

■The LIAJ comments on the IAIS Revised ICP 14 & 17

(1) ICP14 (Valuation)

Paragraph		Comment
ICP14.0.2	Differences between technical provisions for general purpose financial reports and regulatory reports should be explained in terms of differences in data, discount rate, methodology and assumptions used together with the rationale for why any different approach is appropriate for solvency purposes.	<ul style="list-style-type: none"> <li>We agree that any differences between technical provisions for general purpose financial reports and regulatory reports should be explained by an insurer.</li> <li>Since only the regulatory reports are expected to be based on market value in Japan, we believe that it is important for insurers to 'fulfill their responsibility to explain the difference as long as it does not leave them at a competitive disadvantage and the preparation and assessment are possible within a reasonable cost and timeframe.</li> <li>In terms of the explanation for the detailed data on technical provisions, discount rates and differences in assumptions, there could often be cases where it is especially difficult to understand and the need for proper comprehension should be noted.</li> <li>Therefore, we suggest revising the paragraph 14.0.2 by adding the following sentence: 'To the extent that intelligibility is ensured, differences between technical provisions should be explained (...) appropriate for solvency purposes. In addition, it is important to ensure that the explanation can be prepared and verified at a reasonable cost and time, and that it does not suffer a competitive disadvantage.'</li> </ul>

(2) ICP17 (Capital Adequacy)

Paragraph		Comment
ICP17.13.6	It may be appropriate for a supervisor to consider transitional measures when permitting insurers to use internal models for regulatory capital requirements purposes for the first time. Such measures will permit the necessary time for both insurers and the supervisor to become familiar with the internal models and their uses.	<ul style="list-style-type: none"> <li>We support the proposed introduction of transitional measures as the burden for both insurers and supervisor to meet the process and requirement of approval for the use of an internal model is significant except for insurers that are part of an insurance group from a jurisdiction where its use of an internal model has already been implemented and approved by the supervisory.</li> </ul>
	For example, during a transition period, the supervisor could include the use of a partial internal model, to allow the insurer to transition gradually to use a full internal model or the supervisor could require parallel reporting of regulatory capital requirements determined by both the internal model and standardised approach. The supervisor may also consider applying a temporary minimum level of the regulatory capital requirements during the transition period.	<ul style="list-style-type: none"> <li>However, an insurer could potentially apply the internal model partially to its advantage (i.e. some sort of cherry-picking). The use of a partial internal model, proposed as a transitional measure in the revised paragraph 17.13.6, should therefore be noted.</li> </ul>