7.5 Management actions

Q74 Section 7.5 Are there examples of other instances for which an extension of management actions to allow for the recognition of premium adjustments may be appropriate? Please explain.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
Canadian Institute of Actuaries	Canada	No	Yes	Other examples of possible management actions are • Changes in credited interest rates on certain universal life insurance contracts; and • Experience rating refunds on group insurance contracts.
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	No	
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	Yes	
Insurance Europe	Europe	No	Yes	There should be an appropriate recognition of the value of premium increase management actions for life reinsurance business in the required capital in line with their economic value. For reinsurance, the premium increases when they are possible have the same economic impact as a reduction in discretionary benefits on the basis that premiums and claims

				are paid simultaneously on a reinsurance treaty (by settlement of accounts) and the reinsurance premium increase has the same impact on net cashflow as a reduction in benefits paid. Under the terms of the treaty, the reinsurance claim payments will be met on the basis that reinsurance premiums (increased as appropriate in line with treaty conditions) are paid.
Global Federation of Insurance Associations	Global	No	Yes	There should be an appropriate recognition of the economic value of premium increase management actions for life reinsurance business capital requirements. For reinsurance, premium increases have the same economic impact as a reduction in discretionary benefits, on the basis that premiums and claims are paid simultaneously on a reinsurance treaty. In other words, the reinsurance premium increase has the same impact on net cash flow as a reduction in benefits paid. Under the terms of the reinsurance treaty, the reinsurance claim payments will be met on the basis that reinsurance premiums (increased as appropriate in line with treaty conditions) are paid.
General Insurance Association of Japan	Japan	No	No	
Legal & General	UK	No	No	We believe that these requirements for substantiation are broadly appropriate. Our main concern in this area would be to ensure the ICS framework doesn't introduce additional evidencing/governance requirement over and above the existing Solvency II Article.
Association of British Insurers	United Kingdom	No	Yes	There should be an appropriate recognition of the economic value of premium increase management actions for life reinsurance business capital requirements.

				For reinsurance, premium increases have the same economic impact as a reduction in discretionary benefits, on the basis that premiums and claims are paid simultaneously on a reinsurance treaty. In other words, the reinsurance premium increase has the same impact on net cash flow as a reduction in benefits paid. Under the terms of the reinsurance treaty, the reinsurance claim payments will be met on the basis that reinsurance premiums (increased as appropriate in line with treaty conditions) are paid.
National Association of Mutual Insurance Companies	United States	No	Yes	The standard formula should be more flexible allowing for differences in jurisdictional treatment of risks.
RAA	United States and many other jurisdicitons	No	Yes	For reinsurance, premium increases have the same economic impact as a reduction in claim payments, on the basis that premiums and claims are paid simultaneously on a reinsurance treaty. In other words, the reinsurance premium increase has the same impact on net cash flow as a reduction in benefits paid. Under the terms of the reinsurance treaty, the reinsurance claim payments will be met on the basis that reinsurance premiums (increased as appropriate in line with treaty conditions) are paid.
American Academy of Actuaries	United States of America	No	Yes	For long-term health contracts (such as long-term disability (LTD), long-term care (LTC), etc.), if a requested premium increase, not previously anticipated in the reserving process, the premium adjustment could be recognized with the reflection of potential increases of lapse rates and claim ratios. Meanwhile, if the company can demonstrate such management actions with regulator actions or comments on prior rate increase requests, the company should be allowed

				such premium increases in the future shock scenarios. Cost of Insurance (COI) increases on UL contracts in the U.S. is another area that should be considered in stress scenarios. In a 99.5 percent scenario, companies are likely to seek increases to the COIs. A decrease in persistency should also be factored in the modeling if this is to be included.
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.

Q75 Section 7.5 How should the cap on management actions be applied across risks?

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
Canadian Institute of Actuaries	Canada	No	The impact of any management action should reflect the following lags in the time it takes for management actions to take effect: - Analysis of past experience and lags in resulting decisions for management to take action; and - Time to implement any action. Note that the ICS 2.0 is based on a target	

			criterion of 99.5 percent over a one-year time horizon, and management actions may take longer than the one year to take effect.	
Dai-ichi Life Holdings, Inc.	Japan	No	For each individual risk, we think that it is possible to reflect the full amount used for each risk mitigation.	
The Life Insurance Association of Japan	Japan	No	- For each individual risk, the LIAJ thinks that it is appropriate to reflect the full amount used for each risk mitigation.	
Legal & General	UK	No	We do not agree with the cap on management actions set out. In particular it seems to imply that no management actions can be assumed on business that does not include discretionary bonus declarations. We do not see why assumed management actions would be subject to any arbitrary cap or restriction.	
American Academy of Actuaries	United States of America	No	Similar to the cap dynamic lapse formula, the premium increase by the management should be limited by competitor behavior and regulator actions and comments.	
Northwestern Mutual	USA	No	For participating contracts, the full discretionary amount should be allowed to be reflected when evaluating the capital requirement for each risk as long as the action is reasonable for the scenario. For a US mutual company, the payment of a dividend is not guaranteed, and a mutual	

			company will operate to satisfy its safety objectives before a dividend is paid. A limit should not be applied across risks because it would indicate that the capital requirement is calibrated to cover multiple tail risks and well beyond the stated confidence level.	
Property Casualty Insurers Association of America (PCI)	USA	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.	

Q76 Section 7.5 Are there any further comments on management actions that 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 current proposed cap on the credit for participating/profit sharing and adjustable products, i.e. set at the total amount of insurance liabilities post-diversification for future bonuses or other discretionary benefits, is reasonable.

				We support the feedback received from Volunteer Groups during the last Field Testing. Management actions should be extended to other situations where the insurer can take action without requiring regulatory approval such as yearly renewable term (YRT) premiums in long-term life reinsurance agreements, cost of insurance (COI) charges in life insurance contracts, and adjustable premiums on adjustable life insurance.
Office of the Superintendent of Financial Institutions (OSFI)	Canada - OSFI	No	Yes	The current approach where future discretionary benefits are treated like guaranteed benefits and discounted using MAV rates is not correct, because discretionary benefits have equity-like characteristics and so cannot be discounted at a fixed-income rate. Another issue with the current cap approach is that requirements for participating business are not separated out from requirements for non-participating business.
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	No	
Insurance Europe	Europe	No	Yes	Insurance Europe does not support the proposed limitations on management actions and proposes that management actions such as repricing, MVA and dynamic investment strategies are permitted in the ICS, as long as they reflect product features and current practice. This approach would support the risk-based nature of the ICS and would represent a more appropriate reflection of actual business realities.
Global Federation of Insurance Associations	Global	No	Yes	Actions such as repricing, dynamic investment strategies and changes to the market value adjustor (MVA) should be permitted within ICS, provided they reflect product features and current practice. In this way, undue prudence can be avoided and actual business realities can be taken into account.

				Additionally, GFIA takes the view that discretionary changes in benefits implemented as part of an IAIG's risk management processes should be recognised as a management action.
General Insurance Association of Japan	Japan	No	No	
The Life Insurance Association of Japan	Japan	No	No	• From the perspective of reflecting the IAIGs' actual risk management practices appropriately, the LIAJ acknowledges that the discretionary changes of benefits implemented as a part of the IAIG's risk management would be recognised as the management actions in calculating capital requirements.
Aegon NV	The Netherlands	No	Yes	We believe the cap on management actions implies a very narrow view of what management actions could entail. It basically assumes that management actions can only lead to a reduction in capital requirements if (some of) the losses are deferred to policyholders. We are in favor of applying the impact of specific management actions at the level of the risk charge calculation and aggregating the post-management action risk charges through the prescribed diversification matrices. Meeting the requirements in paragraph 254 (documentation and historical verification) should be sufficient to justify the use of management actions in calculating capital requirements.
Legal & General	UK	No	No	We are broadly comfortable with the management actions treatment set out in the document, subject to revision or removal of the cap.

Association of British Insurers	United Kingdom	No	Yes	Actions such as repricing, dynamic investment strategies and changes to the market value adjustor (MVA) should be permitted within ICS, provided they reflect product features and current practice. In this way, undue prudence can be avoided and actual business realities can be taken into account.
National Association of Mutual Insurance Companies	United States	No	Yes	The standard formula should be more flexible allowing for differences in jurisdictional treatment of risks.
American Academy of Actuaries	United States of America	No	Yes	The IAIS should consider the discrepancy in the jurisdictional supervisory environment when it comes to caps on management actions. This is an item that could potentially be subject to the discretion of the jurisdictional supervisor. We agree with the provision in paragraph 254 that documentation is necessary. In general, in addition to regulator reaction and policyholder behavior, management action is also highly correlated to the competitors' behavior. The capital structure however, should not discourage the development of products that share risks with the policy holder or recognition of effective risk management strategies. An appropriate treatment and understanding of management actions includes the impact of management discretion and the associated margins available in items such as dividends and non-guaranteed elements and/or approved rate increases which may vary by jurisdiction.
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 7.5