



# IAIS

INTERNATIONAL ASSOCIATION OF  
INSURANCE SUPERVISORS

Public

## **Public Consultation on the draft definition and high-level principles to inform the criteria that will be used to assess whether the Aggregation Method provides comparable outcomes to the Insurance Capital Standard**

**09 November 2020**

**Submission deadline 22 January 2021**

### **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.<sup>1</sup> 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 and criteria. Based on the draft definition and overarching approach, the IAIS has developed draft high-level principles to inform the criteria that will be used to assess whether the AM provides comparable outcomes to the ICS. The draft definition of comparable outcomes and the draft high-level principles are the subject of this consultation. The consultation was previously scheduled for mid-2020, but due to the Covid-19 pandemic, the IAIS rescheduled the consultation in order to provide operational relief to member supervisors, insurers and other stakeholders.

Following consideration of comments on the draft definition and draft high-level principles, the IAIS will develop the draft criteria that will be used to assess whether the AM provides comparable outcomes to the ICS. More detailed criteria will be developed for each high-level principle and 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. There will be a public consultation on the draft criteria in advance of the assessment of whether the AM provides comparable outcomes to the ICS.

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<sup>1</sup> Refer to the document [Implementation of ICS Version 2.0](#)

## 1 Draft Definition and High-Level Principles

Feedback is being sought from stakeholders on the following draft definition and draft high-level principles.

### 1.1 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.

**Stakeholder feedback is sought on the draft definition.**

### 1.2 High-level principles

Based on the definition above, the IAIS has developed the draft high-level principles to inform the criteria that will be used to assess whether the AM provides comparable outcomes to the ICS. The overarching approach (ie areas of focus<sup>2</sup>) agreed to in November 2019 was used as a basis to develop the following six high-level principles:

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.
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.

3. The AM could be more but not less prudent than the ICS, which is being developed as a minimum standard.
4. The AM and ICS use the same scope of the group, consistent with that set out in ComFrame.
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.

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<sup>2</sup> See Annex 1.

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.

**Stakeholder feedback is sought on each high-level principle. (Note: the consultation tool provides a comment box for each of the six high-level principles, as well as a general comment box)**

## Annex 1: Areas of Focus

The following areas of focus were agreed in November 2019 in order to guide the development of the high-level principles and criteria.

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.