

Summary and resolution of comments received during the public consultation on draft criteria that will be used to assess whether the Aggregation Method (AM) provides comparable outcomes to the Insurance Capital Standard (ICS)

Introduction

- Between 15 June and 15 August 2022, the IAIS consulted on the draft criteria that will be used to assess whether the Aggregation Method (AM) provides comparable outcomes to the Insurance Capital Standard (ICS).
- The IAIS received numerous comments that provided valuable input for further advancing this work.
- This document provides high-level resolutions for the comments received during the public consultation.

Reference	Summary of comments received	IAIS response
General comments	<p>General comments were received, summarised as follows:</p> <ul style="list-style-type: none"> • The assessment should ensure that comparability is determined only if the AM provides the same level of policyholder protection and does not create an unlevel playing field or unfair competitive advantage; • The comparability assessment should be outcome driven rather than process driven and consider other jurisdictional tools that mitigate risks faced by insurance groups; • The timing for assessing comparability is before finalisation of the ICS and AM. As such, any changes need to be considered in determining comparability; and • The use of actual company data may not lead to robust conclusions on regime comparisons, as comparability applies to methodologies / regimes, not individual companies. 	<p>The general comments were considered in the development of the comparability criteria.</p> <p>The comparability assessment will not be a purely quantitative exercise and will address all aspects set out in the High-Level Principles (HLPs). However, as the ICS is the quantitative element of the Common Framework for the Supervision of IAIGs (ComFrame), the comparison of the AM to the ICS will be of the quantitative elements of the group supervisory frameworks. The AM will be compared to the ICS, which will be a standard for determining group solvency, and not a broader supervisory framework. Qualitative aspects are captured in other components of ComFrame.</p> <p>Any changes made to the ICS in response to the public consultation and the ICS economic impact assessment on the final design of the ICS as a PCR will be considered in the comparability assessment.</p>
Criteria for HLP 1	<p>Several comments related to clarifications and further suggestions for the design and parameters of scenarios and revising criteria for HLP 1, summarised as follows:</p> <ul style="list-style-type: none"> • Key terms should be defined: significantly correlated, business cycle and short-term market fluctuations; • Criteria should be elaborated to clarify how the IAIS 	<p>Based on feedback, the IAIS held a series of workshops, post-consultation, in order to receive further feedback, both verbal and written, on the development and design of scenarios that could be used to inform the sensitivity analysis envisaged in the comparability criteria. The IAIS discussed this feedback and proposed an approach for the sensitivity analysis to be reflected in the relevant</p>

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	<p>will use the results from the technical analysis to evaluate if the required level of correlation is achieved;</p> <ul style="list-style-type: none"> • A limited number of scenarios should be considered for sensitivity analysis as these are time and resource intensive for companies; • Comparability should not be tied to a quantifiable correlation, but rather the relative effectiveness of each approach in providing supervisors with meaningful and actionable information about a group's capital; • Short-term market fluctuations are a reality and should be included in the assessment; • Support for the inclusion of sensitivity analysis <ul style="list-style-type: none"> ○ Outcomes should be compared under a range of scenarios. ○ Assessment should include quarterly data points for each year of the monitoring period and explicitly rely on back-testing a number of peak market and insurance events. ○ A limited number of standardised scenarios should form the basis of the assessment. • A stylised modelled approach should be considered; • Scenario analysis for non-life groups should assess the impact of non-life insurance risks. The analysis for life groups should focus on other financial and market 	<p>criteria.</p> <p>Criterion 1.3 was revised to specify sensitivity analysis will be conducted using scenarios that reflect changing risks that differ between life and non-life IAIGs.</p> <p>For life business, three common scenarios will be used covering the following events:</p> <ul style="list-style-type: none"> • 2020 pandemic • 2022 interest rate and inflation spike • 2007-09 Global Financial Market Crisis <p>In addition, if necessary, an upward scenario could be requested as part of the comparability assessment. The upward scenario would (i) aim to assess whether AM and ICS change similarly over the whole business cycle and (ii) give the opportunity for a more complete comparison of AM and ICS over the different levels of supervisory interventions.</p> <p>Similarly, for non-life business, three common scenarios will be used covering the following events:</p> <ul style="list-style-type: none"> • 2020 pandemic • 2022 interest rate and inflation spike • A scenario capturing changes specific to non-life insurance risks, such as a catastrophe

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	<p>risks;</p> <ul style="list-style-type: none"> • The application of any proportionate approach should ensure that entities that have a significant impact on the total PCR under the AM are not excluded from the analysis; • The number of "limited" additional scenarios representing different points in time should be specified in the context of how the correlation analysis will be performed and the timeframe that analysis is intended to represent; • The scenarios should be designed to test the synchronicity and intensity of supervisory intervention under stressed conditions and be calibrated to reflect past real-world peak events; • Different scenarios for life and non-life business, taking into account specificities of business models, makes sense. However, it is necessary to specify more details on those scenarios in the criteria; • The term "information to inform the analysis" is worrying because it implies that the comparison of PCR breaches and triggers for supervisor action is secondary and should be clarified; • The reverse stress tests should be accompanied by an analysis of the supervisory intervention, in terms of timing and actions, to those circumstances; • A potentially useful sensitivity criterion is 1.3e) that 	<p>For both life and non-life, results and descriptions of IAIG-specific scenarios where capital resources become less than the capital requirement under the AM and the ICS, respectively, will be provided to inform the analysis as described in criterion 1.6 a. and b.</p> <p>Due to operational considerations, all of the scenarios are based upon one-year, point-in-time scenarios, as opposed to scenarios based upon projections. These scenarios will be used to inform the analysis of the results over the business cycle.</p> <p>The IAIS will rely on previously submitted data to the extent possible, as well as data that is already planned to be submitted or publicly available.</p>

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	<p>calls for volunteer groups to provide stress scenarios for AM and ICS individually where a group's available capital falls below its required capital.</p>	
<p>Question on sensitivity analysis</p>	<p>Comments were received on the design and parameters of scenarios that could be used to conduct the sensitivity analysis, summarised as follows:</p> <ul style="list-style-type: none"> • Outcomes should be compared under a range of scenarios (eg changes in credit spreads, interest rates, equity prices, currencies); • Use historical examples to develop scenarios; and • Scenarios should enable a comparison of whether similar supervisory actions would be taken if adverse events unfolded. 	<p>See the IAIS response with respect to the comparability criteria for HLP 1</p>
<p>Criteria for HLP 2</p>	<p>Several comments related to clarifications and further suggestions for revising criteria for HLP 2, summarised as follows:</p> <ul style="list-style-type: none"> • Unclear how prudence will be measured and how "offsetting" between elements will be assessed; • The ICS and AM should cover the same risks; • It should not be necessary for there to be a one-to-one correspondence between the risks captured under each approach; • Criteria should explicitly state that drivers of 	<p>Revisions were made to criterion 2.1 to include an analysis of the differences in the underlying components of the individual elements (ie valuation, capital resources and capital requirement).</p> <p>Criteria 2.2, 2.4a) and 2.4d) were revised to include "and analysed" to indicate that differences in underlying risks, capital resources and capital composition limits between the AM and the ICS will not only be disclosed.</p> <p>The revision to criterion 2.3 clarifies that the overall AM varies by jurisdiction due to differences in underlying</p>

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	<p>differences between the AM and ICS will be investigated and disclosed at the appropriate level of aggregation (eg by major risk category);</p> <ul style="list-style-type: none"> • The criteria are interpreted as imposing a strict one-for-one match of risks in the ICS versus risks in the AM, which has the potential to preclude comparability of AM as it is already known that there is not a one-for-one matching of risks; • The assessment should be focused on differences in included risks that could be relevant and material for the business model; • The reference to non-risk-based regimes is not relevant to whether comparable outcomes are produced; • Explicitly aligning with the one-year time horizon of the ICS is not appropriate for the AM or for the comparability assessment; • The 5% threshold for non-risk based regimes seems arbitrary and should be regularly reviewed and revised when necessary; • The criteria do not explain how any differences will inform the comparability assessment; and • We appreciate the way in which the criteria for the treatment of capital resources in criterion 2.4a), 2.4b) and 2.4d) is worded in that it seeks to identify and understand differences rather than require the AM to 	<p>valuation.</p>

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	<p>treat capital elements other than financial instruments the same way as in the ICS -- which would defeat the purpose and intent of the AM framework, i.e., to reflect an aggregation of data based on jurisdictional requirements.</p>	
<p>Criteria for HLP 3</p>	<p>Several comments related to the objective of the criteria and further suggestions for revising criteria for HLP 3, summarised as follows:</p> <ul style="list-style-type: none"> • Comparability should test whether the AM and the ICS would trigger the same supervisory actions at similar points in time and provide the same level of policyholder protection; • The level of supervisory intervention should be assessed on an individual basis and not by considering the results of the sample on the whole; • The assessment should include a comparison of the PCR and the point in time at which the PCR would be breached under the AM and ICS. • The assessment should be performed at an appropriate level of granularity having regard to the different risk profiles that may underly the representative sample, rather than necessarily at the level of the representative sample in totality; • Concerns that an approach relying on individual comparisons would preclude comparability and 	<p>The definition of comparable outcomes is the overarching guide for the comparability assessment.</p> <p><i>Comparable outcomes to the ICS means that the Aggregation Method (AM) would produce similar, but not necessarily identical, results over time that trigger supervisory action on group capital adequacy grounds.</i></p> <p>Revisions were made to clarify that the level of solvency protection of the AM is similar to that of the ICS, and the AM could be more but not less prudent than the ICS, as stated in HLP 3.</p> <p>Revisions were made to clarify that the explanation of differences will take in account any changes made to the ICS in response to the public consultation and the ICS economic impact assessment on the final design of the ICS as a PCR.</p> <p>A stylised model was considered as a possible way forward, but ultimately, due to time constraints and the amount of data that Volunteer Groups would need to</p>

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	<p>create an unlevel playing field;</p> <ul style="list-style-type: none"> • The analyses envisioned under Criteria 3.1 and 3.1a are neither necessary nor practical to reach a conclusion; • The criterion should be two-sided: "The methods trigger supervisory action on group capital adequacy grounds under similar conditions, showing that the level of solvency protection in totality is similar."; • The purpose of the exercise should be to determine on an outcomes basis whether the ICS and the AM as capital standards provide information that triggers a form of supervisory action; and • The IAIS should consider using a stylized modelled approach, with scenario analysis, to better understand the movements in capital resources and capital requirements across both the ICS and the AM. 	<p>provide to build the model, it was decided to not include it in the final criteria.</p>
<p>Criterion for HLP 4</p>	<p>All of the stakeholders providing feedback supported criterion 4.1 as drafted.</p>	<p>Criterion 4.1 was retained without revision.</p>
<p>Criteria for HLP 5</p>	<p>General support from several respondents that the Volunteer Groups providing both AM and ICS data is stable or increases during the monitoring period. Several comments related to clarifications and further suggestions for revising criteria for HLP 5, summarised</p>	<p>Criterion 5.1 was revised to also consider the geography, in addition to the business models and risks, of Volunteer Groups providing both AM and ICS results when determining representativeness.</p> <p>Criterion 5.2 was revised to set a minimum level of</p>

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	<p>as follows:</p> <ul style="list-style-type: none"> • Representativeness of the sample should be evaluated separately for each jurisdiction considering adoption of the AM; • A representative and relevant amount of data is necessary, covering a diversity of business models and business lines, geographical footprints and financial and market conditions, including both normal and stressed market situations; • The comparability assessment cannot primarily rely on using representative portfolios or stylised balance sheet approaches. Such tools could be beneficial as ancillary analysis to the primary assessment made on actual data reported by Volunteers Groups • Consideration should be given to using data sets from sources other than Volunteer Groups (for example, existing monitoring period data, or using a newly built model office approach/stylised insurance group model); • It is not clear that non-life operations would be more homogeneous than life operations; and 	<p>representativeness at 80% for both life and non-life IAIGs. References to heterogeneous (for life) and homogeneous (for non-life) were removed as some of the feedback received questioned this and it was determined to no longer be relevant to the discussion on representativeness. For US non-life IAIGs, an approach to approximating ICS results using audited publicly available data was developed which can contribute to meeting the 80% minimum level of representativeness.</p> <p>Criterion 5.3 was revised to reflect that the overall scope and quality of information collected from Volunteer Groups should be stable or increase during the monitoring period.</p>

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	<ul style="list-style-type: none"> The focus should be on the overall scope and quality of information collected from volunteers during the full monitoring period, rather than a simple count of participants. 	
Question on representativeness	<p>Comments were received on the appropriateness of the analysis to determine representativeness as described in the criteria for HLP 5, summarised as follows:</p> <ul style="list-style-type: none"> Life business requires a larger data set for comparison than non-life business; Homogeneity of the non-life insurance market cannot be assumed; and The treatment of material individual risks within prominent local regimes should be assessed to determine whether available data sets are sufficient. 	See the IAIS response with respect to the comparability criteria for HLP 5
Criteria for HLP 6	<p>General support was given by several respondents to the criteria for HLP 6 while there were some suggestions, summarised as follows:</p> <ul style="list-style-type: none"> The specifications for the AM and the ICS used for the comparability assessment should be made public; 	<p>The criteria for HLP 6 were retained without revision.</p> <p>The ICS and AM data collection packages (Technical Specifications, Template and Questionnaire) are published on the IAIS website on an annual basis during the monitoring period.</p>

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	<ul style="list-style-type: none"> • Analysis of adherence to the comparability criteria should be made public at an appropriate level of aggregation (to ensure the confidentiality of individual results); • Disclosure of information should differ in terms of content, granularity, and frequency depending on the audience ie group-wide supervisor or public; • It is premature to establish criteria under HLP 6 as no disclosure requirements for the ICS and AM have been proposed; and • The criteria is with regard to legislation and/or regulation that would utilise the AM, and not with regard to the AM metric itself and should be revised or deleted. 	<p>In October 2024, the IAIS intends to publish a report on the outcome of the comparability assessment of whether the AM provides comparable outcomes to the ICS.</p> <p>Once the ICS as a PCR is finalised, the IAIS will begin developing disclosure requirements that will be included in ComFrame.</p>