aegon NV	The Netherlands	No	Yes	We provisionally support the use of NAIC designations within the credit risk calculation. Such designations lead to a more accurate measure of risk than the approximate but overly conservative approach employed when designations are not available. Our support is contingent upon the use of NAIC designations for all groups, not just U.S.-based groups.
Legal & General	UK	No	Yes	We cannot see any rationale for not including these, provided that they are sufficiently robust and evidenced. We would expect a framework at least as strong as that which we advocate for internal ratings (more detail of which is contained in our response to Q144 in this section) to be in place.
AIG	United States	No	Yes	The inclusion of supervisor-owned and controlled credit assessment processes as a national discretion in the standard method is not only appropriate but would enhance the risk-sensitivity of the ICS and reduce the reliance on rating agency credit ratings. Please refer to the response for Q135 for more information on the rationale for the recognition of supervisor-owned and controlled credit assessment processes.

National Association of Mutual Insurance Companies	United States	No	Yes	The use of supervisor-owned and controlled credit assessment processes is the standard in the U.S. and as we believe that credit assessment processes should be determined by the local jurisdictional supervisor we are supportive of the flexibility to utilize this approach. The process may vary from jurisdiction to jurisdiction. NAMIC disagrees with the mandate of a standard method, the 99.5% VaR calibration level and the IAIS dictating the factors to be used in the formula. Jurisdictional flexibility is the appropriate way to capture these risks with mutual recognition and shared understanding of the jurisdictional approach at supervisory colleges. The ICS is not yet fit for purpose. Significant additional work is needed to achieve an appropriate global capital standard and it may be completely unachievable.
RAA	United States and many other jurisdicitons	No	Yes	RAA supports the use of supervisor-owned and controlled credit assessment (SOCCA) processes as part of the standard method. If a jurisdiction, (e.g. the U.S. with its highly developed SVO ratings process) meets agreed upon criteria, then these assessments should be allowed.
Prudential Financial, Inc.	United States of America	No	Yes	We believe supervisor-owned and controlled credit assessments (SOCCA) will provide the ICS standard method the required flexibility to incorporate unique geographically specific factors to the credit rating process that would otherwise be excluded, thereby leading to more appropriate measure of risk.
Property Casualty Insurers Association of America (PCI)	USA	No	Yes	The inclusion of supervisor-owned and controlled credit assessment processes can work equally as well whether as a national discretion or as part of the standard method. In our view, if a jurisdiction has a supervisor-owned and controlled credit assessment process that meets the agreed-upon criteria, then the jurisdiction should be allowed to use it for credit assessment processes. The ICS needs to recognize the NAIC designation process as a proven supervisor-owned and controlled credit assessment process, rather than perpetuating reliance by firms and supervisors alike on the use of credit ratings
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Yes	The inclusion of supervisor-owned and controlled credit assessment processes can work equally as well whether as a national discretion or as part of the standard method. In our view, if a jurisdiction has a supervisor-owned and controlled credit assessment process that meets the agreed-upon criteria, then the jurisdiction should be allowed to use it for credit assessment processes.

Q142 Section 7.18 As 2018 Field Testing involved the collection of data with and without the application of NAIC Designations, are the criteria for supervisor-owned and controlled credit assessment processes appropriate for ICS Version 2.0? Please explain with sufficient detail and rationale.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	Yes	The identified criteria capture a well-balanced and broad spectrum of aspects to be considered when assessing whether recognise SOCCA in the ICS, being at the same time general enough to ensure sufficient quality of the designations for all supervisory owned processes and not specifically tailored to the reality of NAIC Designations.
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	Yes	The identified criteria capture a well-balanced and broad spectrum of aspects to be considered when assessing whether recognise SOCCA in the ICS, being at the same time general enough to ensure sufficient quality of the designations for all supervisory owned processes and not specifically tailored to the reality of NAIC Designations.
Dai-ichi Life Holdings, Inc.	Japan	No	No	Not only supervisory controlled credit assessment processes but also internal ratings used by insurance companies for internal control should be permitted to use under the conditions of regulators' acceptance.
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	Yes	
Aegon NV	The Netherlands	No	Yes	The default method of deferring to the 'unrated' category is overly prudent and does not recognize the credit quality of the underlying asset. If the supervisor-owned and controlled credit assessment process provides a rating which reasonably reflects the credit quality,

				than using this rating is by definition a more appropriate reflection of the credit risk in the asset.
Legal & General	UK	No	Yes	They appear to be appropriate.
AIG	United States	No	Yes	The criteria for supervisor-owned and controlled credit assessment processes are generally appropriate for ICS Version 2.0. The IAIS should consult supervisors responsible for assigning credit assessments to ensure the criteria are appropriate both from a theoretical and practical perspective. In particular, we suggest that supervisors and the IAIS should assess and agree on guidance that would be acceptable for any potential technical limitations in the supervisor-owned and controlled credit assessment process that would preclude the full compliance of any currently defined criteria.
National Association of Mutual Insurance Companies	United States	No	Yes	
Prudential Financial, Inc.	United States of America	No	Yes	
American Property Casualty Insurance Association (APCI)	USA	No	No	As with several other questions posed in the CD, it is difficult to answer this question without the experience of being a field testing participant.
Property Casualty Insurers Association of America (PCI)	USA	No	Yes	In short, the criteria recognize the different nature of a supervisor-owned and controlled credit assessment process as compared to a public rating agency. However, we are concerned about the transparency criiterion that requires public access ; such a requirement woujld be is in stark contrast to the proposal to accept the use of internal models across all risks for which the public would have access to no information regarding capital requirements. The ICS should recognize the NAIC designation process as a proven supervisor-owned and controlled credit assessment process, rather than perpetuating reliance by firms and supervisors alike on the use of credit ratings.

National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Yes	In short, the criteria recognizes the different nature of a supervisor-owned and controlled credit assessment process as compared to a public rating agency.

Q143 Section 7.18 Is the current segmentation and definitions of infrastructure investments, as set out in the 2018 Field Testing Technical Specifications, appropriate for ICS Version 2.0? If "no", please explain with sufficient detail and rationale.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	Yes	
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	Yes	
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	Yes	
General Insurance Association of Japan	Japan	No	No	If the investments listed in the table of paragraph 933 of the Technical Specifications also need to meet qualitative criteria, it would be difficult for an IAIG to identify investments which qualify as infrastructure investments. We think that provision of the Technical Specifications fails to clarify this point.

Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	Yes	
Legal & General	UK	No	Yes	We are comfortable with this.
National Association of Mutual Insurance Companies	United States	No	No	Infrastructure investment risk and all other risks and their factors should be determined by the local jurisdictional supervisor. NAMIC disagrees with the mandate of a standard method, the 99.5% VaR calibration level and the IAIS dictating the factors to be used in the formula. Jurisdictional flexibility is the appropriate way to capture these risks with mutual recognition and shared understanding of the jurisdictional approach at supervisory colleges. The ICS is not yet fit for purpose. Significant additional work is needed to achieve an appropriate global capital standard and it may be completely unachievable.
Prudential Financial, Inc.	United States of America	No	Yes	
American Property Casualty Insurance Association (APCI)	USA	No	No	As with several other questions posed in the CD, it is difficult to answer this question without the experience of being a field testing participant.
Property Casualty Insurers Association of America (PCI)	USA	No	Yes	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Yes	Yes, the current treatment of infrastructure investments in the ICS is appropriate.. We do not believe that infrastructure investment should be given a favorable treatment in the capital charge. Such investments are significantly dependent on their financial and legal construct (creditors rights, subordination or various forms of credit enhancements). Moreover, different

				jurisdictions/regions have diverse political, regulatory, and legal frameworks. Also, currently, there is no widely accepted, precise definition of infrastructure. Without a strict definition, this asset class could be subject to gaming. Infrastructure is not a homogenous asset class, with businesses spanning a wide range of underlying activities with risks ranging for very low to very high. Regulatory decisions may be inconsistent, increasing uncertainty for investors. The default data currently provided by various institutions or rating agencies is only a rough guide that may fail to take into account the nuances of the financing arrangements and thus cannot be relied on for prudential rulemaking. In the U.S. there is a significant municipal bond market used to finance infrastructure. These investments are subject to a rigorous market based credit evaluation process for default risk and when rated, the ratings can vary significantly independent of the cash flows of the underlying project and other considerations.

Q144 Section 7.18 Are the calibrations for infrastructure investments, as set out in the 2018 Field Testing Technical Specifications, appropriate for ICS Version 2.0? If “no”, please explain with sufficient detail and rationale.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	No	We support the calibration of infrastructure investments and of the view that such investments can get lower risk charges to reflect their quality compared to other investments. The Chinese government, and many other governments in emeging markets, largely encouarge insurers to invest in infrastructure projects since they are often with low risks, stable returns and longer term that can better match the needs of insurance investments.
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	Yes	The calibration for infrastructure investments appear to us adequate.

Insurance Europe	Europe	No	No	The prudential treatment of infrastructure investments should be aligned to the true risks to which insurers are exposed. Insurance Europe believes that investment in infrastructure are currently heavily penalised even if there is evidence that infrastructure investments calibrations should be lower.
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	Yes	
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	Yes	
Legal & General	UK	No	No	The primary issue here is that the majority of these are internally rated and so would get the capital charge for an unrated instrument under the current calibration. We believe that internal ratings should be allowed for within the ICS framework. This is a critical issue for us and we see no reason why this should not be achievable provided an appropriate framework is put around the internal rating process. The overriding principles around our internal ratings framework (which we see as a good example of what would be required to be put in place for ratings to be used) is that it provides output that has the following features: • Ratings should be determined by appropriately qualified individuals independent of the processes and businesses that use them • Ratings should be, as far as possible, equivalent to those that would have been determined by an external rating agency. In particular there should be no systematic bias in rating • Ratings should be based on quantitative factors and evidence, and should be appropriately documented • Ratings should be reviewed, challenged and formally approved (including external review and/or audit where appropriate) • Ratings framework should be subject to regulatory review

				Ratings that have already been approved by a local supervisor as being suitable for use in Solvency II should satisfy all of the above criteria and therefore be automatically suitable for use within ICS. The list below summarises the process used to assign internal ratings to different exposures as well as the oversight and governance around it: Category: Large exposures Process: Internal ratings are assigned by an independent separate team within our investment management division through a Portfolio Review process. Governance: The definition of large exposure is approved by the Group Credit Risk Committee (GCRC). The actual internal ratings and process to derive the ratings can be challenged by the GCRC and escalated to the Group Risk Committee (GRC), which has several independent Non-Executive Directors sitting on it. The process and outcomes are also subject to independent second-line review. Category: Complex Securitisations Process: Internal ratings are derived for capital calculations by notching down from the public ratings, depending on seniority of the tranche, and potentially the type of asset and region. Governance: The notching rules for this category and if the rules can be applied is monitored and approved by the GCRC. Category: Complex Direct Investments Process: Internal ratings are assigned by the asset management firm that originated the transaction (usually through a robust rating committee process that is subject to strict governance and challenge). Governance: The methodologies used by the asset managers need to be approved and overseen by the GCRC to ensure consistency across managers and subsidiaries. Category: Unrated traded securities

				Process: The internal ratings are assigned by asset management firm through a Portfolio Review or through a Committee depending on complexity. Governance: Oversight by GCRC
National Association of Mutual Insurance Companies	United States	No	No	Infrastructure investment risk and all other risks and their factors should be determined by the local jurisdictional supervisor. NAMIC disagrees with the mandate of a standard method, the 99.5% VaR calibration level and the IAIS dictating the factors to be used in the formula. Jurisdictional flexibility is the appropriate way to capture these risks with mutual recognition and shared understanding of the jurisdictional approach at supervisory colleges. The ICS is not yet fit for purpose. Significant additional work is needed to achieve an appropriate global capital standard and it may be completely unachievable.
Prudential Financial, Inc.	United States of America	No	No	
American Property Casualty Insurance Association (APCI)	USA	No	No	As with several other questions posed in the CD, it is difficult to answer this question without the experience of being a field testing participant.
Property Casualty Insurers Association of America (PCI)	USA	No	No	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Yes	Yes.

Q145 Section 7.18 Are there any further comments on Credit risk, which the IAIS should consider in the development of ICS Version 2.0? If "yes", please explain with sufficient detail and rationale.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
CLHIA	Canada	No	Yes	The risk factor of 100% for securitization exposures (ABS and MBS) rated B and lower is extremely punitive.
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	No	
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	No	
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	No	
General Insurance Association of Japan	Japan	No	Yes	While "other assets" receive a stress factor of 8%, in Japan, assets included in this category, i.e., amounts due from agents, amounts due for reinsurance, and other uncollected funds, are mostly reclaimed within a year and are rarely written off. Against such a background, the stress factor of 8% is excessive and a new factor or category needs to be added to cater for the situation in Japan. To clarify, it is common in Japan to collect the premium payments that agents receive on a daily-basis, or at the very latest within the following month. Amounts due from agents are very short-term and diversified receivables. Taking these situations into account, an 8% risk factor, which is comparable to a credit rating of BB (1-3 years RC5) or B (0-1 years RC6) is far too excessive. Based on historical write-off data, rating category 2 or 3 whose factors are 0.2% (0-1 years RC2) or 0.6% (0-1 years RC3) is appropriate for considering the amounts due from agents.

Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	No	
Legal & General	UK	No	No	We have no feedback beyond the points raised in response to the other questions in this section.
National Association of Mutual Insurance Companies	United States	No	Yes	Credit risk and all other risks and their factors should be determined by the local jurisdictional supervisor. NAMIC disagrees with the mandate of a standard method, the 99.5% VaR calibration level and the IAIS dictating the factors to be used in the formula. Jurisdictional flexibility is the appropriate way to capture these risks with mutual recognition and shared understanding of the jurisdictional approach at supervisory colleges. The ICS is not yet fit for purpose. Significant additional work is needed to achieve an appropriate global capital standard and it may be completely unachievable.
Prudential Financial, Inc.	United States of America	No	No	
Property Casualty Insurers Association of America (PCI)	USA	No	Yes	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.

End of Section 7.18