The Insurance Policy Advisory Committee (IPAC)
Record of Meeting
June 1, 2023
Washington, District of Columbia

1. Opening Comments

The IPAC Chair opened the meeting and welcomed the members and invited guests, including Michael Barr, Vice Chair for Supervision of the Board. The IPAC Secretary introduced Vice Chair Barr, who expressed his appreciation for the IPAC's work.

2. Roundtable Discussion with Vice Chair Barr

The IPAC Chair and Vice Chair Barr then facilitated a group discussion with IPAC members on various topics of interest to members and the Vice Chair.

Several IPAC members commented on the impact of current macroeconomic conditions on the life insurance market. One IPAC member highlighted the benefits of higher interest rates on new business and in-force liabilities, offset, at least in the short-term, by depressed fixed income asset valuations. Prior to the current interest rate environment, the industry experienced a relatively prolonged period of low interest rates and, in response, insurers took on more credit risk in order to pay guaranteed crediting rates on certain long-term products. Some insurers also reduced long-term insurance product offerings, although the recent rise in rates has reinvigorated demand for these products. Another member commented that interest rate volatility is more difficult to manage when rates are higher.

In the property and casualty (P&C) market, one IPAC member noted that losses related to secondary perils (wildfires, floods, hailstorms, etc.) have surged, driven by significant increases in the amount, frequency and severity of losses, resulting in pricing pressures and declining coverage. Elevated inflation was also noted as having a material negative impact as premium rate increase approvals are lagging higher claim costs.

Several IPAC members expressed their views on the proposed Financial Stability Oversight Council (FSOC) guidance for Nonbank Financial Company Determinations. IPAC members acknowledged increased interconnectivity in the insurance sector. However, members stressed that the insurance industry's emphasis on effective asset-liability management and liability driven investments, particularly in the life insurance sector, help it avoid the vulnerabilities of recently failed banks. Members also emphasized the differences between the runability of insurance liabilities compared to bank deposits, highlighting that even the subset of life insurance products that can be cashed out often have penalties for doing so, and that P&C insurers' investments are short and have minimal interconnectedness.

3. What are IPAC members' thoughts on the work done by the ICS WG's (Insurance Capital Standard Working Group) qualitative workstream?

The Chair of the IPAC's ICS WG's qualitative workstream introduced the workstream and discussed its mandate to set up the themes and provide context to the quantitative work on scalars. Workstream members compared the Aggregation Method (AM) and the International Association of Insurance Supervisors (IAIS) ICS, highlighting that the AM is not an outlier methodology, but simply a different way of getting to the same result as the ICS. While whatever scalars that are eventually agreed on may not be precise, the rigor of the work is considered valuable. Members noted that both the AM and ICS incorporate significant expert judgment. IPAC members viewed one of the AM's key relative benefits is that it reflects fungibility of capital and local tailoring for liabilities. IPAC members anticipate a decision soon from the National Association of Insurance Commissioners (NAIC) on which scalars will be used for AM.

4. What are IPAC members' thoughts on the work done by the ICS WG's quantitative workstream?

The work of the quantitative workstream on scalars was described by its Chair, including an evaluation of the qualitative implications of the quantitative assessments of several scalar methods. The team is working to narrow the methods down to those expected to be plausible.

One of the scalars being evaluated is a probability of a default scalar, leveraging data on U.S., French and Canadian insurance companies. The workstream is also evaluating the utility of scalars covering companies reporting both AM and ICS data, noting that the small sample size may be an issue. Generally, the work will focus on NAIC Risk-Based Capital (RBC) and Solvency II regimes, but, if possible, will also look at scaling to the ICS. The workstream is not trying to assess AM/ICS comparability.

5. What are IPAC members' views on the proposed FSOC guidance?

The director of the Board's Financial Stability division joined the IPAC members to hear their views on the FSOC's proposed guidance released in April. Several opinions expressed during the roundtable discussion were reiterated by members. Commercial real estate (CRE) exposure was an area where members highlighted potential interconnectedness and where an activities-based approach might be appropriate, although CRE risks were not viewed by members as systemic for insurers.

Another member noted the benefits of the IAIS's holistic framework and asked about the interplay between FSOC designations and the IAIS framework.

6. What are IPAC members' views of the IPAC Liquidity WG's work on cash margin requirements from centrally cleared interest rate derivatives?

The chair of the IPAC's Liquidity WG discussed with IPAC members conclusions from its work and invited feedback. The WG's conclusions noted that life insurers are known to typically have strong liquidity positions, with balance sheets driven by long-term illiquid liabilities, active hedging programs, and ample sources of contingent liquidity. Market stresses, however, can strain insurer liquidity and make contingent liquidity source uncertain.

Liquidity risks were investigated by three workstreams: data, collateral requirements, and market access. IPAC members expressed appreciation for how the workstream discussions have raised awareness of various liquidity risks and with the work concluded, agreed to disband the working group.

7. What are the members' views on the study to be done by the Federal Reserve and the Federal Insurance Office (FIO), consistent with the Economic Growth, Regulatory Relief and Consumer Protection Act (EGRRCPA)?

The EGRRCPA directs the Secretary of the Treasury, the Chairman of the Board, and the Director of FIO, in consultation with the NAIC, to complete a study on the impact on consumers and markets in the United States before supporting or consenting to the adoption of any final international insurance capital standard. The Board sought the IPAC members' views on whether they believe the Board should conduct the study and, if so, how it should be designed. Members expressed their view that conducting the study would provide flexibility for the Board and the FIO in negotiating capital standards. The study could leverage some of the work done by IPAC's ICS working group. One member pointed out the study should also include the implementation cost and ongoing maintenance costs.

8. Additional Matters

Other IAIS Items: The IAIS is emphasizing climate work, which can potentially impact the IAIS Insurance Core Principles (ICPs). A member expressed concern about data quality and lack of differentiation between life and P&C businesses in reviewing the ICPs.

Future IPAC Work: On future IPAC working groups, a member proposed working on insurance protection gaps. Another proposal was for a climate risk working group, which needs to have an identified goal and be focused. Members discussed, without making a decision, the possibility of working on an IPAC comment letter on the recent FSOC guidance.

The IPAC decided to form the climate risk working group, as well as having the ICS working group work on a response to the IAIS public consultation on the ICS.

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