



The Insurance Policy Advisory Committee (IPAC)

Record of Meeting

June 8, 2022

Washington, District of Columbia

1. Opening Comments

The IPAC Chair and Vice Chair opened the meeting and welcomed the members and invited guests. The IPAC Secretary highlighted IPAC members' exceptional contribution while navigating the COVID pandemic and congratulated the IPAC Insurance Capital Standard Working Group (ICS WG) for its progress.

2. IPAC Working Group Updates

IPAC members discussed the IPAC's participation in the climate roundtable and then voted to close the Climate Risk Working Group (CR WG).

The IPAC's Supervisory Framework working group also completed its mandate of providing feedback to the Board on its proposed insurance supervisory framework, and IPAC members voted to close the Supervisory Framework Working Group as well.

The IPAC Chair then facilitated a discussion with IPAC members regarding the need to establish a new working group. IPAC members raised a range of possibilities before settling on liquidity risk as a topic of interest. Several members suggested narrowing the focus of this group to a specific aspect of liquidity and one member agreed to draft a narrower proposal.

3. International Association of Insurance Supervisors (IAIS) Insurance Capital Standard (ICS): What input do IPAC members have as the IAIS develops comparability criteria for the ICS and Aggregation Method (AM)?

IPAC Secretariat staff introduced the IAIS's plans to start a public consultation on the Aggregation Method comparability later in the month and provided a timeline of IAIS's plan to finalize the criteria to assess whether the AM provides comparable outcomes to the ICS. IPAC Secretariat staff then welcomed member input on (1) how the Board should engage with the IAIS if ICS-AM comparability criteria could not be agreed upon, (2) how likely it would be that a U.S. stakeholder, such as a rating agency, would request ICS results from a domestic insurer in absence of a regulatory requirement, and (3) whether the IAIS should extend the monitoring period and delay the determination of comparability of the ICS and AM.

Some members suggested that an unacceptable agreement on comparability could lead domestic U.S. insurers to move away from the ICS but would impede U.S. firms operating in the global arena. This would potentially create an unlevel playing field and threaten the credibility of the U.S. insurance regulatory framework internationally. Members outlined how the ICS, in its current form, could adversely affect U.S. insurers and how these impacts could vary between different types of insurers. Some members agreed that U.S. stakeholders could request ICS results, although the complexity of the data could create calculation issues. IPAC members advised that the main objective in the comparability criteria should be recognition of the U.S. system, particularly the AM. Many members agreed that the IAIS should extend

the monitoring period and delay the determination of the AM-ICS comparability, given the challenges caused by COVID-19. Regardless of the recognition of the U.S. system, IPAC members advised IPAC Secretariat staff to remain engaged internationally on these issues.

What are the views of IPAC members on the IPAC Insurance Capital Standard working group's (ICS WG) analysis of the potential impacts of the ICS?

IPAC ICS WG members solicited IPAC members' feedback on the communication plan for its completed paper, "*Potential Impact of the International Association of Insurance Supervisors' Insurance Capital Standard on the Life Insurance Industry, Policyholders and Markets in the United States*", and how to handle questions that may arise from stakeholders.

IPAC ICS WG members highlighted final edits made to the ICS paper ahead of IPAC's review and approval. Then the ICS WG members provided a high-level overview of the ICS WG's work and shared the WG's model and observations on the hypothetical impact of the ICS as a prescribed capital requirement (PCR) for U.S. insurers.

The ICS WG concluded that (1) the ICS fails to reflect several relevant asset classes in calculating spreads and is overly reactive to spread movements; (2) the treatment of participating life insurance products in the ICS discounting methodology is misaligned with the actual risk-mitigating profile of that business, overstating risk charges, especially in low interest rate environments; and (3) the ICS does not recognize dynamic hedging programs nor the use of long-term alternative assets in asset & liability management.

ICS WG members recommended that, to be appropriately designed for the business practices, products, markets, and the supervisory regime in the U.S., the proposed revisions described in the IPAC report will need to be satisfactorily addressed and incorporated into ICS. Members of the ICS WG then asked IPAC members for final input before the paper would be disseminated.

Following this discussion, IPAC members voted to approve and publish the ICS WG's paper and to close the IPAC ICS WG in no more than three months following the publication.

4. Additional Matters

IPAC Secretariat staff provided members a schedule of upcoming IAIS committee meetings, followed by a discussion of IAIS's intent to ask the Financial Stability Board for a decision on the future of global systemically important insurer designations. The IAIS's work on climate risk, including its data collection for the Global Monitoring Exercise was also discussed. Finally, staff discussed the development of guidance materials for supervisors on Scenario Analysis and the continued work on the IAIS's Insurance Core Principles and ComFrame gap analysis.

The IPAC Chair then thanked IPAC members for their continued engagement and closed the meeting.