Provisional AM for Use in the Comparability Assessment

September 13, 2023

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Collection package included updated schedules for reporting data relevant to the comparability assessment. The results of the comparability assessment will be released in 2024.

1.3 AM Development

7. A useful group capital approach provides supervisors with meaningful and reliable information about the solvency risks presented by and to IAIGs. The AM is adaptable to the diverse business models, product designs, and risk management approaches employed by insurance groups around the world that create resilience within the insurance sector. Because the AM relies on a fully transparent methodology and is built on existing legal entity requirements, it helps contribute to the overall stability of the insurance sector as a ready and sound capital framework for detecting a need for appropriate supervisory intervention.

1.4 AM Data Collection

8. The annual AM Data Collection has a template, specifications and questionnaire that are released annually.⁶

12. Guiding principles of the AM concept:

Indifferent to Corporate Structure: Location of an entity within the group and/or intragroup transactions do not impact group-level results.

Reflective of Appropriate Capital Regimes: Differentiated treatment for insurance/financial entities under existing capital regimes and application of appropriate alternatives for non-insurance entities. This leverages existing solvency frameworks and jurisdictional-tailored approaches to risk.

Transparency: Clear line of sight to where risks reside and capital is held. Provides supervisors with information for assessing risks at the legal entity level within the group.

Comparability: Group level results reflect comparable levels of risk through scaling of entity results.

13. The AM calculation has five components. These components are described further in the of this document. The final version of the AM will include these same

components:

Inventory & Group Financials Adjustments

Non-USIns	Hong Kong - Life	USIns	Non RBC filing U.S. Insurer	
Non-USIns	Hong Kong - Non-Life	Non-USIns	Regime A	
Non-USIns	India	Non-USIns	Regime B	
Non-USIns	Indonesia	Non-USIns	Regime C	
Non-USIns	Japan - Life	Non-USIns	Regime D	
Non-USIns	Japan - Health	Non-USIns	Regime E	
Non-USIns	Japan - Non-Life	HoldCo	Non-Insurer Holding Company	
Non-USIns	South Korea	Fin	Bank (Basel III)	
Non-USIns	Malaysia	Fin	Bank (Other)	
Non-USIns	Mexico		Asset Manager/Registered Inv Advisor	
Non-USIns	New Zealand	Fin	Other Regulated Financial Entity	
Non-USIns	Philippines	Fin	Other Unregulated Financial Entity	
Non-USIns	Singapore - All	Other	Other Other Non-Ins/Non-Fin with Material Risk	
Non-USIns	Solvency II (EU) - Life	Other	Other Non-Ins/Non-Fin w/o Material Risk	
Non-USIns	olvency II (EU)			

reinsurance basis. For property/casualty entities, the PCR should be the MCT capital requirement at the target level.

- e. For Chilean subsidiaries, the PCR is 100% of the total capital requirement which is the maximum between minimum capital, maximum debt ratios and a solvency margin.
- f. For Chinese subsidiaries, the PCR is 100% of the C-ROSS total capital.
- g. For Chinese Taipei subsidiaries, the POR is 200% of the RBC ratio.
- h. For European Union member-based subsidiaries, the POR is the Solvency II Solo SOR (Solvency Capital Requirement).
- i. For Hong Kong subsidiaries, under the current rule-based capital regime, if applied similar to the concept of PCR, the regime's PCR would be 150% of MCR for life insurers and 200% of MCR for non-life insurers.
- j. For Indian subsidiaries, the PCR is a factor-based solvency approach, based on a Solvency I type model, to maintain an excess of the value of assets over the amount of liabilities of not less than 50% of the amount of minimum capital subject to the control level of a solvency ratio of 150%.
- k. For Japanese subsidiaries, the PCR is the solvency margin ratio of 200%
- I. For Korean subsidiaries, the PCR is 100% of risk-based solvency margin ratio.
- m. For Malaysian subsidiaries, the PCR is the individual target capital level calculated by individual entities based on policy requirements set by the Bank Negara Malaysia. It reflects the individual insurer's/Takaful Operator's own risk profile and risk management practices and includes additional capacity to absorb unexpected losses beyond those covered in the Risk-Based Capital Frameworks for Insurance and Takaful Operators.
- n. For Mexican subsidiaries, the POR is the solvency capital requirement (SOR) based on a Solvency II type model, using both Value at Risk (VaR) methodologies, considering the time horizon of one year at a confidence level of 99.5%, and Probable Maximum Loss (PML) methodologies for catastrophic risks.
- o. For Singaporean subsidiaries, the PCR at the legal entity level under the enhanced valuation and capital framework for insurers (RBC2) is calibrated at the 99.5% VaRover a one-year period.
- p. For South African subsidiaries, the POR is 100% of the SAM SOR
- q. For Swiss subsidiaries, the legal e of the target capital, which is calibrated to Tail-VaR at 99% confidence level over a oneyear time horizon.
- r. For US subsidiaries, the RBC Company Action Level of each insurer should be recalibrated to the point at which regulatory action can be taken in any state based on RBC alone, i.e., the point at which the trend test begins, which is one and a half times company action level.

Collection has shown there are no material differences in the amount of these financial instruments recognized in the AM and the ICS

The instrument must have a maturity date and initial maturity must be at least five years;

Instruments must be subordinated to policyholders. For structurally subordinated instruments, supervisory approval of ordinary dividends can be met if the supervisor has in place supervisory controls over distributions, including the ability for the supervisor to limit, defer and/or disallow the

looks at how various benchmarks of capital adequacy compare to AM results and to each other. These benchmarks include financial strength ratings, distance to default, and the ICS

- 54. Reliability means that any entity or group calculating a scalar will know with confidence they are using the same information which any other entity or group would use. This implies that the scaling methodology must be transparent, unambiguous, and based on broadly available and understood data. The scalars used in the AM Data Collection are publicly available (as will any scalars used in the final AM).
- 55. Ease of implementation is based on availability of data and compatibility with existing procedures. This includes consideration of the degree to which these data sources are available, understood, and compatible with existing procedures for analysis.
- 56. Stability of parameters is important if the parameters are to be useful. Depending on the purposes for which the scalars are to be used, more or less sensitivity to changing conditions might be appropriate. The Academy paper discusses sensitivity analysis in two different dimensions: (1) sensitivity of results to changes of parameters within a model; and (2) sensitivity of results to differences in methods of calculating scalars. Sensitivity analysis is performed on the AM Data Collection by reweighting entities, changing the size of different scalar options, and looking at the impact of individual categories of entities on individual and total results.

4.3 Methodologies Under Consideration

4.3.1 Provisional AM

57. This method serves as the default calculation while the AM is under development. u (i.e. scalars are 100%). The underlying assumption is that each regime uses the approach to valuation, capital resources and capital requirements that is best suited to the products within that jurisdiction and so the adjustments needed to best bring each regime to a comparable level are already made in the underlying regimes.

4.3.2 Pure Relative Ratio Approach (Pure RRA)

58. This method adjusts only the capital requirement of regulated entities for each local regulatory regime within the IAIG. Scalars are calculated through a comparison of the industry average capital ratio within each entity category. For example, if the average capital ratio within one jurisdiction is twice as large as another, then the scalar for that jurisdiction will be half as large. The US RBC category scalar is being tested at different intervention levels equivalent to 200% and 300% of the Authorized Control Level under NAIC Risk Based Capital. A decision on which level would be used will depend on which level (for the US and any equivalent jurisdictions) is considered most comparable to the ICS

tested at different intervention levels equivalent to 200% and 300% of the Authorized Control Level under NAIC Risk Based Capital. A decision on which level would be used will depend on which level (for the US and any equivalent jurisdictions) is considered most comparable to the ICS

4.3.4 99.5% Value at Risk

60. These are pure scalars that are calibrated to a level equivalent to a 99.5% Value at Risk over a one-year time horizon. For a jurisdiction that is calibrated to this (or an equivalent⁸) level, this method would be unscaled. Examples of equivalent levels are a 99% Tail Value at Risk

capital requirement, a group would need to demonstrate to their supervisor that it meets the requirements for use as an internal model.

65. Banking Equivalent: This method is scaled to a level that local supervisors consider equivalent to Basel banking requirements. For most jurisdictions this would be equivalent to an unscaled approach. The ICS does not scale Basel banking requirements and so is intended to be scaled to the same level. For the US analysis by the Federal Reserve indicates that Basel is equivalent to an RBC intervention level of 250% While it produces similar indications as some other methods under consideration, this banking equivalent approach is not under consideration as it is not as directly focused on insurance risk.

5 Finalizing the AM

5.1 Selecting Final Methodology

- 66. This document describes the AM as envisaged for implementation subject to further changes which may be decided based on the outcome of the IAIS comparability assessment and analysis of the results of the annual AM Data Collection.
- 67. The AM template has the functionality to test (and back-test) any potential revisions, including those to scalars. The AM Data Collection includes a variety of scaling methodologies that represent a full range of reasonable methods of scaling local capital. These methods were selected based on analysis of data from the AM Data Collection and consideration of the comparability criteria, which were developed so as to not give the AM a free pass nor predude comparability at the outset. While it is not yet known which method(s) will produce comparable results, the goal is to select a scalar methodology for ho

local supervisors. Further maintenance of scalars will be a technical exercise done in accordance with principles underlying the selected methodology. Smilar updates will be needed for parameters used in the ICS and any process for doing so will be considered for use in the AM as well. The components of the AM are inherent to any aggregation-based method and so will not change.

6.2

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Step 5: Compare a

ICS Risk	Captured in the local capital

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8.2 Comparison of Property/Casualty

ICS Risk	Is the risk captured in the local capital requirement?

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8.3 Comparison of Capital Resources

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ICS Resources (Other than Financial Instruments)	Approach used in the ICS (Table 3)	

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