INTERNATIONAL INSURANCE RELATIONS (G) COMMITTEE

International Insurance Relations (G) Committee December 9, 2020 Minutes
- International Insurance Relations (G) Committee Oct. 28, 2020 Conference Call Minutes (Attachment One)
- International Insurance Relations (G) Committee 2021 Proposed Charges (Attachment Two)
- Aggregation Method Level 1 Document (Attachment Three)

Draft: 12/18/20

International Insurance Relations (G) Committee
Virtual 2020 Fall National Meeting
December 9, 2020

The International Insurance Relations (G) Committee met Dec. 9, 2020. The following Committee members participated: Gary D. Anderson, Chair (MA); Bruce R. Ramge, Vice Chair (NE); Ricardo Lara (CA); Andrew N. Mais (CT); Karima M. Woods (DC); David Altmaier (FL); Doug Ommen (IA); James J. Donelon (LA); Anita G. Fox (MI); Chlora Lindley-Myers (MO); Marlene Caride (NJ); Andrew R. Stolfi (OR); Jessica K. Altman (PA); Carter Lawrence (TN); and Tregenza A. Roach (VI).

1. Adopted its Oct. 28 and Summer National Meeting Minutes

The Committee met Oct. 28 and Aug. 12, and took the following action: 1) heard an update on key 2020 projects of the International Association of Insurance Supervisors (IAIS); 2) heard an update on the International Monetary Fund (IMF) Financial Sector Assessment Program (FSAP); 3) heard an update on the Organisation for Economic Co-operation and Development (OECD) and other supervisory cooperation activities; 4) heard an update on international-related NAIC events; and 5) heard an update on international activities.

Commissioner Anderson noted that the Committee also met Sept. 30 in a regulator-to-regulator session, pursuant to paragraph 8 (consideration of strategic planning issues) of the NAIC Policy Statement on Open Meetings, to discuss results of the September IAIS committee meetings and recommendations from the FSAP.

Director Lindley-Myers made a motion, seconded by Commissioner Mais, to adopt the Committee's Oct. 28 (Attachment One) and Aug. 12 (*see NAIC Proceedings – Summer 2020, International Insurance Relations (G) Committee*) minutes. The motion passed unanimously.

2. Adopted its 2021 Proposed Charges

Commissioner Anderson noted that the Committee's 2021 proposed charges are the same as those for 2020, and he explained that minor wording changes were made last year and some of the individual charges were reordered for a more logical flow.

Commissioner Lara made a motion, seconded by Commissioner Caride, to adopt the Committee's 2021 proposed charges (Attachment Two). The motion passed unanimously.

3. Heard an Update on Activities of the IAIS

a. Holistic Framework for Systemic Risk

Commissioner Anderson reported on recent IAIS activities, starting with an update on the first year of implementation of the holistic framework. He said the COVID-19 pandemic served as a good test for the IAIS's broader approach for the assessment and mitigation of systemic risk in the insurance sector, and he noted that this year's Global Monitoring Exercise (GME) was focused on COVID-19 and a public report on this year's findings will be published later in December. He noted that while the IAIS plans a COVID-19 related data collection to cover the fourth quarter of 2020, the regular annual GME will return in 2021.

Commissioner Anderson said another important area of work underway is the implementation assessment of the supervisory material related to the holistic framework. He said the implementation assessment has proceeded in phases, starting with the baseline assessment carried out in 2020 and moving to more intensive, targeted jurisdictional assessments next year. He reminded the Committee that the IAIS's assessment of implementation will help inform the Financial Stability Board's (FSB's) review of the effectiveness of the holistic framework in November 2022.

b. ICS and AM

Commissioner Anderson noted that the Insurance Capital Standard (ICS) is in the first year of a five-year monitoring period, and an Aggregation Method (AM) data collection is also happening at the same time. He said the due date for this year's data was delayed to Oct. 31 in light of COVID-19, and analysis of data received is currently underway. He explained that though the delay has had a knock-on effect in being able to provide information to and receive feedback from the relevant supervisory colleges, the hope is that feedback received in time can help inform 2021's monitoring period.

Commissioner Anderson said on Nov. 3, the IAIS released for consultation a draft definition and high-level principles for assessing comparability of the AM to the ICS with comments due Jan. 22, 2021. He said the IAIS held a public background session on the consultation on Dec. 3 as part of the IAIS Virtual Annual Conference. He added that following consideration of comments, the IAIS will develop criteria for each high-level principle in such a manner 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.

Commissioner Anderson said a draft AM Level 1 document (Attachment Three) was circulated as a meeting document, and it largely reflects in narrative form information previously shared on the AM, such as at the Jan. 30 Committee meeting in Washington, DC. He said any comments or questions regarding the document are to be sent to Ned Tyrrell (NAIC) by Jan. 31, 2021.

Commissioner Anderson introduced three questions on the high-level principles to help generate some initial feedback and receive input from various interested parties:

1) Considering the overarching approach that came out of Abu Dhabi, do the high-level principles provide more clarity on what the comparability assessment process will entail? Are there points that are still unclear?

2) In light of the definition of comparable outcomes and the high-level principles, how do you see these translating to assessment criteria? What practical limitations may exist for what the criteria can assess?

3) Which of the high-level principles would lend themselves to more qualitative assessment criteria and which ones more quantitative?

Comments made in response to the questions on the high-level principles included the following:

- The work done in Abu Dhabi and the high-level principles are constructive, but there are some concerns, including how the advantages of the AM will be taken into account in the analysis.
- For Principle 2, it is unclear how one will look at things in totality while assessing individual elements. The assessment needs to recognize how the AM does things, and it will need to be holistic rather than granular.
- For Principle 3, it is unclear how one will assess how AM could be more but not less prudent than the ICS.
- Principle 6 is unclear, as there is no reporting of the ICS nor the AM at this time.
- There is concern that the principles as drafted differ from the NAIC's interpretive guidance that was issued following the Abu Dhabi meeting.
- The comparability assessment should be objective, utility-focused and holistic.
- The high-level principles suggest that the process will involve a mixture of both qualitative and quantitative criteria. There are inherent limits on quantitative criteria, and a comparison of outcomes will require significant judgment. Ultimately, the determination will need to be more qualitative versus quantitative.
- It is important to think about the principles in terms of the AM but also with respect to the Group Capital Calculation (GCC) and the Building Block Approach currently being developed in the U.S.
- The ICS is well-intentioned and ambitious, but there is a lack of political will to enact a globally converged group capital standard for the insurance industry. The comparability assessment is a good opportunity to show how U.S. insurance groups operate and are supervised.

Commissioner Anderson thanked interested parties for their comments, and he noted that the high-level principles are supposed to build upon the areas of focus that were agreed upon in Abu Dhabi, not rewrite or contradict them; so if there are principles or parts thereof that come across that way, it would be helpful for the IAIS to receive comments along those lines as part of the consultation. He encouraged other interested parties who may have additional thoughts on these questions to submit them in writing following the meeting. He said as usual, the Committee will hold a call in advance of the comment due date to discuss any draft NAIC comments, as well as hear input for consideration from interested parties. In concluding the discussion, he also thanked those insurance groups that were providing data as part of the monitoring period, which will be important for the comparability assessment process.

Romain Paserot (IAIS) gave a presentation on the important IAIS workstreams underway or planned for 2021 to support a resilient insurance sector, including: 1) risk assessments; 2) finalization and implementation of key reforms; 3) peer exchange and supervisory guidance on emerging issues; and 4) implementation support and assessment. He also provided an overview of public consultations planned over the course of 2021, and he noted that the IAIS will continue to monitor the impact of COVID-19 and will adjust its work plans if necessary.

4. Heard an Update on International Activities

   a. Regional Supervisory Cooperation

Director Ramge provided an update on some of the NAIC's other international activities that have taken place since the last Committee call. He said Director Cameron participated in the Taiwan Insurance Institute's virtual Insurance and Economic Development Forum 2021 and presented on U.S. state insurance regulators' response to COVID-19.

Director Ramge said the NAIC will be meeting with the Financial Services Agency (FSA) of Japan for a biannual bilateral dialogue to discuss a number of the NAIC's current and future priorities, as well as regulatory developments in Japan. He said the NAIC will be especially interested to hear about the FSA advisory council's report on its forthcoming "Economic-Value Based Solvency Regulation." He said the FSA will also provide state insurance regulators with updates on its implementation of the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) and the supervision of internationally active insurance groups (IAIGs). He said looking ahead to 2021, it is expected that meetings with the FSA will be held in a virtual manner, at least in the first half of next year; but hopefully they can revert back to in-person meetings for the second meeting.

Director Ramge said the NAIC also has a bilateral dialogue scheduled with representatives from the European Insurance and Occupational Pensions Association (EIOPA) and European Union (EU) member states to build on staff dialogues held earlier this year. He said this meeting will allow NAIC representatives to focus on strategic priorities on issues of mutual regulatory interest, including learning more about Europe's Solvency II review, which will be completed by the end of 2021; updates on the EU's implementation of the holistic framework; and sustainable finance related issues. He said summary reports of EU-U.S. Insurance dialogue project discussions should be published in early 2021.

David F. Snyder (American Property Casualty Insurance Association—APCIA) noted that the APCIA supports the NAIC's bilateral work and continuing dialogues with global regulators. He noted that cross-border interest by U.S. insurers remains strong, and joint meetings can help address shared problems while finding the best ways to carry out regulatory objectives.

   b. OECD

Director Ramge said the OECD's Insurance and Private Pensions Committee (IPPC) began four days of virtual meetings on Dec. 9 with a roundtable to discuss the implications of increased outsourcing activity by insurers and potential implications in terms of operational resilience and compliance with regulatory and supervisory requirements. He said the IPPC and the Working Party on Private Pensions will hold a joint meeting to discuss potential next steps on the work on sustainable and environmental, social and governance (ESG) investment in cooperation with the United Nations (UN) Principles for Responsible Investment.

Director Ramge highlighted other topics of focus during the virtual meetings, including: 1) discussing a draft report examining the underinsurance of catastrophe perils, with a focus on natural catastrophes and climate change, cyber, pandemic, and political violence and social unrest; 2) receiving an update on the preliminary report on the take up of private long-term care (LTC) and health insurance relative to public health systems; 3) discussing the development of a document that will aim to bring together lessons from the IPPC's work on catastrophe perils; 4) reviewing a project proposal on "Digital Means to Improving Long-Term Care and Health Care: Risk Prevention and Mitigation" to help better understand the types of services that LTC and health insurers are providing to policyholders to prevent and mitigate risks and how regulation could support this; 5) discussing the next projects that the IPPC should undertake in 2021–2022; and 6) discussing updated draft guidance on private sector participation in the IPPC.

   c. SIF

Director Ramge said the NAIC, alongside individual state Sustainable Insurance Forum (SIF) members—California, New York, and Washington—participated in several virtual calls to solidify the SIF's workplan for 2021–2023. He said there will be three workstreams: 1) the impact of climate-related risk on the insurability of assets; 2) broader sustainability issues beyond climate risk; and 3) climate risks in the actuarial process. He noted that the first workstream aligns with the work of several of the workstreams of the new NAIC Climate and Resiliency (EX) Task Force.

5. Discussed Other Matters

Commissioner Anderson said the Committee's next conference call has not been scheduled; however, the various IAIS public consultations underway will merit calls. He said per the usual NAIC process, any draft NAIC comments on the consultations will be circulated in advance to discuss, as well as to receive any input for consideration from interested parties, before the Committee approves submission of comments. He said once the timing for these is set, a save-the-date will be sent.

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

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International Insurance Relations (G) Committee
Virtual Meeting
Oct. 28, 2020

The International Insurance Relations (G) Committee met Oct. 28, 2020. The following Committee members participated: Gary Anderson, Chair (MA); Bruce R. Ramge, Vice Chair, represented by Justin Schrader (NE); Ricardo Lara represented by Kim Hudson (CA); Andrew N. Mais (CT); David Altmaier (FL); Doug Ommen (IA); James J. Donelon (LA); Anita G. Fox represented by Judy Weaver (MI); Chlora Lindley-Myers (MO); Marlene Caride (NJ); Andrew R. Stolfi (OR); Jessica K. Altman represented by Melissa Greiner (PA); Hodgen Mainda (TN); and Tregneza A. Roach (VI).

1. Discussed the FSAP Recommendations

Commissioner Anderson noted that as previously reported, the International Monetary Fund (IMF) concluded the 2020 Financial Sector Assessment Program (FSAP) of the U.S. financial regulatory system in August, which resulted in a number of recommendations. He said that NAIC staff and Mr. Schrader, the lead state regulator on the project, reviewed those recommendations and came up with a referral plan (Attachment A) that has been reviewed by the Committee.

Mr. Schrader said that all reports related to the 2020 U.S. FSAP, including those relevant to insurance, are posted to the IMF's website, as well as the U.S. Department of the Treasury's (Treasury Department's) website. He said that in contrast to the two earlier FSAPs, there are no ratings of observance of specific International Association of Insurance Supervisors (IAIS) Insurance Core Principles (ICPs), the international standards for insurance supervision. Instead, he said the IMF performed a targeted review of cross-cutting themes building on the detailed assessment of the ICPs conducted in 2015.

Mr. Schrader mentioned areas of strength of the U.S.-stated based system highlighted in the IMF's reports, including "implementation of principles-based reserving (PBR) in the life insurance industry is a step toward addressing the issues found on valuation in the 2015 FSAP"; "implementation of risk-focused surveillance in financial analysis and financial examinations is another key step forward"; "the NAIC's framework for monitoring individual asset-side risks is quite advanced"; and "the financial stability risks stemming from the insurance sector appear contained for now."

Mr. Schrader said that while there are several findings and conclusions drawn by IMF staff that state insurance regulators may ultimately disagree with, he welcomed their view that the U.S. insurance system is in line with the ICPs and that certain key 2015 FSAP recommendations are being addressed. Mr. Schrader explained that in the reports, the IMF makes several recommendations that in their view would help improve insurance supervision in the U.S.—for example, recommending further development of risk-based supervision, consistency of life insurer liability valuation methods, further regulatory requirements in corporate governance, making the NAIC group capital calculation (GCC) a requirement, and enhancing regulatory responses to the increasing risk and severity of natural catastrophes.

Mr. Schrader said that as in years past, following the publication of the FSAP documents, NAIC staff prepared a referral plan regarding certain FSAP recommendations that may merit a closer look by state insurance regulators and the NAIC. He added that Annex A does not include all the IMF recommendations, but rather includes only those that have been flagged for further consideration.

Mr. Schrader said that as with previous FSAPs, by adopting the referral plan, the Committee is not prejudging any of these recommendations or charging any other NAIC group with a specific project or task, as "referral" in this context only means designating the appropriate committee or group to consider the recommendation. He also said the adoption of the referral plan does not necessarily mean the recommendation should be pursued beyond that consideration. Mr. Schrader explained that once approved, the plan will be sent to the relevant NAIC committee staff for consideration by the relevant working group/task force.

Mr. Schrader provided an overview of the various FSAP recommendations included in the referral plan.

Bob Ridgeway (America's Health Insurance Plans—AHIP) asked whether the referral chart addressed all the relevant FSAP recommendations. Mr. Schrader confirmed that the chart did not include all the IMF recommendations but only those flagged for further consideration.

Birny Birnbaum (Center for Economic Justice—CEJ) noted that the chart does not include several of the IMF recommendations on independence. He said the NAIC should review its Conflict of Interest Policy in response to the FSAP recommendations on independence. Commissioner Anderson noted that many of the recommendations on independence are beyond the purview of the NAIC and state insurance regulators and are more for state legislatures and other bodies.

David Snyder (American Property Casualty Insurance Association—APCIA) noted APCIA's appreciation for all of the work that went into the FSAP and that while the U.S. system of insurance supervision is world class, it is good to look over the FSAP recommendations for consideration.

Commissioner Ramge made a motion, seconded by Commissioner Caride, to approve the referral plan of the FSAP recommendations. The motion passed.

2. Heard an Update on International Regulatory Cooperation Activities

a) IAIS

Commissioner Anderson said that before the outbreak of COVID-19, the IAIS was scheduled to have its committee meetings and annual conference the first week of November in Santiago, Chile. Instead, they now will be taking place virtually the weeks of Oct. 26 and Nov. 2, with the annual general meeting and annual conference taking place during the first week of December. Commissioner Anderson said the Committee will have further updates and discussion on IAIS activities at the NAIC Fall National Meeting and noted that a number of public consultations would be released soon, including on development of liquidity metrics, an application paper on resolution powers and planning, and the agreed definition and high-level principles for developing criteria to assess whether the aggregation method provides comparable outcomes to the global insurance capital standard (ICS). Commissioner Anderson said the IAIS and the Sustainable Insurance Forum (SIF) also recently released a joint draft application paper on the supervision of climate-related risks in the insurance sector for public consultation with comments due Jan. 12, 2021. He said as previously reported, the NAIC became a member of the SIF earlier this year and has been participating in several virtual meetings to discuss member initiatives and the strategic focus for the SIF for 2021 and beyond. He said the work with the SIF could help inform the work at the NAIC's new Climate and Resiliency (EX) Task Force going forward and vice versa. Commissioner Anderson said the typical NAIC process for reviewing the consultations will be used, with more information provided at a later date.

b) OECD

Commissioner Anderson said the Organisation for Economic Co-operation and Development (OECD) held several virtual events over the past few months for its members. On Oct. 6–7, the OECD Insurance and Private Pensions Committee (IPPC) held a symposium on reinsurance risk and opportunity, where a series of case studies was released on reinsurance regulation in India, Indonesia, Myanmar and the Philippines. He said these newly released case studies build upon the main premise in a 2018 IPPC report that emphasized the important role that international reinsurance markets play in identifying and covering risk. He said the symposium discussed various approaches to leveraging the contribution of international reinsurance markets to managing catastrophe risks, while achieving domestic policy goals related to insurance market development and policyholder protection. He said various speakers discussed the importance of enhanced supervisory cooperation and information exchange between home and host supervisors to help mitigate the concerns of home supervisors related to risk transfer to international reinsurance markets. Commissioner Anderson said the Financial Services Agency of Japan and the Bermuda Monetary Authority (BMA) highlighted the strong regulatory dialogues they have with the NAIC, and the importance of those dialogues to their receiving reciprocal jurisdiction status effective earlier this year.

Commissioner Anderson also said that on Sept. 7–9, the IPPC held a virtual roundtable on the impact of COVID-19 for insurance and retirement saving. He said speakers discussed some of the potential medium-term implications for insurers and reinsurers, such as declining premium revenues, deteriorating asset quality and loss accumulation, as well as the impact of government measures to support the economy and to address specific risks/market disruptions. Commissioner Anderson said there was discussion about the protection gap for business interruption losses and various proposals under consideration to establish pandemic risk insurance programs, as well as the experience from the establishment of programs for other perils that could be informative.

c) NAIC International Fellows Program

Rashmi Sutton (NAIC) said that as previously reported, in light of COVID-19-related travel restrictions and work-from-home policies, it was decided that the fall session of the NAIC's International Fellows Program would take the form of a virtual session, which was held recently on Oct. 12–16.

Ms. Sutton said the fellows program is typically a seven-week program and that this virtual session was designed to replicate the training that fellows receive during their first week at the NAIC Central Office in Kansas City, MO. She said that more than 80 international regulators participated, which exceeded expectations and demonstrated the international regulatory community's continued demand for U.S. training and interest in the U.S. system. Ms. Sutton said participants joined from most major regions, including Western and Eastern Europe, Latin America, the Caribbean, Asia, Africa, and the Middle East. Ms. Sutton said many participants were from countries that frequently participate in the regular fellows program, though a large number joined from countries that have never, or do not typically, participate. She said the silver lining to holding the session virtually is that the NAIC was able to extend the reach of training to more regulators and jurisdictions than ever before.

Ms. Sutton said that with the current uncertainty regarding what will be possible next year, a similar approach may be used for the spring 2021 session if travel restrictions continue. She said the NAIC is also exploring the possibility of offering the virtual session beyond the pandemic to supplement the in-person program.

Ms. Sutton said that while there is no substitute for the hands-on experience fellows receive during the weeks they spend hosted by state insurance departments, getting to know NAIC staff, and meeting with industry and other groups as part of the program, the NAIC is grateful to be able to continue virtually with offering an opportunity for technical training and relationship building with our international colleagues, especially during this difficult time.

Ms. Sutton said the NAIC looks forward to welcoming fellows to the U.S. again, hopefully in the not too distant future. She said states interested in hosting fellows for the first time or learning more about the program can reach out to her for further information.

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

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Adopted by the International Insurance Relations (G) Committee, Dec. 9, 2020

2021 Proposed Charges

INTERNATIONAL INSURANCE RELATIONS (G) COMMITTEE

The mission of the International Insurance Relations (G) Committee is to coordinate NAIC participation in international discussions on and the development of insurance regulatory and supervisory standards and to promote international cooperation. The Committee also coordinates on international insurance matters with the U.S. federal government, including the U.S. Department of the Treasury (Treasury Department), the Federal Reserve Board, the Office of the U.S. Trade Representative (USTR), the U.S. Department of Commerce, and other federal agencies. In addition, the Committee provides an open forum for NAIC communication with U.S. interested parties and stakeholders on international insurance matters.

Ongoing Support of NAIC Programs, Products or Services

1. The **International Insurance Relations (G) Committee** will:
   A. Monitor and assess international activities at forums like the International Association of Insurance Supervisors (IAIS), the Financial Stability Board (FSB), and the Organisation for Economic Co-operation and Development (OECD), among others, that affect U.S. insurance regulation, U.S insurance consumers, and the U.S. insurance industry.
   B. Support and facilitate the participation of state insurance regulators and the NAIC in relevant IAIS, FSB, OECD and similar workstreams.
   C. Develop NAIC policy on international activities, coordinating as necessary with other NAIC committees, task forces and working groups, and communicating key international developments to those NAIC groups.
   D. Coordinate and facilitate state efforts to participate in key bilateral and multilateral dialogues, projects, conferences and training opportunities with international regulators and international organizations, both directly and in coordination with the federal government, as appropriate.
   E. Strengthen international regulatory systems and relationships by interacting with international regulators and sharing U.S. supervisory best practices, including conducting an International Fellows Program and educational (technical assistance) seminars to provide an understanding of the U.S. state-based system of insurance regulation.
   F. Coordinate the NAIC's participation in the International Monetary Fund (IMF)/World Bank Financial Sector Assessment Program (FSAP).
   G. Coordinate state efforts to assist in achieving U.S. international trade objectives through reviewing relevant materials, developing input, and providing assistance and expertise on insurance matters to the USTR and/or other federal entities.

NAIC Support Staff: Ryan Workman/Ethan Sonnichsen

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Aggregation Method: Draft Level 1 Document

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1 Introduction

1.1 Purpose

1. The purpose of this draft Level 1 document is to set out the overarching principles and concepts for the Aggregation Method (AM). This document describes: (i) a provisional AM (which provides a set of calculations that will be used to identify the final version of the AM); and (ii) the AM Data Collection. This draft Level 1 document was prepared by the NAIC and U.S. state insurance supervisors, with support from other members of Team USA, and in consultation with other interested jurisdictions.

2. The goal of interested jurisdictions that are developing the AM is to have a three-level AM documentation framework similar to that of the ICS. As the provisional AM is further developed and future decisions made regarding certain parameters, Level 2 and 3 documents will be made available.

1.2 History/Background

3. The AM concept 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 2017 IAIS Annual 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 and criteria[3].

6. The IAIS also agreed at the November 2019 meeting to move forward into a five-year monitoring period from 2020 through 2024, during which time 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].

7. Work has begun within the IAIS ICS and Comparability Task Force on developing the comparability assessment process, based on the workplan and timeline that was agreed upon by IAIS members

[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

in Abu Dhabi. Following a deliberative process that includes public consultations, the IAIS plans to adopt in Q4 2022 the definition of comparable outcomes, high level principles and criteria to assess whether an AM provides comparable outcomes to the ICS.

1.3 Principles for AM Development

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

9. Guiding principles of the AM concept include:
    - 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 the necessary 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.

10. The structure and design of the AM is final; however, the parameters for calculating the AM are still under development. The AM is a calculation consisting of five components. During the five years of the monitoring period (2020-2024), a provisional version of the AM will be used. While the final version of the AM will follow the same design as this provisional AM, it ultimately may have different parameters based on decisions informed by the annual AM Data Collection. It will be possible to back-test the AM, applying a variety of parameters with the data collected.

11. As listed below, the components of the AM are described further in Section 2 of this document:
    - Inventory & Group Financials
    - Adjustments
    - Capital Requirements
    - Capital Resources
    - Aggregation

2 AM Components

12. The following section describes the five components of the provisional AM. The final version of the AM will use the same components.

2.1 Inventory & Group Financials

2.1.1 Scope

13. 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.

14. The AM is based on reporting at the local entity level. This reporting is used to populate a schedule that separately lists every legal entity within the group and includes relevant financial information including their available and required capital. All figures are converted to a common reporting currency. Exchange rates will be provided in the Level 3 documentation.

15. Each reported entity is mapped by the IAIG to an entity category. There are entity categories for unregulated and regulated entities ("regulated", in this context, means that an entity is subject to a capital requirement). This category is used to group entities prior to aggregation. Each entity within an entity category has its AM required capital determined in the same manner. Unregulated entities are mapped to categories including "Non-Insurer Holding Company," "Asset Management," "Other Non-Insurance/Non-Financial" or "Other Financial". For regulated entities, the entity category corresponds to a specific capital regime (e.g. RBC Filing US Life Insurer). A full list of the entity categories will be set out in the Level 2 document.

2.1.2 Use of Local Valuation, Capital Resources and Capital Requirements

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

17. For regulated entities, unadjusted available capital and unadjusted required capital refer to reported amounts based on the relevant local capital regime. The local unadjusted capital resources reflect 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.

18. A table of local capital regimes and PCR-equivalent intervention levels will be set out in the Level 2 document.

2.2 Adjustments

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

20. To ensure that the IAIG has properly eliminated double-counting, details on each adjustment is provided. A table for reporting these adjustments is included in the AM Data Collection.

[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".

2.3 Capital Requirements

21. The AM capital requirement reflects risk aggregated at the group level. The AM also provides information about the risk posed by every entity within the scope of the group that enables supervisors to conduct jurisdictional analysis. Individual entity level risk charges (e.g. market risk or premium risk) contribute to the group level requirements. As in any aggregation-based methodology, group-level breakdowns of risk will be by type of entity (e.g. entity category, entities by region) rather than by risk charges.

2.3.1 Factors/Scalars

22. The contribution of each legal entity to the total capital requirement is equal to a factor multiplied by an exposure measure. The type of exposure measure applied depends on the 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 PCR-equivalent intervention level). For these regulated entities, the factor will be referred to as a “scalar”.

23. The exposure measures used in the provisional AM (along with other options being considered for the final AM) are in the table below. In the event an exposure is negative, the required capital is floored at zero.

Reg/Non-Reg	Category	Provisional Exposure Measure	Other Options Tested for Final AM
Entities with Regulatory Capital Requirements	Insurance Entities	Adjusted Required Capital	Results will be re-tested under all scalar option(s) using results of the annual AM Data Collection
	Banking Entities	Adjusted Required Capital	
	Asset Mgmt	Adjusted Required Capital	
Entities without Regulatory Capital Requirements	Non-Insurer Holding Company	Adjusted Available Capital	An alternate option using revenue as an exposure will be tested.
	Asset Mgmt / Other Financial	Revenue	An alternate option using Adjusted Available Capital will be tested.
	Non-Insurance / Non-Financial	Adjusted Available Capital	An alternate option using revenue as an exposure will be tested.

2.3.2 Diversification/Fungibility

24. The AM reflects the diversification that is already included in local capital requirements. Given limitations on capital fungibility, the AM does not allow for diversification between different legal entities.

2.3.3 Scalar Methodologies

25. Given differences between solvency frameworks, scalars will be used to bring the required capital for each legal entity to a common level. The AM template allows a range of scaling methodologies to be tested. Each scaling methodology will indicate one scalar per entity category to be used for the full term of the annual AM Data Collection. Based on an assessment of the data and the annual AM Data Collection process, a decision will be made as to which scaling methodology to use in the final version of the AM. 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 helps provide comparable outcomes to the ICS. AM results from the annual AM Data Collection will be recalculated using the selected set of scalars. Until such a determination is made, the provisional AM will use scalars of 100% as a placeholder.

26. Descriptions of the methodologies used to determine each set of scalars (and factors) will be provided in the Level 2 document. The options to be tested will include a number of approaches. The final scaling methodology will either be one of the tested methodologies or some combination/variation that falls within the range of options under consideration. A complete list of entity categories and their scalars/factors under each methodology will be set out in the Level 3 documentation.

2.4 Capital Resources

2.4.1 General Considerations

27. Capital resources have one tier with two components: financial instruments and available capital. Qualifying financial instruments are determined using a common set of criteria at the group-level. 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 valuation will also be excluded from capital in the AM.

2.4.2 Recognition of Financial Instruments

28. The AM recognition of a financial instrument is based on consideration of a number of criteria focused on five key principles:
    - loss absorbing capacity (on a going concern basis and/or in winding-up)
    - subordination
    - availability to absorb losses
    - permanence
    - absence of both encumbrances and mandatory servicing costs

29. The list of criteria for recognition will be specified in the Level 2 document.

2.4.3 Application of Limits to Recognition of Debt

30. The amount of qualifying financial instruments recognized is subject to a limit. This limit and its calculation will be specified in the Level 2 document. In addition, a range of limits will be analyzed during the monitoring period before determining the final version of the AM.

2.5 Aggregation

31. After application of adjustments and scaling, the IAIG's available and required capital are aggregated by entity category.
32. Group capital resources are the sum of the adjusted available capital for the underlying entities plus any qualifying financial instruments subject to limits.
33. Group required capital is the sum of the scaled adjusted required capital for the underlying entities.

3 AM Data Collection

34. The AM Data Collection has a template and specifications that are released annually. The template can calculate the provisional AM as well as other possible versions of the final AM. Aside from refinements and clarifications to the provisional AM, the contents of the AM Data Collection will be stable for the rest of the monitoring period. If the final version of the AM has different parameters than the provisional AM, the results from prior years can be recalculated retrospectively.
35. In addition to the data needed to calculate the provisional AM, further data will be collected as part of the annual AM Data Collection. This information will help to finalize the AM framework and provide "support of the work on the comparability assessment", the latter being an IAIS issue (see Section 1.2).