



IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

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Statement from IAIS Secretary General Jonathan Dixon on the ICS Monitoring Period

Basel – The International Association of Insurance Supervisors (IAIS) is developing the Insurance Capital Standard (ICS) with the purpose of creating a common language for supervisory discussions of group solvency of Internationally Active Insurance Groups (IAIGs) 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.

At its November meeting in Abu Dhabi, the IAIS Executive Committee agreed on ICS Version 2.0, which is to be used during a five-year monitoring period. During the monitoring period, ICS will be used for confidential reporting and discussion among supervisors in supervisory colleges.

This represents a major step forward in the pathway to the ultimate goal of a single global capital standard for IAIGs that achieves comparable outcomes across jurisdictions.

As the IAIS transitions to the first phase of ICS implementation, there are certain issues around participation in the monitoring period, the ultimate goal of ICS, and the process of refinement of the ICS during the monitoring period that are worth reiterating, including in response to recent stakeholder queries and for the avoidance of any possible misperceptions.

1. What is the expectation regarding participation in the monitoring period?

As an international standard setting body, the IAIS does not have the legal power to directly mandate IAIGs to report ICS results during the monitoring period. However, IAIS Member supervisors collectively agreed in Abu Dhabi to make participation as large as possible across different jurisdictions and business models in order to ensure that the ICS captures risk appropriately. The IAIS has written to group-wide supervisors of IAIGs setting out the reasons why participation by IAIGs during the monitoring period is very important. This message will be conveyed by group-wide supervisors to the IAIGs in their jurisdiction. The expectation is that, at a minimum, the same groups that participated in ICS field testing exercises will participate in confidential reporting, with the number of additional participants increasing over time. Participation in the ICS field testing exercises was strong across the globe. Participation averaged around 50 groups, covering almost 40% of the world insurance market based on gross written premium and 70% of all IAIGs by number.

In the coming months, the IAIS will collectively review the level of IAIG participation and discuss appropriate actions as necessary.

2. How is the agreement reached in Abu Dhabi a major step forward in the pathway to the ultimate goal of a single global capital standard for IAIGs?

The IAIS is developing the ICS as the global standard to be used as a prescribed capital requirement (PCR) for IAIGs, based on a common set of principles.

One of the key ICS Principles is comparability of outcomes across jurisdictions, thereby contributing to a level playing field and reducing the possibility of capital arbitrage. IAIS Members are committed to an approach that is compliant with the ICS Principles, including maintaining a level playing field.

Since the IAIS Annual Meeting in Kuala Lumpur in November 2017, US Members have indicated that their supervisory framework does not support a group-wide consolidated approach to a PCR, and hence the US and other interested jurisdictions are developing an Aggregation Method (AM) that follows a different approach than the ICS, but which they aim to use as their implementation of the ICS on an outcome-equivalent basis.

The AM is not part of ICS Version 2.0, nor is it being developed by the IAIS as an alternate global standard. Rather, it is an approach to a group-wide capital calculation being developed by the US and other interested jurisdictions that will be assessed in terms of whether it provides comparable outcomes to the ICS.

The assessment of whether the AM provides comparable outcomes to the ICS will be a technical assessment undertaken by the IAIS. The process and timelines for undertaking this assessment was published by the IAIS in November 2019. As a first step, the IAIS has published a draft definition of comparable outcomes and particular considerations that will guide the development of high-level principles and criteria for the comparability assessment.

The IAIS has made it clear that this will be a robust and credible technical assessment that does not provide the AM a free pass, while at the same time providing a viable path for the AM to be deemed an outcome equivalent approach. In this way, IAIS Members have set out their continued commitment to the ICS Principles, including the comparability of outcomes across jurisdictions, contributing to a much more level playing field.

Stakeholders will also have an opportunity to input on how this goal should be achieved. The draft definition of comparable outcomes and high-level principles will be subject to a public consultation later this year, as will the draft comparability criteria in 2021.

3. How will the ICS be further refined during the monitoring period?

The purpose of the 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. 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.

For this reason, the active participation of IAIGs in the monitoring period is very important to provide effective feedback on the ICS.

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, a public consultation and the results of an 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.

<p>This press release and all supporting documents regarding the ICS version 2.0 can be found on the IAIS website – Press Releases page.</p>
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