



The Insurance Policy Advisory Committee (IPAC)
Record of Meeting
May 11, 2020
Washington, District of Columbia
via Video Conference

1. **Topic:** *What recommendations did the IPAC make to the Board in light of the conclusions reached by the IPAC Capital Instruments Working Group?*
 - a. The IPAC recommends no changes to the BBA qualifying capital instruments criteria, having evaluated the criteria and deemed them to be appropriate, including in that the criteria prevents inclusion of senior debt in capital. In particular, criteria 217.608(a)(ii) “The instrument is subordinated to depositors and general creditors of the building block parent” was deemed necessary because ranking pari passu is an inherent feature of senior debt and cannot be modified, and because the protection provided by capital instruments to depositors, policyholders, as well as general creditors is necessary, and should not be modified to enable senior debt to be included as a capital instrument.
 - b. The IPAC recommends the BBA’s limitation on Tier 2 instrument to be raised from proposed 62.5% to 211% of the required capital, in order to align the BBA limit with the banking capital rules, in order to provide for a level playing field, avoid regulatory arbitrage, and address Collins compliance.
 - c. The IPAC recommends establishing a limit for Additional Tier 1 capital instruments at 158% of BBA required capital, in order to align the BBA limit with the banking capital rules.
 - d. The IPAC recommends that the Board, with benefit of more time and research after development of the NAIC’s Group Capital Calculation, continue to study senior debt for inclusion as a capital instrument under BBA.

2. **Topic:** *What recommendations did the IPAC make to the Board in light of the analysis done by the IPAC Collins Amendment Working Group?*
 - The IPAC recommends against the incorporation of a separate capital calculation (the “Section 171 Calculation” or “Collins Calculation”) in the Board’s proposed insurance capital standards methodology. The IPAC recommends against such separate calculation for the following reasons:
 - a. The Collins Calculation is a flawed tool for oversight of the solvency of an insurance holding company because it fails to incorporate and reflect the role, timing and importance of liabilities to the financing of insurance contracts and insurance organizations.
 - b. The inclusion of a separate Section 171 calculation could unduly penalize certain corporate structures, and create disparate application of the capital framework depending solely on corporate structure
 - IPAC recommends to the Board that it has flexibility in not requiring a separate Section 171 Calculation.

3. Topic: *How will IPAC engage in ongoing Insurance Capital Standards (ICS) discussions?*

IPAC members expressed interest in continued discussion on the impact of the International Association of International Supervisors (IAIS) ICS. Specifically, IPAC members will explore impacts of the IAIS ICS reference method on the U.S in their ongoing discussions.

4. Additional Matters: *What other insurance issues were discussed or presented at this meeting?*

Overview of Coronavirus Disease 2019 (COVID-19) Impacts to the Insurance Industry

IPAC members shared that the industry continues to work well using remote work environments and is developing plans to return to offices. The industry has access to capital markets, is focused on capital and liquidity, and expects impacts may begin to show in second quarter financials.

Areas of Concern

IPAC members mentioned business interruption, workers' compensation, low interest rates, and digitization of payments as areas of concerns. IPAC explained business interruption policies require property loss. Any retroactive coverage of business interruption insurance, specifically for the COVID-19 pandemic, even for only one or two months, could eliminate the entire surplus for the property and casualty (P&C) industry.

An IPAC member voiced workers' compensation as another potential area of concern. When U.S. workers physically return to work, workers may contract COVID-19. IPAC said the impact could be significant to the P&C industry, if workers presented claims that COVID-19 was contracted at work.

IPAC members stated low interest rates for a long period were already a concern to the industry, especially the life insurance industry. Rates have fallen further as a result of the COVID-19 economic impacts, further exacerbating these concerns. Specifically, IPAC mentioned the impact to investment income. If rates are so low that the industry is unable to recoup costs, then the industry will not have a return which could impact product offerings and pricing. Some prudential regulatory reserve requirements are not calibrated for significantly low interest rates. Prudential regulators are aware of and monitoring this issue. The industry is currently unable to accurately predict how consumers will respond to this unprecedented situation.

IPAC members indicated the use of physical checks continues to be a significant part of the payments system. Employees must be on-site to handle and process these checks, which is not optimal in the COVID-19 environment. Financial institutions may consider additional ways to digitize payments.