

## **Summary and resolution of comments received during the public consultation on the draft definition of comparable outcomes and high-level principles to inform the criteria that will be used to assess whether the AM provides comparable outcomes to the ICS**

### **Introduction**

- Between 9 November 2020 and 23 January 2021, the IAIS consulted on the draft definition of comparable outcomes and high-level principles (HLP) to inform the criteria that will be used to assess whether the Aggregation Method (AM) provides comparable outcomes to the Insurance Capital Standard (ICS).
- The IAIS received numerous comments that provided valuable input for further advancing this work.
- This document provides high-level resolutions for the comments received during the public consultation.
- The IAIS notes that many of the comments request clarification of the terminology used. Clarity of interpretation is intended to be addressed as part of the development of the criteria. Consequently, the IAIS has agreed to retain without changes the draft definition of comparable outcomes and high-level principles to inform the development of the criteria.
- The consultation on the draft criteria is scheduled to take place in the fourth quarter of 2021.

Reference	Summary of comments received	IAIS response
Draft Definition of comparable outcomes	<p>Several comments related to clarifications and suggestions for revising the definition:</p> <ul style="list-style-type: none"> <li>• “<i>produce similar... results over time</i>” is unclear and should be clarified in the criteria;</li> <li>• Suggest to delete “<i>but not necessarily identical</i>” as similar provides the same assurance;</li> <li>• AM should have the same level of policyholder protection as the ICS, so it is suggested to replace “<i>similar, but not necessarily identical, results</i>” with “<i>the same level of policyholder protection</i>”;</li> <li>• Scenarios should be defined for which outcomes will be compared (eg high/low interest rates, high//low spreads, pure life vs pure non-life vs mixed entities, different group sizes, different asset mixes, mature low growth/high growth company, etc.);</li> <li>• AM and ICS should remain comparable over time (ie continuous follow-up monitoring); and</li> <li>• Suggestion for a glossary of agreed terms when the criteria are set.</li> </ul>	<p>Many comments suggested the need to clarify or expand on different aspects of the definition. The criteria will necessarily be more granular and are expected to address clarifications sought by the respondents. As such, the draft definition will be retained and the comments will be taken into consideration during the development of the criteria.</p>
	<p>Several comments related to the reference to supervisory action in the definition:</p> <ul style="list-style-type: none"> <li>• Clarify what is meant by “<i>that trigger supervisory action on capital adequacy grounds</i>”;</li> </ul>	<p>Supervisory action is addressed in ICP 17, which will be the starting point for any further work on clarifying this aspect of the definition. As it undertakes its work on the development of the comparability criteria, the IAIS will determine if any further elaboration is needed compared to ICP 17. The IAIS notes that any further guidance should be: 1) broad, as</p>

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	<ul style="list-style-type: none"> <li>Both ICS and AM should provide robust signals that enable all relevant supervisors to take coordinated actions;</li> <li>Clarify if multiple points of supervisory action will be compared or just intervention triggered by capital falling below the ICS PCR; and</li> <li>The ladder of supervisory intervention should be similar for the ICS and AM – the criteria should specify group-level supervisory actions that will be benchmarked in the assessment.</li> </ul>	<p>supervisory frameworks are all different; and 2) not overly prescriptive, in order to maintain supervisory flexibility.</p>
	<p>Some comments suggested that the AM should not be assessed against the ICS, but rather:</p> <ul style="list-style-type: none"> <li>based on its ability to fulfil policy objectives; or</li> <li>against an independent standard against which the ICS would also be assessed.</li> </ul>	<p>The ICS is being developed as the consolidated group-wide capital standard for Internationally Active Insurance Groups (IAIGs). The ICS will form part of the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame). ComFrame provides, for the first time, a global framework for the cross-border supervision of IAIGs.</p> <p>The comparability assessment will determine whether the AM provides comparable (ie substantially the same) outcomes to the ICS. As such, the AM will be assessed against the ICS.</p> <p>This is consistent with the Kuala Lumpur Agreement, reached in November 2017, which stated that “...<i>the IAIS aims to be in a position by the end of the monitoring period to assess whether the aggregation method provides comparable, i.e. substantially the same (in the sense of the ultimate goal), outcomes to the ICS. If so, it will be</i></p>

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		<p><i>considered an outcome-equivalent approach for implementation of ICS as a PCR.”</i></p> <p>Additionally, consistent with the agreement in Abu Dhabi in November 2019, development of the criteria will be done “...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.”</p>
	<p>The comparability assessment should include both quantitative, as well as qualitative components.</p>	<p>The comparability assessment will not be a purely quantitative exercise and will address all aspects set out in the HLPs. However, as the ICS is the quantitative element of ComFrame, the comparison of the AM to the ICS will be of the quantitative elements of the group supervisory frameworks. The AM will be compared to the ICS, which will be a standard for determining group solvency, and not a broader supervisory framework. Qualitative aspects are captured in other components of ComFrame.</p>
HLP 1	<p>Several comments related to clarifications and further suggestions for revising the HLP:</p> <ul style="list-style-type: none"> <li>• Clarify or remove reference to “<i>significantly correlated</i>” as it is ambiguous and inconsistent with the definition of comparable outcomes;</li> <li>• Business cycle is unclear, no standard definition – it should be adequately defined or removed;</li> <li>• Clarify or remove reference to “<i>short-term market fluctuations</i>”; and</li> </ul>	<p>HLP 1 will be retained as drafted and used as the basis for developing the draft criteria. Those comments that are consistent with and do not contradict HLP 1 and/or previous IAIS decisions regarding comparability will be considered in the development of the draft criteria.</p>

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	<ul style="list-style-type: none"> <li>Allowing the “<i>quantum of change</i>” to differ can lead to cases where the change in one method (ICS or AM) would lead to supervisory actions and the other would not, so suggest to remove reference to quantum of change.</li> </ul>	
HLP 2	<p>There was broad support for the first paragraph of the HLP, which recognises that while individual elements of a group solvency approach will be analysed, the decision on comparable outcomes will consider the elements in totality.</p> <p>Regarding capital requirements, some respondents provided the following comments:</p> <ul style="list-style-type: none"> <li>having the same underlying risks is unrealistic, while others felt the AM should capture the same risks as the ICS;</li> <li>the target criteria for capital requirements should be the same between ICS and AM; and</li> <li>the overall level of solvency protection provided by the AM and ICS through valuation and capital requirement should be similar.</li> </ul> <p>Regarding capital resources, one respondent said ICS and AM should have the same approach, while another respondent said that local rules should be used with scalars applied to equate different regimes.</p>	<p>HLP 2 will be retained as drafted and used as the basis for developing the draft criteria. Those comments that are consistent with and do not contradict HLP 2 and/or previous IAIS decisions regarding comparability will be considered in the development of the draft criteria.</p>
HLP 3	<p>There was some support for this HLP, while other respondents thought it should be deleted. Some respondents asked for clarity on what is meant by prudent, while other</p>	<p>HLP 3 will be retained as drafted and used as the basis for developing the draft criteria. Those comments that are consistent with and do not contradict HLP 3 and/or previous</p>

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	respondents were concerned that this would set an arbitrary floor for the AM.	IAIS decisions regarding comparability will be considered in the development of the draft criteria.
	This HLP introduces anchoring bias that is pre-judging that the ICS is the most appropriate solvency standard.	<p>The ICS is being developed as the consolidated group-wide capital standard for IAIGs. The comparability assessment will determine whether the AM provides comparable (ie substantially the same) outcomes to the ICS; nevertheless, the process will take into account that during this stage both approaches are yet to be finalised.</p> <p>This is consistent with the Kuala Lumpur Agreement, reached in November 2017, which stated that “...the IAIS aims to be in a position by the end of the monitoring period to assess whether the aggregation method provides comparable, i.e. substantially the same (in the sense of the ultimate goal), outcomes to the ICS. If so, it will be considered an outcome-equivalent approach for implementation of ICS as a PCR.”</p>
	ICS has generally been described as a target capital level, not a minimum.	<p>Once implemented as a prescribed capital requirement (PCR<sup>1</sup>) at the end of the monitoring period, the ICS will be a measure of capital adequacy for IAIGs. It will constitute the minimum standard to be achieved and one which the supervisors represented in the IAIS will implement or propose to implement taking into account specific market circumstances in their respective jurisdictions.</p> <p>While the ICS will be a minimum standard, it will not represent a Minimum Capital Requirement (MCR), which, as per ICP</p>

<sup>1</sup> Insurance Core Principle (ICP) 17.4 defines a PCR as a solvency control level above which the supervisor does not intervene on capital adequacy grounds.

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		17.4, is a solvency control level that if breached, the supervisor would invoke its strongest actions.
HLP 4	There was broad support for this HLP as drafted.	HLP 4 will be retained as drafted and used as the basis for developing the draft criteria. Those comments that are consistent with and do not contradict HLP 4 and/or previous IAIS decisions regarding comparability will be considered in the development of the draft criteria.
HLP 5	<p>Several comments related to clarifications and further suggestions for revising the HLP:</p> <ul style="list-style-type: none"> <li>• Reference to “business cycle” should be removed as an objective comparability cannot be assessed based on such a vague, ambiguous, term;</li> <li>• Flexibility should be allowed if sufficient data cannot be collected, possibly through the development of hypothetical but representative portfolios;</li> <li>• This principle should recognise that the representative sample need only be from the U.S. and other interested jurisdictions;</li> <li>• The representative sample should be from as large a population of such jurisdictions and markets as possible; and</li> <li>• The comparability assessment at inception should be followed by a monitoring exercise on an ongoing basis, in cases where either the ICS or the AM would undergo changes.</li> </ul>	HLP 5 will be retained as drafted and used as the basis for developing the draft criteria. Those comments that are consistent with and do not contradict HLP 5 and/or previous IAIS decisions regarding comparability will be considered in the development of the draft criteria.

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HLP 6	<p>General support was given by several respondents to this HLP while several comments related to clarifications and further suggestions for revising the HLP:</p> <ul style="list-style-type: none"> <li>• It is important to understand what is meant by "similarly transparent" and what is expected from this statement; and</li> <li>• The public disclosure clause should be eliminated.</li> </ul>	<p>HLP 6 will be retained as drafted and used as the basis for developing the draft criteria. Those comments that are consistent with and do not contradict HLP 6 and/or previous IAIS decisions regarding comparability will be considered in the development of the draft criteria.</p>
General Comments	<ul style="list-style-type: none"> <li>• Comparability criteria should remain stable and robust enough to withstand any changes in the design of the ICS and AM;</li> <li>• It is desirable to have as many insurance groups that report AM results as possible report ICS results to deliver robust and credible output of the AM comparability assessment to the ICS; and</li> <li>• Suggest an additional clause that AM and ICS must not give rise to unfair competitive advantage to groups based on which of the bases they are using.</li> </ul>	<p>The general comments will be considered in the development of the draft criteria.</p>