7.10 Premium and Claims Reserve risk

Q87 Section 7.10 Do the changes described above in the ICS jurisdictional segments and categories properly reflect business specificities within each region? If "no", please provide rationale and alternative suggestions supported by evidence.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	Yes	
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	Yes	
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	Yes	
International Actuarial Association	International	No	Yes	We agree that segments should be based on jurisdictional reporting.
General Insurance Association of Japan	Japan	No	Yes	
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	Yes	

Legal & General	UK	No	Yes	We are comfortable with these
Association of British Insurers	United Kingdom	No	No	The ABI notes the IAIS's requirement that exposures to Premium and Claims Reserve risks should be reported based on the location of the risks. We note that for 2018 Field Testing, the segmentation for "other developed" or "emerging" markets has been changed by merging some of the segments. We also note that a "short tail medical expenses" segment has been added to some geographical areas.
National Association of Mutual Insurance Companies	United States	No	No	The standard formula should be more flexible allowing for differences in jurisdictional treatment of risks.
Property Casualty Insurers Association of America (PCI)	USA	No	No	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Yes	Yes.

Q88 Section 7.10 Is the aggregation approach described above appropriate for the determining the non-life risk charge for ICS Version 2.0? If "no", please provide evidence, rationale, such as studies or impact assessments that could support an alternative approach.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments

China Banking and Insurance Regulatory Commission (CBIRC)	China	No	No	We view that the majority of correlation factors are relatively high for Chinese market, including the following aspects: 1)ICS assumes 100% correlation within each IAIS category, e.g. assume 100% correlation between Property, Agriculture, Marine and Special in the property-like category. But the cause of losses for each business line is quite different and should have lower correlations. For example, the loss of Marine is often from collision and accidents, the loss of Agriculture is often from natural disasters and pest diseases, while the loss of Property is often from fire, explosion and natural disasters. 2)ICS assumes 50% correlation between each IAIS category, but the Agriculture often has very low or zero correlation with other lines of business; the Motor-like should have low correlations with Property-like and Liability-like business. Therefore, a 50% for all categories overstates risk charges for Chinese market.
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	Yes	
Insurance Europe	Europe	No	No	Diversification and interactions between risks are difficult to capture using a standard approach when applied to IAIGs with different exposure profiles to jurisdictions, products, and investments. The proposed diversification benefits are quite limited. A particular concern is that there is no allowance for geographical diversification within the EU.
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	Yes	
Global Federation of Insurance Associations	Global	No	No	Diversification and interactions between risks are difficult to capture using a standard approach when applied to IAIGs with different exposure profiles to jurisdictions, products, and investments. The proposed diversification benefits under the proposed approach are quite limited. A

				particular concern is that there is no allowance for geographical diversification within the EU, or within different regions of the USA.
General Insurance Association of Japan	Japan	No	No	Simple aggregation is applied for risks within the same ICS category, property-like, liability like, and motor-like. However, each category includes diversified lines of business and covers different risks whose results do not necessarily move in the same way. Therefore, diversification should be applied within each category. The correlation factor could be set based on the 2018 FT data submitted and qualitative judgement. Alternatively, a single factor could be applied worldwide. In the latter case, the diversification benefits will be inconsistent between geographical segmentations since each region has different business segmentations within the categories. In order to deal with this issue, one idea is to set sub-categories within each category, align the number of sub-categories between different regions, and apply diversification between them.
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	Yes	
Legal & General	UK	No	Yes	We are comfortable with these
Association of British Insurers	United Kingdom	No	No	Diversification and interactions between risks are difficult to capture using a standard approach when applied to IAIGs with different exposure profiles to jurisdictions, products, and investments. The diversification benefits under the proposed approach are quite limited. A particular concern is that there is no allowance for geographical diversification within the EU, or within different regions of the USA.
National Association of Mutual Insurance Companies	United States	No	No	The efforts to include diversification are a step in the right direction, but the current treatment is not a completed approach. The ICS is not yet fit for purpose. Significant additional work is needed to achieve an appropriate global capital standard and it may be completely unachievable. Mitigation risk and all other risks and their factors should be determined by the

				local jurisdictional supervisor. NAMIC disagrees with the mandate of a standard method, the 99.5% VaR calibration level and the IAIS dictating the factors to be used in the formula. Jurisdictional flexibility is the appropriate way to capture these risks with mutual recognition and shared understanding of the jurisdictional approach at supervisory colleges.
RAA	United States and many other jurisdicitons	No	No	Diversification and interactions between risks are difficult to capture using a standard approach when applied to IAIGs with different exposure profiles to jurisdictions, products, and investments. The proposed diversification benefits under the proposed approach are quite limited. A particular concern is that there is no allowance for geographical diversification within the EU, or within different regions of the USA.
American Academy of Actuaries	United States of America	No	No	We have the following concerns with the described approach: • There is no obvious segment for U.S. Workers' Compensation, which is typically the largest line for property/casualty commercial insurance in the US. It is not a liability coverage, as workers are generally prohibited from suing through the court system for workplace injuries. The risk is generally from varying workplace accident rates and from long-term medical inflation, as an injured worker is covered for lifetime medical care related to the workplace injury, regardless of the length of time between the accident date and medical treatment. These are generally not the major risk factors for liability lines. • Commercial Auto and Personal Auto are likely both grouped under the "motor" category, but the risk associated with the two can be very different. In 2017, per Best's Aggregates & Averages, the amount of adverse development for Commercial Auto Liability was comparable to that from Personal Auto Liability, even though Personal Auto Liability volume is over 5 times that of Commercial Auto Liability. We recommend an approach similar to the loss concentration factors used in the NAIC risk-based capital (RBC) formula that better reflects diversification across products. • We recommend that Surety premium and claim risk be considered insurance risks and not Credit risks. We point out (per the 2009 Best's Aggregates & Averages report) that the

				accident year 2007 and 2008 loss ratios for the Fidelity/Surety line for the U.S. property/casualty industry were 33 percent and 36 percent respectively. If those lines were highly correlated with overall Credit risk then the loss ratios for those years would not have been so favorable. • We believe that geographic diversification should be based on jurisdictions and not regions, as court decisions in one jurisdiction do not apply to other jurisdictions in that region. In addition, policy terms and product design can vary materially by jurisdiction within a given region. For example, Ontario auto policies can provide unlimited lifetime care under Bodily Injury coverage, while U.S. auto policies have policy limits that are typically limited to several hundred thousand dollars or less.
Property Casualty Insurers Association of America (PCI)	USA	No	No	The proposed diversification benefits under the proposed approach are quite limited. A particular concern is that there is no allowance for geographical diversification within a region (e.g., different geographical areas within North America, or in Europe).
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Yes	Yes.

Q89 Section 7.10 Do the factors applied to Premium and Claims Reserve exposures properly capture the unexpected loss, at a 99.5% VaR over a one-year time horizon, for each segment? If “no”, please provide rationale, evidence and materiality assessment of the potential impact on the non-life risk charge.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments

China Banking and Insurance Regulatory Commission (CBIRC)	China	No	Yes	
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	Yes	
Insurance Europe	Europe	No	No	Insurance Europe believes that the following factors reflect an expected loss in excess of the 99.5% calibration objective of the ICS: Premium risk factors • EEA and Switzerland/Workers compensation • EEA and Switzerland/General liability – third party liability • EEA and Switzerland/Credit and suretyship Claims reserve risk factor • EEA and Switzerland/Legal expenses
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	Yes	
International Actuarial Association	International	No	No	The premium risk factors assume that there is “no gain at issue” while the ICS balance sheet does have gain at issue. If gain at issue is recognized in determining capital resources, and the only source of next year’s earned premium is from contracts bound at year-end, then the premium risk starting point is correct. Any deviation from expected losses would reduce capital resources. But there are two problems with this approach: (i) Next year’s earned premium includes both policies bound by year-end and policies not yet bound/recognized. For those policies with expected profit not recognized at year-end, to the extent profit is expected, that profit acts as a cushion to absorb the initial level of bad news. Hence using a 100% combined ratio assumption in determining premium risk likely overstates the risk.

				(ii)The ICS balance sheet recognizes gains on premiums that will be earned after the next year such as renewals on long-term contracts. In this case, the premium risk understates risk.
General Insurance Association of Japan	Japan	No	No	Premium risk factor for Japan/Automobile is set at a much higher level than what we consider appropriate based on the reality and apply in our internal risk management. While we assume the IAIS set the risk factor at a higher level than the theoretical figure based on data collected, we think it should be set based on a theoretical figure that reflects the reality of the risk. The actual loss ratio results we provided in the data collection exercise fluctuate reflecting the revisions of “the standard policy conditions” and “the reference loss cost rates” provided by “the General Insurance Rating Organization of Japan (GIROJ)”. Due to such revisions, any assumptions regarding future loss ratios are inconstant. https://www.giroj.or.jp/english/pdf/Overview_RLCR.pdf While we do agree that the risk factor should be set based on assumptions about the level of future loss ratios and deviations from such assumptions, when such assumptions vary year-by-year due to the above mentioned revisions, it is not relevant to set risk factors based on the standard deviation calculated according to actual loss ratio results of previous years. Instead, the risk factor should be set based on the standard deviation calculated based on the difference of the projected loss ratio and the actual loss ratio results each year. (Supposing that the difference between the projected loss ratio and the actual loss ratio results follow normal distribution patterns, multiplying the standard deviation with a confidence factor of 2.58 to calculate a risk factor equivalent to 99.5% VaR, the resultant risk factor will be around 5 - 7%.) In countries where a particular body provides standard insurance rates and insurers are either required by law to comply with them, or standard market practice dictates use of such rates, then the risk factor should be calculated based on the difference between projected loss ratio and actual loss ratio results, as mentioned above, to eliminate the influence of rate revisions. With regard to projected loss ratios, there could be concerns that not all countries have such data and that the ratio might not be reliable, and be used in hindsight. We propose requiring IAIGs to submit relevant loss ratio data to the IAIS and accumulate relevant knowledge during the monitoring period, thereby maintaining reliability of the data. (We presume that ICS risk factors will not be fixed in the future.)

Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	Yes	
Legal & General	UK	No	Yes	We are comfortable with these
National Association of Mutual Insurance Companies	United States	No	No	NAMIC disagrees with the 99.5% VaR calibration level so the factors are not going to be correct. They are excessive at this level. Jurisdictional flexibility is the appropriate way to capture these risks with mutual recognition and shared understanding of the jurisdictional approach at supervisory colleges.
RAA	United States and many other jurisdicitons	No	Yes	As with many questions in this consultation, this question is impossible to answer without access to aggregated field testing results.
Property Casualty Insurers Association of America (PCI)	USA	No	No	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	No	The factors were based on methodologies that capture the loss, at a 99.5% VaR over a one year time horizon, to a GAAP balance sheet. The unexpected loss under MAV may be different. These differences may only be minor discounting differences for reserve risk, but for premium risk the differences can be more material.

Q90 Section 7.10 Are there some assumptions, such as those aforementioned, which should be reviewed in the coming calibration exercise? If “yes”, please provide details, rationale and detailed methodology to apply.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	No	
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	No	Assumptions made are common shortcuts that aim at simplifying calibration work. While reviewing these may ensure slightly better calibration accuracy, it will also lead to a much more complex calibration process that will hinder further calibration work and diminish the overall understanding of it. Refining calibration assumptions is thus not recommended.
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	No	Assumptions made are common shortcuts that aim at simplifying calibration work. While reviewing these may ensure slightly better calibration accuracy, it will also lead to a much more complex calibration process that will hinder further calibration work and diminish the overall understanding of it. Refining calibration assumptions is not worth it.
International Actuarial Association	International	No	Yes	We recommend reviewing assumptions that differ materially from the way profit is recognized on the ICS balance sheet. These include "gain at issue", profit on renewals and "bound but not incepted" business and treatment of underwriting expenses.
General Insurance Association of Japan	Japan	No	No	
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	No	
Legal & General	UK	No	Yes	As well as our feedback on combined ratio captured in Q91, the assumption around expenses being known with certainty is also unrealistic. The calibration could measure the volatility around expected expenses although this may differ materially between different IAIGs as some will plan with more detail and sophistication than others.

Property Casualty Insurers Association of America (PCI)	USA	No	Yes	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Yes	These assumptions are appropriate for measuring risk on a traditional non-life balance sheet that uses an unearned premium (or premium allocation) approach to premium liabilities. We would recommend the ICS use such an approach. However, under MAV reference method as currently defined, further adjustments may be needed.

Q91 Section 7.10 More specifically, is the simplification of assuming a combined ratio of 100% for Premium risk appropriate? If “no”, please comment on whether it is materially different from internal assumptions. Further, please suggest a methodology to refine the calibration and the information needed to do so. If deemed material, but without a methodology suggestion, are there other ways to address the difference?

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	Yes	
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	Yes	Supposing for premium risk that the combined ratio is 100% is a common prudent assumption that aims at simplifying the calibration work. Furthermore, given the limitation of availability of data of sufficient quality, refining this assumption might lead to a less consistent calibration.
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	Yes	Supposing for premium risk that the combined ratio is 100% is a common prudent assumption that aims at simplifying the calibration work. Furthermore, given the lack of availability of data of sufficient quality, refining this assumption might lead to a less consistent calibration.

International Actuarial Association	International	No	No	In normal market conditions, the expected discounted combined ratio should be a few percentage points below 100%. Market data (and/or data from IAIS Field Testing Volunteers) should be available to estimate Net Combined Operating Ratios for each line of business.
General Insurance Association of Japan	Japan	No	Yes	
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	Yes	
Legal & General	UK	No	No	The 100% combined ratio assumption is unrealistic. The ratio can vary depending on the stage within the underwriting cycle for different lines of non-life risk. Sometimes business will be written for a loss to maintain market share. The assumption around new business not leading to any gain/loss is also unrealistic for the same reasons and could actually be optimistic in some cases. It might be better to develop a calibration measuring the volatility around the expected combined ratio.
American Academy of Actuaries	United States of America	No	No	As companies are in business to make money, it is more appropriate to assume some level of profit (i.e., discounted combined ratio under 100 percent on a long-term basis). One way to accomplish this is to assume some non-zero level of profit for each line, consistent with an after-tax return that covers the cost of capital. Discounted combined ratios under 100 percent but above 95 percent are probably more appropriate. Note that defining the risk as the difference from the mean expectation is consistent with the treatment of Catastrophe risk. By not reflecting a mean expectation of profit from provision of insurance service, the ICS is being internally inconsistent between the measurement of premium risk and Catastrophe risk.
Property Casualty Insurers Association of America (PCI)	USA	No	No	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.

National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Yes	Yes, assuming a 100% combined ratio is simpler and (generally) more conservative.

Q92 Section 7.10 Are the assumptions above consistent with the valuation on the balance sheet? Please provide details, rationale and detailed methodology to apply.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	Yes	
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	Yes	Assumptions made for calibration purposes do not depend on the balance sheet valuation. They are meant to model risk taken by firms. For instance, in the specific case of the premium risk, it consists of measuring the volatility of the combined ratios.
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	Yes	Assumptions made for calibration purposes do not depend on the balance sheet valuation. They are meant to model risk taken by firms. For instance, in the specific case of the premium risk, it consists of measuring the volatility of the combined ratios.
International Actuarial Association	International	No	No	One difference (as noted in Q91) is that the expected combined ratio is not 100%. Examples of further differences include "gain at issue", profit on renewals and "bound but not incepted" business and treatment of underwriting expenses.
General Insurance Association of Japan	Japan	No	Yes	

Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	Yes	
Legal & General	UK	No	No	We are comfortable with the assumptions apart from the fixed expense and 100% combined ratio (discussed in our responses to Q90 and Q91)
American Academy of Actuaries	United States of America	No	No	The current balance sheet approach allows for gain at issue for determining capital resources, but no gain at issue when determining premium risk. It would be more reasonable to assume no gain at issue with regard to contracts not yet incepted and service not yet provided, but calibrate the premium risk factors by assuming a mean result that would be profitable.
Property Casualty Insurers Association of America (PCI)	USA	No	No	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	No	No, the assumptions are not consistent with the valuation on the balance sheet. As the member that prepared the modules that calculated these factors, we can confirm that the calculations were intended to measure the one year risk in changes to a GAAP balance sheet. MAV is a principles-based approach that, at least as interpreted by Field Testing participants, allows for a range of interpretations. The initial assumption had been that, while MAV does allow for a range of interpretations, this range would be narrow enough and similar enough to GAAP that the differences would not matter for calibrating factor. However, Field Testing has shown that differences in interpretation of MAV premium liabilities can lead increases/decreases of over 10% of TOTAL liabilities.

Q93 Section 7.10 Is it necessary to make “profitability adjustments” to the design of Premium risk to better align it with the ICS balance sheet? If “yes”, please provide details and rationale that support the response. If “no”, explain how the current design aligns with the Premium risk on the ICS balance sheet as measured using a total balance sheet approach and a one-year time horizon.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	Yes	We support a profitability adjustment. The current assumption only considers the volatility of claim costs, not the impact from combined ratios. But when the combined ratio is over 100%, the profits will increase the capital resources and vice versa; thus a 100% combined ratio assumption is inconsistent with the ICS balance sheet.
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	No	Profitability adjustment as described above would account for elements that are not deemed as material within the ICS framework. Furthermore, its inclusion would not incentivize firms to cover against specific substantial risks. It will rather result in increasing capital charges and in complicating the ICS design and calibration to allegedly comply with high level concepts.
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	No	Profitability adjustment as described above would account for elements that are not deemed as material within the ICS framework. Furthermore, its inclusion would not incentive firms to cover against specific substantial risks. It will rather result in increasing capital charges and in complicating the ICS design and calibration to allegedly comply with high level concepts.
International Actuarial Association	International	No	Yes	The premium risk factors assume that there is “no gain at issue” while the ICS balance sheet does have gain at issue. If gain at issue is recognized in determining capital resources, and the only source of next year’s earned premium is from contracts bound at year-end, then the premium risk starting point is correct. Any deviation from expected losses would reduce capital resources. But there are two problems with that approach: (i) Next year’s earned premium includes both policies bound by year-end and policies not yet bound/recognized. For those policies with expected profit not recognized at year-end, to the extent profit is expected, that profit acts as a cushion to absorb the initial level of bad news. Hence using a 100% combined ratio assumption in determining premium risk likely overstates the risk. (ii)The ICS balance sheet recognizes gains on premiums that will be earned after the next year such as renewals on long-term contracts. In this case, the premium risk understates risk.

General Insurance Association of Japan	Japan	No	No	No. We think that the earned premium data collected in the data collection exercise includes the effect of surrender values, and that it is reflected in the calibration of the premium risk. Since non-life insurance loss ratios fluctuate year-by-year, introduction of profitability adjustments will result in fluctuation of the risk factor every year. Profitability adjustments will also interfere with the simplification applied to insurance liability valuations. In either of these cases, profitability adjustment will result in undue complexity. Therefore, we do not think profitability adjustment is necessary.
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	No	The portion of non-life contracts that exeeds 1 year is very small, and it is unlikely that losses occur due to early cancellation of conracts. In particular, due to that ICS assess premium risk based on net premium to be earned, loss ratio increasing risk of future should be appropriated to the year premium earned unless loss ratio increasing trend is certainly detected.
Legal & General	UK	No	Yes	We would support the introduction of a profitability adjustment as this better reflects the balance sheet position at the end of the one year time horizon for required capital. If a given IAIG were writing unprofitable business then the capital requirement should be higher as the expectation will be that available capital will be reduced. The balance sheet will capture current written business and business that is contractually obliged and so should capture the profitability on these policies already. Allowing for profitability on new policies expected to be written within the capital requirement calculation ensures consistency.
American Academy of Actuaries	United States of America	No	No	We agree with the concept of profitability adjustments when measuring premium risk, but not when measuring capital resources. It is premature to reflect potential profit on contracts where service has not yet been provided, but excessively conservative to not reflect expected profitability when measuring the risk, as the risk is in the extent that tail events cause losses, not the extent that tail events deviate from the mean (where no loss occurs until losses are at some level above the mean).
Property Casualty Insurers Association of America (PCI)	USA	No	No	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.

National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Yes	If the issue is that ICS valuation is not consistent with the ICS capital requirement, the simplest solution would of course be to use an "unearned premium" approach to premium liabilities. This would eliminate the need for any adjustment with the possible exception of that for expected underwriting profit. It would also allow for easy use of currently available reporting, loss triangles, etc. It would also be more consistent with how companies view their own portfolios and reporting standards including the Premium Allocation Approach under IFRS, US GAAP, US Stat, etc.

Q94 Section 7.10 If there were to be a “profitability adjustment” included, how could it be designed? Please provide details, rationale and an example of a possible design for this adjustment.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	We suggest using the combined ratio of the previous year to adjust the risk factors. For example, in C-ROSS, we apply an adjustment factor "k" to the basic risk factor, and the risk factor eventually applied = basic risk factor * (1+k). Taking Motor line for an example, K=-0.05 when 0<Cmotor K=0 when 95%<Cmotor<100%, K=0.05 when 100%<Cmotor<105%, K=0.1 when Cmotor>105%. Where Cmotor is the combined ratio for the past 12 months.	
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	Were a profitability adjustment to be included in the ICS, it would have to mainly focus on the sole sound risk that is not regarded in the ICS: the lapse risk.	

Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	Were a profitability adjustment to be included in the ICS, it would have to mainly focus on the sole sound risk that is not regarded in the ICS: the lapse risk.	
International Actuarial Association	International	No	The profitability adjustment could be based on a target Net Combined Operating Ratio. This could be calculated using either company-specific data or averages for each segment. The latter could use similar inputs and payment patterns as the "Cost-of-Capital' MOCE.	
Legal & General	UK	No	We would recommend a relatively simple design for this adjustment, for example: Expected new business premium over 1 year * (1 - expected combined operating ratio on new business), where the variables within the formula should be based on business plan output that has been subject to a rigorous control and sign-off process.	
American Academy of Actuaries	United States of America	No	The profitability adjustment could be based on a cost-of-capital target price, given the payment pattern and other assumptions used in the Cost of Capital MOCE, and given the company expense ratio.	
Property Casualty Insurers Association of America (PCI)	USA	No	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.	
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	If it's necessary to change the capital requirement instead of ICS valuation, then adjustment should be made for the material differences between an unearned premium reserve and the MAV current estimate for premium liabilities. These include profit on renewals and bound-but-not-incepted business, treatment of expenses, reinsurance correspondence, etc. Where sufficient reporting is available, adjustment for expected underwriting profit could be done in a manner similar to the NAIC experience adjustment for Net Written Premium Risk.	

Q95 Section 7.10 Are there any additional amendments to the latent liability design or calibration that are necessary to make it more suitable for the ICS standard? In particular, please address whether the latent liability component better reflects the underlying risks when situated within the Claims Reserve risk component. If "no", please provide rationale and alternative suggestions supported by evidence.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	Yes	
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	No	
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	No	
International Actuarial Association	International	No	Yes	Given the inherent differences from actual catastrophe risks (e.g., earthquakes), latent liability is better addressed through claims reserve risk. We question the relative charges assigned to different lines. The focus on 'mass torts' means that some segments which may have latent liability exposure (e.g., professional indemnity) do not receive a charge. Also, we question the inclusion of Workers Compensation as a segment with material exposure to mass torts. In some jurisdictions (such as the United States), worker compensation statutes restrict the ability of employees to sue their employers. These restrictions reduce mass tort risk considerably.
General Insurance Association of Japan	Japan	No	No	

Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	No	
Legal & General	UK	No	No	We are comfortable with the current design and calibration.
National Association of Mutual Insurance Companies	United States	No	Yes	NAMIC disagrees with the 99.5% VaR calibration level so the factors are not going to be correct. Jurisdictional flexibility is the appropriate way to capture these risks with mutual recognition and shared understandi.ng of the jurisdictional approach at supervisory colleges.
American Academy of Actuaries	United States of America	No	Yes	We agree with including the latent liability component within the Claims Reserve risk component. We disagree, however, with the advisability of including U.S. Workers' Compensation in the list of lines with material latent liability risk. Our rationale includes the fact that latent liabilities include property damage liability but U.S. Workers' Compensation has no property component, and the material risk from latent liabilities is from lawsuits, yet lawsuits from employees against employers are not allowed under the U.S. Workers' Compensation laws except in rare cases. (If the IAIS disagrees with this view, then we request a chance to review the evidence that supports including U.S. Workers' Compensation in the list of lines with material latent liability exposure.)
Property Casualty Insurers Association of America (PCI)	USA	No	No	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	No	No.

Q96 Section 7.10 Are the prerequisites for the reporting of ISFs during the monitoring period appropriate? Please explain with sufficient detail and rationale, including any other prerequisites that should be considered.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	Yes	
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	Yes	Prerequisites for the ISFs should remain clear and simple. It should focus on the data quality and the ability of the firms to use and produce data of quality.
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	Yes	Prerequisites for the ISFs should remain clear and simple. It should focus on the data quality and the ability of the firms to use and produce data of quality.
International Actuarial Association	International	No	No	The given pre-requisites are too vague to fully assess their appropriateness. The big challenge here is that non-life experience data is noisy. It is unlikely that any data will be sufficient to fully calculate a risk charge at a 99.5% VaR for any individual segment. Further, it will be difficult to tell if the reported data is complete and/or has been smoothed. To ensure completeness of the data, ISF's should be calculated using data that is already reported using existing audited processes and, where possible, publicly available.
General Insurance Association of Japan	Japan	No	No	Please refer to our comments on Q98.
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	Yes	We agree to the prerequisites in principle, but it's premature to judge whether it is appropriate or not yet because the prerequisites and methods have not been sufficiently developed.

Legal & General	UK	No	Yes	These seem sensible.
American Academy of Actuaries	United States of America	No	No	The prerequisites are not concrete enough for a firm evaluation of their appropriateness or sufficiency. The largest unknown may be in the prerequisite for "sufficient" data. Until that is defined in a more detailed fashion the adequacy of the prerequisite cannot be determined. One difficulty in that determination is the use of a 99.5 percent Value at Risk (VaR). It is unlikely that any data set would be robust enough in a property/casualty environment to produce a reliable estimate that far out on the tail. This is because the property/casualty environment is continually changing (due to technological, climatic, societal, and legal changes) over time. Risk is a function of both company-specific factors and environmental factors, and it is highly unlikely that the environmental factors will stay stable enough for a long enough period of time to reliably estimate a 1 in 200 year probability. (Note that this is an issue both for the IAIG specific factors (ISFs) and for the standard charges in the ICS.) As a result, it may be best to focus on data showing how the IAIG's experience differs from that used in the ICS standard factors, rather than attempting to produce ISFs in isolation from the standard risk factors.
Property Casualty Insurers Association of America (PCI)	USA	No	No	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	No	The experience triangles used in the calculation should be publicly available or, if not, at least available to other supervisors.

Q97 Section 7.10 Are there specific examples of prescribed methodologies that could be used for the determination of ISF for Premium and/or Claims Reserve risk? Please explain with sufficient detail of the methodology, including the data that would be needed and the formulae that would be used.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	No	
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	Yes	Annex XVII of Solvency 2 European delegate act defines several prescribed methodologies.
International Actuarial Association	International	No	Yes	Given the inherent noisiness of non-life data, the focus should be more on credibility adjustments to the ICS standard factors than direct calculation of company-specific factors. When calculating risk at a 99.5th percentile, it is not realistic to assign full credibility to an individual company's experience.
General Insurance Association of Japan	Japan	No	No	
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	No	
Legal & General	UK	No	No	We are not aware of any
Property Casualty Insurers Association of America (PCI)	USA	No	No	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.

National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Yes	The NAIC RBC experience adjustments provide a simple and straightforward approach.

Q98 Section 7.10 Are there any further comments on Premium and Claims Reserve risks that the IAIS should consider in the development of ICS Version 2.0? If “yes”, please explain with sufficient detail and rationale.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	No	
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	No	
International Actuarial Association	International	No	Yes	The risk charges should be based on audited data.
General Insurance Association of Japan	Japan	No	Yes	We are of the view that the ISF adds complexities to the current method. While the method may provide more precise insights into past data and may increase the accuracy of future assumptions based on past data, any change in circumstances underlying the business environment could mean that assumptions based on past experience may not necessarily be useful. Therefore, from the cost/benefit perspective, we do not think the ISF is an efficient method. In addition to the ISF, we believe a new framework allowing the use of ICS risk factors calculated by the IAIG and subject to supervisory review and approval should be added.

Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	No	
Legal & General	UK	No	No	We have no further comments
National Association of Mutual Insurance Companies	United States	No	Yes	NAMIC disagrees with the 99.5% VaR calibration level so the factors are not going to be correct. Jurisdictional flexibility is the appropriate way to capture these risks with mutual recognition and shared understanding of the jurisdictional approach at supervisory colleges.
American Academy of Actuaries	United States of America	No	Yes	Risk charges should be based, to the extent possible, on audited data. The use of "net premium to be earned" appears to rely on an IAIG business plan rather than an actual financial report value. We view this as dangerous and recommend against such an approach, especially if the ICS is planned to be used as a prescribed capital requirement (PCR).
Property Casualty Insurers Association of America (PCI)	USA	No	Yes	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.

End of Section 7.10