



ICS as a PCR

Questions	Comments
<p>Q1: Do you have comments regarding the general guiding principles of the ICS?</p>	<p>3.2 L 1-5, “Moreover, even though ...” in the ICS Data Collection Technical Specifications is not mentioned in the consultation document. It would be beneficial if it is mentioned in the Level 2 document.</p> <p>3.3 L 2-3, "In the context of Market risks, ..." and “In the context of Insurance risks, ..." in the ICS Data Collection Technical Specifications are not mentioned in the document. It would be beneficial if they are mentioned in the Level 2 document.</p>
<p>Q2: Do you have comments regarding the perimeter of the ICS calculation?</p>	<p>There is no equivalent in this document to “4.1.1 GAAP and ICS Balance Sheets: instructions” in the ICS Data Collection Technical Specifications. It would be beneficial if they are also mentioned in the Level 2 document. In particular, we believe that "4.1.1.2 ICS Balance Sheets" in the specification should be mentioned.</p>
<p>Q5: Do you have comments on the introduction of a modulation factor?</p>	<p>While the introduction of a modulation factor is significant in that it reflects the condition of the assets held, it is thought that some companies may not be able to handle it in terms of scheduling and resources due to the extremely large practical burden. For this reason, we would like to see a provision that reads "can be introduced" rather than a uniform mandatory introduction.</p>
<p>Q6: Do you have other comments regarding the Market-Adjusted Valuation?</p>	<p>Regarding 5.1 valuation Principles L2-16, Example and "The following balance sheet items' valuation ..." below in the ICS Data Collection Technical Specifications are not mentioned in the document. It would be beneficial if they are mentioned in the Level 2 document.</p> <p>5.2.1.1 General considerations L2-21, Example and 72. to 74. in the ICS Data Collection Technical Specifications part 2 are not mentioned in the consultation document. It would be beneficial if they are mentioned in the Level 2 document. In particular, “Two proxies ...” in the Technical Specifications is a concrete description of the simplified method and should be indicated in the document.</p> <p>5.2.1.2 Options and guarantees L2-24, Example in the ICS Data Collection Technical Specifications is not mentioned in the document. It would be beneficial if it is mentioned in the Level 2 document.</p>

GIAJ comments on “Insurance Capital Standard as a prescribed capital requirement, ICP 14 (Valuation) and ICP 17 (Capital Adequacy)”

	<p>5.2.2 Contract recognition, contract boundaries and time horizon L2-32 and L2-36, Examples in the ICS Data Collection Technical Specifications are not mentioned in the document. It would be beneficial if it is mentioned in the Level 2 document.</p> <p>Regarding 5.2.5.2.4 Extrapolation, Interpolation and Convergence tolerance L2-57 to L2-61, we would like to confirm that the parameters specifically described here have not been changed from the ICS Data Collection Technical Specifications.</p> <p>According to the Explanatory text in 5.2.5.2.5 LTFR Components, the LOT and LTFR for major currencies will be provided by the IAIS before the introduction of the ICS. Is there any possibility that the statement that the LOT is 30 years and the table in Annex 4 showing the LOT and LTFR for each currency in the ICS Data Collection Technical Specifications will be changed?</p> <p>5.2.5.3.2.1 Eligible Investments, “When determining the spread adjustment ...” in the ICS Data Collection Technical Specifications is not mentioned in the document. It would be beneficial if it is mentioned in the Level 2 document.</p> <p>Regarding 5.2.5.3.2.3 Middle Bucket L2-88, we would like the IAIS to indicate what substantive changes have been made to ICS 2.0 and the Candidate ICS specifications used in this year's monitoring.</p>
<p>Q9: Do you have other comments regarding capital resources?</p>	<p>Regarding 6.4.1 Deductions from Tier 1 capital resources L1-63 e)-g), some in the ICS Data Collection Technical Specifications are not mentioned in this document. It would be beneficial if they are mentioned in the Level 2 document.</p> <p>6.4.3 Treatment of encumbered assets, “An encumbered ...” in the ICS Data Collection Technical Specifications not mentioned in the document. It would be beneficial if it is mentioned in the Level 2 document.</p>
<p>Q10: Do you have comments regarding the ICS risks and calculation methods?</p>	<p>7.2.2.5 Expense risk, 318. to 320. in the ICS Data Collection Technical Specifications provide a definition of expense risk. Therefore, it would be beneficial if it was also mentioned in the Level 2 document.</p>
<p>Q12: Do you have comments regarding the</p>	<p>7.2.2.4 Lapse risk L1-99, “This includes options to ...” in the ICS Data Collection Technical Specifications provide a definition of lapse risk. Therefore, it would be beneficial if it was also mentioned in the Level 2 document.</p>

GIAJ comments on “Insurance Capital Standard as a prescribed capital requirement, ICP 14 (Valuation) and ICP 17 (Capital Adequacy)”

<p>calculation of the Life risk charges?</p>	<p>In addition, L2-160 “Options that allow ...” in the ICS Data Collection Technical Specifications should also be mentioned in the Level 2 document, since the second half of the sentence indicates upper and lower limits.</p>
<p>Q14: Do you have comments regarding the calculation of the Catastrophe risk charges?</p>	<p>It is stated that “Examples of main and secondary perils are provided in the Level 2 text” in 7.2.4. Since there seems to be no description in the relevant Level 2 document, we believe that it is necessary to delete the statement or add examples to the Level 2 document.</p> <p>7.2.4.4.1 Terrorist Attack L2-193, “Fatalities and disabilities ...” in the ICS Data Collection Technical Specifications provides a definition of terrorism risks. It would be beneficial if it was also mentioned in the Level 2 document.</p> <p>7.2.4.4.3.3 Surety L2-198, “The net potential loss amount ...” in the ICS Data Collection Technical Specifications describes the calculation method for surety. It would be beneficial if it was also mentioned in the Level 2 document.</p> <p>Regarding 7.2.4.7 Safeguards for Natural Catastrophe Models, paragraph 385 and 401 in the ICS Data Collection Technical Specifications part 2 should be also mentioned in the Level 2 document. This is because deleting these sentences could affect the framework where models developed by an insurance rating organization are used as standard models in future Japanese economic value-based solvency regulations.</p> <p>7.2.4.7 Safeguards for Natural Catastrophe Models, “The statistical quality test ...” in the ICS Data Collection Technical Specifications refers to back-testing. It would be beneficial if it was also mentioned in the Level 2 document. In addition, “When local regulations ...” should also be mentioned in the Level 2 document since it describes the possibility of using a natural catastrophe model to calculate insurance liabilities or premium rates.</p>
<p>Q16: Do you have comments regarding the Interest Rate risk?</p>	<p>7.3.2 Interest Rate risk L2-204, "Non-interest ..." in the ICS Data Collection Technical Specifications is not included in this document. It would be beneficial if it is mentioned in the Level 2 document.</p>
<p>Q25: Do you have comments regarding Asset concentration risk?</p>	<p>In the current specification, asset concentration risk is calculated for each risk category and then added together. We believe that this can also be reflected by setting the correlation coefficient as a function (i.e., copula) rather than a constant when integrating each risk category.</p>

GIAJ comments on “Insurance Capital Standard as a prescribed capital requirement, ICP 14 (Valuation) and ICP 17 (Capital Adequacy)”

<p>Q27: Do you have other comments regarding Credit risk?</p>	<p>7.4.1.2 Distribution of exposures by maturity, “This effective maturity ...” in the ICS Data Collection Technical Specifications is not mentioned in the document. It would be beneficial if it is mentioned in the Level 2 document.</p>
<p>Q33: Do you have comments regarding the use of a simplified utilisation approach for tax?</p>	<p>We support the changes in the candidate ICS from the ICS 2.0.</p>
<p>Q38: Do you have comments on the overall requirements (section エラー! 参照元が見つかりません。)?</p>	<ol style="list-style-type: none"> <li>1. We propose adding the following sentence at the beginning of L1-154 as in L1-155: "Whenever internal models are allowed as an Other Method for calculating the ICS capital requirement,".</li> <li>2. Regarding L1-154, the B/S used in the internal model may more appropriately reflect the reality of the IAIG than the B/S in the ICS, which emphasises minimising inappropriate pro-cyclical behaviour (ICS Principle 7) and the balance between risk sensitivity and simplicity (ICS Principle 8). In addition to this, the B/S used in the internal model may be rather conservative, and therefore, incompliance with the requirements for the calculation of the B/S in the standard method should not be a barrier to internal model approval.</li> </ol>
<p>Q39: Do you have comments on the general provisions on the use of an internal model to determine regulatory capital requirements (section エラー! 参照元が見つかりません。)?</p>	<ol style="list-style-type: none"> <li>1. In L2-366.c), the current description could be read as if both on-site and off-site are mandatory. We suggest the following revisions to make the on-site tone "as needed". “Internal model review process - thorough model review by the GWS on an on-site and/or off-site basis.”</li> <li>2. In L2-367.e), "covering materiality" should be changed to "considering materiality" to clarify the intent of the sentence here, which is to consider materiality.</li> <li>3. In L2-367.k), "proposal" should be changed to "plan" since it is the IAIGs that make the disclosure, and it would be more appropriate to present a plan rather than a proposal to the supervisors.</li> </ol>

GIAJ comments on “Insurance Capital Standard as a prescribed capital requirement, ICP 14 (Valuation) and ICP 17 (Capital Adequacy)”

	<ol style="list-style-type: none"> <li>4. In L2-367. o), "the planned future changes" appears to be duplicated with "n) Planned future changes", and therefore one of them should be deleted.</li> <li>5. Regarding relation between a) to p) stated as "The application may include" and a) to d) stated as "They should include, but are not limited to" in L2-367, is it correct to understand that the former is an item that the GWS may stipulate at the time of application, and that the latter is something that should be included in the documentation at the time of application? As the relationship between the two is unclear in the current drafting, we are of the opinion that it should be clarified.</li> <li>6. The current wording of L2-369, “discussions with the IAIG's staff or representatives”, seems inconsistent with “d) discussions with the IAIG's management and staff” in L2-370. Therefore, it should be revised to "discussions with the IAIG's management or staff”.</li> <li>7. In L2-369, we propose to revise the phrase to "may involve on-site inspections if necessary" since on-site inspections are considered sufficient if they are conducted on an as-needed basis, not mandatory.</li> <li>8. Regarding L2-381 "While most reporting will be ... filings.", what specific situation do you envision? Regarding b) ICS standard method output, we propose a flexible response based on risk characteristics because it is excessive to assume "annually" when the fluctuation of ESR results is not so large every year.</li> <li>9. Regarding L2-383 “public disclosure on model results and changes post-approval”, we request flexibility based on risk characteristics since it would be excessive to disclose everything.</li> </ol>
<p>Q41: Do you have comments on the additional considerations (section エラー! 参照元が見つかりません。)?</p>	<ol style="list-style-type: none"> <li>1. In L1-177, we propose to revise "The GWS ensures" to "The IAIG ensures". According to L1-159, we understand that "9.4.3 Criteria for internal model approval" is the IAIG's responsibility to ensure.</li> <li>2. In L2-445, only "For financial non-insurance entities with a sectoral capital requirement" and "For non-financial entities" are mentioned, and the treatment of "financial non-insurance entities without a sectoral capital requirement" is unclear. Therefore, "For non-financial entities" should be revised to "For other non-insurance entities".</li> </ol>

GIAJ comments on “Insurance Capital Standard as a prescribed capital requirement, ICP 14 (Valuation) and ICP 17 (Capital Adequacy)”

<p>Q42: Do you have comments on the general provisions on the use of partial internal models (PIM) (section エラー! 参照元が見つかりません。)?</p>	<ol style="list-style-type: none"> <li>1. In L1-179, we propose revising "all quantifiable risks identified" to “all material risks identified in the ICS standard method” for the following reasons: <ul style="list-style-type: none"> <li>- As L1-160 states "The scope of the internal model is complete by including all material quantifiable risks", the scope of the internal model should be determined based on the materiality of risks.</li> <li>- As the ICP 17.12.13 (17.12.11 in the consultation document) states “A partial internal model typically involves the use of internal modelling to substitute parts of a standardised approach for the determination of regulatory capital requirements.”, a partial internal model is one in which a part of the standard approach is replaced by an internal model. If an internal model is substituted for all material risks included in the standard approach, this internal model should not be treated as a partial internal model.</li> </ul> </li> <li>2. In L1-179, "partial internal model (PIM)" should be revised to "model" because it is inappropriate to refer to the PIM in the criteria for determining whether a model is the PIM.</li> <li>3. Regarding L2-455, we propose a flexible response based on risk characteristics because it is excessive to assume "annually" when the fluctuation of ESR results is not so large every year.</li> </ol>
<p>Q44: Do you have additional comments on the ICS?</p>	<p>To enable each IAIG to be accountable for the differences between the ICS and its internal model, we would appreciate disclosure of the basis for setting the various figures used in the ICS specifications, including stress and correlation factors, capital composition limits regarding capital resources, and haircuts for tax effect on the capital requirement.</p> <p>If the ICS is adopted as a PCR and introduced into solvency regulations in each country, there will be benefits in terms of harmonization and comparability of capital regulations in each country, as well as consistency in basic concepts with the ERM and IFRS for insurance companies. From this perspective, and from the perspective of ensuring a level playing field, the IAIS should promote early implementation of the ICS as a PCR by countries as group-wide supervisors of their respective IAIGs.</p> <p>In addition, when the ICS is finally adopted and standards pursuant to the ICS are applied by each authority, IAIGs should not be at a competitive disadvantage with non-IAIGs within each jurisdiction. To ensure a level-playing field, consolidated and non-consolidated regulations applicable to both IAIGs and non-IAIGs should converge on an economic value-based approach in a consistent manner.</p>

GIAJ comments on “Insurance Capital Standard as a prescribed capital requirement, ICP 14 (Valuation) and ICP 17 (Capital Adequacy)”

<p>Q45: Do you anticipate any impacts from the implementation of the ICS on the new business strategy of IAIGs? If so, please explain the potential impacts.</p>	<p>In jurisdictions where economic value-based capital regulation for non-IAIGs does not exist, IAIGs may be placed in an unfair competitive environment with non-IAIGs that are subject to relatively lax regulation after the implementation of the ICS, forcing them to change their business strategies.</p> <p>In Japan, economic value-based capital requirements will be applied to non-IAIGs at the same time. In addition, Japanese IAIGs have to date been implementing management controls based on economic values. Moreover, their ICS ratios, based on ICS 2.0, have remained stable over the past three years regardless of changes in the economic environment, which is well above the level at which supervisory intervention would be expected. In light of the above, the implementation of the ICS is not expected to have a significant impact on the IAIGs’ business strategy.</p>
<p>Q46: Do you anticipate any impacts from the implementation of the ICS on the pricing of products of IAIGs and/or across the insurance industry? If so, please explain the potential impacts.</p>	<p>Although no specific trends have been observed, the impact on interest rate-sensitive, very long-term insurance products might increase the importance of interest rate risk management, especially for insurers with such insurance portfolios, and might require consideration of asset allocation and product reassessment.</p>
<p>Q47: Do you anticipate any impacts from the implementation of the ICS on the range of product features available in the market (for example investment guarantees)? If so, please explain the potential impacts.</p>	<p>It is possible that the implementation of the ICS could have an impact, for example in cases where valuation and management changes to an economic value base, depending on the content of the current regulations and product needs in each jurisdiction, the ERM already implemented by each IAIG, and the types of products handled.</p> <p>Japanese IAIGs have to date been implementing management controls based on their economic values. Moreover, their ICS ratios, based on ICS 2.0, have remained stable over the past three years regardless of changes in the economic environment, which is well above the level at which supervisory intervention would be expected. In light of the above, the implementation of the ICS is not expected to have a significant impact.</p>

GIAJ comments on “Insurance Capital Standard as a prescribed capital requirement, ICP 14 (Valuation) and ICP 17 (Capital Adequacy)”

<p>Q48: Do you anticipate any impacts from the implementation of the ICS on the duration of products written (eg offering products with shorter-term guarantees)? If so, please describe the products that might be affected and the potential impacts.</p>	<p>Although no specific trends have been observed, it is possible that interest rate risk management becomes more important, especially for insurers with very long-term insurance portfolios, and a review of the contract terms of their products is considered.</p>
<p>Q49: Do you anticipate the implementation of the ICS resulting in an IAIG’s withdrawal from writing specific types of products? If so, please describe the products that might be affected and the potential impacts.</p>	<p>Although no specific trends have been observed, it is possible that interest rate-sensitive, very long-term insurance products are affected, increasing the importance of interest rate risk management, and an exit from such products is considered.</p>
<p>Q50: Do you anticipate the implementation of the ICS requiring changes to risk appetite of IAIGs? If so, please explain the potential impacts.</p>	<p>See our comments on Question 47.</p>
<p>Q51: Do you anticipate any circumstances in which the</p>	<p>We believe that the impact on long-term products might affect the protection gap on, for example, pensions.</p>



GIAJ comments on “Insurance Capital Standard as a prescribed capital requirement, ICP 14 (Valuation) and ICP 17 (Capital Adequacy)”

<p>implementation of the ICS might create or help resolve protection gaps (eg due to changes in product availability)? If so, please explain the potential impacts.</p>	<p>Regarding the impact on the natural disaster protection gap, in cases where risk measurement is based on scenarios with short recurrence periods, the implementation of the ICS might lead to a change in risk measurement based on engineering models with higher confidence levels, and the resulting increase in risk amount might lead to a tightening of underwriting by the relevant insurer. Another possible scenario would be a tightening of underwriting in certain high-risk regions to reduce natural catastrophe risks in light of the risk amount manifested in long-term products.</p>
<p>Q52: Do you anticipate that any reduction in product availability from IAIGs could be filled by other market participants? If so, please explain the potential impacts.</p>	<p>Given the substitutability of the insurance sector, it is unlikely that, to a certain extent, concerns regarding product availability would arise, but if the IAIGs were to withdraw their product supply all together, it may not be possible to replace them.</p>
<p>Q53: Do you anticipate any opportunities for an increase in the range of products available in the insurance market as a result of the implementation of the ICS? If so, please explain the potential opportunities.</p>	<p>We believe that new products might be devised as part of the IAIGs' ingenuity in responding to regulations, but we do not have any specific assumptions at this time.</p>
<p>Q54: Do you anticipate any impacts from the implementation of the ICS</p>	<p>See our comments on Question 47.</p>

GIAJ comments on “Insurance Capital Standard as a prescribed capital requirement, ICP 14 (Valuation) and ICP 17 (Capital Adequacy)”

<p>on the long-term strategy of IAIGs? If so, please explain the potential impacts.</p>	
<p>Q55: Do you anticipate that the implementation of the ICS could lead to a change in the risk sensitivity of the solvency position of IAIGs? If so, please explain the potential impacts.</p>	<p>See our comments on Question 47.</p>
<p>Q56: Do you anticipate that the implementation of the ICS could lead to a change in the profitability of an IAIG’s business units or insurance entities focusing on a specific product type or market segment? If so, please describe the products or market segments potentially affected.</p>	<p>Although no specific trends have been observed, it is possible that the profitability of super long-term insurance could change as sales are reviewed or additional hedging costs are required in terms of interest rate risk management.</p>
<p>Q57: Do you anticipate any circumstances in which IAIGs will need to raise</p>	<p>See our comments on Question 47.</p>

GIAJ comments on “Insurance Capital Standard as a prescribed capital requirement, ICP 14 (Valuation) and ICP 17 (Capital Adequacy)”

<p>additional capital (beyond those currently anticipated) as a result of the implementation of the ICS? If so, please explain the potential impacts.</p>	
<p>Q58: Do you have any concerns over the ability of IAIGs to raise capital or issue debt in the future as a result of the implementation of the ICS? If so, please explain the potential impacts.</p>	<p>In general, international rating agency and analysts already conduct their own economic value-based analysis and/or assessments based on each company's internal management. We believe it is unlikely that the implementation of the ICS will have a negative impact on issuance capacity.</p>
<p>Q59: Do you anticipate any circumstances in which IAIGs might change their risk management strategy as a result of the implementation of the ICS? If so, please explain the potential impacts.</p>	<p>See our comments on Question 47.</p>
<p>Q60: Do you anticipate any circumstances in which IAIGs might change their approach to risk mitigation as a result of the</p>	<p>See our comments on Question 47.</p>

GIAJ comments on “Insurance Capital Standard as a prescribed capital requirement, ICP 14 (Valuation) and ICP 17 (Capital Adequacy)”

<p>implementation of the ICS? If so, please explain the potential impacts.</p>	
<p>Q61: Do you anticipate circumstances in which IAIGs would re-structure their business as a direct result of the implementation of the ICS? If so, please explain the potential impacts.</p>	<p>See our comments on Question 47.</p>
<p>Q62: Do you anticipate any other changes to the operating model of IAIGs as a result of the implementation of the ICS? If so, please explain the potential impacts.</p>	<p>See our comments on Question 47.</p>
<p>Q63: Do you anticipate any changes to risk management practices across the insurance industry as a result of the implementation of the ICS? If so, please explain the potential impacts.</p>	<p>See our comments on Question 47.</p>

GIAJ comments on “Insurance Capital Standard as a prescribed capital requirement, ICP 14 (Valuation) and ICP 17 (Capital Adequacy)”

<p>Q64: Do you anticipate any benefits to the business model of IAIGs as a result of the implementation of the ICS? If so, please explain the potential benefits.</p>	<p>See our comments on Question 47.</p>
<p>Q65: Do you anticipate any impacts to the competitiveness of IAIGs relative to non-IAIGs with the implementation of the ICS?</p>	<p>When the ICS is finally adopted and standards pursuant to the ICS are applied by each authority, the IAIGs should not be at a competitive disadvantage with the non-IAIGs within each jurisdiction. To ensure a level-playing field, consolidated and non-consolidated regulations applicable to both the IAIGs and non-IAIGs should converge on an economic value-based approach in a consistent manner.</p>
<p>Q66: Do you anticipate any changes to the investment strategy of IAIGs which could lead to greater pro-cyclical behaviour, as a result of the implementation of the ICS? If so, please explain the potential impacts.</p>	<p>See our comments on Question 47.</p>
<p>Q67: Do you anticipate any changes to the investment strategy by other market participants which could lead to greater pro-cyclical</p>	<p>While it is possible that other market participants could be affected by a change in the IAIGs’ actions, we believe the impact would be limited.</p>

GIAJ comments on “Insurance Capital Standard as a prescribed capital requirement, ICP 14 (Valuation) and ICP 17 (Capital Adequacy)”

<p>behaviour, as a result of the implementation of the ICS? If so, please explain the potential impacts.</p>	
<p>Q68: Do you anticipate any impacts from the implementation of the ICS on asset concentration risk, either within IAIGs or across insurance markets? If so, please explain the potential impacts.</p>	<p>See our comments on Question 47.</p>
<p>Q69: Do you anticipate the implementation of the ICS altering the investment strategy or investment decisions of IAIGs in response to stressed market conditions? If so, please explain the potential impacts.</p>	<p>See our comments on Question 47.</p>
<p>Q70: Do you anticipate the implementation of the ICS resulting in a change in the market demand for specific asset classes (eg AAA / BBB rated corporate or</p>	<p>Demand from ALM based on long-term liabilities is expected to increase demand for long-term assets.</p> <p>In Japan, we understand that the scale of long-term bonds purchases has been increasing, mainly by life insurers, in anticipation of the introduction of the economic value-based solvency regulation.</p>

GIAJ comments on “Insurance Capital Standard as a prescribed capital requirement, ICP 14 (Valuation) and ICP 17 (Capital Adequacy)”

<p>government bonds, equities) driven by IAIGs? If so, please explain the potential impacts.</p>	
<p>Q71: Are there any other areas of the financial markets (eg derivatives or stock lending) that might be impacted – directly or indirectly – by the implementation of the ICS? If so, please explain the potential impacts.</p>	<p>For example, it is possible that the implementation of the ICS may lead to greater use of derivatives for risk hedging purposes than before.</p>
<p>Q72: Do you have any concerns over the availability of longer-term assets in the market to meet any increase in demand from IAIGs as a result of the implementation of the ICS? If so, please explain the potential impacts.</p>	<p>IAIGs with long-term insurance liabilities are likely to prefer long-term assets from an ALM perspective, but availability will depend on the size of the markets in which the IAIGs operate and timing. In Japan, there are no such concerns at this time.</p>
<p>Q73: Do you anticipate any increased risk to the broader financial markets (eg from re-allocations into</p>	<p>In general, we believe that risk-sensitive solvency indicators have the potential to induce risk-reducing behaviour in the event of a shock, such as the sale of risky assets. However, whether the implementation of the ICS will increase this will depend on the relationship with existing regulations.</p>

GIAJ comments on “Insurance Capital Standard as a prescribed capital requirement, ICP 14 (Valuation) and ICP 17 (Capital Adequacy)”

<p>or out of specific asset classes in response to shocks in financial markets) as a result of the implementation of the ICS? If so, please explain the potential impacts.</p>	
<p>Q74: Do you anticipate any specific benefits to the insurance market or broader financial markets as a result of the implementation of the ICS? If so, please explain the potential benefits.</p>	<p>We expect that the development of a common language for supervisory discussions on IAIGs' solvency and increased global comparability of solvency regulations will help ensure a level playing field internationally.</p> <p>As a side effect, we believe that the accountability of each company for the differences between the ICS and its internal model will enhance stakeholders' understanding of each company's solvency position and improve their confidence in the whole sector.</p>
<p>Q75: To the extent that it can be predicted, do you anticipate the insurance industry having to devote resources, including training, to implement the requirements of the ICS? If so, please explain the potential impacts.</p>	<p>Temporary impacts could include, for example, the need to study and prepare a response to the introduction of the regulation, and to engage in dialogue with the IAIS and supervisory authorities. Depending on the extent to which simplified method is allowed in calculations and the timeline for reporting deadlines, there may also be costs for additional data preparation and the construction of calculation system.</p> <p>Continuous impacts could include personnel and outsourcing costs in calculation and verification. If an external audit is mandated, audit costs will also be incurred.</p>
<p>Q76: To the extent that it can be predicted, do you anticipate impediments to</p>	<p>No major obstacles may arise if the supervisory authorities in each jurisdiction are given appropriate discretion regarding the implementation of the regulation (timing, specifications, etc.) in their respective jurisdictions.</p>



GIAJ comments on “Insurance Capital Standard as a prescribed capital requirement, ICP 14 (Valuation) and ICP 17 (Capital Adequacy)”

<p>implementing the requirements of the ICS? If so, please explain the potential impacts.</p>	
<p>Q77: Could any costs of implementing the ICS be absorbed by or shared with other implementation projects running concurrently (eg IFRS 17)? If so, please explain how this might be achieved.</p>	<p>It depends on the extent to which IFRS 17 and the ICS are considered consistent. If adjustments from IFRS 17 to the ICS can be limited to areas where the specification is intentionally different from the IFRS for the purposes of the ICS (e.g., discount rates and MOCE), some costs of implementing the ICS could be absorbed or shared by the costs of adapting to the IFRS.</p>

**ICP14 (Valuation)**

No.	Comments
14.4.12	Regarding "the additional liquidity risk should be considered", how is liquidity risk expected to be considered in the valuation of insurance liabilities?
14.4.13	Is it correct to understand that concepts of the fulfilment value in IFRS 17 and the MAV in ICS are approximately equivalent (i.e., IFRS and ICS are the same in terms of measuring insurance liabilities by discounting insurance cash flow)? If so, we support the proposed revisions.
14.5.2	<p>With respect to the reinsurer default risk, it may be assumed that the expectation is reflected as an adjustment to the asset value when determining capital resources and any volatility beyond expectations is covered by the capital requirements. Therefore, we propose revising the final sentence as follows (delete “either” and add “and”):</p> <p>The risk of reinsurer default could be covered by adjustments made to the value of assets in determining capital resources and/or the regulatory capital requirements</p>
14.6.16	For clarification, we propose revising “relevant industry experience” to “relevant insurance industry experience”.
14.7.4	Regarding the description of holding capital to cover the cost of uncertain cash flows, it is required by ICS 17.2 and is jurisdiction independent. Therefore, the reference to “In jurisdictions where insurers hold capital to cover the cost of uncertain cash flows,” should be revised to “As insurers hold capital to cover the cost of uncertain cash flows,”.

**ICP17 (Capital Adequacy)**

No.	Comments
17.1.6	The sentence “Both approaches may be similar in outcome although the detail of the approach may be different.” is considered unnecessary since a look-through of the subsidiary may change the outcome.
17.2.6	In conjunction with the change of “going concern capital” to “core regulatory capital resources”, the phrase “or “gone concern capital”” should be deleted and the phrase “It would be expected that <u>going concern capital</u> ” should be revised to “It would be expected that <u>core regulatory capital resources</u> ”.
17.3.4	Whether or not seeking enforcement of supervisory measures requires court approval vary according to jurisdiction. Therefore, the statement "In this case, control levels should generally be simple and readily explainable to a court when seeking enforcement of supervisory measures" should be revised as follows: “In jurisdictions where enforcement of supervisory measures require court decision, control levels should generally be simple and readily explainable to a court”.
17.6	<p>The following statement should not be deleted because it is important to be open and transparent about regulatory capital requirements:                      “The regulatory capital requirements are established in an open and transparent process, and the objectives of the regulatory capital requirements and the bases on which they are determined are explicit.”</p> <p>The following should not be deleted as well.</p> <ul style="list-style-type: none"> <li>- Current 17.6.1 "Transparency as to the regulatory capital requirements that apply is required to facilitate effective solvency assessment and supports its enhancement, comparability and convergence internationally."</li> <li>- Current 17.6.5 “Usually the MCR would be constructed taking into consideration the possibility of closure to new business. It is, however, relevant to also consider the going concern scenario in the context of establishing the level of the MCR, as an insurer may continue to take on new risks up until the point at which MCR intervention is ultimately triggered. The supervisor should consider the appropriate relationship between the PCR and MCR, establishing a sufficient buffer between these two levels (including consideration of the basis on which the MCR is generated) within an appropriate continuum of solvency control levels, having regard for the different situations of business operation and other relevant considerations.”</li> </ul>

	<p>GIAJ comments on “Insurance Capital Standard as a prescribed capital requirement, ICP 14 (Valuation) and ICP 17 (Capital Adequacy)”</p> <ul style="list-style-type: none"> <li>- Current 17.7.4 “The supervisor should be explicit as to where risks are addressed, whether solely in technical provisions, solely in regulatory capital requirements or if addressed in both, as to the extent to which the risks are addressed in each. The solvency requirements should also clearly articulate how risks are reflected in regulatory capital requirements, specifying and publishing the level of safety to be applied in determining regulatory capital requirements, including the established target criteria (refer to Standard 17.8).”</li> </ul>
17.7.4	<p>In the examples of qualitative requirements in the last sentence, "risk controls" seems to be intended as "risk control measures". Therefore, we suggest adding "measures" for clarification as follows:</p> <ul style="list-style-type: none"> <li>- Requiring the insurer to control particular risks via exposure limits and/or qualitative requirements (such as additional systems and control <u>measures</u>) may be more appropriate than requiring the insurer to hold additional regulatory capital resources.</li> </ul>
17.11.26	<p>The reference to “the duration of the insurer’s obligations to policyholders, which should be assessed on an economic basis rather than strict contractual basis” should be consistent with the boundaries for insurance contracts referenced in ICP 14.6.4.</p>
17.11.34	<p>We propose that “the quality and suitability of capital resources” be revised to “the quality and suitability of capital elements”.</p>
17.13.1	<p>We propose deleting the statement "regulatory capital requirements reconcile to the solvency balance sheet used in determining regulatory capital resources". The B/S used in the internal model may more appropriately reflect the reality of the IAIGs than the B/S in the ICS, which emphasizes minimizing inappropriate pro-cyclical behaviour (ICS Principle 7) and the balance between risk sensitivity and simplicity (ICS Principle 8). In addition to this, the B/S used in the internal model may be rather conservative, and therefore, inconsistency with the B/S specifications in determining regulatory capital resources should not be a barrier to internal model approval.</p>
17.13.6	<p>Does "a temporary minimum level of the regulatory capital requirements during the transition period" here mean the same as "a capital requirements add-on during the transitional period" in 17.12.13? If so, the wording should be the same.</p>
17.14	<p>Regarding the heading "Quality test for internal models", ICP 17.3 uses "statistical quality test," and we think the terms should be aligned.</p>
17.16.7	<p>Regarding the final sentence “The use test should also ensure the adequacy of systems and controls in place for the maintenance, data feeds and results of the model.”, we propose revising "The use test" to "The insurer" since it is not about the “use test” (the third bullet point of the requirement listed in 17.16) but about the “adequate governance and internal controls” (the first bullet point).</p>