



August 15, 2022

International Association of Insurance Supervisors
c/o Bank for International Settlements
CH-4002 Basel
Switzerland

To Whom It May Concern:

The U.S. Chamber of Commerce Center for Capital Markets Competitiveness (“CCMC”) is pleased to respond to the International Association of Insurance Supervisors (“IAIS”) on the draft criteria that will be used to assess whether the aggregation method (“AM”) provides comparable outcomes to the insurance capital standard (“ICS”).

The Chamber has a diverse membership including purely domestic, as well as internationally active insurance companies headquartered both inside and outside of the United States. In addition, we have member companies that rely on insurance products and the larger role insurers play as investors in our global economy—providing security for policyholders and creating stability in the capital markets. As such, we are broadly supportive of the goal of safeguarding our financial system.

The Chamber issued a report in March 2019 describing how the insurance sector invests in the U.S. economy.¹ Insurance companies invest in a unique set of assets as a direct result of their business models, and they invest for different purposes than other institutional investors. Insurers are primarily concerned with matching long-term liabilities and, as a result, hold appropriate assets to achieve this goal. The unique investment strategy of insurance companies results in tangible, long-term projects being financed by these firms and, indirectly, by policyholders. Insurers make up a sizable share of asset classes such as corporate bonds (21%) and municipal bonds (20%), investing enough in education projects through municipal bond purchases to build about 1,000 elementary schools every year. At the end of 2020, insurers licensed in the United States held approximately \$10.9 trillion in total assets.²

¹ U.S. Chamber of Commerce. The Role of Insurance Investments in the U.S. Economy. (Winter 2019), available at: https://www.centerforcapitalmarkets.com/wp-content/uploads/2019/03/CCMC_InsurancePaper_v2.pdf

² Federal Insurance Office, U.S. Department of the Treasury. Annual Report on the Insurance Industry. (September 2021): viii. Found at: <https://home.treasury.gov/system/files/311/FIO-2021-Annual-Report-Insurance-Industry.pdf>

Because the insurance sector is such an integral provider of capital to the U.S. and global economy, the Chamber strongly believes that inappropriately structured insurance regulation, including local implementation of the ICS, could have a significant impact on the ability of the sector to continue to serve as a source of stable capital to many public and private entities. As such, we offer the comments below on the IAIS's draft criteria.

The Insurance Capital Standard is Not Ideal for All Jurisdictions

The Chamber's overarching concern with the comparability assessment is the IAIS's continued anchoring bias to the ICS, which presumes that the ICS provides the appropriate signaling of solvency strength—an assumption that has yet to be confirmed. Any comparability assessment should not assume the ICS is a baseline for alternatives to be measured against. The ICS has been deemed the ideal when it is not the best prudential model to apply to the U.S. insurance market. It seems that the IAIS itself is increasingly recognizing the framework does not work for all markets – the U.S. in particular – and is seeking data this year that may lead to design changes.

A comparability assessment should instead focus on whether the approaches (i.e., the MAV ICS and AM) can accomplish the stated policy objectives while accepting that achievement of such may be accomplished in different manners. In particular, it would be appropriate for the assessment to focus on whether the AM can serve as a meaningful tool for facilitating supervisory discussions on group level risk and provide adequate signaling about potential areas of concern within an internationally active insurance group (IAIG).

The continued emphasis on quantitative comparability is also a concern. The ICS and AM frameworks are fundamentally different, which will make demonstrating quantitative alignment difficult. The Chamber believes that the comparability assessment should be both qualitative and quantitative in its construction and execution and should assess key elements of the ICS and AM and how they respectively fulfill the objectives of the IAIS on an outcome equivalent basis. Relying exclusively on a quantitative assessment would ignore the important broader elements at an insurance supervisor's disposal in achieving prudential objectives. A comparison of only one metric, such as group capital, would be flawed and impractical as it would unduly emphasize one aspect of regulation versus numerous others that are equally, if not more, important.

A framework that varies from existing jurisdictional solvency regimes and related impacts to risk management practices, product pricing and availability, and other aspects that could be detrimental to consumers and financial markets would also raise additional costs. As explained by the National Association of Insurance

Commissioners (NAIC) in the U.S., “[T]he adoption of a market adjusted valuation (MAV) approach would result in significant incremental costs. The MAV approach is different than U.S. Generally Accepted Accounting Principles (GAAP) and significantly different than state-based statutory accounting practices. As a result, there would be considerable effort and burdens ... to implement a MAV basis of reporting (such as system changes, process changes, staff training, etc.).”³

The Chamber Strongly Supports Aggregation Method Comparability

The Chamber is a strong supporter of the AM and believes it should be deemed comparable to the ICS. We believe it serves as an effective tool for accomplishing the supervisory objective the IAIS has for the ICS and feel that the AM has several strengths from a supervisory and market perspective that make it more appropriate than the MAV approach.⁴

First, the AM leverages existing jurisdictional solvency frameworks and capital requirements (e.g., risk-based capital in the U.S., Solvency II for the EU, etc.) that are already the primary basis for ensuring policyholder protection and are tailored to market specificities (e.g., risks, consumer needs, public policy frameworks/goals, etc.) in each jurisdiction, thus avoiding disrupting stable markets. As a result, the framework would present lower incremental costs and avoid introducing volatility and pro-cyclicality that would inhibit the ability of insurers to provide long duration liabilities and could adversely impact financial stability. We anticipate that the ICS, due to structural design flaws including its approach to valuing insurance liabilities and risk exposures, would decrease product availability, especially for long-term guaranteed coverages that consumers—particularly in the U.S.—desire.

Second, insurance entities in the U.S. are regulated by authorities within their local jurisdictions, thus the AM is naturally aligned with the scope of regulatory authority and triggers. In contrast, a consolidated approach and metric may be of limited use to local regulators given their narrow scope of authority and focus.

Third, the AM provides supervisors with information at the entity level within broader insurance groups. This provides supervisors visibility into the capital position of specific entities in various jurisdictions within an insurer—allowing a more granular perspective of solvency than a “consolidated” approach that has a more limited view of component parts of the aggregated group and, by permitting substantial recognition of risk diversification across legal entities, would implicitly assume fungibility of

³ National Association of Insurance Commissioners. Approved Comments to ICS Version 2.0. (October 25, 2018).

⁴ U.S. Chamber of Commerce. Insurance Capital Standards and the Aggregation Method (Summer 2019), available at: https://www.centerforcapitalmarkets.com/wp-content/uploads/2019/09/CCMC_InsurancePaper2_v4-DIGITAL.pdf

capital across a group when it may not be available in practice during a stress scenario. Additionally, scalars can be employed to enable comparison of entities within the group.

One point of contention we have with the draft criteria is that there is a clear requirement that success in a comparability assessment is predicated on submission of data both in baseline and across a range of scenarios. This work is problematic because there is limited analytical utility of this exercise, given that the IAIS's reliance on "best effort" company submissions is subject to several sources of "noise" in the results and is based on an unproven and still evolving ICS methodology. To wit, the IAIS has not been able to reach any meaningful conclusions to date in the comparability process, despite having conducted several iterations of company testing of the ICS. Moreover, the amount of effort involved is so extensive, and relies on sensitivity analysis of an ICS construct that is not the basis for how companies assess and manage their capital levels. Running such analysis for the ICS would be a major undertaking for firms, and the analysis may not be useful given the inherent complexity in generating an assumption-laden projection on an opaque and convoluted construct like the ICS.

The criteria around sample size are also problematic. Given that many firms globally have found limited value in participating in ICS reporting to date, it seems unlikely that the IAIS will get much traction in getting firms to participate in a more cumbersome exercise. It is unlikely the universe of participants or the scope of information they provide will meaningfully change at this stage.

The Chamber is also concerned about the regulatory and business challenges that could result from a delayed determination of outcome equivalency for the AM. The determination should be made well before the end of the monitoring period so individual jurisdictions have the appropriate guidance for the development of their approaches for implementing the AM. Furthermore, a delay in the determination could leave IAIGs in limbo, including uncertainty regarding market access, operational changes, and management of the balance sheet. Uncertainty about outcome equivalency of the AM will create compounding issues as we move closer and closer to the end of the monitoring period.

Thank you for the opportunity to provide these comments. We stand ready to engage constructively with you on this issue going forward.

Sincerely,

A handwritten signature in black ink that reads "William R. Hulse". The signature is written in a cursive style with a prominent initial "W".

Bill Hulse
Vice President
Center for Capital Markets Competitiveness
U.S. Chamber of Commerce