INTERNATIONAL INSURANCE RELATIONS (G) COMMITTEE

International Insurance Relations (G) Committee August 13, 2023 Minutes
- International Insurance Relations (G) Committee April 13, 2023 Minutes (Attachment One)
  - Draft NAIC Comments on Questions for Consultation on Issues Paper on Roles and Functioning of PPSs (Attachment One-A)
- Draft Provisional AM for Use in the Comparability Assessment (Attachment Two)

Draft Pending Adoption

Draft: 8/22/23

International Insurance Relations (G) Committee
Seattle, Washington
August 13, 2023

The International Insurance Relations (G) Committee met in Seattle, WA, Aug. 13, 2023. The following Committee members participated: Gary D. Anderson, Chair (MA); Eric Dunning, Vice Chair (NE); Lori K. Wing-Heier (AK); Ricardo Lara (CA); Andrew N. Mais (CT); Gordon I. Ito (HI); Doug Ommen (IA); Dean L. Cameron (ID); Dana Popish Severinghaus (IL); Vicki Schmidt represented by Chut Tee (KS); James J. Donelon represented by Adam Patrick (LA); Kathleen A. Birrane (MD); Anita G. Fox (MI); and Justin Zimmerman (NJ).

1. Adopted its April 13 and Spring National Meeting Minutes

The Committee met April 13 and discussed NAIC comments on the International Association of Insurance Supervisors (IAIS) public consultation on the issues paper on the roles and functioning of policyholder protection schemes (PPSs).

Commissioner Mais made a motion, seconded by Director Popish Severinghaus, to adopt the Committee's April 13 (Attachment One) and March 22 (*see NAIC Proceedings – Spring 2023, International Insurance Relations (G) Committee*) minutes. The motion passed unanimously.

2. Heard an Update on International Insurance Developments and Activities in Canada

Commissioner Anderson spotlighted international cooperation on insurance-related matters between the U.S. and Canada. He noted Canadian insurance regulators as strong partners with the NAIC at the IAIS and assisting in advancing North American interests on the global stage.

Jacqueline Friedland (Government of Canada's Office of the Superintendent of Financial Institutions—OSFI) gave an update on international insurance developments and activities in Canada. She explained her role at the OSFI in frontline supervision and her actuarial background, noting that she is in charge of 250 supervisors that have oversight responsibilities of banks, insurers, and private pension plans.

Friedland spoke on the recent implementation of International Financial Reporting Standard (IFRS) 17, which is paramount to the OSFI's 2023 initiatives. While the implementation was not perfect and took longer for some to produce and analyze the results, she noted that only a few of the reporting insurers missed the deadline. She also noted that there were no significant surprises thus far, and not all Canadian insurers operate under federal regulation.

Friedland outlined shared priorities between Canada and the U.S., including looking into analyzing market volatility, and she provided the example of new mandatory stress testing for all Canadian insurers that is focused on inflation. On climate risk, she emphasized a focus on differing risks for each line of insurance and the implications on reinsurance, including availability and affordability.

On the topic of the OSFI's mandate, Friedland spoke to new changes, including expanding powers and enhancements to the broad oversight of banks and securities. Banks and insurers will need to have and adhere to policies and procedures that bring integrity to their security. The OSFI's examination of these results will be directly reported to the Canadian Minister of Finance.

Lastly, Friedland noted that investments are being made in the area of flood insurance coverage as part of a large budget bill that passed earlier this year. On auto rate freezes in Ottawa, she noted her strong opinion for adequate insurance rates and highlighted the OSFI's prudential mandate of ensuring consumer protection.

Commissioner Anderson highlighted the ongoing bilateral partnership between the NAIC and the OSFI, and he complimented their ongoing work at the global level on insurance matters.

3. Heard an Update on Activities of the IAIS

Commissioner Anderson gave an update on IAIS activities and its key 2023 projects and priorities. He began with a review of the IAIS committee meetings and Global Seminar that was hosted by the NAIC and took place in June in Seattle, WA. He began by thanking commissioners and state insurance regulators from the following states that participated: Alaska, California, Connecticut, Idaho, Illinois, Iowa, Nebraska, North Dakota, Maryland, Massachusetts, Michigan, Missouri, Oregon, Rhode Island, South Dakota, Virginia, and Washington.

Commissioner Anderson provided an update on the implementation and assessment activities at the IAIS. On the Targeted Jurisdictional Assessment (TJA) progress monitoring, he noted that this project is underway and will culminate in a report at the end of the year that will be delivered to the Financial Stability Board (FSB). He extended a thank you to New York, New Jersey, and Connecticut for their continued contribution to the project.

Next, Commissioner Anderson gave a brief update on the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame), saying work is underway to develop the scope and thematic focus of a forthcoming implementation assessment. This assessment is scheduled to launch later this year.

On the Peer Review Process (PRP) of Insurance Core Principle (ICP) 16 Enterprise Risk Management for Solvency Purposes, Commissioner Anderson noted that this voluntary assessment will begin this fall, which is open to all IAIS members and gives member jurisdictions an opportunity to see how they are observing particular standards. He thanked Susan Berry (IL) for serving on the ICP 16 PRP expert team.

Commissioner Anderson highlighted some of the ongoing work being undertaken by forums and other groups within the IAIS, including:

- The FinTech Forum (FTF) that is continuing its discussions on its artificial intelligence (AI)/machine learning (ML) model risk management thematic review and supervisory responses to the use of ChatGPT and the different approaches adopted to monitor and address such FinTech developments in member jurisdictions. Commissioner Anderson highlighted a recent seminar in June in Basel, Switzerland on the use of innovative technology in financial supervision and thanked the NAIC's FTF member, Rachel Davison (MA), for participating on a panel on Suptech use cases in insurance supervision.
- The Climate Risk Steering Group's public consultation that covers the addition of new text to the IAIS ICPs introduction, work related to climate risk and governance, and the IAIS's plans to address climate more broadly. The group continues to discuss initial observations on the public consultation feedback and draft application paper material on climate-related market conduct considerations and climate scenario analysis, which are scheduled for public consultation by year-end 2023.

On the ICS, Commissioner Anderson said the IAIS has released a public consultation on a "candidate" version of the ICS ahead of its adoption as a Prescribed Capital Requirement for Internationally Active Insurance Groups in late 2024. This consultation also solicits input from stakeholders to support an economic impact assessment of the ICS. He mentioned that the IAIS is entering the fourth year of the five-year monitoring period for the ICS, and specifications for both the ICS and Aggregation Method (AM) data collections will be released at the end of April, with data due to the IAIS by Aug. 31.

To help provide more detailed information about the AM beyond what is already available, the U.S. IAIS members committed to producing a document describing the Provisional AM that is being used in the comparability assessment before the process begins (Attachment Three). Ned Tyrrell (NAIC) gave an overview of the draft document, explaining how it gathers existing AM documentation and communications into one authoritative spot and includes additional narrative context on how the AM will be used in the comparability assessment. He provided a summary of each of the sections of the document, including AM Principles, the Provisional AM, Scalars, and Finalization. Stakeholders were invited to provide any feedback by Sept. 1 for consideration for a final version of the document that will be provided to the IAIS in September.

Tom Finnell (American Property Casualty Insurance Association—APCIA) inquired about the deadline to produce comments on the AM document, noting IAIS public consultations with similar deadlines. Tyrrell responded that an extension would be difficult, given the need to have this document available within the IAIS timeline for the comparability assessment, and he reiterated that much of the document is based on existing material on the AM rather than being brand new. He cited the material on scalars and financial instruments as areas that may be of particular interest to stakeholders.

4. Heard an Update on International Activities

A. International Activities

Director Dunning reported on recent regional supervisory cooperation activities, starting with the European Union (EU)-U.S. Insurance Dialogue Project's public stakeholder event on June 16 in Seattle, WA. He noted that the project has been working within three working groups this year: 1) climate risk financial oversight, including climate risk disclosures, supervisory reporting, and other financial surveillance; 2) climate risk and resilience, including innovative technology, pre-disaster mitigation, adaptation efforts, and modeling; and 3) innovation and technology, including big data, AI, and supervisory technology as a regulatory tool.

Next, Director Dunning spotlighted NAIC participation in recent international events, including:

- The Asociación de Supervisores de Seguros de América Latina (ASSAL) Annual Conference in San Jose, Costa Rica in early May, where Director Lindley-Myers, Commissioner Lara, and Commissioner Vega participated on a variety of panels, including ones addressing cybersecurity and climate. The NAIC held a bilateral meeting on the sidelines of the ASSAL Annual Conference, providing updates on a variety of its initiatives, including data privacy; climate resiliency; and diversity, equity, and inclusion (DE&I). The NAIC also discussed continuing opportunities for cooperation and collaboration with the ASSAL and its members.
- A joint Organisation for Economic Co-operation and Development (OECD) and Asian Development Bank Institute (ADBI) Roundtable on Insurance and Retirement Savings in Asia, where Superintendent Dwyer participated on two panels on insurance in a changing climate.
- The Bermuda Climate Summit 2023 held in June, where Commissioner Lara and Director Lindley-Myers addressed the future of the NAIC's Climate and Resiliency (EX) Task Force and highlighted consumer protection issues associated with the National Flood Insurance Program (NFIP) in a discussion panel.
- Keynote remarks by Director Lindley-Myers delivered virtually to the Taiwan Insurance Institute's (TII's) East Asia Pacific Insurance Forum 2023. She spoke on the NAIC and state insurance supervisors' work on embracing and incorporating new technology into regulation to encourage and improve the economic resiliency of the insurance industry and highlighted the NAIC's *State Ahead* strategic work plan.

Director Dunning then spoke to bilateral meetings that have taken place recently, including on the sidelines of the IAIS meetings in Seattle, WA, in June, where the NAIC held 11 bilateral meetings, the primary focus of which was on relationship building, especially among some individual EU member states. He said during these bilateral

meetings, the NAIC addressed current strategic priorities and activities, including consumer protection, technology, and climate, and it touched on general macroeconomic issues, such as inflation.

Patrick Reeder (American Council of Life Insurers—ACLI) commented that the ACLI was encouraged by reports on recent bilateral engagements and said the NAIC is a great partner with other countries in developing their insurance frameworks. He noted that members are hearing from host regulators in many countries about their willingness to work with the NAIC, and there is a space to assist U.S. companies in their interactions with regulators oversees. He concluded his remarks by emphasizing how industry can be a resource when discussing prudential issues, and he welcomes the opportunity to participate as a resource and facilitator.

Karalee Morell (Reinsurance Association of America—RAA) agreed with Reeder's comments and emphasized that regulator-to-regulator dialogues are important for creating a level playing field, and she encouraged more engagement by state insurance regulators.

Dave Snyder (APCIA) added that some dialogues in the past involved trade negotiators, regulators, and industry, noting that having the key players at the table can help address regulatory issues on both sides and tackle regulatory issues that serve as barriers to international trade. He requested that these types of meetings be reestablished in critical markets, such as India. He then complimented the NAIC for its OECD participation, highlighting Director Dunning's remarks at the June meeting. He concluded by saying that a prioritization of how best to address fundamental regulatory conditions, and to do so in a coordinated manner, would be a strong way of combatting challenges coming from technology, macroeconomic conditions, the war in Ukraine, and supply chain disruptions.

Commissioner Anderson thanked Reeder, Morell, and Snyder for their constructive comments on the NAIC's bilateral relationships and activities, noting that industry's feedback on work such as this gives state insurance regulators some perspective as to where we should put our bilateral efforts.

B. OECD

Director Dunning reported on a variety of topics at the OECD that have progressed since the Spring National Meeting, including enhancing the contribution of insurance climate adaption, as well as digitalization to encourage policyholder risk reduction. He highlighted a roundtable discussion on June 26–27 in Paris, France, where he spoke on the NAIC's work overseeing and regulating insurer's use of AI and ML. He reported that during the Insurance and Private Pensions Committee portion of the meeting, members discussed several OECD documents and reports, which are expected to be released soon, including a revised recommendation on disaster risk financing.

Having no further business, the International Insurance Relations (G) Committee adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/G CMTE/National Meetings/2023/Seattle-Summer National Meeting

Draft Pending Adoption

Draft: 4/28/23

International Insurance Relations (G) Committee
Virtual Meeting
April 13, 2023

The International Insurance Relations (G) Committee met April 13, 2023. The following Committee members participated: Gary D. Anderson, Chair (MA); Eric Dunning, Vice Chair, represented by Lindsay Crawford (NE); Lori K. Wing-Heier (AK); Ricardo Lara represented by Ope Oyewole (CA); Andrew N. Mais (CT); Gordon I. Ito (HI); Doug Ommen (IA); Dean L. Cameron (ID); Dana Popish Severinghaus and Susan Berry (IL); Vicki Schmidt (KS); James J. Donelon (LA); Kathleen A. Birrane (MD); Anita G. Fox (MI); Troy Downing (MT); and Marlene Caride (NJ). Also participating was: Robert Wake (ME).

1. Discussed NAIC Comments on the IAIS Public Consultation on the Issues Paper on the Roles and Functioning of PPSs

Commissioner Anderson explained that the International Association of Insurance Supervisors (IAIS) is conducting a public consultation on the issues paper on the roles and functioning of policyholder protection schemes (PPSs). He noted that the paper was drafted by the IAIS's Resolution Working Group, and it provides an updated overview of global practices regarding PPSs and their roles in insurance resolution and a variety of related activities. He said the NAIC's initial draft comments are based on an internal review of the issues paper and a review completed by members of the NAIC's Receivership and Insolvency (E) Task Force. Those initial comments, as well as input that was received from Maine, were circulated in advance of the call.

Ryan Workman (NAIC) gave an overview of the NAIC's comments on the public consultation, which are mostly editorial to address grammatical changes or ensure that the issues paper follows a style consistent with other IAIS papers. Other comments included enhancing language to clarify which examples apply to certain jurisdictions, removing speculative wording, and ensuring that examples used are relevant to the rest of the topics in the issues paper.

Wake provided a review of the edits he suggested for the NAIC's comments on the issues paper. Berry suggested that an NAIC comment around using alternative language for an example from the United Kingdom (UK) be reworded to enhance clarity. Workman responded that the NAIC comments would be revised to ensure that the intended point is clear prior to submission. As a member of the Working Group, Wake noted that he would work to ensure that the NAIC's comments are addressed and properly understood.

Director Popish Severinghaus made a motion, seconded by Director Cameron, to approve the submission of the NAIC comments, including the discussed revision, on the issues paper on the roles and functioning of PPSs (Attachment One-A). The motion passed unanimously.

Having no further business, the International Insurance Relations (G) Committee adjourned.

G Cmte Minutes 041323

Questions for Consultation on Issues Paper on roles and functioning of Policyholder Protection Schemes (PPSs)

Thank you for your interest in the public consultation on the Issues Paper on roles and functioning of Policyholder Protection Schemes (PPSs). The Consultation Tool is available on the IAIS website.

Please do not submit this document to the IAIS. All responses to the Consultation Document must be made via the Consultation Tool to enable those responses to be considered.

Consultation questions

1	General comments on the Issues Paper **Global Comment:** Throughout the paper, "PPS" and "PPSs" are used to refer to "Policyholder Protection Scheme" and "Policyholder Protection Schemes" respectively. This reads a bit awkwardly. To streamline these references, on the acronym page (pg. 5) include one definition that covers the singular and plural and use "PPS" throughout the paper. Pg. 5: PPS – Policyholder Protection Scheme(s) **Global Comment:** We understand IAIS convention does not use the oxford comma for lists, but in some cases in this paper the oxford comma is used for lists. Please review for consistency with IAIS formatting. **Global Comment:** For some of the example boxes throughout the document there are awkward breaks and spaces between the jurisdiction and example. Please review and clean up formatting. **Global Comment**: need to review the use and formatting of em-dashes for consistency; see for example, paras 37, 40, 53, 110 and the blue box after 124.
2	General comments on Section 1 Introduction
3	General comments on Section 1.1 Objectives and background
4	Comments on Paragraph 1
5	Comments on Paragraph 2
6	Comments on Paragraph 3
7	Comments on Paragraph 4
8	Comments on Paragraph 5
9	Comments on Paragraph 6
10	General comments on Section 1.2 Terminology
11	Comments on Paragraph 7 2nd sentence, use of "best practices" may not be consistent with how previous IAIS papers review to examples – as these are self-reported and not verified, perhaps prefer to them as "examples of practices within those jurisdictions."
12	Comments on Paragraph 8
13	Comments on Paragraph 9

14	Comments on Paragraph 10
15	Comments on Paragraph 11
16	General comments on Section 1.3 Inputs
17	Comments on Paragraph 12
18	General comments on Section 1.4 Structure
19	Comments on Paragraph 13 Fix typo in the first sentence – “reminder” should be “remainder”
20	Comments on Paragraph 14
21	General comments on Section 2
22	General comments on Section 2.1 Overview
23	Comments on Paragraph 15
24	Comments on Paragraph 16
25	Comments on Paragraph 17
26	Comments on Paragraph 18
27	Comments on Paragraph 19
28	General comments on Section 2.2 Functions of PPSs
29	Comments on Paragraph 20 Not all frameworks are necessarily national; suggest: Depending on ~~national~~ jurisdictional frameworks, PPSs could fulfil various functions in different stages of recovery and resolution.
30	Comments on Paragraph 21
31	Comments on Paragraph 22
32	Comments on Paragraph 23
33	Comments on Paragraph 24
34	General comments on Section 2.3 Intervention by PPSs
35	General comments on Section 2.3.1 Recovery phase
36	Comments on Paragraph 25

37	Comments on Paragraph 26 In the blue box, for the UK example, while the first sentence may be true, it does not seem necessarily relevant for what this example is illustrating – suggest deleting. In the last sentence, rather than say "currently" which will lose meaning as the paper ages, suggest noting the year this legislation is proposed, or alternatively revise to: ~~Currently, the UK has no statutory resolution regime for insurers.~~ As proposed, the Financial Services Compensation Scheme (FSCS) would make the following tools ~~are~~ available to a firm in recovery: ... In addition, proposed legislation currently in Parliament (as of *[insert publication date of paper, or substitute with a reference to the adoption date if and when legislation is adopted]*) would provide the option for write-down with a top-up by the ~~Financial Services Compensation Scheme (~~FSCS~~)~~.
38	Comments on Paragraph 27
39	Comments on Paragraph 28
40	General comments on Section 2.3.2 Resolution phase
41	Comments on Paragraph 29 Given how other parts of the paper note how the scope, role, functions, etc. of a PPS can vary, it seems a bit odd to say a "PPS could intervene in all situations, albeit in different ways." Is it really *all* situations? Suggest considering clarifying the intended point here.
42	Comments on Paragraph 30
43	Comments on Paragraph 31 Suggested revisions to the 2nd sentence: Alternatively, under open firm bail-in (see Paragraph 24), the insurance contracts will ~~be~~ continue~~d~~ with the same insurer which has been allowed to restart its operations.
44	Comments on Paragraph 32 Suggested revisions to the 1st sentence, replace the comma with a semi-colon: The nature of a PPS intervention would also differ depending on the products being offered by the insurer;~~,~~ these can be either products with long term protections (typically life policies) or products with short term protection (typically non-life policies). Suggested revisions to the 2nd sentence, replace the comma with a semi-colon and fix grammar and capitalization: For life products, claims payments likely need to ~~be~~ continue~~ing~~ over longer periods;~~,~~ ~~F~~for non-life products, payments might be necessary for only a short period (eg 30 or 60 days) so that the policyholder has sufficient time to find another insurer.

45	Comments on Paragraph 33
46	Comments on Paragraph 34 The 1st sentence is awkwardly written and its intent is unclear; consider revising. Last sentence, for consistency with usual IAIS phrasing, suggest: It should be noted that not necessarily all jurisdictions ~~have resolution frameworks that~~ fully observe ~~comply with~~ ICP 12~~, and~~ given their resolution frameworks or have comprehensive PPSs in place.
47	General comments on Section 3
48	Comments on Paragraph 35 Typo: "The ~~This~~ 2013 Issues Paper…"
49	Comments on Paragraph 36
50	Comments on Paragraph 37
51	General comments on Section 3.1 Scope of coverage
52	Comments on Paragraph 38
53	Comments on Paragraph 39
54	Comments on Paragraph 40 Footnote 17 appears to have an unnecessary paragraph break after the first sentence.
55	Comments on Paragraph 41
56	Comments on Paragraph 42
57	General comments on Section 3.2 Limits on compensation
58	Comments on Paragraph 43
59	Comments on Paragraph 44
60	Comments on Paragraph 45 Second sentence, if the practice is done in multiple jurisdictions, singling out one jurisdiction seems odd, so would suggest deleting "(eg in Canada)". If this is unique to Canada, then suggest using a sentence structure more common to other IAIS material: In Canada, the ~~It may also happen (eg in Canada) that a~~ PPS has ~~some form of~~ a "circuit breaker" where the level of protection may depend on the level of difficulty the provided protection would cause to the other industry players.

61	Comments on Paragraph 46
62	Comments on Paragraph 47 Consider capitalizing the first word of each bullet.
63	Comments on Paragraph 48 Third sentence, if the practice is done in multiple jurisdictions, singling out one jurisdiction seems odd, so would suggest deleting "(eg in Canada)". If this is unique to Canada, then suggest using a sentence structure more common to other IAIS material: In Canada, ~~It may also happen (eg in Canada) that~~ the PPS is allowed to provide higher compensation than the pre-set limit, in cases where it appreciates that observing the pre-set limit would constitute a hardship case.
64	Comments on Paragraph 49
65	Comments on Paragraph 50
66	General comments on Section 3.3 Method of compensation
67	Comments on Paragraph 51
68	Comments on Paragraph 52
69	Comments on Paragraph 53
70	Comments on Paragraph 54
71	Comments on Paragraph 55
72	General comments on Section 3.4 Eligible policyholders and claimants
73	Comments on Paragraph 56 In the blue box, suggest the text could be streamlined as follows: ~~In connection with the issue indicated in the preceding paragraph,~~ In the United States ~~takes a related, but different approach under which~~ most non-life PPSs have "high net worth" exclusions. These exclude a small number of wealthy individuals who are deemed to be sophisticated purchasers, but operate primarily to exclude larger commercial policyholders. A common threshold is $50 million, but some states draw the line as low as $10 million.
74	Comments on Paragraph 57
75	Comments on Paragraph 58 In the 3rd sentence the use of the word "devastated" is a bit loaded. Consider changing to something more neutral, such as "unduly impacted."

76	Comments on Paragraph 59
77	General comments on Section 3.5 Treatment of unearned premiums
78	Comments on Paragraph 60
79	Comments on Paragraph 61 Similar to the comment for paragraph 47, consider capitalizing the first word of each bullet. Following the bullets, suggest it would read better as: In this case, unearned premiums amount to 50 million CUs ~~50~~; outstanding claims amount to 80 million CUs ~~80~~ OR In this case, unearned premiums amount to ~~million~~ CU~~s~~ 50 million; outstanding claims amount to ~~million~~ CU~~s~~ 80 million
80	General comments on Section 3.6 Cross-border issues of coverage: home- and host-jurisdiction principles Graph on pgs. 25-26, consider numbering or naming the graph. In the first diagram, add a bit more space to the depiction of "Policyholders of Insurer A domiciled in B."
81	Comments on Paragraph 62
82	Comments on Paragraph 63
83	Comments on Paragraph 64 Suggested revisions to the 3rd sentence: Recent examples of failures in the EU suggest, however, that even with a host-jurisdiction principle, the treatment of policyholders of a failed insurer may still be highly dependent on the jurisdiction where the failed insured was headquartered (the "home" jurisdiction), notably because the liquidation laws that will apply are those of the home jurisdiction, and liquidation laws sometimes ~~very~~ vary markedly ~~diverge~~ across jurisdictions.
84	Comments on Paragraph 65
85	Comments on Paragraph 66
86	Comments on Paragraph 67
87	Comments on Paragraph 68
88	Comments on Paragraph 69

89	Comments on Paragraph 70
90	Comments on Paragraph 71
91	General comments on Section 4
92	Comments on Paragraph 72
93	General comments on Section 4.1 Sources for PPS funding
94	Comments on Paragraph 73
95	Comments on Paragraph 74
96	Comments on Paragraph 75
97	Comments on Paragraph 76
98	Comments on Paragraph 77
99	Comments on Paragraph 78
100	General comments on Section 4.2 Ex-ante, ex-post and hybrid funding
101	Comments on Paragraph 79
102	Comments on Paragraph 80
103	General comments on Section 4.3 Determining the levy level for insurers
104	Comments on Paragraph 81
105	Comments on Paragraph 82
106	Comments on Paragraph 83
107	Comments on Paragraph 84 As written, the 1st sentence is a bit speculative, suggest the following revisions: As price is one of the most important factors in choosing an insurer, competition may create~~s~~ incentives for insurers to price their products aggressively, potentially assuming risks that threaten the firm's financial soundness.
108	Comments on Paragraph 85 In the blue box, UK example, FSCS is already spelled out on page 13 so can just use the acronym here.
109	General comments on Section 4.4 Differences between resolution funds and PPSs
110	Comments on Paragraph 86

111	Comments on Paragraph 87
112	Comments on Paragraph 88
113	Comments on Paragraph 89
114	General comments on Section 5
115	Comments on Paragraph 90 Second sentence, not clear what "prescriptions" means in this context – suggest considering a better word choice. Perhaps "conditions of coverage"?
116	General comments on Section 5.1 ICPs and PPS disclosure
117	Comments on Paragraph 91
118	Comments on Paragraph 92
119	General comments on Section 5.2 Disclosure considerations relevant to PPS
120	Comments on Paragraph 93
121	Comments on Paragraph 94
122	Comments on Paragraph 95
123	Comments on Paragraph 96
124	Comments on Paragraph 97
125	Comments on Paragraph 98
126	Comments on Paragraph 99 Suggested revisions to the 1st and 2nd sentences: The PPS should, through its public disclosure programme, build credibility with policyholders and stakeholders through an active communication process that is effective at different levels of stakeholders, eg insurers, consumers and intermediaries. The public disclosure programme may consider a tailored approach for the various classes of stakeholders.
127	Comments on Paragraph 100
128	Comments on Paragraph 101
129	Comments on Paragraph 102 Suggested revision to the 2nd sentence to eliminate redundancy:

	In the event of an insurer failure the PPS or an empowered authority, liquidator or court appointee should notify policyholders as expeditiously and appropriately as possible of the role of the PPS and how protection will be provided, via media such as press releases, print advertising, websites and other ~~media~~ outlets.
130	General comments on Section 6
131	Comments on Paragraph 103
132	Comments on Paragraph 104
133	General comments on Section 6.1 Cooperation and coordination between PPSs
134	Comments on Paragraph 105 As not all PPSs are necessarily national, suggest: Where this activity is material, cooperation and coordination between ~~national~~ PPSs across jurisdictions are essential,
135	Comments on Paragraph 106
136	Comments on Paragraph 107
137	Comments on Paragraph 108 As not all insurance is necessarily issued at national level, suggest: ie where the domestic PPS covers policies issued by domestic insurers both ~~at national level~~ within the jurisdiction and abroad
138	Comments on Paragraph 109
139	Comments on Paragraph 110 In the blue box, while the European Union example has interesting information, it does not seem particularly relevant given the focus is on coordination and cooperation. Suggest considering whether there is a more relevant place for this example.
140	General comments on Section 6.2 Cooperation and coordination between a PPS and a supervisor/resolution authority
141	Comments on Paragraph 111
142	Comments on Paragraph 112
143	Comments on Paragraph 113
144	Comments on Paragraph 114
145	Comments on Paragraph 115
146	Comments on Paragraph 116

147	Comments on Paragraph 117
148	Comments on Paragraph 118
149	Comments on Paragraph 119
150	Comments on Paragraph 120
151	Comments on Paragraph 121
152	Comments on Paragraph 122 Typically Issues Papers avoid wording that suggests setting requirements – suggest revising the wording, in particular to avoid the use of "must": ~~Supervisors and~~ The sharing of confidential information is important to enable supervisors, resolution authorities ~~need to share confidential information with~~ and PPSs ~~for any of them~~ to fulfil their respective responsibilities effectively~~., and~~ Therefore, jurisdictions should consider whether the governing laws ~~must~~ clearly delineate when and how confidential information can be shared, and what obligations must be assumed by the recipient of the information.
153	Comments on Paragraph 123 Typically Issues Papers avoid wording that suggests setting requirements – suggest revising the wording, in particular to avoid the use of "must". In particular, it could be useful for there ~~must~~ to be explicit legal authority for the supervisor and/or resolution authority to have the discretion to share confidential information about insolvent and impaired insurers with a PPS, ~~but only on~~ and to make this discretion explicitly subject to the condition that the PPS is bound by the same obligations of professional secrecy that apply to the supervisor and/or resolution authority. Confidentiality protocols may also be embedded in the internal operating documents of the PPS.
154	Comments on Paragraph 124 In the blue box, while the Canada example has interesting information, only the end of the second paragraph seems particularly relevant to the topic of coordination and cooperation. Suggest moving the remainder to a more appropriate place such as Section 2.3, where the powers of a PPS and the timing of intervention are discussed.
155	General comments on Section 7
156	General comments on Section 7.1 Other mechanisms aimed at protecting policyholders in the event of an insurer failure
157	Comments on Paragraph 125
158	Comments on Paragraph 126
159	General comments on Section 7.1.1 Preferred claims

160	Comments on Paragraph 127
161	General comments on Section 7.1.2 Tied assets
162	Comments on Paragraph 128
163	Comments on Paragraph 129 Referring to tied assets as an "institution" seems a bit odd; suggest considering different wording to make the intended point clearer.
164	General comments on Section 7.1.3 Segregated assets
165	Comments on Paragraph 130
166	Comments on Paragraph 131
167	Comments on Paragraph 132
168	General comments on Section 7.2 Other protection mechanisms outside of insurers' failure
169	Comments on Paragraph 133
170	General comments on Section 7.2.1 Mechanisms that indemnify the victim when the responsible person is unknown or uninsured
171	Comments on Paragraph 134
172	Comments on Paragraph 135 The example jurisdictions are mentioned in an odd place; suggest this could read better as: Not infrequently ~~(eg France, Italy, Switzerland)~~, the bodies compensating the victims when there is no identified insurer, are the same as those compensating policyholders when an insurer is insolvent (eg in France, Italy, Switzerland). This ~~—which~~ can make sense since, in both cases, it is about compensating victims in the absence of an insurer capable of doing so.
173	General comments on Section 7.2.2 Mechanisms covering catastrophe risks
174	Comments on Paragraph 136
175	General comments on Annex
176	Comments on Section 1 Moral hazard Suggest revision to the 2nd sentence of the 2nd paragraph:

	The problem of moral hazard, particularly for larger and more systemic institutions, was illustrated by the behaviour of some market participants in the years preceding the great financial crisis of 2007–09. Page 46, second paragraph, can remove the period in the quote before footnote 62: ““is not an effective tool … as it can inflict losses without instilling discipline and may trigger bank runs.”.” Page 47, second paragraph, second sentence, the phrase “lay policyholder” is a bit odd; suggest using “average policyholder” or simply “policyholders” in this context. Last sentence, to help improve readability: This is all the more true in multi-jurisdictional single markets such as the EU or the USA, where a policyholder based in one place (eg in Portugal or in California) is not expected to exert vigilance on the soundness of an insurer headquartered in another place (eg in Finland or in Maine).
177	Comments on Section 2 Safeguards to mitigate moral hazard

Provisional AM for Use in the Comparability Assessment

******DRAFT FOR STAKEHOLDER FEEDBACK******

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1 Introduction

1.1 Purpose

1. This document describes the Aggregation Method (AM) for use in the IAIS' assessment of whether it provides comparable outcomes to the Insurance Capital Standard (ICS). This builds on the Level 1 document that was released in 2020 and the AM Data Collection package which is released annually by the IAIS. This document describes (i) principles for the AM approach (ii) a provisional AM which will serve as the basis for comparison to the candidate ICS during the IAIS' comparability assessment and (iii) steps planned for the finalization of the AM, including further analysis on scalars and decision on a final methodology that delivers comparable outcomes to the ICS.

2. Further documentation will be provided as the AM is finalized after the results of the comparability assessment.

1.2 History/Background

3. The AM was introduced as an alternative group capital approach for interested jurisdictions to apply to Internationally Active Insurance Groups (IAIGs).[1] The goal of the AM is to leverage legal entity reported available and required capital to produce a measure of group capital adequacy.

4. At the November 2017 IAIS Meeting, the IAIS agreed to collect data from US-based IAIGs and any other willing jurisdiction/volunteer at the option of the group-wide supervisor to assist the US and other interested jurisdictions in the development of the AM, through an annual AM Data Collection. In so doing, the IAIS aims to be in a position by the end of the monitoring period to assess whether the AM provides comparable, i.e. substantially the same, outcomes to the ICS and if so, it will be considered an outcome-equivalent approach for implementation of the ICS as a PCR[2].

5. At the November 2019 IAIS Meeting, the IAIS agreed on the definition of comparable outcomes and an overarching approach to guide the development of high-level principles (HLPs) and criteria[3]. The IAIS also agreed at this meeting to move forward into a five-year monitoring period from 2020 through 2024, during which optional reporting of the AM would be permitted, at the discretion of group-wide supervisors. As stated in the resulting workplan: "in support of the work on the comparability assessment, there will be an annual AM data collection" with timing that will be "similar to that for the ICS confidential reporting"[4].

6. In March 2023, the IAIS released the final HLPs and criteria for use in the comparability assessment. These were developed through a deliberate process, including two rounds of consultation to ensure that "the AM is neither precluded at the outset as an outcome equivalent approach to the ICS for measuring group capital, nor given a free pass". The 2023 AM Data

[1] During the monitoring period, other interested Volunteer Groups that do not meet the definition of an IAIG may choose to participate in the annual AM Data Collection exercise, at the option of their group-wide supervisor.
[2] Implementation of ICS Version 2.0, IAIS 2 November 2017
[3] Explanatory Note on the ICS and Comparability Assessment, IAIS 14 November 2019
[4] Work Plan and Timeline 2020-24, IAIS 14 November 2019

Collection package included updated schedules for reporting data relevant to the comparability assessment. The results of the comparability assessment will be released in 2024.

1.3 AM Development

7. A useful group capital approach provides supervisors with meaningful and reliable information about the solvency risks presented by and to IAIGs. The AM is adaptable to the diverse business models, product designs, and risk management approaches employed by insurance groups around the world that create resilience within the insurance sector. Because the AM relies on a fully transparent methodology and is built on existing legal entity requirements, it helps contribute to the overall stability of the insurance sector as a ready and sound capital framework for detecting a need for appropriate supervisory intervention at the group level.

1.4 AM Data Collection

8. The annual AM Data Collection has a template, specifications and questionnaire that are released annually. The template can calculate the provisional AM as well as other possible versions of the final AM and also includes data to assist with the comparability assessment. If the final version of the AM has different parameters than the provisional AM, the results from prior years can be recalculated retrospectively via data already collected.

9. Since its beginning in 2018, the AM Data Collection has expanded to include 21 groups from 5 countries and includes jurisdictional level data from every major insurance market. This data was used to develop the provisional AM (see Section 3) and to analyze the full range of scaling options that are being considered for use in the final AM (see Section 4).

10. In addition to use in development of the AM, the 2023 AM Data Collection will be used in the comparability assessment. This includes the application of scenarios for the AM and ICS, data on local capital regimes, and ICS results. There is 100% participation from US life IAIGs in the ICS and AM Data Collections. All US non-life IAIG's are participating in the AM Data Collection and an approximation tool was developed and will be used to calculate their ICS results. For US RBC filing legal entities, there is additional data obtained through filings that can be used for an analysis of correlation over the business cycle (see Appendix 1). Lastly, the IAIS is requesting that supervisors provide information about the treatment of risks and capital in their local regime for use in the comparability assessment. See Appendix 3 for examples of completed data collection tables for the US RBC framework. [*Note: this version contains placeholders; the final version will have populated tables*.]

2 Design Principles

11. Based on legal entity building blocks, the AM provides a lens into group capital adequacy that allows supervisors to analyze, identify and address capital deficiencies at the group level as well as where they may reside at the local legal entity level. The AM builds on existing capital regimes. Group capital resources and requirements are derived from the aggregation of legal entity-level reporting.

12. Guiding principles of the AM concept:

    - Indifferent to Corporate Structure: Location of an entity within the group and/or intragroup transactions do not impact group-level results.
    - Reflective of Appropriate Capital Regimes: Differentiated treatment for insurance/financial entities under existing capital regimes and application of appropriate alternatives for non-insurance entities. This leverages existing solvency frameworks and jurisdictional-tailored approaches to risk.
    - Transparency: Clear line of sight to where risks reside and capital is held. Provides supervisors with information for assessing risks at the legal entity level within the group.
    - Comparability: Group level results reflect comparable levels of risk through scaling of entity results.

13. The AM calculation has five components. These components are described further in the 'Provisional AM' section of this document. The final version of the AM will include these same components:

    - Inventory & Group Financials
    - Adjustments
    - Capital Requirements
    - Capital Resources
    - Aggregation

14. Using these principles and information from the AM Data Collection, the US and other interested jurisdictions have developed a provisional AM to serve as the basis for comparison to the Candidate ICS in the IAIS comparability assessment. While the final version of the AM will follow the same design as the provisional AM, ultimately some parameters (particularly scalars) may be subject to change based on further analysis on the annual data collection and the results of the comparability assessment. There is an ability to back-test the AM, applying a variety of parameters with the data collected.

15. When introduced in ComFrame, IAIG capital reporting to group-wide supervisors and public disclosure requirements, including their content, granularity, and frequency, will also apply to the final version of the AM. Results of the implemented capital standard – including but not limited to the template, available capital and required capital – would be reported to the group-wide supervisor. Documentation of the capital standard – specifications, template, scalars, etc. – would be publicly disclosed and updated as required under ComFrame.

3 Provisional Aggregation Method

16. The following section describes the five components of the provisional AM.

3.1 Inventory & Group Financials

3.1.1 Scope

17. The starting point for the AM is the Consolidated Holding Company or Controlling Insurer in the case of a mutual insurer structure. All entities within the defined insurance (or financial) group are included. This is consistent with the perimeter of the calculation of the Candidate ICS and consistent with IAIS Insurance Core Principle (ICP) 23, Group-wide Supervision.

18. The AM is based on regulatory reporting at the legal (or local) entity level. This reporting is used to populate a schedule that separately lists the legal entities within the group and includes their available and required capital plus other relevant financial information. All figures are converted to a common reporting currency using exchange rates provided in the technical specifications.

19. Most legal entities are reported separately, however for simplification purposes, certain legal entities can be grouped or 'stacked' together. When the capital ratio is the same, regardless of whether a legal entity is stacked or de-stacked, then only the parent entity may be reported. Examples would include immaterial legal entities and non-insurance/non-financial entities that are not directly subject to a regulatory regime.

20. Legal entities that have material exposure to the total available capital are not grouped with a parent, including specifically legal entities that are subject to consolidated group capital requirements and foreign branches of an IAIG.

21. Each reported entity is mapped by the IAIG to an entity category. Entity categories are used to group entities prior to aggregation. Each entity within an entity category has its AM required capital determined in the same manner. There are entity categories for unregulated and regulated entities ("regulated", in this context, means that an entity is subject to a capital requirement). For regulated entities, the entity category corresponds to a specific capital regime (e.g. RBC Filing US Life Insurer). Unregulated entities are mapped to categories including "Non-Insurer Holding Company," "Asset Management," "Other Non-Insurance/Non-Financial" or "Other Financial" and follow the AM specifications to calculate their required capital.

22. Entities in the provisional AM are mapped to the following categories:

Type	Entity Category	Type	Entity Category
Non-US Ins	**Argentina**	Non-US Ins	**Solvency II (UK) – Life**
Non-US Ins	**Australia - All**	Non-US Ins	**Solvency II (UK) - Non-Life**
Non-US Ins	**Barbados**	Non-US Ins	**South Africa - Composite**
Non-US Ins	**Bermuda – Comm Insurers**	Non-US Ins	**South Africa – Life**
Non-US Ins	**Bermuda - Other**	Non-US Ins	**South Africa - Non-Life**
Non-US Ins	**Brazil**	Non-US Ins	**Switzerland – Life**
Non-US Ins	**Canada - Life**	Non-US Ins	**Switzerland - Non-Life**
Non-US Ins	**Canadian - P&C**	Non-US Ins	**Thailand**
Non-US Ins	**Chile**	US Ins	**RBC Filing U.S. Insurer (Life)**
Non-US Ins	**China**	US Ins	**RBC Filing U.S. Insurer (P&C)**
Non-US Ins	**Chinese Taipei - All**	US Ins	**RBC Filing U.S. Insurer (Health)**
Non-US Ins	**Colombia**	US Ins	**RBC Filing U.S. Insurer (Other)**

Non-US Ins	**Hong Kong - Life**	US Ins	**Non RBC filing U.S. Insurer**
Non-US Ins	**Hong Kong - Non-Life**	Non-US Ins	**Regime A**
Non-US Ins	**India**	Non-US Ins	**Regime B**
Non-US Ins	**Indonesia**	Non-US Ins	**Regime C**
Non-US Ins	**Japan - Life**	Non-US Ins	**Regime D**
Non-US Ins	**Japan - Health**	Non-US Ins	**Regime E**
Non-US Ins	**Japan - Non-Life**	HoldCo	**Non-Insurer Holding Company**
Non-US Ins	**South Korea**	Fin	**Bank (Basel III)**
Non-US Ins	**Malaysia**	Fin	**Bank (Other)**
Non-US Ins	**Mexico**	Fin	**Asset Manager/Registered Inv Advisor**
Non-US Ins	**New Zealand**	Fin	**Other Regulated Financial Entity**
Non-US Ins	**Philippines**	Fin	**Other Unregulated Financial Entity**
Non-US Ins	**Singapore - All**	Other	**Other Non-Ins/Non-Fin with Material Risk**
Non-US Ins	**Solvency II (EU) - Life**	Other	**Other Non-Ins/Non-Fin w/o Material Risk**
Non-US Ins	**Solvency II (EU) - Non-Life**		

3.1.2 Use of Local Valuation, Capital Resources and Capital Requirements

23. Available capital is reported for each entity based on either local GAAP or the local capital regime depending on the type of entity. There is no group or consolidated balance sheet reported under the AM.

24. For unregulated entities, available capital is based on local GAAP reporting.

25. For regulated entities, unadjusted available capital and unadjusted required capital refer to reported amounts based on the relevant local capital regime. The local unadjusted available capital reflects all exclusions and adjustments as required by the local capital regime. The local unadjusted required capital is at the prescribed capital requirement (PCR)[5] intervention level or the closest equivalent.

    a. For Australian subsidiaries, the PCR is the target capital as set by the insurer/group in accordance with APRA requirements. Effectively, this would be "Target capital under ICAAP". PCR is not a set multiple of MCR.

    b. For Bermudian subsidiaries, the Legal Entity PCR in Bermuda for medium and large commercial insurers is called the “Enhanced Capital Requirement” (ECR) and is calibrated to Tail-VaR at 99% confidence level over a one-year time horizon.

    c. For Brazilian subsidiaries, the PCR is reported as the Brazilian MCR (in Portuguese, CMR – Capital Mínimo Requerido).

    d. For Canadian life entities, the baseline PCR is “100% of the LICAT Base Solvency Buffer”. The carrying value should include surplus allowances and eligible deposits on a net of

[5] A PCR is defined in ICP 17.4 as “a solvency control level above which the supervisor does not intervene on capital adequacy grounds”. (https://www.iaisweb.org/icp-online-tool/13528-icp-17-capital-adequacy/)

reinsurance basis. For property/casualty entities, the PCR should be the MCT capital requirement at the target level.

e. For Chilean subsidiaries, the PCR is 100% of the total capital requirement which is the maximum between minimum capital, maximum debt ratios and a solvency margin.

f. For Chinese subsidiaries, the PCR is 100% of the C-ROSS total capital.

g. For Chinese Taipei subsidiaries, the PCR is 200% of the RBC ratio.

h. For European Union member-based subsidiaries, the PCR is the Solvency II Solo SCR (Solvency Capital Requirement).

i. For Hong Kong subsidiaries, under the current rule-based capital regime, if applied similar to the concept of PCR, the regime's PCR would be 150% of MCR for life insurers and 200% of MCR for non-life insurers.

j. For Indian subsidiaries, the PCR is a factor-based solvency approach, based on a Solvency I type model, to maintain an excess of the value of assets over the amount of liabilities of not less than 50% of the amount of minimum capital subject to the control level of a solvency ratio of 150%.

k. For Japanese subsidiaries, the PCR is the solvency margin ratio of 200%.

l. For Korean subsidiaries, the PCR is 100% of risk-based solvency margin ratio.

m. For Malaysian subsidiaries, the PCR is the individual target capital level calculated by individual entities based on policy requirements set by the Bank Negara Malaysia. It reflects the individual insurer's/Takaful Operator's own risk profile and risk management practices and includes additional capacity to absorb unexpected losses beyond those covered in the Risk-Based Capital Frameworks for Insurance and Takaful Operators.

n. For Mexican subsidiaries, the PCR is the solvency capital requirement (SCR) based on a Solvency II type model, using both Value at Risk (VaR) methodologies, considering the time horizon of one year at a confidence level of 99.5%, and Probable Maximum Loss (PML) methodologies for catastrophic risks.

o. For Singaporean subsidiaries, the PCR at the legal entity level under the enhanced valuation and capital framework for insurers (RBC 2) is calibrated at the 99.5% VaR over a one-year period.

p. For South African subsidiaries, the PCR is 100% of the SAM SCR.

q. For Swiss subsidiaries, the legal entity PCR under the “Swiss Solvency Test” (SST) is 100% of the target capital, which is calibrated to Tail-VaR at 99% confidence level over a one-year time horizon.

r. For US subsidiaries, the RBC Company Action Level of each insurer should be re-calibrated to the point at which regulatory action can be taken in any state based on RBC alone, i.e., the point at which the trend test begins, which is one and a half times company action level.

3.2 Adjustments

26. Before entities are aggregated, the reported available and required capital figures are adjusted to remove any double-counting. After adjustment, an entity's available and required capital reflects solely its own capital and risks and not that of its subsidiaries.

27. To ensure that the IAIG has properly eliminated any double-counting, details on each adjustment are provided in the AM template and questionnaire.

3.3 Capital Requirements

28. The AM capital requirement reflects risk aggregated at the group level. The AM also provides the capital requirement contribution from each entity within the scope of the group that provides another level of granularity for jurisdictional analysis. Group-level breakdowns of risk is by type of entity (e.g. entity category, entities by region). Given this approach, reporting at the individual risk level is not necessary nor would it be possible due to differing risk categories and definitions under the local capital regimes.

3.3.1 Exposures

29. The contribution of each legal entity to the total capital requirement is equal to a factor multiplied by a specified exposure measure. An exposure measure is specified for each entity category. All entities within their respective categories use the same factor and exposure measure. For regulated financial entities (including banking and insurance), the exposure measure is the local required capital (after adjustments for double-counting and at a specified PCR-equivalent intervention level). For these regulated entities, the factor will be referred to as a "scalar".

30. The exposure measures used in the provisional AM are provided in the table below. In the event an exposure is negative, the required capital is floored at zero.

Reg/Non-Reg	Category	Exposure Measure
Entities with Regulatory Capital Requirements	Insurance Entities	Adjusted Required Capital
	Banking Entities	Adjusted Required Capital
	Asset Mgmt	Adjusted Required Capital
Entities without Regulatory Capital Requirements	Non-Insurer Holding Company	Adjusted Available Capital
	Asset Mgmt / Other Financial	Average 3-year Gross Revenue

	Non-Insurance / Non-Financial	Adjusted Available Capital

3.3.2 Diversification/Fungibility

31. The AM reflects the diversification that is already included in local capital requirements. The AM does not allow for further diversification between different legal entities and thereby recognizes the limitations on capital fungibility within a group.

3.3.3 Scalar Methodology

32. The provisional AM uses an unscaled methodology: local capital requirements at a PCR (or equivalent) level without any further adjustment other than for double-counting (i.e. all scalars are 100%).

33. Different scalar methodologies can produce similar indications. For example, results from the AM Data Collection for the provisional AM are similar to those from the '99.5% Value at Risk' scalar methodology. A number of additional scalar methodology options are being analyzed (see Section 4, 'Scalars', for more information.) The scalar methodology to be implemented in the finalized AM will either be one of the tested methodologies or some combination/variation that falls within the range of options under consideration.

3.4 Capital Resources

3.4.1 General Considerations

34. Capital resources have one tier with two components: financial instruments and adjusted available capital. Qualifying financial instruments are determined using a common set of criteria at the group-level. These instruments are issued at the holding company level and treated as liabilities in the holding company's balance sheet. They are classified as 'Senior Debt', 'Hybrid', 'Surplus Notes (or Similar)' and 'Other'. Available capital is determined at the legal entity level and becomes an input to the aggregated amount. Any capital element (other than a financial instrument) that is not recognized as available capital in the local statutory regime will also be excluded from capital resources in the AM.

3.4.2 Recognition of Financial Instruments

35. The AM recognition of a financial instrument as a qualifying capital resource is based on consideration of criteria developed based on five key principles:

- loss absorbing capacity (on a going concern basis and/or in winding-up);
- subordination;
- availability to absorb losses;
- permanence; and
- absence of both encumbrances and mandatory servicing costs.

36. Based on these principles, the following criteria are applied to financial instruments. These criteria are consistent with those used to determine financial instruments that qualify as capital resources in the ICS while also reflecting the economic circumstances and existing legal protections under a structural subordination environment. Analysis as part of the AM Data

Collection has shown there are no material differences in the amount of these financial instruments recognized in the AM and the ICS.

- The instrument must have a maturity date and initial maturity must be at least five years;
- Instruments must be subordinated to policyholders. For structurally subordinated instruments, supervisory approval of ordinary dividends can be met if the supervisor has in place supervisory controls over distributions, including the ability for the supervisor to limit, defer and/or disallow the payment of any distributions should it find that the insurer is presently, or may potentially become, financially distressed;
- Distributions cannot be linked to the credit standing or financial condition of the insurance group;
- The issuer has full discretion at all times to cancel distribution or payments;
- The instrument is not secured or covered by a guarantee given by the issuer or a related entity of the issuer;
- The debt instrument has been issued by a clean holding company, which is defined as a holding company that does not have policyholder liabilities on its stand-alone balance sheet;
- Amounts from the instrument issuance have been down-streamed into an insurance subsidiary of the holding company and the insurance subsidiary is located in a jurisdiction whose regulatory regime proactive enforces structural subordination;
- The IAIG and its group-wide supervisor have determined that the proceeds of the instruments, which have been down-streamed into insurance subsidiaries, are being tracked and reported appropriately; and
- The instrument must be fully paid up.

3.4.3 Application of Limits to Recognition of Debt

37. The amount of qualifying financial instruments recognized is subject to a limit of 75% of the aggregated available capital (before the addition of instruments). This is equivalent to a limit of 43% of group capital resources including financial instruments. This was reviewed as part of the AM Data Collection to ensure there was no material difference between the impact of this limit and the impact of limits on the same financial instruments in the ICS. The AM template has the functionality to test a range of approaches to applying limits.

3.5 Aggregation

38. After application of adjustments and scaling, the IAIG's available and required capital are aggregated by entity category.

39. Group capital resources are the sum of the adjusted available capital for the underlying entities plus any qualifying financial instruments subject to limits described above.

40. Group required capital is the sum of the scaled adjusted required capital for the underlying entities.

4 Scalars

41. The AM Data Collection includes analysis to identify, estimate and assess reasonable scaling methodologies. This analysis has been informed by a 2021 paper by American Academy of Actuaries on scalars: "Aggregating Regulatory Capital Requirements Across Jurisdictions: Theoretical and Practical Considerations" (Academy paper). The purpose of the Academy paper is to assist group-wide supervisors that are creating an aggregation-based group capital approach. The Academy paper does not make a recommendation as to which scalar(s) should be used nor does it discuss comparability of the AM and ICS. Rather it provides a framework for classifying and evaluating different methodologies.
42. The goal is to select a scaling methodology for the final AM that is meaningful from a prudential point of view, relevant for the monitoring of financial soundness and that provides for comparable outcomes to the ICS.

4.1 Purpose of Scalars

43. Scalars adjust local capital requirements to comparable levels. The AM will have one scalar for each entity category. The AM currently has 45 insurance entity categories and 3 non-insurance entity categories. This includes 5 placeholders (Regime A, Regime B, Regime C, Regime D and Regime E) to be used if/when further categories are needed. Given that these categories encompass the largest insurance markets, it is expected this list will be generally stable over time.

44. The provisional AM's scalar methodology is unscaled (i.e. each scalar is 100%) for every regulated entity category. For alternative scalar methodologies, a scalar would be assigned to each of these entity categories; the assigned scalars may be different than 100% but would not necessarily be. Different methodologies may produce similar results. Scalars are jurisdiction-specific and not IAIG specific. For a given type of entity, every IAIG will use the exact same scalar.

45. A 'scalar methodology' is a means of using data, statistical analysis and/or judgment to calculate a set of scalars. A methodology is a verbal description of how scalars are determined for each entity category. Once selected, a methodology does not change.

46. A scalar can adjust for differences in the level of calibration between different types of capital requirements and also potentially differences in valuation.

47. Scalars can be "pure" or "excess". Pure scalars are only applied to the underlying capital requirement. Excess scalars also make an adjustment to available capital to preserve the amount of excess assets (the amount by which the available capital exceeds the required capital). For a pure scalar, the calibration level depends on the intervention level of the underlying capital requirement and the scalar itself. For example, applying a scalar of 1.5 to US RBC at 200% of the Authorized Control Level is equivalent to applying a scalar of 1.0 to US RBC at 300% of the Authorized Control Level. For excess scalars, the calibration level only depends on the choice of intervention level. Further information on these types of scalar methodologies can be found in section 4.3 below.

4.1.1 Identifying a Point of Comparison

48. The Academy paper recommends using a practical approach to scaling by identifying some characteristic of the entities within each jurisdiction as a point of comparison – a common "yardstick". This contrasts with the more abstract "ideal" of scalars that produce the same capital ratio for the foreign entity as that entity would have exhibited had it operated in exactly the same way in the home jurisdiction. This ideal is unachievable and undesirable. Differences between entities (risks, products, regulatory practices, etc.) limit the effectiveness of a capital framework outside the business model to which it was designed to apply. As the Academy paper notes, for a bank to recalculate its available and required capital using rules governing insurance entities "may not only not be ideal, it may not be useful at all". Even within the insurance industry, using the "ideal" scalar would remove the adjustments that have been contemplated by the local supervisor to address these differences. The Academy paper recommends selecting a "yardstick" that can be measured for the full range of business models and industries in which an insurance group may operate. The Academy paper considers many variations, but the two basic examples of this are probability of default and average level of capital adequacy.

4.1.2 Total Balance Sheet Perspective on Calibration

49. Scalars can adjust for differences in: (1) the overall level of conservatism of different capital frameworks (i.e. their calibration); and/or (2) the extent to which that conservatism is reflected in the valuation of liabilities versus the capital requirement itself.

50. Adjustments for differences in calibration are made by adjusting the amount of required capital. Analysis on individual regimes would determine the individual level of solvency protection. Examples of such analysis include empirical study of probability of default, comparison to known benchmarks that are calibrated to known levels, or reference to existing equivalence agreements between regimes. Required capital can be scaled up (or down) to any level to achieve the target calibration of the aggregation method as a whole. Note that, mathematically, this is equivalent to using a higher (or lower) intervention level as the starting point of the AM calculation.

51. Adjustments for differing levels can be made by adjusting available capital in a way that preserves the amount by which it exceeds the required capital. An example of a method that does this is the Excess Relative Ratio approach. From a total balance sheet perspective, this does not change the level of calibration (i.e. it does not change point of intervention), but it would change the capital ratios.

4.2 Criteria for Evaluating Scalar Methodologies

52. The Academy paper presents four general criteria for assessment of scalar methodologies: validity, reliability, ease of implementation and stability of parameters. The Academy paper's description of these criteria is paraphrased below. After each description, there is a discussion of related AM Data Collection analysis including the role of the data being collected.

53. Validity means that the selected methodology generates values for available and required capital for an entity in a foreign jurisdiction that can appropriately be added to the values of available and required capital for entities in the home jurisdiction. There are two common ways in which validity of the scalar measures are evaluated: (1) the reasonableness of assumptions;

and (2) the correlation of the measure with other known measures of similar quantities. The Academy paper relies on reasonableness of assumptions. The AM Data Collection analysis also looks at how various benchmarks of capital adequacy compare to AM results and to each other. These benchmarks include financial strength ratings, distance to default, and the ICS.

54. Reliability means that any entity or group calculating a scalar will know with confidence they are using the same information which any other entity or group would use. This implies that the scaling methodology must be transparent, unambiguous, and based on broadly available and understood data. The scalars used in the AM Data Collection are publicly available (as will any scalars used in the final AM).

55. Ease of implementation is based on availability of data and compatibility with existing procedures. This includes consideration of the degree to which these data sources are available, understood, and compatible with existing procedures for analysis.

56. Stability of parameters is important if the parameters are to be useful. Depending on the purposes for which the scalars are to be used, more or less sensitivity to changing conditions might be appropriate. The Academy paper discusses sensitivity analysis in two different dimensions: (1) sensitivity of results to changes of parameters within a model; and (2) sensitivity of results to differences in methods of calculating scalars. Sensitivity analysis is performed on the AM Data Collection by reweighting entities, changing the size of different scalar options, and looking at the impact of individual categories of entities on individual and total results.

4.3 Methodologies Under Consideration

4.3.1 Provisional AM

57. This method serves as the default calculation while the AM is under development. It is 'unscaled' (i.e. scalars are 100%). The underlying assumption is that each regime uses the approach to valuation, capital resources and capital requirements that is best suited to the products within that jurisdiction and so the adjustments needed to best bring each regime to a comparable level are already made in the underlying regimes.

4.3.2 Pure Relative Ratio Approach (Pure RRA)

58. This method adjusts only the capital requirement of regulated entities for each local regulatory regime within the IAIG. Scalars are calculated through a comparison of the industry average capital ratio within each entity category. For example, if the average capital ratio within one jurisdiction is twice as large as another, then the scalar for that jurisdiction will be half as large. The US RBC category scalar is being tested at different intervention levels equivalent to 200% and 300% of the Authorized Control Level under NAIC Risk Based Capital. A decision on which level would be used will depend on which level (for the US and any equivalent jurisdictions) is considered most comparable to the ICS.

4.3.3 Excess Relative Ratio Approach

59. This method adjusts both available capital and required capital. It adds a step to the Pure RRA by looking at the excess capital (also referred to as free surplus) ratio above the first intervention level requirement. To calculate a jurisdiction's excess capital ratio, one would first calculate the amount of the capital ratio in excess of the capital ratio required at the selected intervention

level. This amount would then be divided by the capital ratio required at the selected intervention level; for an example of this calculation, see Appendix 2. This method is also being tested at different intervention levels equivalent to 200% and 300% of the Authorized Control Level under NAIC Risk Based Capital. A decision on which level would be used will depend on which level (for the US and any equivalent jurisdictions) is considered most comparable to the ICS.

4.3.4 99.5% Value at Risk

60. These are pure scalars that are calibrated to a level equivalent to a 99.5% Value at Risk over a one-year time horizon. For a jurisdiction that is calibrated to this (or an equivalent[6]) level, this method would be unscaled. Examples of equivalent levels are a 99% Tail Value at Risk over a one-year time horizon and a 0.5% probability of default over a one-year time horizon. The latter is sometimes referred to as a "minimum investment grade level".

4.3.5 Supervisory Assessment Approach

61. This method uses the local PCR (or equivalent) as the required capital for regimes that produce comparable outcomes to the ICS including having an equivalent level of solvency protection. This would be similar, in practice, to the 99.5% Value at Risk methodology but would have additional qualitative consideration of other comparability criteria. In practice, the 99.5% VaR method is similar to the provisional AM and so this method also produces similar results to an unscaled approach.

4.4 Methodologies No Longer Under Consideration

62. Over the course of the monitoring period, analysis on scalars has narrowed the range of reasonable methodologies that have the potential to produce comparable outcomes to the ICS. While the following methodologies are no longer under consideration, these summaries are provided to help give an understanding of how the thought process around the use of scalars has evolved.

63. Reverse Engineered ICS: This method uses scalars that are calibrated to a level equivalent to the average level of ratios under the reference ICS (ICS Version 2.0 for the monitoring period). Initial indications showed that the method was highly sensitive to changes in weighting. Use of the reference ICS was problematic due to the valuation and the one-size-fits-all nature of the standard method for calculating the capital requirement. While it is possible that design changes to valuation in the candidate ICS may reduce these problems, reflecting the use of internal models in a scalar based method would remain.

64. Internal Model: This method includes scalars that a group's internal models have determined are equivalent to a specified target calibration (e.g. a 99.5% Value at Risk over a one-year time horizon). While this method is not under consideration for the AM itself, it may be of use to

[6] From ICP 17.8.3: "With regards to the choice of the risk measure and confidence level to which regulatory capital requirements are calibrated, the IAIS notes that some supervisors have set a confidence level for regulatory purposes which is comparable with a minimum investment grade level. Some examples have included a 99.5% VaR calibrated confidence level over a one year timeframe, 99% TVaR over one year and 95% TVaR over the term of the policy obligations." (https://www.iaisweb.org/icp-online-tool/13528-icp-17-capital-adequacy/)

groups that use aggregation in their internal models that are used to calculate the ICS. Note that for this method to be considered appropriate for use as an other method of calculating the ICS capital requirement, a group would need to demonstrate to their supervisor that it meets the requirements for use as an internal model.

65. Banking Equivalent: This method is scaled to a level that local supervisors consider equivalent to Basel banking requirements. For most jurisdictions this would be equivalent to an unscaled approach. The ICS does not scale Basel banking requirements and so is intended to be scaled to the same level. For the US, analysis by the Federal Reserve indicates that Basel is equivalent to an RBC intervention level of 250%. While it produces similar indications as some other methods under consideration, this banking equivalent approach is not under consideration as it is not as directly focused on insurance risk.

5 Finalizing the AM

5.1 Selecting Final Methodology

66. This document describes the AM as envisaged for implementation subject to further changes which may be decided based on the outcome of the IAIS comparability assessment and analysis of the results of the annual AM Data Collection.

67. The AM template has the functionality to test (and back-test) any potential revisions, including those to scalars. The AM Data Collection includes a variety of scaling methodologies that represent a full range of reasonable methods of scaling local capital. These methods were selected based on analysis of data from the AM Data Collection and consideration of the comparability criteria, which were developed so as to not give the AM a free pass nor preclude comparability at the outset. While it is not yet known which method(s) will produce comparable results, the goal is to select a scalar methodology for the final AM that is meaningful from a prudential point of view, relevant for the monitoring of financial soundness and provides comparable outcomes to the ICS.

5.2 AM Implementation

68. Similar to the ICS, once finalized, jurisdictions using the AM will implement it into their group capital regime. For example, as a jurisdiction that has noted its intent to implement the AM, the US will implement the AM for US IAIGs via the Group Capital Calculation (GCC). This is a similar calculation to the AM but with additional disclosures and more specific guidance. The GCC provides analytical information to the group-wide supervisor for use in assessing group risks and capital adequacy. The GCC helps US state insurance supervisors perform an assessment of capital when combined with other information obtained by US state insurance supervisors. This includes group organizational information provided on Schedule Y, enterprise risk information on Form F, and internal risk self-assessment information in Own Risk and Solvency Assessment (ORSA) filings (where applicable).

5.3 Ongoing evolution of the AM

69. The AM will evolve with the local solvency regimes that it uses as building blocks. As these regimes adapt to changes in the legal entities owned by IAIGs, the AM will too. Any updates to

parameters will be done in a manner consistent with the current specifications for the AM. Local prescribed capital requirements (or equivalent) will be maintained through communication with local supervisors. Further maintenance of scalars will be a technical exercise done in accordance with principles underlying the selected methodology. Similar updates will be needed for parameters used in the ICS and any process for doing so will be considered for use in the AM as well. The components of the AM are inherent to any aggregation-based method and so will not change.

6 Appendix 1: Correlation Analysis on US Entities

1. The US RBC capital regime has been relatively stable for many decades and allows a more direct consideration of correlation than is possible with the AM Data Collection. Without precluding whatever decision is made for the aggregation of all entities, the following correlation analysis can be performed specifically for US legal entities:
    - Similarity of Life RBC and P&C RBC
    - Correlation between P&C RBC and the ICS
    - Correlation between Life RBC and the ICS
2. Note that scaling changes the quantum of change but multiplying by a constant does not impact correlation. This means that all potential scaling options are correlated with the provisional AM and a change to the scaling methodology will not impact analysis on the correlation between the AM and the ICS.

6.1 Life RBC vs P&C RBC

3. While developing its own aggregation-based approach to group capital, the Federal Reserve analyzed historical results of life and property/casualty (P&C) entities. For this analysis, the Federal Reserve used logistic regressions to model the relation between solvency ratios and default rates. When analyzed separately, the regression produces very similar parameter estimates for life and P&C (see table below). The differences are not statistically significant. A test of differences yields two-sided p values above 50% for tests of both the slope and intercepts. The lack of a statistically significant difference of slopes indicates capital requirements are comparably conservative in the two frameworks. If one framework had less stringent requirements, then companies operating at a given multiple of the capital requirement would be more likely to default, which was not observed. The lack of a statistically significant difference of intercepts indicates capital resources are comparably conservative in the two frameworks. If one framework had significantly more conservatism embedded into its valuation or capital instrument qualification criteria, a company with a low stated capital ratio would be less likely to default because of the loss absorbing potential of the balance sheet.

	P&C Insurance	**Life Insurance**
Slope (b)	-0.714	-0.662
Robust Std. Err.	(0.052)	(0.102)
Intercept (a)	-0.402	-0.602
Robust Std. Err.	(0.178)	(0.440)
Observations	21,031	6,862
R^2	23.3%	20.3%

4. The results above show that Life RBC and P&C RBC provide statistically similar measures of solvency.

6.2 Correlation of P&C RBC with ICS

5. As part of work on the AM Data Collection, Team USA has developed models that can approximate ICS results for any US P&C entity or group. This allows calculation of ICS results going back several decades, long enough to make direct calculations of correlation. The results show that the US RBC and the ICS are significantly correlated across a broad range of P&C business models and product mixes. As an example, the following chart shows year-over-year changes in the modeled ICS ratio versus actual changes in the RBC ratio from 2001 to 2020 for a large P&C entity. While the quantum of change differs, the chart shows a similar directional reaction to conditions over this period of time. Applying a Pearson test of correlation, these results have a p-value well below 1%. One can conclude that, for this entity, the results are not due to chance and are statistically significant. Similar results have been found for other entities that report NAIC P&C RBC.

Chart: Year-over-year change in ICS Ratio vs RBC ratio

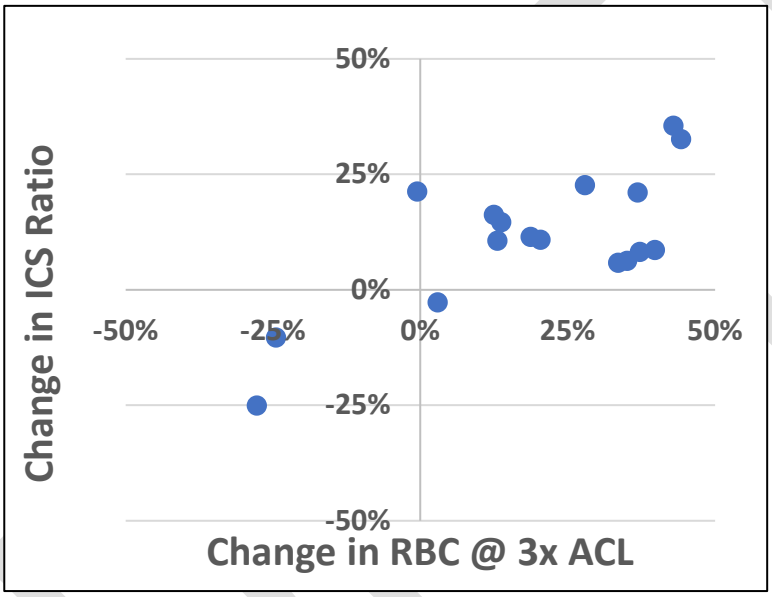

Table: Correlation test with null hypothesis that correlation is not zero

7 Appendix 2: Calculation of Excess Relative Ratio Approach

1. The following has been adapted from the 2022 instructions for the NAIC Group Capital Calculation. Included below are various steps to be taken in calculating the excess relative ratio approach to developing jurisdiction-specific scalars. In order to numerically demonstrate how this approach could work, hypothetical capital requirements and financial amounts have been developed for Country A. Based on preliminary research that has been performed by NAIC staff, it appears that the level of conservatism built into accounting and capital requirements within a jurisdiction may differ significantly for life insurers and non-life insurers. Therefore, ideally each jurisdiction would have two different scalars based on the type of business. The example below includes information related to life insurers in the US and Country A.

Step 1: Understand the Jurisdiction's Capital Requirements and Identify the First Intervention Level

a. The first step in the process is to gain an understanding of the jurisdiction's capital requirements. This can be done in a variety of ways including reviewing publicly available information on the regulator's website, reviewing the jurisdiction's Financial Sector Assessment Program (FSAP) reports and discussions with the regulator.

In Country A, it assumes that the capital requirements for life insurers are based on acapital ratio, which is calculated as follows:

$$\text{Capital ratio} = \frac{\text{Total available capital}}{\text{Base required capital (BRC)}}$$

In the US, capital requirements are related to the insurer's RBC ratio. For purposesof the Relative Ratio Approach, an Anchor RBC ratio is used and calculated as follows:

$$\text{Anchor RBC ratio} = \frac{\text{Total adjusted capital}}{\text{100\% Company Action Level RBC*}}$$

* 100% Company Action Level RBC is equal to the Total RBC After Covariance including operational risk, without adjustment or 200% Authorized Control Level RBC.

b. Similar to legal entity RBC requirements in the US, Country A utilizes an early intervention approach by establishing target capital levels above the prescribed minimums that provide an early signal so that intervention will be timely and for there to be a reasonable expectation that actions can successfully address difficulties. Presume that this target capital level is similar to the US Company Action Level (CAL) event, both of which can be considered the first intervention level in which some sort of action—either on the part of the insurer or the regulator—is mandated. A separate sensitivity calculation will be applied in the GCC template using trend test level RBC.

c. For Country A, the target capital level is presumed to be a capital ratio of 150%. That is, the insurer's ratio of total available capital to its BRC should be above 150% to avoid the first level of regulatory intervention. Again, this is similar to the US CAL event, which is usually represented as an RBC ratio of 200% of Authorized Control Level (ACL) RBC (ignoring the RBC trend test). In the Relative Ratio approach, the Anchor RBC ratio represents the Company Action Level event (or first level of regulatory intervention) as 100% CAL RBC (instead of 200% ACL RBC), because CAL RBC is the reference point that is used to calibrate against other regimes. The Anchor RBC Ratio (Total Adjusted Capital ÷ 100% CAL RBC) tells how many "multiples of trigger level capital" that the company holds. Conceptualizing the CAL event as 100% CAL RBC allows the consistent definitionof local capital ratios that are calibrated against a "multiples of the trigger level" approach, to ensure an "apples-to-apples" comparison.[7]

Step 2: Obtain Aggregate Industry Financial Data

2. The next step is to obtain aggregate industry financial data, and many jurisdictions include current aggregate industry data on their websites. Included below are the financial amounts foruse in this exercise.

U.S. Life Insurers – Aggregate Data
Total Adjusted Capital = $495B
Authorized Control Level RBC = $51B
Company Action Level RBC = $102B
Country A Life Insurers – Aggregate Data
Total Available Capital = $83B
BRC = $36B

Step 3: Calculate a Jurisdiction's Industry Average Capital Ratio

3. To calculate a jurisdiction's average capital ratio, the aggregate total available capital for the industry would be divided by the minimum or base capital requirement for the industry in computing the applicable capital ratio. In Country A, this would be the BRC. In the US, this base or minimum capital requirement is usually seen as the ACL RBC, but because the Relative Ratio Approach is using 100% CAL RBC as a reference point to calibrate other regimes to, the Relative Ratio formula uses 100% CAL RBC as the baseline and the first-intervention level tocalculate the Average Capital Ratio and Excess Capital Ratio. As a result, the scaled ratio of a non-US company should inform regulators how many multiples of first-intervention level capital the non-US company holds. Included below is the formula to calculate a jurisdiction'sindustry average capital ratio:

[7] While it is mathematically equivalent to use 200% ACL RBC as the denominator, the Approach is designed to use the representation of first-intervention level capital levels as the conceptual underpinning of the Relative Ratio Approach, where100% CAL RBC is the reference point to calibrate against other regimes.

Calculation of U.S. Industry Average Capital Ratio – Life Insurers

$$\frac{\$495B \text{ (Total Adjusted Capital)}}{\$102B \text{ (CAL RBC)}} = \mathbf{485\%}$$

Calculation of Country A Industry Average Capital Ratio – Life Insurers

$$\frac{\$83B \text{ (Total Available Capital)}}{\$36B \text{ (BRC)}} = \mathbf{231\%}$$

Step 4: Calculate a Jurisdiction's Excess Capital Ratio

4. The next step is to understand the level of capital the industry is holding above the first intervention level. Therefore, to calculate a jurisdiction's excess capital ratio, one would first need to calculate the amount of the capital ratio carried in excess of the capital ratio required atthe first intervention level. This amount would then need to be divided by the capital ratio required at the first intervention level.

General Excess Capital Ratio Formula

$$\frac{\text{Average Capital Ratio} - \text{Capital Ratio at the First Intervention Level}}{\text{Capital Ratio at the First Intervention Level}}$$

5. Based on the formula above and information provided in Step 2 and Step 3, included below arehow to calculate each jurisdiction's excess capital ratio.

NOTE: The first intervention level in the US is defined in the Relative Ratio Approach as100% CAL RBC, while the first intervention level in Country A is a capital ratio of 150%.[8]

Calculation of U.S. Excess Capital Ratio – Life Insurers

$$\frac{485\% \text{ (Average Capital Ratio)} - 100\% \text{ (Capital Ratio at the First Intervention Level)}}{100\% \text{ (Capital Ratio at the First Intervention Level)}} = \mathbf{385\%}$$

Calculation of Country A Excess Capital Ratio – Life insurers

$$\frac{231\% \text{ (Average Capital Ratio)} - 150\% \text{ (Capital Ratio at the First Intervention Level)}}{150\% \text{ (Capital Ratio at the First Intervention Level)}} = \mathbf{54\%}$$

[8] 100% CAL RBC translates to an ACL RBC level of 200%, but for conceptual purposes, the Relative Ratio Approach refersto the U.S. first intervention level as 100% CAL RBC, as 100% CAL RBC is the reference point to which the Relative RatioApproach calibrates other regimes. In other words, 100% CAL RBC ensures that the scaled ratio of Country A results in a ratio that determines how many multiples of first-intervention level capital that the company in Country A is holding.

Step 5: Compare a Jurisdiction's Excess Capital Ratio to the US Excess Capital Ratio to Develop the Scalar

6. Based on the information above, the US excess capital is 385%. In other words, life insurers in the US carry approximately 385% more capital than what is needed over the first intervention level. Country A's excess capital ratio is 54%. That is, life insurers in Country A carry approximately 54% more capital than what is needed over the first intervention level.

7. To calculate the scalar, one would divide a jurisdiction's excess capital ratio by the US excesscapital ratio. Therefore, the calculation of Country A's scalar for life insurers would be 54% ÷ 385% = 14%. Therefore, Country A's scalar for life insurers would be 14%.

Step 6: Apply to the Scalar to the Non-US Insurer's Amounts in the GCC

8. To demonstrate how the calculation of the scalar works, it would be best to provide a numerical example. For the purposes of this illustration, it assumes that a life insurer in Country A reports required capital of $341,866 and total available capital of $1,367,463. As noted previously, the above information and calculation suggests that US life insurers carry capital far above the minimum levels, while life insurers in Country A carry capital far closer to the minimum. Therefore, to equatethe company's $341,866 of required capital, one must first calibrate the BRC to the first regulatory intervention level by multiplying it by 150%, or Country A's capital ratio at the first intervention level. The resulting amount of $512,799 is then multiplied by the scalar of 14% toget a scaled minimum required capital of $71,792.

9. Further, the above rationale suggests that the available capital might also be overstated (becauseit does not use the same level of conservatism in the reserves) by the difference between the calibrated required capital of $512,799 and the required capital after scaling of $71,792, or $441,007. Therefore, one should now deduct the $441,007 from the total available capital of $1,367,463 for a new total available capital of $926,456. These two recalculated figures of required capital of $71,792 and total available capital of $926,456 is what would be included in the group's capital calculation for this insurer. These figures are further demonstrated below.

Calculation of Scaled Amounts for GCC

Amounts as Reported by the Insurer in Country A

Total available capital = 1,367,463

Minimum required capital (BRC) = 341,866

Calibration of BRC to 1st Regulatory Intervention Level

341,866 (BRC) * 150% = 512,799

Scaling of Calibrated Minimum Required Capital

512,799 (Calibrated BRC) * 14% (Scalar) = 71,792 (Difference of 441,007)

Scaled Total Available Capital

1,367,463 (Total Available Capital) – 441,007 (Difference in scaled required capital) = 926,456

10. Given these scaled amounts, one can calculate the numerical effect on the company's relative capital ratio by using the unscaled and scaled amounts included below.

	Unscaled Amounts from Table Above	*Scaled Amounts from Table Above*
Total Available Capital (TAC)	1,367,463	926,456
Base Required Capital (BRC)	341,866	71,792
Capital Ratio (= TAC ÷ BRC)	400%	1290%

11. Because life insurers in Country A hold much lower levels of capital over the first intervention level as compared to US life insurers, the change in the capital ratio from 400% (unscaled) to 1290% (scaled) appears reasonable and consistent with the level of conservatism that is built into the US life RBC formula driven primarily fromthe conservative reserve valuation.

Note: In the above example, the company has an unscaled ratio (400%) that is above the industry average in Country A (231%) and a scaled ratio (1290%) that is higher than the US life industry average (485%). If the company had an unscaled ratio that was lower than the industry average in Country A, its scaled ratio would be lower than the US life industry average. company with an unscaled ratio equal to its own country's industry average will have a scaled ratio equal to the anchor RBC ratio."

Data for industrywide US RBC ratios is sourced from the aggregate RBC Statistics maintained by the NAIC. Data for industrywide capital ratios for foreign insurance jurisdictions was derived from publicly available aggregate industry data. If this scalar methodology is retained, then the data will require periodic updating.

8 Appendix 3: Comparability Data for US Entities

[*Note: data for the following are undergoing review and will be populated in the final version*]

8.1 Comparison of Life Risks

ICS Risk	Is material ?	Is the risk captured in the local capital requirement?	If no, is the risk reflected in local valuation and/or capital resources?	Describe the calculation of local capital requirement by risk category including its components and interaction, if any, with valuation and capital resources
Life insurance				
Non-life				
Catastrophe				
Market				
Interest Rate				
Non-default Spread Risk				
Equity				
Real Estate				
Currency				
Asset Conc				
Credit				
Operational				
Other material risks not captured by ICS				

8.2 Comparison of Property/Casualty Risks

ICS Risk	Is material ?	Is the risk captured in the local capital requirement?	If no, is the risk reflected in local valuation and/or capital resources?	Describe the calculation of local capital requirement by risk category including its components and interaction, if any, with valuation and capital resources
Life insurance				
Non-life				
Catastrophe				
Market				
Interest Rate				
Non-default Spread Risk				
Equity				
Real Estate				
Currency				
Asset Conc				
Credit				
Operational				
Other material risks not captured by ICS				

8.3 Comparison of Capital Resources

ICS Resources (Other than Financial Instruments)	Approach used in the ICS (Table 3)	Approach in local capital regime?	Is material ?	If recognition of the item is deducted above specified limit or other, please describe the local capital regime treatment.
Additions to capital resources				
Retained earnings	Recognised			
Accumulated Other Comprehensive Income	Recognised			
Share premium	Recognised			
Contributed surplus (equity-settled stock	Recognised			
Recognised reserves (eg AVR, IMR)	Recognised			
Other material additions to capital resources				
<Other item 1>				
<Other item 2>				
<Other item 3>				
Deductions from capital resources				
Goodwill, net of associated DTLs	Deducted			
Intangible Assets, net of associated DTLs	Deducted			
Computer Software Intangibles, net of	Deducted above specified limit			
DTA from the balance sheet	Deducted above specified limit			
Defined benefit pension fund assets	Deducted above specified limit			
Direct and indirect investments in own financial instruments, not otherwise eliminated (eg treasury stock)	Deducted			
Reinsurance assets arising from non-qualifying reinsurance	Deducted			
Value of encumbered assets in excess of the value of relevant liabilities and capital	Deducted			
Other material deductions from capital resources				
<Other item 1>				
<Other item 2>				
<Other item 3>				