



9.2 Internal models

Q185 Section 9.2 Is the current approach, to use ICP 17 as a foundation of prerequisites, appropriate for developing the additional reporting of internal models during the monitoring period? If “no”, please explain and describe any changes that could enhance the additional reporting of internal models during the monitoring period.

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	The use of the ICP 17 is appropriate
Insurance Europe	Europe	No	Yes	Insurance Europe strongly welcomes the inclusion of internal models in the ICS framework during the monitoring period. Further, internal models, full and partial, should be recognised as a permanent and valid alternative to the ICS standard method for implementation. Insurance Europe supports the use of internal models, as well as a strong framework around the development, validation and approval of such models. Such a framework, reflected by the IAIS prerequisites, supports the robustness and credibility of internal models, and ultimately helps foster supervisors' confidence. Internal models add significant value to companies' risk and capital management. For a large part of the European market, internal models are a key tool from a risk management perspective. They are integral to their business and are not only used to generate a solvency number. The use of internal models allows for an alignment of internal steering view with regulatory view and appropriate determination of risk, including adequate reflection of risk



				<p>mitigation instruments and quantification of diversification benefits.</p> <p>In addition:</p> <ul style="list-style-type: none"> - Developing and maintaining an internal model requires in-depth knowledge of the sources and natures of risks to which the company is exposed. - Internal models can apprehend risk factors in a granular way in different lines of business and jurisdictions. - Internal models can provide valuable information for capital allocation to the different segments for pricing purposes. - The building and validation processes require knowledge and involvement of a substantial number of employees, senior committees and the Board, which spreads the risk culture across different levels of the company. <p>Further, internal models are of significant value to supervisors:</p> <ul style="list-style-type: none"> - With common principles and calibration standards, internal models help promote comparability between insurers with very different risk profiles. - The supervisory approval process offers a valuable opportunity to the supervisor to gain a deep knowledge and understanding of the way in which a company manages its business and capital. - As internal models vary and evolve, they can be a tool for the supervisor to identify and monitor emerging risks. <p>Recognition of internal models as a valid alternative to the standard formula for the calculation of the ICS capital requirement is a key element for many firms. It is therefore important that there is clarity over the process by which the IAIS will determine at the end of the monitoring period whether internal models will be included in the ICs.</p> <p>In view of the ICS's potential influence over the development of regulatory capital standards globally, it is important that any debate on this subject is open and that contributions are invited from a wide range of stakeholders, not only IAIS members or IAIGs engaged in field testing.</p>
German Insurance Association	Germany	No	Yes	<p>The 10 prerequisites are appropriate. However, once the fulfilment is recognized by the GWS, the reporting during the monitoring process should be based on internal models, only, not the ICS standard model, i.e. there should be no double reporting for internal-model-companies once they went through an approval process.</p>



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Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	Yes	The use of the ICP 17 as a foundation is appropriate.
Global Federation of Insurance Associations	Global	No	Yes	As noted in ICP 17.12.7, effective use of internal models by insurers for regulatory capital purposes can provide a better alignment of risk and capital management. This may provide incentives for insurers to adopt better risk management procedures, which can produce regulatory capital requirements that are more risk sensitive, better reflect the supervisors' target criteria, and assist the integration of the internal model fully into the insurer's strategic, operational and governance processes, systems and controls. GFIA considers that firms should have the option of using internal models and other alternative calculation methodologies such as an aggregation approach as part of the ICS.
International Actuarial Association	International	No	Yes	Yes, however, the Insurance Regulation Committee of the IAA is unclear how to address this. For example, we might suggest that prerequisite 9 ("The resulting ICS capital requirement more appropriately reflects the risk profile of the insurer") would be appropriate not only for insurers using a partial internal model, but also for insurers using a full internal model. To an extent, reporting on Prerequisites 2 and 4 accomplish this, but inclusion of Prerequisite 9 seems a very straightforward expression of the requirement. On the other hand, if prerequisite 9 is only intended to address cherry picking then this would not need to apply. In that case, prerequisite 8 and 9 may be redundant. Was that the intent of the IAIS?
Dai-ichi Life Holdings, Inc.	Japan	No	Yes	In order to give flexibility to gather information of more internal models, it should be prescribed that some requirements can be made unnecessary at supervisor's discretion.
General Insurance Association of Japan	Japan	No	No	The framework should incorporate a process to verify the components of the model based on materiality. For those components which are not material, the insurer could be exempt from using the self-assessment template.
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	Yes	

Aegon NV	The Netherlands	No	Yes	As far as we have seen the prerequisites are based on current Solvency II requirements. In this context, the answer is yes.
Legal & General	UK	No	Yes	We are happy with this.
Association of British Insurers	United Kingdom	No	Yes	As noted in ICP 17.12.7, effective use of internal models by insurers for regulatory capital purposes should lead to a better alignment of risk and capital management. This will provide incentives for insurers to adopt better risk management procedures, which can produce regulatory capital requirements that are more risk sensitive, better reflect the supervisors' target criteria, and assist the integration of the internal model fully into the insurer's strategic, operational and governance processes, systems and controls. The ABI considers that a decision to permit internal models as part of the ICS should be straightforward and promptly made.
National Association of Mutual Insurance Companies	United States	No	No	Internal models should only be allowed if the IAIS decides to adopt a more open and flexible approach to the use of varying capital models including the use of an aggregation approach instead of a consolidated approach to calculating group capital. In both cases there is the intent to combine the capital requirements of all of the legal entities within the group. Internal models will produce results that differ vastly from those that will be produced by the standard model, but the proponents argue that these are better results. NAMIC argues the same concept applies to the aggregated approach. All insurance groups domiciled in the U.S. use statutory accounting and there is no method under statutory accounting to consolidate the legal entities. Mutual insurance groups do not generally use U.S. GAAP accounting. Only statutory valuation is common to the U.S. insurance industry. When the top tier company is an underwriting entity, the statutory RBC formula provides a complete group capital requirement comprising all legal entities' required capital. The work of the NAIC is attempting to refine that calculation, address the necessary eliminations/additions and produce an aggregated group capital calculation (GCC) that will work for those insurance groups whose top-tier parent is not an insurance underwriting entity. When the GCC is finalized it will be an excellent alternative to the consolidated ICS 2.0 approach. NAMIC urges the IAIS to consider these two issues – allowance of internal models and allowance of an aggregation approach – together. They raise very similar issues and should be addressed fairly and equally.

RAA	United States and many other jurisdictions	No	Yes	As noted in ICP 17.12.7, effective use of internal models by insurers for regulatory capital purposes can provide a better alignment of risk and capital management. This may provide incentives for insurers to adopt better risk management procedures, which can produce regulatory capital requirements that are more risk sensitive, better reflect the supervisors' target criteria, and assist the integration of the internal model fully into the insurer's strategic, operational and governance processes, systems and controls. We support the option of using internal models - as well as other alternative calculation methodologies such as an aggregation method as part of the ICS.
Liberty Mutual Insurance Group	USA	No	Yes	Liberty Mutual believes reference to a group's internal economic capital model could be a valuable tool to assist supervisors in understanding the capital strength and corresponding risk profile of a group. If the IAIS believes the proposed approach will assist it in understanding this point, then Liberty Mutual supports it.
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. We think ICP 17 is a reasonable foundation for these prerequisites. In particular, ICP 17 allows for a range of approaches to group capital including, but not limited, internal models and aggregation-type approaches.

Q186 Section 9.2 Is prerequisite 1 appropriate for additional reporting of internal model results during the monitoring period? Please explain.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
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European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	Yes	Describing the scope of the partial internal model is key.
Insurance Europe	Europe	No	Yes	
German Insurance Association	Germany	No	Yes	
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	Yes	The undertakings should also provide a reasoning for the scope of the internal model.
Global Federation of Insurance Associations	Global	No	Yes	
International Actuarial Association	International	No	Yes	
Dai-ichi Life Holdings, Inc.	Japan	No	Yes	We do not have any concern regarding the scope of application of the internal models.
General Insurance Association of Japan	Japan	No	Yes	
The Life Insurance Association of Japan	Japan	No	Yes	• The LIAJ does not have any concern regarding the scope of application of the internal models.
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	Yes	
Aegon NV	The Netherlands	No	Yes	

Legal & General	UK	No	Yes	We think that this is an important feature of Internal Model reporting to ensure unambiguous reporting of results.
Association of British Insurers	United Kingdom	No	Yes	Prerequisite 1 requires IAIGs to describe the scope of application of their internal model (i.e. the perimeter of the internal model's calculation). Two possible approaches are considered, a partial internal model approach and a full internal model approach. This is aligned with the Solvency II internal model framework, and the ABI considers it to be appropriate.
National Association of Mutual Insurance Companies	United States	No	No	We do not have the information to make an assessment of this issue but do strongly believe that if there is flexibility to allow for adoption of the use of internal models as an alternative to the standard model that there should be enough flexibility to allow for the adoption of an aggregated approach as a similar alternative.
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.

Q187 Section 9.2 Is prerequisite 2 appropriate for additional reporting of internal model results during the monitoring period? Please explain.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	Yes	Validation and assessment of the model should be as wide as possible.
Insurance Europe	Europe	No	Yes	

German Insurance Association	Germany	No	Yes	
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	Yes	Internal model validation processes are central to quality and reliability of model outputs. We would like to stress the following aspect of prerequisite 2: Aim of validation processes should be the ongoing appropriateness of the internal model. Therefore, it is important to have event-driven validation, e.g. in cases of changes to the model or in case of material changes in risk profile or external circumstances, as well as a regular validation process in which intervals between validation cycles are clearly defined.
Global Federation of Insurance Associations	Global	No	Yes	GFIA considers that a firm's independent internal validation processes should be sufficient.
International Actuarial Association	International	No	Yes	The Insurance Regulation Committee of the IAA recognizes that it is well understood that the timeframe necessary to validate 1 in 200 estimates is well over 200 years, and the underlying environment for many risks being modeled does not remain stable enough for the collection of such data. Thus, this becomes a role and opportunity for the supervisory college and/or lead supervisor to use stress testing to assess the impact of a potential event without being constrained by ambiguity about its likelihood. Instead of subjective debates about likelihood, the attention is focused on what kind of tail events are only moderately worse and which are catastrophic. This same approach is equally appropriate for any parameter in the ICS's standard formula that presumes a 99.5% VaR.
Dai-ichi Life Holdings, Inc.	Japan	No	No	Verification of the model on an independent position should be performed only where needed, so it should be considered that the case when the internal verification is sufficient.
General Insurance Association of Japan	Japan	No	Yes	External models may include information that is not open to users, and IAIGs may have limited access to such information. Therefore, comparison with another model may not be fully possible. In such a case, validating the model itself should be allowed, instead of comparing.
The Life Insurance Association of Japan	Japan	No	No	• Verification of the model on an independent position should be performed only where needed, so it should be considered that the case when the internal verification is sufficient.

Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	Yes	
Aegon NV	The Netherlands	No	Yes	Independent validation of models used to calculate capital requirements is an important aspect of ensuring that the models remain fit for purpose. This requirement should apply to all material models used in the calculation of capital, not just those that are deemed to be “internal models”. The validation should also be performed by an independent party to ensure objectivity. The independent party does not have to be sourced from outside the organization.
Legal & General	UK	No	Yes	It is important that the validation requirements are sufficiently flexible that they can be integrated efficiently with the validation requirements on other metrics making use of the Internal Model, for example Solvency II.
Association of British Insurers	United Kingdom	No	Yes	Prerequisite 2 requires IAIGs to demonstrate that a rigorous process of internal model validation is in place. This is aligned with the Solvency II internal model framework, and the ABI considers it to be appropriate.
National Association of Mutual Insurance Companies	United States	No	No	We do not have the information to make an assessment of this issue but do strongly believe that if there is flexibility to allow for adoption of the use of internal models as an alternative to the standard model that there should be enough flexibility to allow for the adoption of an aggregated approach as a similar alternative.
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.

Q188 Section 9.2 Is prerequisite 3 appropriate for additional reporting of internal model results during the monitoring period? Please explain.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
CLHIA	Canada	No	No	We recommend that the Board's sign-off may be delegated to a committee or executive appointed by the Board.
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	Yes	Use of an internal model is a structural decision that should be taken by the highest management body.
Insurance Europe	Europe	No	Yes	
German Insurance Association	Germany	No	Yes	
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	Yes	Use of an internal model is a strategic decision that should be taken by the highest management body, a decision and continuous involvement (see use test) of such a body is also important to ensure that the model is widely accepted and used.
Global Federation of Insurance Associations	Global	No	Yes	
International Actuarial Association	International	No	Yes	We note that this is more of a governance / control requirement and not an operational requirement, as a Board typically would not be in a position to perform a technical review.
Dai-ichi Life Holdings, Inc.	Japan	No	No	The sign-off of the Board of Directors is required; however, it should be done by CRO or the executive officer in charge of risk management who validates it more effectively.
General Insurance Association of Japan	Japan	No	Yes	The ownership of the internal model should belong not only to the Board of Directors but also to the senior management.
The Life Insurance Association of Japan	Japan	No	No	• The sign-off of the Board of Directors is required; however, it should be done by CRO or the executive officer in charge of risk management who validates it more effectively.

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Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	Yes	
Aegon NV	The Netherlands	No	Yes	The Solvency II internal model requires sign off from the Board. To ensure that senior management are aware of the model and understand it, sign off should be required.
Legal & General	UK	No	Yes	We think that this is an important feature of Internal Model reporting
Association of British Insurers	United Kingdom	No	Yes	Prerequisite 3 aims to ensure there is ownership and sign-off of the internal model by the Board of Directors. This is aligned with the Solvency II internal model framework, and the ABI considers it to be appropriate.
National Association of Mutual Insurance Companies	United States	No	No	We do not have the information to make an assessment of this issue but do strongly believe that if there is flexibility to allow for adoption of the use of internal models as an alternative to the standard model that there should be enough flexibility to allow for the adoption of an aggregated approach as a similar alternative.
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.

Q189 Section 9.2 Is prerequisite 4 appropriate for additional reporting of internal model results during the monitoring period? Please explain.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
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European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	Yes	Statistical Quality Test is important for the determination of the different building blocks of the IM
Insurance Europe	Europe	No	Yes	
German Insurance Association	Germany	No	Yes	
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	Yes	The statistical quality test addresses the direct link between inputs and modelling decisions (e.g. on methods or assumptions) on one hand and model results on the other. Consequently, we see the high level of detail as necessary.
Global Federation of Insurance Associations	Global	No	Yes	
International Actuarial Association	International	No	No	NO Similar to our response to Q187 regarding prerequisite 2, the Insurance Regulation Committee of the IAA recommends a more prominent role for stress testing to supplement and address the data limitations that are inherent in a 99.5% VaR estimate. Given the expectation in the consultation document "it is insufficient to focus solely on comparing predictions to outcomes. "we are unsure what is supposed to be validated with regard to a model that estimates values at the tail that cannot be compared to actual outcomes unless it is meant to mean outcomes where the impact on coverage can be determined. Clarity on the validation expectation would be helpful.
Dai-ichi Life Holdings, Inc.	Japan	No	Yes	
General Insurance Association of Japan	Japan	No	No	Statistical quality tests should examine whether the underlying data has sufficient quality against their objectives. The examination should not be any more stringent and burdensome than necessary. For example, when an individual component of the internal model is examined, such examination should reflect the extent the component influences the required capital of an IAIG.

The Life Insurance Association of Japan	Japan	No	Yes	
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	Yes	
Aegon NV	The Netherlands	No	Yes	The calibration of parameters should be done in a robust way; therefore statistical quality tests are important.
Legal & General	UK	No	Yes	We think that this is an important feature of Internal Model reporting and believe that the additional detailed provided in the consultation document appears sensible.
Association of British Insurers	United Kingdom	No	Yes	Prerequisite 4 builds on ICP 17.4, and requires IAIGs to conduct a “statistical quality test” to demonstrate the appropriateness of the internal model methodology and to justify the assumptions underlying it. This is aligned with the Solvency II internal model framework, and the ABI considers it to be appropriate.
National Association of Mutual Insurance Companies	United States	No	No	We do not have the information to make an assessment of this issue but do strongly believe that if there is flexibility to allow for adoption of the use of internal models as an alternative to the standard model that there should be enough flexibility to allow for the adoption of an aggregated approach as a similar alternative.
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.

Q190 Section 9.2 Is prerequisite 5 appropriate for additional reporting of internal model results during the monitoring period? Please explain.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	Yes	Calibration test is necessary to ensure that the model provide with at least with same level of protection in terms of adverse situations (99,5 VaR).
Insurance Europe	Europe	No	Yes	
German Insurance Association	Germany	No	Yes	
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	Yes	Calibration test is necessary to ensure that the model provides an equivalent level of protection in terms of adverse situations (99,5th quantile).
Global Federation of Insurance Associations	Global	No	Yes	
International Actuarial Association	International	No	Yes	Subject to the caveats in our responses to Q187 and Q189, as calibration to risks that arise over time at a 1-in-200 year frequency is not amenable to reliable calibration based on data, and by necessity has to rely on stress testing and/or expert assessment. The Insurance Regulation Committee of the IAA suggests also inviting “internal model” insurers that are using a different capital target criterion (i.e., not VaR, or not Var 99.5%) for internal purposes to explain whether, to what extent, and why such insurer would suggest using the internal criterion as the ICS capital target criterion.
Dai-ichi Life Holdings, Inc.	Japan	No	Yes	
General Insurance Association of Japan	Japan	No	Yes	



The Life Insurance Association of Japan	Japan	No	Yes	
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	Yes	
Aegion NV	The Netherlands	No	Yes	Robust calibration of an internal model is important to ensure that the model produces a capital level that provides the desired level of protection.
Legal & General	UK	No	Yes	We think that this is an important feature of Internal Model reporting
Association of British Insurers	United Kingdom	No	Yes	Prerequisite 5 builds on ICP 17.15, and requires IAIGs to conduct a “calibration test” to demonstrate that the regulatory capital requirement determined by the internal model satisfies the specified modelling criteria. In the case of the ICS Standard Method, the calibration target is VaR 99.5% over a one-year time horizon. This is aligned with the Solvency II internal model framework, and the ABI considers it to be appropriate.
National Association of Mutual Insurance Companies	United States	No	No	We do not have the information to make an assessment of this issue but do strongly believe that if there is flexibility to allow for adoption of the use of internal models as an alternative to the standard model that there should be enough flexibility to allow for the adoption of an aggregated approach as a similar alternative.
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.

Q191 Section 9.2 Is prerequisite 6 appropriate for additional reporting of internal model results during the monitoring period? Please explain.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	Yes	Use test should demonstrate that the internal model is integrated within its risk and capital management and system of governance processes and procedures, and is applied consistently over time. Furthermore, the governance of the model ensures robustness and viability of the model over time and is an inherent part of the decision-making of a firm.
Insurance Europe	Europe	No	Yes	Insurance Europe welcomes the statement of paragraph 594: « The use test is, in effect, the evidence that should support the relationship of trust between the supervisor and the regulated group. This trust is needed for the supervisor to gain assurance that the internal model reflects the IAIG's view of its risks and is used in decision making, and not developed with the purpose of reducing regulatory capital ». Insurance Europe believes that the monitoring period will be the occasion to build trust in the internal model and demonstrate how it is broadly used for management and decision making.
German Insurance Association	Germany	No	Yes	
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	Yes	Use test is of paramount importance to provide an indication of the IAIG's confidence in the internal model. Furthermore, a proper model governance is necessary to ensure the robustness and viability of the model over time.
Global Federation of Insurance Associations	Global	No	Yes	
International Actuarial Association	International	No	Yes	
Dai-ichi Life Holdings, Inc.	Japan	No	No	Determining the specification of the ICS Version 2.0 to the extent that it is not changed frequently during the monitoring period will be the condition for application of internal model to a management required by the "use test"; therefore, this prerequisite should not be required during the monitoring period.

General Insurance Association of Japan	Japan	No	No	Requiring both the Board of Directors and senior management to have duplicative control of and responsibility over the internal model indicates a clear lack of flexibility. The Board of Directors and senior management should be allowed to divide and/or share their roles and responsibilities depending on the activity or materiality.
The Life Insurance Association of Japan	Japan	No	No	• Determining the specification of the ICS Version 2.0 to the extent that it is not changed frequently during the monitoring period will be the condition for application of internal model to a management required by the “use test”; therefore, this prerequisite should not be required during the monitoring period.
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	Yes	
Aegon NV	The Netherlands	No	Yes	If a model is used to determine the capital of a company then it will automatically become very important when decisions are made.
Legal & General	UK	No	Yes	We are broadly supportive of this prerequisite although think that care needs to be taken in how it interacts with the primary reporting basis for IAIGs. Where the same Internal Model cannot be used for both reporting bases it may be difficult for a “Use test” to be passed for both.
Association of British Insurers	United Kingdom	No	Yes	Prerequisite 6 builds on ICP 17.16, and requires IAIGs to: (1) fully embed the internal model into its risk strategy and operational processes (the “use test”); (2) ensure that the Board and senior management have control of and sufficient understanding of the internal model; and (3) have adequate governance and internal controls in place with respect to the internal model. This is aligned with the Solvency II internal model framework, and the ABI considers it to be appropriate.
National Association of Mutual Insurance Companies	United States	No	No	We do not have the information to make an assessment of this issue but do strongly believe that if there is flexibility to allow for adoption of the use of internal models as an alternative to the standard model that there should be enough flexibility to allow for the adoption of an aggregated approach as a similar alternative.

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.
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Q192 Section 9.2 Is prerequisite 7 appropriate for additional reporting of internal model results during the monitoring period? Please explain.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	Yes	Model documentation is necessary to understand how the outputs of the model are calculated and to prepare and grant approval of the model. Model change policy should also be documented.
Insurance Europe	Europe	No	Yes	
German Insurance Association	Germany	No	Yes	
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	Yes	Model documentation is necessary to understand how the outputs of the model are calculated and how the internal control system and processes concerning the model work. It also is a basis to prepare to grant approval of the model. Furthermore, it ensures that previous modelling decisions are transparent to future model developers and users.
Global Federation of Insurance Associations	Global	No	Yes	
International Actuarial Association	International	No	Yes	



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Dai-ichi Life Holdings, Inc.	Japan	No	Yes	
General Insurance Association of Japan	Japan	No	No	The requirement on documentation should be “sufficient to demonstrate compliance with the regulatory validation requirements” (ICP17.17). They should not be too detailed, prescriptive or exhaustive.
The Life Insurance Association of Japan	Japan	No	Yes	
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	Yes	
Aegon NV	The Netherlands	No	Yes	High standards for documentation are appropriate as a control on model development and to ensure the continuation of a model.
Legal & General	UK	No	Yes	We think that documentation is important but would prefer it to be clarified that the documentation should be proportionate and that excessively long and detailed documentation should be avoided as this would risk obscuring key messages with irrelevant material.
Association of British Insurers	United Kingdom	No	Yes	Prerequisite 7 builds on ICP 17.17, and requires IAIGs to document the design, construction and governance of the internal model. This is aligned with the Solvency II internal model framework, and the ABI considers it to be appropriate. However, we would note that documentation requirements for Solvency II internal models (both in terms of initial approval and subsequent changes) have proved onerous. We would ask the IAIS to ensure that a proportionate approach is taken regarding documentation requirements for ICS internal models.
National Association of Mutual Insurance Companies	United States	No	No	We do not have the information to make an assessment of this issue but do strongly believe that if there is flexibility to allow for adoption of the use of internal models as an alternative to the standard model that there should be enough flexibility to allow for the adoption of an aggregated approach as a similar alternative.



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.
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Q193 Section 9.2 Is prerequisite 8 appropriate for additional reporting of internal model results during the monitoring period? Please explain.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	Yes	It is essential to understand the reason why the scope of the model is limited. It enables to understand the risk profile of the firm.
Insurance Europe	Europe	No	Yes	
German Insurance Association	Germany	No	Yes	
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	No	It is appropriate to understand the reason why the scope of the model is limited. It helps to understand the risk profile of the firm. Furthermore, there should be a limit to the level of granularity at which models and standard approach can be combined.
Global Federation of Insurance Associations	Global	No	Yes	



International Actuarial Association	International	No	Yes	
Dai-ichi Life Holdings, Inc.	Japan	No	No	It should be confirmed that requiring to explain the reasons for adopting the partial internal model does not mean requiring to explain the reasons for adopting partially the standard method.
General Insurance Association of Japan	Japan	No	No	Even if an IAIG has no intention to “cherry-pick”, if the GWS does not approve their internal model as a whole, the IAIG will be forced to use a partial internal model. It should be made clear that self-assessment is not required in such cases. Also, it should be clearly stated that changes in scope of the internal model that reflect changes in portfolio, risk environment, and measurement methodologies, should not necessarily be regarded as “cherry-picking”. The requirement to provide “the rationale for the limited scope of the internal model” should not put an IAIG under excessive burden of proof. Mitigation of concern about “cherry-picking” should be enough.
The Life Insurance Association of Japan	Japan	No	No	• It should be confirmed that requiring to explain the reasons for adopting the partial internal model does not mean requiring to explain the reasons for adopting partially the standard method.
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	Yes	
Aegon NV	The Netherlands	No	Yes	The model should be an accurate reflection of the risks, if not then bad decisions could be made.
Legal & General	UK	No	Yes	We believe that this is an important prerequisite for using an Internal Model.
Association of British Insurers	United Kingdom	No	Yes	Prerequisite 8 is consistent with ICP 17.12.14 guidance, and requires an IAIG using a partial internal model approach to justify why it has chosen to only use internal models for certain

				risks or business lines. This is aligned with the Solvency II internal model framework, and the ABI considers it to be appropriate.
National Association of Mutual Insurance Companies	United States	No	No	We do not have the information to make an assessment of this issue but do strongly believe that if there is flexibility to allow for adoption of the use of internal models as an alternative to the standard model that there should be enough flexibility to allow for the adoption of an aggregated approach as a similar alternative.
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.

Q194 Section 9.2 Is prerequisite 9 appropriate for additional reporting of internal model results during the monitoring period? Please explain.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	Yes	Calculating an ICS capital requirement that more appropriately reflects the specific risk profile of the insurer is the fundamental reason and the main purpose for allowing the use of the internal model.
Insurance Europe	Europe	No	Yes	
German Insurance Association	Germany	No	Yes	



INTERNATIONAL ASSOCIATION OF
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Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	Yes	Calculating an ICS capital requirement that more appropriately reflects the risk profile of the insurer is the basic concept and the main purpose of an internal model.
Global Federation of Insurance Associations	Global	No	Yes	
International Actuarial Association	International	No	Yes	Or no, as the Insurance Regulation Committee of the IAA is unclear if prerequisite 8 and 9 are redundant or what their intended purpose may be. So perhaps it may help to apply this prerequisite for additional reporting of internal models not only to “partial internal model” insurers, but also to insurers using full internal models.
Dai-ichi Life Holdings, Inc.	Japan	No	Yes	
General Insurance Association of Japan	Japan	No	No	With regard to the reference “why it considers that using partial internal modelling for determining regulatory capital requirements is more consistent with the risk profile of the business than the standardised approach”, factors and stress levels used for the standard method (excluding catastrophe risk) often include elements whose basis and rationale are not necessarily clear (such as supervisory judgement). Therefore, it should be duly noted that sufficient information for comparison may not be available.
The Life Insurance Association of Japan	Japan	No	Yes	
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	Yes	
Aegon NV	The Netherlands	No	Yes	This is the core benefit of an internal model: it provides a better reflection of the insurer’s risk profile.
Legal & General	UK	No	Yes	We believe that this is an important prerequisite for using an Internal Model.

Association of British Insurers	United Kingdom	No	Yes	Prerequisite 9 is consistent with ICP 17.12.15 guidance, and requires IAIGs to justify why using an internal model for determining regulatory capital requirements is more consistent with the risk profile of the business than the standardised approach. This is aligned with the “standard formula appropriateness tests” required by some supervisors under Solvency II, and the ABI considers it to be appropriate.
National Association of Mutual Insurance Companies	United States	No	No	We do not have the information to make an assessment of this issue but do strongly believe that if there is flexibility to allow for adoption of the use of internal models as an alternative to the standard model that there should be enough flexibility to allow for the adoption of an aggregated approach as a similar alternative.
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.

Q195 Section 9.2 Is prerequisite 10 appropriate for additional reporting of internal model results during the monitoring period? Please explain.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	Yes	Integration of the partial internal model in the standard formula can be done in many different ways. The choice of one over others is driven by the risk profile of the firm. This decision should be duly explained.
Insurance Europe	Europe	No	Yes	
German Insurance Association	Germany	No	Yes	



Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	Yes	Integration of the partial internal model in the standard method can be done in many different ways. The choice of one over others should be driven by the risk profile of the firm. This decision should be duly explained.
Global Federation of Insurance Associations	Global	No	Yes	
International Actuarial Association	International	No	Yes	
Dai-ichi Life Holdings, Inc.	Japan	No	Yes	
General Insurance Association of Japan	Japan	No	Yes	
The Life Insurance Association of Japan	Japan	No	Yes	
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	Yes	
Aegon NV	The Netherlands	No	Yes	Yes it is important that the internal and standard models can be integrated, not just added together as one may miss the diversification that exists.
Legal & General	UK	No	Yes	We believe that this is an important prerequisite for using an Internal Model.
Association of British Insurers	United Kingdom	No	Yes	Prerequisite 10 requires an IAIG using a partial internal model approach to explain how its partial internal model results and its Standard Method results can be integrated. This is aligned with the Solvency II internal model framework, and the ABI considers it to be appropriate.

National Association of Mutual Insurance Companies	United States	No	No	We do not have the information to make an assessment of this issue but do strongly believe that if there is flexibility to allow for adoption of the use of internal models as an alternative to the standard model that there should be enough flexibility to allow for the adoption of an aggregated approach as a similar alternative.
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.

Q196 Section 9.2 Are there other prerequisites that should be met for additional reporting of internal model results during the monitoring period? Please explain.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	Yes	One could envisage a prerequisite on P&L attribution to demonstrate that the categorisation of risk chosen in the internal model explains the causes and sources of profits and losses. Moreover, a prerequisite concerning model changes policies could be envisaged.
Insurance Europe	Europe	No	No	
German Insurance Association	Germany	No	No	
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	Yes	One could consider a prerequisite on P&L attribution to demonstrate that the categorisation of risk chosen in the internal model explains the causes and sources of profits and losses.



Global Federation of Insurance Associations	Global	No	No	GFIA considers that the prerequisites listed in Paragraphs 573-608 of the consultation are sufficient for additional reporting of full internal model results during the monitoring period.
International Actuarial Association	International	No	Yes	Or no, as the Insurance Regulation Committee of the IAA is unclear if prerequisite 8 and 9 are redundant or what their intended purpose may be. So perhaps it may help to apply this prerequisite for additional reporting of internal models not only to “partial internal model” insurers, but also to insurers using full internal models
Dai-ichi Life Holdings, Inc.	Japan	No	No	
General Insurance Association of Japan	Japan	No	No	
The Life Insurance Association of Japan	Japan	No	No	
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	No	
Aegon NV	The Netherlands	No	No	
Legal & General	UK	No	Yes	We would expect there to be something in there about how an IAIG performs and controls changes to its Internal Model in response to both external and internal changes. We would also expect some overarching statement that the specification of various elements of an Internal Model should be no more complex than is proportionate to its materiality. Otherwise we feel that the ten prerequisites identified capture the key points we would expect to see.
Association of British Insurers	United Kingdom	No	No	The ABI considers that the prerequisites listed in Paragraphs 573-608 of the consultation are sufficient for additional reporting of full internal model results during the monitoring period.

National Association of Mutual Insurance Companies	United States	No	Yes	We do not have the information to make an assessment of this issue but do strongly believe that if there is flexibility to allow for adoption of the use of internal models as an alternative to the standard model that there should be enough flexibility to allow for the adoption of an aggregated approach as a similar alternative.
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.

Q197 Section 9.2 Are there other prerequisites that should be met for additional reporting of partial internal model results during the monitoring period? Please explain.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
Insurance Europe	Europe	No	No	
German Insurance Association	Germany	No	No	
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	Yes	See our comment concerning Q193.
Global Federation of Insurance Associations	Global	No	No	GFIA considers that the prerequisites listed in Paragraphs 573-608 of the consultation are sufficient for additional reporting of partial internal model results during the monitoring period.



International Actuarial Association	International	No	No	
Dai-ichi Life Holdings, Inc.	Japan	No	No	
General Insurance Association of Japan	Japan	No	No	
The Life Insurance Association of Japan	Japan	No	No	
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	No	
Aegon NV	The Netherlands	No	No	
Legal & General	UK	No	Yes	<p>We would expect there to be something in there about how an IAIG performs and controls changes to its Partial Internal Model in response to both external and internal changes.</p> <p>We would also expect some overarching statement that the specification of various elements of an Partial Internal Model should be no more complex than is proportionate to its materiality.</p> <p>Otherwise we feel that the ten prerequisites identified capture the key points we would expect to see.</p>
Association of British Insurers	United Kingdom	No	No	The ABI considers that the prerequisites listed in Paragraphs 573-608 of the consultation are sufficient for additional reporting of partial internal model results during the monitoring period.
National Association of Mutual Insurance Companies	United States	No	Yes	We do not have the information to make an assessment of this issue but do strongly believe that if there is flexibility to allow for adoption of the use of internal models as an alternative to

				the standard model that there should be enough flexibility to allow for the adoption of an aggregated approach as a similar alternative.
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.

Q198 Section 9.2 Are there any further comments on the additional reporting of internal models during the monitoring period, which the IAIS should consider? If "yes", please explain with sufficient detail and rationale.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
Association of Bermuda Insurers and Reinsurers	Bermuda	No	Yes	Internal models are essential and ICS Version 2.0 should facilitate their use.
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	No	
Insurance Europe	Europe	No	No	
German Insurance Association	Germany	No	Yes	We appreciate the fact that the general requirements for allowing the application of internal models are comparable to Solvency II, meaning that insurers applying a Solvency II-certified model will probably also be able to do so under the ICS regime. It is crucial that an internal model which has already been approved by the national authority can be used to calculate the ICS by IAIGs without any further approval.

Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	No	
Global Federation of Insurance Associations	Global	No	Yes	<p>GFIA considers that the ICS requires a sophisticated Standard Method. However, the one-size-fits-all assumptions that have to be made when deriving a standardised approach by definition do not take specificities of companies into account, and might therefore give a misleading view of their capital needs. Internal models and an aggregation approach to calculating group capital can provide the flexibility needed for different (re)insurers having various risk profiles.</p> <p>As noted in ICP 17.12.7, and in our response to Q185 above, effective use of internal models by insurers for regulatory capital purposes can lead to a better alignment of risk and capital management. This may provide incentives for insurers to adopt better risk management procedures, which can produce regulatory capital requirements that are more risk sensitive, better reflect the supervisors' target criteria, and assist the integration of the internal model fully into the insurer's strategic, operational and governance processes, systems and controls.</p> <p>GFIA considers that firms should have the option of using internal models and an aggregation approach as part of the ICS.</p>
International Actuarial Association	International	No	Yes	<p>The IAIS should test whether the cross-section of insurers reporting on internal models reasonably illustrates the mix of insurers to which the internal model requirements will be applied. For example, if only life insurers report on internal models during the monitoring period, the compilation of those responses may not be indicative of the strengths and issues with using internal models for general insurance.</p>
Dai-ichi Life Holdings, Inc.	Japan	No	Yes	<p>The additional reporting of internal models during the monitoring period is not limited to the viewpoint of preliminary review of internal models that each IAIG will apply in the future, but it should be used as a study material to improve the standard model as necessary.</p>
General Insurance Association of Japan	Japan	No	No	



The Life Insurance Association of Japan	Japan	No	Yes	<ul style="list-style-type: none"> • Although ten prerequisites are proposed for the internal models in this consultation document , it should be recognised that fulfilling these prerequisites is very burdensome, except for insurance groups in the jurisdictions where the internal models has already been introduced and approved by the supervisors. • When implementing the ICS after the monitoring period, it is requested to ensure the equal footing among jurisdictions by providing sufficient preparation periods and taking practical considerations to avoid excessive burdens.
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	No	
American Council of Life Insurers	Office of General Counsel	No	Yes	<p>We recognize that the use of an internal model as a basis of required capital can be appropriate at the jurisdictional level, such as in Solvency II. However, there are significant challenges to applying internal models as a basis of required capital in a global standard.</p> <p>The IAIS's priority should be to continue to refine the standard method for determining capital requirements, rather than focus too heavily on how to adapt internal models to the ICS. With that being said, we see some value in using internal models as a benchmark for discussions with the IAIS about divergencies between the ICS reference methodology for required capital and the required capital results from firms using internal models. For example, comparing the output of internal models and the ICS reference methodology for the same groups may illuminate potential defects in the ICS reference methodologies calculation of required capital.</p>
2+2 Group - Japan & U.S. Based Life Co's (Prudential Financial, Aflac, Dai-ichi-Life, Nippon Life	U.S. & Japan	No	No	
Legal & General	UK	No	Yes	We would like clarification that where an IAIG has an Internal Model approved for local regulatory reporting, then this Internal Model would automatically be considered suitable for use in calculating an ICS capital requirement both during and beyond the monitoring period. This would seem a logical and sensible measure.



				<p>In general we would like to emphasise that we see Internal Models as an important feature to be retained within ICS, for the following key reasons (all of which represent significant shortcomings of a Standard method):</p> <ul style="list-style-type: none">• Internal Model calibrations and correlations are more specifically tailored to our risk exposures• Internal Models allow for interactions between risks (i.e. the fact that the impact of multiple risks happening simultaneously is often not additive)• Internal Models give us a full distribution of possible losses that can be used to inform internal decision-making• On certain risks (in particular operational risk) an Internal Model approach gives us important information as to which specific risk exposures are driving the more extreme future simulated losses, and gives us a clear incentive to improve• Our Internal Model allows us to include risks to which we have material exposure that are not covered by a standard method, for example inflation risk. <p>As a result of these considerations we committed significant resource and cost into developing an Internal Model for use in Solvency II. Hence there is a further benefit to the use of Internal Models for ICS in terms of consistency between the two metrics which are intended to measure the same things (a one-year loss at the 1-in-200 confidence level), assuming of course that the same Internal Model is approved for use on both metrics. At minimum we feel that it should be possible to apply to switch to a more company-specific assessment of particular risks in the event that the Standard method demonstrably gives a materially inappropriate result (i.e. a Partial Internal Model). Reducing the scope of Internal Model approvals in this way would allow more proportionate effort (for both IAIGs and regulators) to be put into Internal Model approval.</p>
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Association of British Insurers	United Kingdom	No	Yes	<p>As well as the benefits set out by the IAIS in Paragraph 565, carefully-designed internal models can help promote comparability of IAIGs' risk profiles. The assumptions that have to be made when using a standard approach do not take into account the specificities of IAIGs, and may therefore give a misleading view of their capital requirements. Internal models that meet defined common principles and calibration standards ensure a high level of comparability of different insurers with different risk profiles.</p> <p>The ABI disagrees with Paragraph 566 which notes that "proper consistency and comparability" is a challenge for internal models. We would argue that internal models provide greater comparability than the alternative of requiring all IAIGs to consider their risks in the same way.</p> <p>As noted in ICP 17.12.7, and in our response to Q185 above, effective use of internal models by insurers for regulatory capital purposes should lead to a better alignment of risk and capital management. This will provide incentives for insurers to adopt better risk management procedures, which can produce regulatory capital requirements that are more risk sensitive, better reflect the supervisors' target criteria, and assist the integration of the internal model fully into the insurer's strategic, operational and governance processes, systems and controls.</p> <p>The ABI considers that a decision to permit internal models as part of the ICS should be straightforward and promptly made.</p>
National Association of Mutual Insurance Companies	United States	No	Yes	<p>Internal models should only be allowed if the IAIS decides to adopt a more open and flexible approach to the use of varying capital models including the use of an aggregation approach instead of a consolidated approach to calculating group capital. In both cases there is the intent to combine the capital requirements of all of the legal entities within the group. Internal models will produce results that differ vastly from those that will be produced by the standard model, but the proponents argue that these are better results. NAMIC argues the same concept applies to the aggregated approach. All insurance groups domiciled in the U.S. use statutory accounting and there is no method under statutory accounting to consolidate the legal entities. Mutual insurance groups do not generally use U.S. GAAP accounting. Only statutory valuation is common to the U.S. insurance industry. When the top tier company is an underwriting entity, the statutory RBC formula provides a complete group capital requirement</p>

				comprising all legal entities' required capital. The work of the NAIC is attempting to refine that calculation, address the necessary eliminations/additions and produce an aggregated group capital calculation (GCC) that will work for those insurance groups whose top-tier parent is not an insurance underwriting entity. When the GCC is finalized it will be an excellent alternative to the consolidated ICS 2.0 approach. NAMIC urges the IAIS to consider these two issues – allowance of internal models and allowance of an aggregation approach – together. They raise very similar issues and should be addressed fairly and equally.
RAA	United States and many other jurisdictions	No	Yes	The ICS requires a sophisticated Standard Method. However, the one-size-fits-all assumptions that must be made when deriving a standardized approach do not take specificities of companies into account and might therefore give a misleading view of their capital needs. Internal models and an aggregation approach to calculating group capital can provide the flexibility needed for different (re)insurers having various risk profiles. The RAA believes that IAIGs should have the option of using internal models and an aggregation method as part of the ICS.
Prudential Financial, Inc.	United States of America	No	Yes	We recognize internal models play a vital role in establishing required capital levels within certain jurisdictional solvency regimes (most notably the application of Solvency II across Europe). While the use of internal models may be appropriate at the jurisdictional level their value in the context of a global ICS is less clear given the heightened focus and emphasis the IAIS has placed on achieving comparability across jurisdictions and insurers and the need for alternative methods to an ICS to produce comparable results – as yet to be defined – to the reference method ICS. Prudential Financial believes that the ultimate decision on whether or not the use of internal models as an alternative approach to the ICS is permissible should be subject to the assessment criteria as the Aggregation Method and GAAP Plus. In addition, we continue to believe that at this stage of development it would be more appropriate to focus on using data gathered on internal models as a resource for refining the standard method (which, if successful enough, could preclude the need to consider the use of internal models as an alternative method). Further, as work on the ICS continues, it is critical that the IAIS consider the role internal models play for insurers in the broader context of their capital and risk



				management frameworks, where internal economic lenses often serve as one element of a broader risk appetite framework that includes other critical tools for ensuring loss absorbing resources are kept in balance with risks underwritten.
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	No	While we don't have further comments on the reporting of internal models, the bigger issue is comparability. We will have further comments on the comparability of internal models for the future consultation that is promised in paragraph 3.

End of Section 9.2