



**Billing Code 4810-25-P**

**DEPARTMENT OF THE TREASURY**

**Federal Insurance Office Study on the Insurance Capital Standard**

**AGENCY:** Departmental Offices, Department of the Treasury.

**ACTION:** Request for Information.

**SUMMARY:** The Federal Insurance Office (FIO) of the U.S. Department of the Treasury (Treasury) is issuing this notice (Notice) to solicit input on a future study by FIO (FIO Study) to evaluate the potential effects of the insurance capital standard (ICS) on U.S. insurance markets, U.S. consumers, and U.S. insurers. FIO coordinates federal efforts and develops federal policy on prudential aspects of international insurance matters, including representing the United States at the International Association of Insurance Supervisors (IAIS). Version 2.0 of the ICS was adopted by the IAIS in November 2019, with a five-year monitoring period starting in 2020 for confidential reporting and discussion in supervisory colleges.<sup>1</sup> FIO will consider the responses to this Notice to inform its work on the ICS and related matters, including future revisions to the ICS and the economic impact assessment of the ICS to be conducted by the IAIS in 2023.<sup>2</sup>

**DATES:** Submit written comments on or before January 15, 2021.

**ADDRESSES:** Submit comments electronically through the Federal eRulemaking Portal at <http://www.regulations.gov>, in accordance with the instructions on that site, or by mail to the Federal Insurance Office, Attn: Krishna Kundu, Room 1410 MT, Department of the Treasury,

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<sup>1</sup> For additional information on Treasury's efforts in the development of the ICS, refer to FIO's Annual Reports, <https://home.treasury.gov/policy-issues/financial-markets-financial-institutions-and-fiscal-service/federal-insurance-office/reports-notices>.

<sup>2</sup> IAIS, 14 November 2019: Work Plan and Timeline 2020-24, <https://www.iaisweb.org/page/news/press-releases//file/87171/work-plan-and-timeline-2020-24>.

1500 Pennsylvania Avenue NW, Washington, DC 20220. Because postal mail may be subject to processing delays, it is recommended that comments be submitted electronically. If submitting comments by mail, please submit an original version with two copies. Comments should be captioned “FIO ICS Study.” In general, Treasury will post all comments to [www.regulations.gov](http://www.regulations.gov) without change, including any business or personal information provided such as names, addresses, email addresses, or telephone numbers. All comments, including attachments and other supporting materials, are part of the public record and subject to public disclosure. You should submit only information that you wish to make available publicly.

**FOR FURTHER INFORMATION CONTACT:** From the Federal Insurance Office: Steven Seitz, Director, 202-622-5042, [Steven.Seitz@Treasury.gov](mailto:Steven.Seitz@Treasury.gov); Krishna Kundu, Senior Insurance Regulatory Policy Analyst, 202-417-5221, [Krishna.Kundu@Treasury.gov](mailto:Krishna.Kundu@Treasury.gov); or Andrew Shaw, Senior Policy Advisor, (202) 304-4532, [Andrew.Shaw2@Treasury.gov](mailto:Andrew.Shaw2@Treasury.gov). Persons who have difficulty hearing or speaking may access these numbers via TTY by calling the toll-free Federal Relay Service at (800) 877-8339.

## **SUPPLEMENTARY INFORMATION**

### **I. BACKGROUND**

#### **FIO’s Engagement at the IAIS**

FIO was established by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, which authorizes FIO to coordinate federal efforts and develop federal policy on prudential aspects of international insurance matters, including representing the United States at

the IAIS.<sup>3</sup> As part of FIO's commitment to transparency in its work at the IAIS, FIO is issuing this Notice to provide the public with the opportunity to provide input to help inform FIO's future work on the ICS and related matters at the IAIS. Throughout its work at the IAIS, FIO will continue to work collaboratively with the other members of Team USA – the Federal Reserve Board (Federal Reserve), the National Association of Insurance Commissioners (NAIC), and the U.S. states.

Both Congress and FIO's Federal Advisory Committee on Insurance (FACI) have highlighted the need for further analysis and study of the ICS by FIO during the ICS monitoring period from 2020 to 2024. The Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 requires that, before supporting or consenting to the adoption of any final international insurance capital standard, the Secretary of the Treasury, the Chairman of the Federal Reserve, and the Director of the Federal Insurance Office, in consultation with the National Association of Insurance Commissioners, complete a study and submit a report to Congress on the impact of any such standard on consumers and U.S. markets.<sup>4</sup> Additionally, in December 2019, FACI provided recommendations on FIO's future work on the ICS, including that FIO: (1) help drive forward the work needed to ensure timely execution on the milestones laid out during the November 2019 IAIS meetings, and (2) continue its successful engagement model with stakeholders.<sup>5</sup>

## **FIO Study of the ICS**

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<sup>3</sup> 31 U.S.C. 313(c)(1)(E).

<sup>4</sup> Economic Growth, Regulatory Relief, and Consumer Protection Act, § 211(c)(3)(A).

<sup>5</sup> Federal Advisory Committee on Insurance, [https://home.treasury.gov/system/files/311/December2019FACI\\_InternationalProposedRecs\\_0.pdf](https://home.treasury.gov/system/files/311/December2019FACI_InternationalProposedRecs_0.pdf).

This Notice seeks input on how FIO should evaluate the potential effects of the ICS on the insurance market in the United States, including consumers and insurers.<sup>6</sup> The Notice also seeks input on how U.S. insurers operating overseas may be affected by the potential implementation of the ICS in other jurisdictions. Comments in response to this Notice will help inform FIO's work on the ICS during the monitoring period and FIO's views regarding the future structure and content of the ICS economic impact assessment that the IAIS intends to conduct in 2023. FIO aims to complete its study prior to the IAIS' issuance of a public consultation on the ICS as a prescribed capital requirement (PCR) and completion of its economic impact assessment in 2023.

## **The ICS**

Since 2013, the IAIS has been developing a global ICS in order to create a common language among supervisors for assessing the capital adequacy of insurance groups that have cross-border operations or internationally active insurance groups (IAIGs).<sup>7</sup> The ultimate goal of the IAIS is the development of a single ICS that includes a common methodology through which one ICS achieves comparable (i.e., substantially the same) outcomes across jurisdictions. The ICS is based on a total balance sheet approach, defined by the IAIS as a concept that recognizes the interdependence of assets, liabilities, regulatory capital requirements, and capital resources.

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<sup>6</sup> International standards adopted by the IAIS are not binding or operational in the United States unless implemented through the relevant state or federal legislative or administrative processes, as appropriate.

<sup>7</sup> An IAIG is defined to be an insurer that meets the following two criteria: (1) Internationally Active (i.e., premiums are written in three or more international jurisdictions; and gross written premiums outside of the home jurisdiction are at least 10 percent of the group's total gross written premiums), and (2) Size (based on a three-year rolling average), where total assets are at least USD 50 billion or gross written premiums are at least USD 10 billion. IAIS, Insurance Core Principles and Common Framework for the Supervision of Internationally Active Insurance Groups, Updated November 2019, <https://www.iaisweb.org/page/supervisory-material/insurance-core-principles-and-comframe//file/91154/iais-icps-and-comframe-adopted-in-november-2019>.

The total balance sheet approach is intended to ensure that the impacts of all relevant material risks on an IAIG's overall financial position are appropriately and adequately recognized.<sup>8</sup>

During the monitoring period, the IAIS has asked group-wide supervisors to encourage annual confidential reporting of a reference ICS that consists of three components: (1) a market-adjusted valuation methodology (MAV) with a single discounting approach; (2) a standard method for calculating the capital requirement; and (3) converged criteria for qualifying capital resources. Additional reporting of the ICS based on an alternative valuation methodology, Generally Accepted Accounting Principles with Adjustments (GAAP Plus), and other methods to calculate the ICS capital requirement would be permitted at the option of the group-wide supervisor during the monitoring period. Optional reporting could also include the submission of results based on the Aggregation Method (AM), which will be under review for comparability to the ICS during the monitoring period.<sup>9</sup>

Over the last few years, the United States has been leading the development of the AM, which leverages the NAIC's group capital calculation (GCC) work and the Federal Reserve's Building Block Approach (BBA). Building on existing state-based insurance standards, the GCC and BBA are each entity-based approaches that take the capital resources and capital requirements for each entity within an insurance group and aggregate them into a group capital calculation. By using the GCC and BBA as the bases for its development, the AM is currently structured to be more reflective of the insurance regulatory framework and business practices in the United States.

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<sup>8</sup> IAIS, Risk-Based Global Insurance Capital Standard Version 2.0 Public Consultation, July 31, 2018, <https://www.iaisweb.org/page/supervisory-material/insurance-capital-standard//file/76133/ics-version-20-public-consultation-document>.

<sup>9</sup> *Id.*

In November 2019, the IAIS adopted version 2.0 of the ICS, which eliminated the options that were analyzed under version 1.0. The IAIS has agreed to implement the ICS in two phases—a five-year monitoring period from 2020 through 2024 during which the ICS will continue to be refined, followed by a second phase when the ICS will be implemented as a PCR in 2025.<sup>10</sup> Further, the IAIS stated in November 2019 that it 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 (in the sense of the ultimate goal)—outcomes to the ICS. If so, the AM will be considered an outcome-equivalent approach for implementation of the ICS as a PCR.<sup>11</sup> Additionally, during the latter half of 2023, the IAIS plans to issue a public consultation on the ICS and initiate an economic impact assessment, with the aim of addressing the results of those undertakings in the final version of the ICS to be implemented as a PCR.<sup>12</sup>

## **II. Request for Comments:**

FIO is interested in responses to the following questions. Commenters may also provide information on other issues or topics that are relevant to FIO’s work on the ICS, the FIO Study, and related IAIS matters.

1. If the ICS were adopted in the United States, how would this affect the insurance market in the United States, including consumers and insurers? How would the adoption of the ICS affect the competitiveness of U.S.-domiciled IAIGs, foreign insurance groups with

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<sup>10</sup> IAIS, Explanatory Note on the Insurance Capital Standard (ICS) and Comparability Assessment, November 14, 2019, <https://www.iaisweb.org/page/news/press-releases/file/87173/explanatory-note-on-the-ics-and-comparability-assessment>.

<sup>11</sup> *Id.*

<sup>12</sup> IAIS, 14 November 2019: Work Plan and Timeline 2020-24, <https://www.iaisweb.org/page/news/press-releases/file/87171/work-plan-and-timeline-2020-24>.

significant operations in the United States, and U.S. insurers that have current or planned operations abroad?

2. Please provide information on whether the ICS could create regulatory capital arbitrage opportunities or have procyclical effects, leading to increased volatility in U.S. insurance markets.
3. How should the FIO Study consider the potential effects of implementing the AM in U.S. insurance markets as compared to implementing the ICS? In addition, should the FIO Study consider the potential impact upon U.S. insurance markets if credit rating agencies were to accept the ICS as a global standard?
4. What information should be considered in evaluating the impact of ICS implementation on the various business lines and the cost and availability of different product types in the U.S. insurance market?
5. If the ICS were implemented in foreign jurisdictions where U.S. insurers operate, what effects could the ICS have on the ability of U.S. insurers to compete with local insurers and other international insurers in these overseas markets? How should FIO evaluate issues related to global competitiveness of U.S. insurers and potential adoption of the ICS by foreign jurisdictions?
6. Please provide your views on the following issues, as relevant to the FIO Study.

- a. Data for FIO Study: The ICS has been developed with data provided by volunteer insurance groups. To what extent should FIO use data provided to FIO by individual insurers to conduct the FIO Study? In addition to data from specific insurers, are there any other relevant data sources that should be used to evaluate the ICS? If so, what other sources of quantitative and qualitative data would be available, including any data that could be representative of U.S. insurance practices and product types.
  
- b. Market Effects from MAV: The reference ICS is based on a market-adjusted valuation methodology. What information should be considered in assessing MAV versus other valuation approaches and their potential effects on the insurance market in the United States, including consumers and insurers?

In particular, how should the FIO Study consider how MAV affects the following areas?

- i. Changes to U.S. insurer investment behavior and ability to match asset-liability cash flows;
  
- ii. Implications for product offerings and shifts in product mix for both life insurers and property & casualty insurers; and
  
- iii. Potential effects on insurers' role as a significant source of long-term investment and liquidity in the economy.

- c. Capital Requirement: The ICS capital requirement is based on a standardized framework, whereby the calculation of ICS required capital, including the risks and stresses, is defined. How should the FIO Study consider the following?
- i. The extent to which jurisdiction-specific risks should be taken into account; and
  - ii. The use of internal ratings for assessing credit risk exposures.
- d. Available Capital: The reference ICS measures available capital according to IAIS-established criteria and composition limits. The IAIS is also considering transitional arrangements during the monitoring period in order to ensure a smooth transition of the ICS as a PCR. How should the FIO Study consider the following?
- i. Application of transitional arrangements during the monitoring period; and
  - ii. Implications for the fungibility of capital<sup>13</sup> under the ICS.
- e. Jurisdictional Flexibility: The reference ICS recognizes a limited number of areas for national discretion, such as senior debt as qualifying capital. Should the FIO Study evaluate any further application of jurisdictional flexibility for ICS implementation?

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<sup>13</sup> Fungibility of capital refers to the availability of capital resources in the balance sheet of a single company in a group to fully absorb any amount of losses within that group (i.e., the ability to absorb losses arising anywhere within the IAIG).

7. Please provide any views regarding the following additional issues, as they relate to the FIO Study.
  - a. What data and input from market participants should be taken into consideration?
  - b. Describe any data or data services that independent third parties could provide for purposes of the FIO Study.
  - c. For the purposes of the FIO Study, would a “point in time” analysis be appropriate or would another time frame be more relevant for determining the implications?<sup>14</sup>
  
8. How should the FIO Study inform FIO’s engagement on the IAIS economic impact assessment of the ICS?
  
9. How has the COVID-19 pandemic informed your views on the issues discussed in this Notice?
  
10. Please provide any other comments on the issues discussed in this Notice.

Steven E. Seitz,

*Director, Federal Insurance Office.*

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<sup>14</sup> Point in time analysis refers to taking a snapshot of the ICS at a particular point in time during the monitoring period and conducting a study based on the ICS framework at that time. The IAIS has stated that it expects the monitoring period to be a period of stability. As noted above, FIO aims to complete the impact study for input to the IAIS before issuance of the public consultation of the ICS as a PCR and the economic impact assessment in 2023.