



The Insurance Policy Advisory Committee (IPAC)
Record of Meeting
February 22, 2024
Washington, District of Columbia

1. Opening Comments

The IPAC Chair opened the meeting, welcoming all members to the first meeting of 2024. All IPAC members introduced themselves and shared their thoughts on IPAC's mandate and the importance of providing advice to the Board on insurance matters.

2. Roundtable Discussion on the Current Macroeconomic Environment

The IPAC Chair facilitated a roundtable discussion among the members on the impact of the current macroeconomic environment on the insurance industry. Members emphasized that higher interest rates have led to solid growth and demand for fixed annuity products, particularly those with guarantees and withdrawal features, but that markets remain very competitive. Members noted the life insurance industry faces possible challenges with asset liability matching of long duration life products due to the inverted yield curve. Members highlighted that although property and casualty (P&C) insurers have benefited from rate increases, advancements in technology and inflation have increased replacement costs and resulted in higher underwriting losses.

Members expressed concerns about cyber risk and cyber security threats, which remain a top priority for insurers, but noted that the use of artificial intelligence can enhance the effectiveness of cyber threats and cyber events. Generally, members were not concerned with risks relating to commercial real estate exposure, emphasizing that the risk is manageable given the well-diversified investment portfolios of most insurers.

3. Based on the Financial Stability Oversight Council (FSOC) Guidance on Nonbank Financial Company Determinations, what are your views of the level of systemic risk in the life insurance sector? What has changed in the sector since the de-designation of US insurers in 2010 that may affect systemic risk? To what extent should this topic be considered for further study?

The IPAC Vice Chair facilitated a discussion on the views of systemic risk within and outside the insurance sector. Specifically, asking about changes in transmission channels since original insurance company designations. Multiple members commented on the need to differentiate P&C insurers and life insurers in systemic risk discussions. Several members commented on the importance of good asset-liability management practices. One member commented that asset fire sale risks driven by an acceleration of liability maturities/withdrawals is seen as less of a concern but could emerge at some companies if rates rise rapidly; the larger concern, however, is default risk. Members noted that emerging climate and cyber risks could lead to systemic issues, but the transmission channels are difficult to identify.

Generally, members felt that systemic risks generated at the individual company level were remote and that regulators' focus should be on appropriateness of activities. Members noted it would be helpful for FSOC to incorporate into its guidance designation measures and thresholds.

Several members noted concerns related to the interconnectedness of risk transfer through asset intensive reinsurance. It was noted that this can provide transparency and uniformity, and potentially result in less stringent regulation. Multiple members commented that if this business model were to experience difficulty, and a significant amount of the recent reinsurance transactions were recaptured, this could be problematic. Members commented that these issues were under investigation by the states and other regulators.

The IPAC Vice Chair asked for consideration of a future working group to review systemic risk and plans to draft a summary of what the group might cover.

4. How do IPAC members expect the Federal Housing Finance Agency (FHFA)'s review of the Federal Home Loan Bank (FHLB) System to impact the insurance industry?

IPAC members discussed the FHFA's recently conducted review of the role of FHLB and an evaluation of its mission. IPAC members noted that insurers use FHLB for duration management, spread lending, collateral management, and to a lesser extent short-term liquidity. While one member stated that some purposes may not be consistent with the FHLB's mission, multiple other members noted that insurers must post eligible collateral, which could be understood to support the FHLB's mission.

The IPAC Vice Chair asked for consideration to conduct a survey or study on the FHLB's new mission and consider the impact to the insurance industry.

5. Discuss request for Insurance Capital Standard (ICS) Working Group to facilitate and gather perspectives from U.S. stakeholders ahead of a planned vote by the International Association of Insurance Supervisors (IAIS) on the ICS.

IPAC Secretariat staff and IPAC ICS working group members provided an update on their continued work, and their request to gather perspectives from IPAC members and U.S. stakeholders leading up to the planned vote in December on the ICS at the IAIS. IPAC members agreed to support this request, and the ICS workgroup will engage on this work over the summer.

6. The ICS working group provided an overview of the report on scalars. Do IPAC members support adopting the draft report on scalars?

The IPAC ICS working group delivered a report on the work they performed to advance the understanding of scalars, an integral component of the U.S.-developed Aggregation Method (AM). IPAC members approved the scalar report which will be shared with regulators and other stakeholders and hosted on the American Academy of Actuaries website.

7. The Climate Risk Working Group provided an update on insurance availability and affordability.

The IPAC Climate Risk Working Group presented an update on their research on insurance availability and affordability issues in selected states (California, Florida, Louisiana, New York, and Texas). The research considers homeowner coverage minimums, the rate regulation approval process, requirements for rate setting, and their insurers of last resort (residual markets). The working group will present their findings to the Federal Reserve Board in May 2024.

8. Additional Matters

Other IAIS Items: IPAC Secretariat staff briefed IPAC members on other IAIS matters. Staff highlighted the public consultation on climate risk supervisory guidance - scenario analysis and market conduct launched by the IAIS and provided additional clarity on the Targeted Jurisdictional Assessment (TJA) Aggregate Report to the Financial Stability Board on implementation of the Holistic Framework.

9. Future IPAC Working Groups

IPAC members discussed the idea of new working groups to study systemic risk on the insurance sector, and a survey on FHLB issues. One member suggested a discussion of geopolitical risk at the June 2024 IPAC meeting. The IPAC Secretariat provided rationale for the two-working group limitation; however, it agreed to look into potential additional resources to support this work, and the IPAC will revisit the subject at the next IPAC meeting in June.

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