

# Explanatory note on the Insurance Capital Standard (ICS) and Comparability Assessment

## 1 Introduction

The Insurance Capital Standard (ICS) Version 2.0 for the monitoring period was agreed by the IAIS Executive Committee on 13 November 2019. The five-year monitoring period is for confidential reporting and discussion in supervisory colleges from the beginning of 2020.

The ICS is being developed as a consolidated group-wide capital standard for Internationally Active Insurance Groups (IAIGs). It consists of three components: valuation, qualifying capital resources, and a standard method for the ICS capital requirement. The ICS will form part of the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame). ComFrame provides, for the first time, a global framework for the cross-border supervision of IAIGs.

## 2 Purpose and background of the ICS

On 9 October 2013, the IAIS announced its plan to develop a risk-based global insurance capital standard. This was in response to the request by the Financial Stability Board that the IAIS produce a work plan to create “a comprehensive group-wide supervisory and regulatory framework for Internationally Active Insurance Groups (IAIGs).”<sup>1</sup>

The purpose of the ICS is to create a common language for supervisory discussions of group solvency to enhance global convergence among group capital standards. The ultimate goal is a single ICS that includes a common methodology by which one ICS achieves comparable, ie substantially the same, outcomes across jurisdictions.

The IAIS has followed a structured and evidence-based approach to the development of the ICS by undertaking a multi-year quantitative Field Testing process with Volunteer Insurance Groups (Volunteer Groups). The IAIS has conducted six quantitative Field Testing exercises in the development of the ICS - from 2014 to 2019. Each quantitative ICS Field Testing exercise has been informed by IAIS analysis of submitted data, as well as additional feedback and comments provided by Volunteer Groups as part of their submissions or through dedicated field testing workshops. In addition to the Field Testing process, the IAIS has reached out to the broader group of stakeholders through dedicated in-person stakeholder meetings and by engaging in two public consultations on ICS matters.

## 3 Implementation of the ICS

Implementation of the ICS Version 2.0 will be conducted in two phases:

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<sup>1</sup> [http://www.financialstabilityboard.org/publications/r\\_130718.pdf](http://www.financialstabilityboard.org/publications/r_130718.pdf)

- A five-year “monitoring period”, during which ICS Version 2.0 will be used for confidential reporting to group-wide supervisors (GWSs) and discussion in supervisory colleges. During the monitoring period, ICS results will not be used as a basis for triggering supervisory action; and
- The implementation of the ICS as a group-wide Prescribed Capital Requirement (PCR)<sup>2</sup>.

Confidential reporting<sup>3</sup> will cover a reference ICS and, at the option of GWSs, additional reporting of ICS based on GAAP with Adjustments (GAAP Plus)<sup>4</sup> valuation and/or other methods of calculation of the ICS capital requirement, including internal models.

#### **4 ICS as part of ComFrame**

ComFrame consists of both quantitative and qualitative supervisory requirements tailored to the complexity and international scope of IAIGs. The ICS is the quantitative component of ComFrame.

ICS Version 2.0 for the monitoring period was agreed as a stand-alone document, but it will be integrated into ComFrame text before the end of the monitoring period.

In order to facilitate the monitoring period and discussion within supervisory colleges, ComFrame includes references to the ICS, covering both the reference ICS and additional reporting.

#### **5 The purpose of the monitoring period**

The purpose of the five-year monitoring period is to monitor the performance of the ICS over a period of time, and not the capital adequacy of IAIGs. For this purpose, the monitoring period is intended to be a period of stability for the reference ICS and the additional reporting. 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. Prior to the adoption of the ICS as a PCR, there will be a public consultation and the IAIS will undertake an economic impact assessment.

During the monitoring period, the ICS will be used for confidential reporting to group-wide supervisors and discussion in supervisory colleges. It will not be used as a PCR (that is, the ICS results will not be used as a basis to trigger supervisory action). Therefore, during the monitoring period, IAIGs are not expected to manage their business to the ICS since it is not a PCR. ICS Version 2.0 for the monitoring period is not for decision making by supervisors,

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<sup>2</sup> A PCR is defined as a solvency control level above which the supervisor does not intervene on capital adequacy grounds. As the ICS is designed as a minimum standard, national supervisory authorities may elect to take a more prudent approach and set a PCR that is higher than the ICS PCR.

<sup>3</sup> ComFrame includes a standard that requires GWSs to require IAIGs to report their reference ICS and to discuss the results in supervisory colleges. IAIS Members commit to implement IAIS standards taking into account specific market circumstances.

<sup>4</sup> GAAP Plus will continue development and field testing (for IFRS and U.S. GAAP) into the monitoring period. Japanese-GAAP will enter the five-year monitoring period, along with the reference ICS, beginning in 2020.

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nor is it intended for use by third parties. In this context, the IAIS encourages IAIGs not to disclose their ICS Version 2.0 results to any third parties.

The feedback received during the monitoring period will be used to further improve the ICS. In addition to the feedback from supervisors, the IAIS will consider feedback from stakeholder engagement, the public consultation and the results of the economic impact assessment, all of which could result in changes to ICS Version 2.0. During the monitoring period, the IAIS intends to maintain the same level of engagement with stakeholders as it had during field testing.

## **6 Documentation of ICS Version 2.0 for the monitoring period**

The documentation framework for ICS Version 2.0 for the monitoring period consists of three document levels. The Level 1 document for the ICS Version 2.0 for the monitoring period sets out the overarching principles and concepts (ie ICS architecture) for the annual confidential reporting of the reference ICS and additional reporting during the five-year monitoring period. The Level 1 document should be read in conjunction with the more detailed specifications contained in the Level 2 document for ICS Version 2.0 for the monitoring period. Levels 1 and 2 together form ICS Version 2.0 for the monitoring period. Level 3 builds on the information in Levels 1 and 2 with additional information to enable annual confidential reporting. The Level 2 document will be issued in early 2020. Level 3 documents will be issued annually in the second quarter to launch confidential reporting.

## **7 Comparability assessment**

The United States and other interested jurisdictions are developing an Aggregation Method (AM) to a group capital calculation. Although this is not part of ICS Version 2.0, the IAIS appreciates the significance of this development, and so is helping to collect data from the US and other interested jurisdictions that will aid in the development of the AM.

The IAIS aims to be in a position by the end of the monitoring period to assess whether the AM provides comparable (ie 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 PCR. Development of the AM by interested jurisdictions is underway. Work has begun on developing criteria to assess whether the AM provides comparable outcomes to the ICS, starting with a project plan focused on delivery by the end of the monitoring period.

The IAIS has agreed on the definition of comparable outcomes and an overarching approach to guide the development of high-level principles and criteria.

### ***Definition of comparable outcomes***

Comparable outcomes to the ICS means that the Aggregation Method (AM) would produce similar, but not necessarily identical, results over time that trigger supervisory action on group capital adequacy grounds.

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The IAIS will develop high-level principles and criteria in such a manner that the AM is neither precluded at the outset as an outcome equivalent approach to the ICS for measuring group capital, nor given a free pass.

***Developing high-level principles and criteria for the comparability assessment will take into account:***

1. Analysis of the responsiveness of the ICS and AM to changes in conditions over time, including economic and financial market conditions over the business cycle, not short-term market fluctuations.
2. Analysis of individual elements of a group solvency approach, ie valuation, capital resources, and capital requirement (including range and level of material risks) to support the assessment of comparable (ie substantially the same) outcomes, while recognising that the decision on comparable outcomes will consider the elements in totality.
3. The prudence of the AM in relation to the ICS, recognising that the latter will be a minimum standard and other standards could be more but not less prudent than it.
4. The scope of the group included under AM and ICS, consistent with that set out in ComFrame.
5. The extent, quality and scope of information on ICS and AM, required across different business models, that is sufficient to deliver the comparability assessment.
6. The levels of transparency of the group solvency position of the IAIG under the AM and ICS.

Additionally, the IAIS will include opportunities for stakeholder engagement through public consultation.

## **8 Public communication**

The following documents are available on the ICS page ([link](#)) of the IAIS website:

- Level 1 document for ICS Version 2.0 for the monitoring period;
- High Level Messages: ICS Version 2.0 for the monitoring period and Comparability Assessment
- Technical Note on ICS Version 2.0 for the monitoring period;
- Operationalisation of the monitoring period; and
- Work Plan and Timeline for 2020–24.