Meeting Between Vice Staff of the Federal Reserve System, and
the Insurance Policy Advisory Committee
March 3, 2020

Participants: Thomas Sullivan, Linda Duzick, Matt Walker, Matti Peltonen, Jan Bauer, Daniel Zaglama, Benjamin McDonough, David Alexander, and Andrew Hartlage (Federal Reserve Board)

Richard Rosen and Todd Coslow (Federal Reserve System)

IPAC members and their selected staff, and invited guests from the Federal Insurance Office and Financial Stability Oversight Council

Summary: Staff of the Federal Reserve System met with the Insurance Policy Advisory Committee (IPAC), an advisory group established by the Federal Reserve Board pursuant to section 211(b) of the Economic Growth, Regulatory Relief, and Consumer Protection Act. During the meeting, IPAC members discussed insurance capital standards and other matters.

Attached are the Records of Summary from those discussions.
Welcome

Board staff thanked the IPAC for its flexibility in adjusting the meeting forum to a teleconference, given coronavirus disease 2019 (COVID-19) precautions. The IPAC Chair reminded members of certain IPAC protocols, such as no member proxies and other meeting governance protocols.

1. Building Block Approach (BBA): What are the requested adjustments to the BBA Notice of Proposed Rulemaking (NPR)?

Overview

Board staff provided an overview on the BBA NPR, status, and major comment themes. Next, Board staff highlighted several comment areas in more detail.

Collins Amendment

Board staff provided an overview of commenters’ feedback on the proposed section 171, also known as the Collins Amendment, calculation. Some commenters opposed the proposal for a separate calculation. IPAC members provided views on legal interpretations of section 171 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) that diverged from the NPR, flexibility of language in their reading of the legal text, and application to insurance savings and loan holding companies (ISLHCs). One IPAC member expressed support for this area of the BBA NPR as proposed. IPAC members encouraged the Board to explore other ways to satisfy the statutory requirement, if flexibility is available, e.g., not adopting the proposed calculation in the final rule.

Calibration and Buffer

Board staff summarized four themes expressed by commenters regarding capital calibration and the proposed capital conservation buffer. First, some commenters, without disagreeing with the proposal, said the BBA NPR in this area needed better justification. Another group of commenters said that the attachment point of the buffer should be lowered to 400 percent, removing the uplift. A third group of commenters suggested further tailoring the calibration of the rule rather than relying on the calibration for bank rules. A final group of commenters suggested that the buffer be dropped given the less systemic nature of insurers compared to banks.

Capital Instruments

Board staff summarized comments regarding senior debt and surplus notes, e.g., structural subordination and prioritizing an operating company over a holding company. IPAC members offered a variety of perspectives in this area including support for the comments summarized, any differing treatment of senior debt between banks and insurers, and differences between goals of the instruments at the legal entity and group levels.
Adjustments

Board staff summarized comments on adjustments, the substance of which focused on issues related to captives and permitted and prescribed practices. One group of commenters requested no adjustments for these items and instead urged the Board to defer to the treatments established by state regulators. Another group of commenters supported the Board’s efforts to improve comparability and suggested technical fixes to better accomplish this with lower burden. IPAC members shared that this topic is robustly debated in other forums and offered to provide additional input to the Board.

2. Insurance Capital Standard (ICS): What is the path forward for the International Association of International Supervisors (IAIS) ICS?

Update from IAIS Meeting

Board staff reviewed items from the IAIS fall 2019 meeting held in Abu Dhabi, United Arab Emirates. At that meeting, the IAIS adopted the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame). In addition, the IAIS adopted ICS Version 2.0, which will be used during the five-year monitoring period. IAIS also agreed on a definition of comparable outcomes and an overarching approach for the development of criteria to assess whether the Aggregation Method (AM) in the United States and other interested jurisdictions will provide substantially the same outcomes to the ICS. Finally, IAIS adopted the Holistic Framework for the assessment and mitigation of systemic risk in the insurance sector with implementation beginning in 2020.

Comparability

Board staff explained that high-level principles and criteria are being developed by IAIS for a comparability assessment. For example, the responsiveness of ICS and AM to changing conditions over time, scope, and quality of information for a sufficient assessment are under consideration. IPAC members provided strong feedback regarding impacts to the United States, appreciation for U.S. members’ efforts at IAIS, and upcoming challenges for equivalence across jurisdictions as the process continues.

Monitoring Period (MP)

Board staff shared that the IAIS has established a five-year period to monitor ICS performance. During this time, IAIS would like to receive feedback from supervisors and IAIGs on the reference ICS. ICS has not been adopted, and is not a capital standard during the MP. Prior to ICS adoption, IAIS will conduct a public consultation on the ICS and undertake an economic impact assessment. Once IAIS finalizes the ICS, each jurisdiction of the IAIS will be expected to determine an appropriate implementation for its jurisdiction. Board staff explained the annual MP process and the importance of IAIG participation for effective feedback on the ICS. IPAC members expressed that a European perspective is reflected in the ICS without a similar U.S. perspective. IPAC members stated there could be value in each jurisdiction doing specific analyses or impact studies for its industry.

3. IPAC Governance: What IPAC governance items require discussion or vote?

Working Groups
In response to the working group discussion during the inaugural IPAC meeting, the IPAC Chair and Secretariat met prior to this meeting and developed IPAC working group guidelines. Board staff reviewed those guidelines. After the IPAC Chair led a discussion on working groups, the IPAC unanimously voted to establish working groups. The IPAC also unanimously voted to create two specific working groups, relevant to submitted BBA NPR comments. One group would discuss comments relevant to section 171 of the Dodd-Frank Act and present any considerations to the IPAC. The second group would discuss comments regarding capital instruments and present any conclusions to the IPAC.

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

COVID-19 Impacts to the Insurance Industry

IPAC members reviewed a variety of steps that industry participants are taking to mitigate risk to employees and operations, including any potential impact from third-party service providers, to financial operations, and on the broader economy. Members mentioned comparisons to similar historic events and relevant contingency plans. IPAC members were actively monitoring policymakers’ responses to the issue.

IAIS Approach to Systemic Risk

An IPAC member expressed concern about the IAIS Holistic Framework approach to certain liquidity risks. Specifically, a financial institution’s potential draws on available credit lines at banks. The member stated systemic implications of various viewpoints of the approach. Board staff provided background on the recent international and domestic policy work in this area including the activities-based approach, liquidity-risk-management requirements, and ongoing consideration of comments for a corresponding consultation paper.