



The Insurance Policy Advisory Committee (IPAC)
Record of Meeting
February 17, 2022
Washington, District of Columbia

1. Opening Comments

The IPAC Chair and Vice Chair opened the meeting and welcomed the new IPAC members. The IPAC Chair and Secretary recognized the new primary line officer for the Insurance Supervision & Regulation section, of the Board of Governors of the Federal Reserve System and congratulated her on her new role. The IPAC Secretary reminded members that the recent change to the IPAC's charter places the responsibility for certain IPAC matters with the Board's Director of Supervision and Regulation while the Vice Chair for Supervision position remains vacant.

2. 2022 IPAC Working Groups

IPAC members discussed the status of the two active working groups (WGs) which are both expected to complete their work mid-2022, creating an opening for two new WGs. The IPAC Chair led a discussion among members regarding the objectives of a potential Climate Risk Working Group (CR WG) given its support at the previous IPAC meeting. There was broad member support and IPAC members voted unanimously to form a new CR WG. The CR WG is expected to focus on preparing materials for a roundtable discussion with Board leaders and staff on this issue.

A question was raised about coordination with other agencies on climate risk and IPAC Secretariat staff explained that while there is close coordination with the Federal Insurance Office (FIO) and the National Association of Insurance Commissioners (NAIC) on climate internationally, the Board sets its own policies independently.

The IPAC then discussed and voted to form a second new working group in response to the International Association of Insurance Supervisors' (IAIS's) consultation on the Aggregation Method – Insurance Capital Standard (ICS) comparability criteria. Members consider this work high priority given its importance, timeliness, and the IPAC's primary mandate to advise the Board on international insurance matters. The project is expected to last about three months.

3. Supervisory Framework Proposal Update

IPAC Secretariat staff provided an overview of the Board's proposed framework for the supervision of insurance organizations. The framework, as proposed, would set supervisory expectations proportional to each firm's size and complexity, use new ratings developed specifically for supervised insurance organizations (SIOs), and leverage to the greatest extent possible work performed by other supervisors to limit burden. The approach is focused on an SIO's ability to support the depository institution. A short-term working group formed at the previous IPAC meeting will commence its work in March to draft feedback for the Board on the proposed framework.

4. IPAC ICS WG Update

ICS WG members provided an update on the WG's progress completing its analysis on the impact of the ICS on long-term U.S. life insurance products. Six firms are contributing asset and liability data covering a wide range of long-term products. The paper's focus is on specific aspects of the ICS, namely, capital resources, discounting, interest rate risk, and non-default spread risk, and how they react to various

economic scenarios. A single-A yield curve is used as the benchmark for comparisons with the ICS. ICS WG members discussed how the ICS's conservatism produces false solvency and risk signals, discouraging appropriate risk management, and making it challenging for regulators to use as a Prescribed Capital Requirement. Other concerns include the ICS's volatility, the number of products placed in the General Bucket, and credit spread assumptions. The general conclusion was that the ICS is not yet at a point where it would be suitable for implementation in the U.S. market.

What prioritization do IPAC members recommend for market-adjusted valuation (MAV) design improvements?

IPAC ICS WG members provided an overview of MAV discounting and proposed changes covering the term structure of spreads, middle bucket criteria, application ratios, long-term forward rates, the inclusion of non-fixed income assets in the spread, and the modulation factor designed to prevent spread widening improving a company's capital ratio. IPAC members asked a multitude of questions and provided feedback on the MAV design, including feedback on the proposed new MAV criteria, suggested the addition of tax effects, and discussed ideas for structural changes to the assessment of interest rate risk.

5. Additional Matters

Other IAIS Items: IPAC Secretariat staff provided an overview of various IAIS initiatives, highlighting climate risk and the ICS as key topics. To support its analysis, the IAIS is looking to collect data on climate-related financial risk for both individual insurer modeling and sector-wide analysis. The IAIS will begin an assessment of jurisdictions' implementation of the Holistic Framework. Based on this assessment, the IAIS will determine whether to propose the formal elimination of global systemically important insurer designations.

The IPAC Chair thanked members for their work and interactive discussion and closed the meeting.