



**The Insurance Policy Advisory Committee (IPAC)**  
**Record of Meeting**  
February 23, 2023  
Washington, District of Columbia

**1. Opening Comments**

The IPAC Chair opened the meeting, welcoming the new IPAC members and thanking returning members for their continued dedication to the committee. The IPAC Secretary announced appointments of Board staff to leadership roles within International Association of Insurance Supervisors (IAIS) committees, congratulating them for their achievements.

**2. Roundtable Discussion on Current and Near-Term Market Conditions: What are IPAC members observing in terms of current insurance market conditions and what are your expectations for conditions over the next year?**

The IPAC Chair facilitated a discussion among IPAC members covering current market conditions and other issues impacting the U.S. insurance market. Inflation and rising interest rates were the most prominent issues. Inflation is adversely affecting property and casualty (P&C) insurers because of the time lag between paying claims and resetting premiums. Social inflation, the increase in claim costs above the rate of general inflation, is also a challenge. While it was noted that rising interest rates are generally favorable for life insurers due to their long-dated liabilities, derivative collateral calls and disintermediation can increase liquidity risk. Members were also concerned about potential stagflation and how it could impact insurance sales and cause credit losses, particularly on leveraged loans and structurally subordinated securitizations. Underwriting losses from natural catastrophes and the resulting reinsurance market were also a key challenge.

**3. IAIS Insurance Capital Standard (ICS): What are the views of IPAC members on the IPAC ICS working group's (WG) conclusions on design elements of the Market Adjusted Valuation approach and ICS risk charges?**

IPAC Secretariat staff and ICS WG members provided an update on their continued work to address ICS design specifications and to develop support for the Aggregation Method scalar approach. The ICS WG outlined its current thoughts and recommendations on outstanding issues related to the ICS Impact Study, including on the middle bucket criteria, on the treatment of ineligible assets, and on the calibration of the interest rate risk charge. The WG concluded that further refinements to the middle bucket criteria are necessary to admit more U.S. products, and that the treatment of non-eligible assets in its weighted average multiple representative portfolios calculation should be modified to provide for a more appropriate middle bucket spread. The WG also concluded that the interest rate risk documentation under the ICS framework is not robust and that there are several methodology weaknesses.

**4. What are IPAC members' recommendations for developing support for the Aggregation Method's scalar approach?**

The IPAC had an initial discussion on potential future work related to scaling. This discussion highlighted past work on scaling by the IPAC Secretariat staff and by an IPAC member. One IPAC member

analogized issues with scaling to diversification risk in the ICS. Others expressed preliminary thoughts on scaling methods and questions for the group to consider.

#### **5. The IPAC ICS WG's analysis of the potential impacts of the IAIS's ICS and the WG's outreach efforts**

IPAC Secretariat staff and ICS WG members facilitated a discussion on the IPAC ICS WG's outreach efforts and follow-up work. As a follow up to its ICS paper, the WG led a discussion focused on elements of the ICS that may require further study or changes.

#### **6. Readout on other IAIS matters**

IPAC Secretariat staff briefed IPAC members on other IAIS matters, highlighting work of the Macropprudential Monitoring Working Group to revise the Individual Insurer Monitoring assessment methodology after a recent public consultation. Staff also briefed members on the Financial Stability Board's endorsement of the Holistic Framework, resulting in global systemically important insurer designations being discontinued, and on the continued work on climate risk by the IAIS.

#### **7. What are IPAC members' views of the IPAC Liquidity WG's work on liquidity risk in insurance markets?**

IPAC Secretariat staff and Liquidity WG members updated IPAC members on the WG's workstreams. The WG's collateral workstream evaluated current rules on clearing and margin requirements, researching how the cashflows work, and what the cash requirements are for cleared and uncleared swaps. The WG's public data workstream assessed U.S. life insurer derivative data against the U.S. market.

#### **8. Future IPAC Working Groups**

IPAC members then discussed potential future working groups. IPAC Secretariat staff provided rationale for the limit of two working groups and reviewed ideas that had been raised at previous IPAC meetings for future potential working groups. Some IPAC members expressed support for a working group dedicated to gather more understanding of protection gaps. Other members expressed support for performing additional work on the ICS, including potentially related to the ICS economic impact study. Members agreed to postpone a vote to open another working group until the next IPAC meeting.

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