



The IAIS Risk-based Global Insurance Capital Standard (ICS): Frequently Asked Questions on the Implementation of ICS Version 2.0

Following the IAIS' [announcement](#) on 2 November 2017 regarding the implementation of ICS Version 2.0, this document provides responses to some of the frequently asked questions that the IAIS has received. Other questions that cannot be answered at this stage will be dealt with in the 2018 ICS consultation document.

1. When does the monitoring period start?

ComFrame is scheduled for adoption at the IAIS Annual General Meeting in November 2019. This will include ICS Version 2.0 as a confidential reporting requirement. IAIS Members are committed to implement ComFrame from the date of adoption. Accordingly, the monitoring period can start in 2020. It will last for five years.

It is important to note that the IAIS will allow Volunteer Groups (non-IAIGs) to start or continue to be part of the ICS data collection exercise during the monitoring period.

2. Will there be any changes to ICS Version 2.0 during the monitoring period?

There will be a significant difference between field testing, which will continue in 2018 and 2019, and the monitoring period. During field testing, significant design and calibration changes were made each year and, in some cases, various options were tested. In the field testing period, every component of the ICS was discussed for each field testing exercise. This is consistent with the project being in a testing phase. In 2019, the IAIS will adopt ComFrame, including ICS Version 2.0 for confidential reporting. This will be a significant milestone and will signal the IAIS' approval of the design and calibration of the components of ICS Version 2.0 for both the reference ICS and the additional reporting, at the option of the group-wide supervisor ("additional reporting"). Therefore, there will be a period of stability for the reference ICS and the additional reporting. However, this does not preclude possible clarifications/refinements and correction of major flaws or unintended consequences identified during the monitoring period to improve the ongoing development of the ICS. Further detail on how the monitoring will take place and the process for considering clarifications/refinements or corrections of major flaws will be provided for feedback in the 2018 ICS consultation document.

3. What does mandatory reporting of the reference ICS mean and how will the IAIS mandate this reporting? What is the legal basis?

The IAIS is a standard setting body and does not have any legal power to directly mandate any reporting. However, the IAIS By-Laws contain the following clause at Article 6(6):

(6) Members commit to:

(a) pursue the mission of the Association;

(b) implement IAIS supervisory material taking into account specific market circumstances; and

(c) undergo periodic self-assessments and peer reviews.

During the monitoring period, ComFrame will include ICS Version 2.0 for confidential reporting. This means that the group-wide supervisor (GWS) of an IAIG will need to ensure the reporting of ICS Version 2.0 – both the reference ICS and, if the GWS so wishes, additional reporting (ICS on a GAAP Plus basis and/or ICS with an internal model derived capital requirement).

Each GWS jurisdiction will need to ensure that reporting is done in a way that is suitable for their legal and regulatory framework. The expectation is that each GWS will achieve the outcome of the ICS being reported as specified. A spectrum of ways in which this may be achieved is envisaged, depending on the jurisdiction:

- at one end of the spectrum, an agreement for reporting between the GWS and the IAIG
- at the other end of the spectrum, a legal requirement set out in legislation.

The fact that each GWS will need to ensure the reporting of the reference ICS is also necessary to support the outcomes focus of the ICS development process. In order to assess the outcomes from the additional reporting, where required by a GWS, there needs to be a common reference point, hence the reference ICS. Having a reference ICS will provide a basis to assess and conclude by the end of the monitoring period whether GAAP Plus and/or internal models are included in the ICS.

Calculation of the reference ICS and the additional reporting is not meant to be burdensome and should be able to be leveraged off existing systems and processes through the use of simplifications, simplifying assumptions and proxies. However, there should be fewer simplifications, simplifying assumptions and proxies as the monitoring period progresses. As explained in question 9, there will not be requirements for audit and assurance in the monitoring period.

4. Who will be affected by the confidential reporting?

All IAIGs, including Global Systemically Important Insurers (GSIs).

ComFrame identifies an IAIG as being an insurance group that has total assets of at least USD 50 billion or gross written premiums of at least USD 10 billion (on a rolling three year average basis). In addition, its premiums are written in three or more jurisdictions and at least 10% of the group's total gross written premium is written outside the home jurisdiction.

5. How will IAIS collect meaningful feedback from supervisory colleges to inform the development/refinement of ICS?

The IAIS will, as part of the 2018 ICS consultation document, consult on the process for both data collection and analysis by the IAIS, and receiving qualitative feedback from supervisory colleges, to find ways of achieving efficiency and meaningful feedback.

6. Who will assess whether the aggregation method provides comparable, i.e. substantially the same (in the sense of the ultimate goal), outcomes to the ICS and what criteria will be used?

The KL agreement states that the IAIS will conduct the assessment. The IAIS has agreed to collect data from interested jurisdictions relevant to the development of the aggregation method. Through this approach, the IAIS aims to be in a position by the end of the monitoring period to assess whether the aggregation method provides comparable, i.e. substantially the same (in the sense of the ultimate goal), outcomes to the ICS. If so, it will be considered an outcome-equivalent approach for implementation of ICS as a prescribed capital requirement (PCR).

The IAIS will consult on and finalise the criteria to be used at an appropriate time so as to deliver the assessment by the end of the monitoring period. However, the link to the ultimate goal does provide some broad parameters for the assessment:

The IAIS' ultimate goal, by a date yet to be determined, is a single ICS that includes a common methodology by which one ICS achieves comparable, i.e. substantially the same, outcomes across jurisdictions. Ongoing work is intended to lead to improved convergence over time on the key elements of the ICS towards the ultimate goal. Not prejudging the substance, the key elements include valuation, capital resources and capital requirements.

7. What would be the requirements to submit results from other methods of calculating capital requirements?

The reporting by IAIGs of results obtained from the use of internal models is at the option of the GWS. So, the first requirement is that the GWS of the IAIG must exercise this option.

The IAIS intends to develop a first set of tests and standards that should be used by GWSs to review and accept internal model results as part of the monitoring period. The intention is to consult on these tests and standards in 2018.

It is also the purpose of the monitoring period to inform the IAIS on which tests and standards should be developed should internal models be accepted as part of ICS as a PCR.

8. What will be the process for consideration of GAAP Plus and internal models within the ICS by the end of the monitoring period?

The IAIS publicly stated that the reference ICS and additional reporting at the option of the GWS within ICS Version 2.0 are equally important components. Both GAAP Plus and internal models are viable options that will be considered for inclusion in the ICS by the end of the monitoring period. Criteria will need to be developed in detail. These criteria will be consulted on in 2018.

9. Will ICS Version 2.0 reporting be subject to an audit or assurance process during the monitoring period? What quality of data and investment in systems development is expected by IAIGs? How will confidential reporting of these field testing results be used in supervisory colleges without resulting in supervisory action?

During the monitoring period, the ICS will be used for confidential reporting to GWSs and discussion in supervisory colleges. The ICS will not be used as a PCR in this phase (i.e. the

ICS results will not be used as a basis to trigger supervisory action). Therefore, there will be no requirement for the calculation of the reference ICS or the additional reporting to be audited and no specific assurance process will be imposed. During the field testing of ICS, Volunteer Groups have been asked to perform the calculation on a 'best efforts' basis. The quality of the data submitted will need to improve from the field testing basis given that it is expected that supervisory colleges will discuss the results. However, the IAIS will endeavour to set out and allow simplifications, simplifying assumptions and proxies to be used so that full systems development is not needed until implementation as a PCR after the monitoring period. There should be fewer simplifications, simplifying assumptions and proxies as the monitoring period progresses. GWSs and the IAIS will review the data submissions and work with IAIGs to improve the quality of the calculations.

Before and during the monitoring period, the IAIS will engage with stakeholders (including rating agencies and other market analysts) to explain the nature of the confidential reporting and that data collected during this period would not be part of the formal supervisory reporting.

10. Can simplifying assumptions to the market-adjusted valuation (MAV) approach be used during the monitoring period?

During the monitoring period, the quality of the data submitted for MAV will need to improve compared to the field testing basis since there will not be any optionality and supervisory colleges will discuss the results. However, the IAIS will endeavour to set out and allow simplifications, simplifying assumptions and proxies to be used so that full systems development is not needed until implementation as a PCR after the monitoring period. There should be fewer simplifications, simplifying assumptions and proxies as the monitoring period progresses. GWSs and the IAIS will review the data submissions and work with IAIGs to improve the quality of the calculations.