

**Public Consultation on the draft criteria
that will be used to assess whether the
Aggregation Method provides comparable
outcomes to the Insurance Capital
Standard**

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About the IAIS

The International Association of Insurance Supervisors (IAIS) is a voluntary membership organisation of insurance supervisors and regulators from more than 200 jurisdictions. The mission of the IAIS is to promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders and to contribute to global financial stability.

Established in 1994, the IAIS is the international standard-setting body responsible for developing principles, standards and other supporting material for the supervision of the insurance sector and assisting in their implementation. The IAIS also provides a forum for Members to share their experiences and understanding of insurance supervision and insurance markets.

The IAIS coordinates its work with other international financial policymakers and associations of supervisors or regulators, and assists in shaping financial systems globally. In particular, the IAIS is a member of the Financial Stability Board (FSB), member of the Standards Advisory Council of the International Accounting Standards Board (IASB), and partner in the Access to Insurance Initiative (A2ii). In recognition of its collective expertise, the IAIS also is routinely called upon by the G20 leaders and other international standard-setting bodies for input on insurance issues as well as on issues related to the regulation and supervision of the global financial sector.

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Background

In November 2017, the IAIS set out an agreement on the implementation of Insurance Capital Standard (ICS) Version 2.0, including a unified path to convergence of group capital standards in furtherance of its ultimate goal of a single ICS that achieves comparable outcomes across jurisdictions.¹ The agreement acknowledges the development by the United States of the Aggregation Method (AM) to a group capital calculation. While the AM is not part of the ICS, 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 prescribed capital requirement (PCR). At the same time, the IAIS agreed to help collect data from the US and interested jurisdictions that will aid in the development of the AM.

In November 2019, the IAIS agreed on a process and timeline for developing criteria to assess whether the AM provides comparable outcomes to the ICS. As previously communicated in an [Explanatory Note](#), the IAIS agreed on a draft definition of comparable outcomes and an overarching approach (ie areas of focus) to guide the development of high-level principles (HLPs) and criteria. Based on the draft definition and overarching approach, the IAIS developed draft HLPs to inform the criteria that will be used to assess whether the AM provides comparable outcomes to the ICS. Following public consultation in November 2020, the IAIS agreed on the definition of comparable outcomes and HLPs in March 2021.

The IAIS began developing the draft comparability criteria in April 2021. Detailed criteria have been developed for each HLP and are the subject of this consultation. The draft criteria have been developed in such a way 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. Stakeholders are thus invited to provide feedback on whether each individual criterion is clear, adequate, sufficient or too restrictive, considering the HLP to which it relates.

The task of designing the comparability assessment is a complex one, given that the ICS and the AM framework are methodologically and conceptually quite distinct. As such, stakeholder feedback is particularly important, in order to provide a range of perspectives on this unprecedented area of work and to gauge views on the appropriateness of the draft criteria. The IAIS recognises that the resolution of comments received may well lead to changes to the current drafting of the criteria.

The consultation provides the opportunity for obtaining perspectives and technical input on various parameters included in the criteria, in the form of targeted questions to support this work. In particular, the IAIS seeks input to aid in the development of specific scenarios for the sensitivity analysis envisaged in the draft criteria for HLP 1. The IAIS is also seeking feedback on considerations for determining representativeness of the non-life insurance sample. Following consideration of comments on the draft criteria, the IAIS will finalise the criteria that will be used to assess whether the AM provides comparable outcomes to the ICS. This assessment is scheduled to begin in Q3 2023.

¹ Refer to the document [Implementation of ICS Version 2.0](#)

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.

1 HLP 1

AM and ICS results are significantly correlated in that they change similarly in response to changing economic and financial market conditions over the business cycle, not short-term market fluctuations, although the quantum of change may differ.

Criteria:

- 1.1 The ICS and AM results are significantly correlated, changing similarly in response to changing economic and financial market conditions over the business cycle (as per the sensitivity analysis referenced in criterion 1.3) excluding short term market fluctuations.
- 1.2 In assessing whether the results are significantly correlated, correlation of results is analysed over the business cycle, considering both direction and quantum of change, although the quantum of change may differ. The correlation analysis is based on multiple points in time over the business cycle (including the sensitivity analysis referenced in criterion 1.3) to avoid false indications due to short-term market fluctuations, but the results will be assessed over the business cycle as a whole.
 - a. This analysis considers direction and quantum of change together over the business cycle to understand how the ICS and AM respond to changing economic and financial market conditions.
- 1.3 Each Volunteer Group in the representative sample conducts sensitivity analysis using the same scenarios² (representing different economic and financial market conditions over the business cycle) for both the ICS and AM.
 - a. For AM, sensitivity analysis is conducted by legal entities representing at least two-thirds of total AM required capital, with legal entities from at least three jurisdictions³. In determining the two-thirds level, material legal entities (ie those with the largest total AM required capital) should be included. For the remaining one-third, an approximation or simplified approach may be used to determine the impact of the sensitivity analysis. This allows for a more proportionate approach through the use of a materiality threshold.
 - b. For ICS, the sensitivity analysis is conducted on the consolidated group.
 - c. In addition to the data on the ICS and the AM based on current market conditions (the “base scenario”), Volunteer Groups in the representative sample provide ICS and AM data for a limited number of additional scenarios representing different points in time, which are intended to help inform the analysis of correlation of results over the business cycle.

² Information collected as part of the 2022 AM Data Collection may be used to develop scenarios referenced in criterion 1.3.

³ To reflect the international activity of these IAIGs.

- d. These additional scenarios are standardised and differentiated according to business models. For life business, the scenarios include changes to equity values, interest rates, credit spreads, mortality rates and lapse rates. For non-life business, the scenarios include changes appropriate to the nature of the business, like changes on non-life insurance risks.
- e. Volunteer Groups also provide the following information to inform the analysis:
 - i. a description of an economic and/or underwriting scenario that would cause AM capital resources to become less than AM capital requirement at the group level and an estimate of AM capital resources and capital requirement under this scenario, as well as the corresponding impact on the ICS.
 - ii. a description of an economic and/or underwriting scenario that would cause ICS capital resources to become less than ICS capital requirement at the group level and an estimate of ICS capital resources and capital requirement under this scenario, as well as the corresponding impact on the AM.

2 HLP 2

Individual elements of a group solvency approach, ie valuation, capital resources and capital requirement, will be analysed; however, the decision on comparable outcomes will consider the elements in totality.

The following will be assessed in undertaking the analysis of the individual elements:

The AM captures the same underlying risks as the ICS, even if this is achieved differently within the quantitative calculation of the group capital requirement. The overall AM capital requirement and ICS capital requirement provide a similar level of solvency protection.

The overall quality and eligibility of capital resources allowed in the AM is similar to the ICS and is assessed considering the same five key principles identified for ICS capital resources: loss-absorbing capacity, level of subordination, availability to absorb losses, permanence and absence of encumbrances and mandatory servicing costs.

Criteria:

- 2.1 When carrying out the analysis of individual elements of a group solvency approach, ie valuation, capital resources and capital requirement, prudence in one element may be used to offset less prudence in another element. The analysis should consider interaction between valuation (eg insurance liabilities), capital resources and capital requirement.
- 2.2 The AM captures the same underlying risks as the ICS. To this end, an analysis of risks is performed to understand and determine how all of the risks covered in the ICS are captured in the AM calculation. This could be either an explicit risk charge (taking into account different risk groupings), prudence embedded in valuation (ie accounting conservatism) or other such quantitative measures (eg scalars). In addition, any material risks captured in the AM, but not in the ICS, should be disclosed.
- 2.3 The analysis includes whether the overall AM capital requirement provides a similar level of solvency protection as the ICS⁴. As part of this analysis, the proportion of non-risk-based regimes as determined by the AM represents less than 5% of available capital.
- 2.4 The overall quality and eligibility of capital resources allowed in the AM is similar to the ICS for the representative sample. This determination is made by considering the following:
 - a. An analysis of **capital elements other than financial instruments** is performed to determine how the capital resources recognised in the ICS are treated in the AM. Any capital elements recognised in the AM, but not in the ICS, should be disclosed.
 - b. An analysis of **deductions** from ICS capital resources is performed to determine how the AM treats such items. This could take the form of non-admitted assets that have already been removed from the entity level balance sheet.
 - c. The **financial instruments** recognised in the AM are assessed considering the same five key principles identified for ICS capital resources: loss-absorbing capacity, level of

⁴ The ICS has a target calibration of 99.5% Value at Risk over a one-year time horizon. The AM capital requirement is computed as the aggregation of scaled risk-based legal entity capital requirements that have a target calibration of at least a 0.5% probability of default.

subordination, availability to absorb losses, permanence and absence of encumbrances and mandatory servicing costs.

- d. The **capital composition limits** in the AM are compared to those of the ICS.

3 HLP 3

The AM could be more but not less prudent than the ICS, which is being developed as a minimum standard.

Criteria:

- 3.1 The AM triggers supervisory action on group capital adequacy grounds⁵ under similar conditions over the business cycle as the ICS showing that the level of solvency protection in totality could be more but not less prudent than the ICS.
 - a. For purposes of the analysis, the AM and ICS solvency ratios for individual IAIGs are used to understand when the AM triggers supervisory action compared to the ICS; however, the assessment will consider the results of the representative sample in totality. Additionally, to support this understanding, the analysis considers movements in capital resources and capital requirement (as well as their difference - ie excess capital) at different points in time to understand the drivers of the movements in solvency ratios. Material differences in these items (between the ICS and AM) are explained⁶.

4 HLP 4

The AM and ICS use the same scope of the group, consistent with that set out in ComFrame.

Criteria:

- 4.1 The scope of the group for the AM is determined as per ICP 23.2, which is the same as that for the ICS. In particular, all entities in the scope of the ICS calculation are also captured in the AM calculation.

⁵ A prescribed capital requirement (PCR) is a solvency control level above which the supervisor does not intervene on capital adequacy grounds, as defined in ICP 17.

⁶ The explanation of differences will also take into account any changes made to the ICS in response to the public consultation on the final design of the ICS as a PCR.

5 HLP 5

A representative sample of Volunteer Groups, covering a diversity of business models, provide both ICS and AM data under various economic and financial market conditions over the business cycle.

Criteria:

5.1 The sample of Volunteer Groups providing both AM and ICS results is representative of the business models and risks of IAIGs headquartered in the US and other interested jurisdictions. Representativeness is determined separately for life and non-life operations (as per criterion 5.2) with composite groups being split between their life and non-life operations.

5.2 For purposes of the determination of representativeness:

- a. Volunteer Groups provide relevant and sufficient data for both the ICS and AM data collections necessary to assess the criteria.
- b. Material geographical areas, as determined by the legal entity location, of US (or other interested jurisdictions) IAIGs are included in the representative sample including, as applicable, North America, Europe and South Africa, Japan, Asia and Oceania.
- c. For life, in recognition of the more heterogenous nature of life operations, a relatively large sample is needed. For purposes of demonstrating representativeness, the analysis will consider the minimum ratio of total AM required capital of US (or other interested jurisdictions) IAIGs participating in both the ICS and AM data collections to the total AM required capital of all US (or other interested jurisdictions) IAIGs⁷.
- d. For non-life, in recognition of the more homogenous nature of non-life operations in some jurisdictions, a smaller sample is needed. For purposes of demonstrating representativeness, the analysis will consider indicators such as: material lines of business of non-life US (or other interested jurisdictions); similarity of investment portfolios; the correlation between the net loss ratios of the representative sample and the total net loss ratio for all US (or other interested jurisdictions) IAIGs; and the correlation between the solvency ratios of the representative sample and the solvency ratio for all US (or other interested jurisdictions) IAIGs.
- e. For non-life, both IAIGs and other Volunteer Groups can contribute to the determination of representativeness (geographical areas and lines of business), when both AM and ICS results are provided.

5.3 The Volunteer Groups providing both AM and ICS data is stable or increases during the monitoring period.

⁷ For the current sample of US headquartered life groups providing both AM and ICS data, this ratio is 92%.

6 HLP 6

The AM and ICS are similarly transparent, in terms of facilitating understanding and comparability, within and across jurisdictions, of the group solvency position through public disclosure and reporting to group-wide supervisors.

Criteria:

- 6.1 When introduced in ComFrame⁸, IAIG capital reporting to group-wide supervisors and public disclosure requirements, including their content, granularity, and frequency, will also apply to the AM.
- 6.2 The assessment considers preparatory work that shows evidence of a commitment to meet ComFrame public disclosure and supervisory reporting requirements, including, for example, relevant text in the AM Level 1 document.

Consultation questions:

Stakeholder feedback is sought on each criterion. (Note: the consultation tool provides a comment box for each individual criterion, as well as a general comment box).

In addition, the IAIS is seeking feedback on some targeted questions related to HLPs 1 and 5.

- Please provide any feedback on the design and parameters of scenarios that the IAIS could use to conduct the sensitivity analysis envisaged in criterion 1.3 in order to adequately capture different economic and financial market conditions over the business cycle.
- Please provide feedback on the appropriateness of the analysis to determine representativeness of the sample as described in criterion 5.2, including the appropriateness of the indicators and the level of homogeneity of the non-life market for the US and other interested jurisdictions (criterion 5.2 d).

⁸ ComFrame requirements on transparency will be developed consistent with ICS Principle 9: *The ICS is transparent, particularly with regard to the disclosure of final results.*