

AGGREGATING REGULATORY CAPITAL REQUIREMENTS ACROSS JURISDICTIONS: THEORETICAL AND PRACTICAL CONSIDERATIONS

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Background

- On November 14, 2019, at its Annual Meeting, the International Association of Insurance Supervisors (IAIS) agreed that in the monitoring period for the Insurance Capital Standard (ICS), it would assess whether an aggregation method (AM) for group capital calculations provides a comparable outcome to the ICS.
- The essential element of the AM is that the required capital for each entity within a group, established by its regulatory authority, is the basic building block for the calculation of the group's required capital.
- However, if different jurisdictions set their required capital to different risk or safety levels, then some adjustment of the individual required capital is needed to bring them to a common level of safety.
- These adjustments are called scalars.
- The NAIC has requested the American Academy of Actuaries' help in the form of a technical paper assessing various methodologies for the creation of scalars.



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Project Description

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The project will proceed in four stages:

1. clarify as much as possible the objectives, both conceptual and practical, of a scalar methodology;
 2. assemble an inventory of possible methodologies—both from methodologies that have been tried and/or assessed by the NAIC, the Federal Reserve Board, the IAIS, or others—and from methodologies suggested by academic literature addressing adjacent issues;
 3. derive a set of criteria for the evaluation of the methodologies from the existing discussions of possible methodologies and from standard statistical principles;
 4. evaluate each of several, if not all, relevant methodologies according to the specified criteria.
- We will also be developing an annotated bibliography to make more accessible relevant academic work on the subject.
 - The target completion date is March 1, 2021.



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Expected Results

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- The Academy will be offering assessments of several major possible methods but will not be recommending a method for scalars.
- Academy assessments will address both theoretical and practical considerations.
- The project is intended to assist regulators and staff seeking to create group capital standards by the AM by providing information as they seek to choose the best scalar for their purposes.
- The project is also intended to educate the actuarial community about scalars and to engage the academic community in this issue.
- Academy assessments will be clearly designed to address scaling for insurance entities across jurisdictions, while also being relevant to other uses for scalars.



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Questions?

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