

FAQ on the planned adoption and implementation of the Insurance Capital Standard and conclusion of the Aggregation Method comparability assessment

[Note, this is a living document. It will be updated, as necessary, in response to frequently asked questions that are received.]

1 Insurance Capital Standard (ICS)

1.1 What is the Insurance Capital Standard (ICS)?

The Insurance Capital Standard (ICS) is a globally comparable risk-based measure of capital adequacy for Internationally Active Insurance Groups (IAIGs). It forms the quantitative element of the Common Framework for the Supervision of IAIGs (ComFrame), with the qualitative elements, including governance and risk management, adopted in 2019.

The ICS Explained video series highlights the key features of the ICS, its development and plans for implementation. You can watch the series [here](#).

1.2 What are the key components of the ICS?

The ICS includes three main components: valuation, capital requirement, and capital resources. The final version integrates evidence-backed changes based on the ICS monitoring results and feedback from the 2023 public consultation.

1.3 Why is the ICS important for insurance supervision? What are the key benefits?

The main objectives of the ICS are protection of policyholders and to contribute to financial stability. The ICS was developed in the context of the IAIS mission, which 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.

1.4 When will the ICS be adopted?

The ICS will be put forward for adoption by IAIS members at the Annual General Meeting on 5 December 2024.

1.5 What changes have been made in the final version of the ICS?

Two minor amendments have been made for the final ICS compared to the one used for the last data collection of the monitoring period published in June. These amendments are for the mapping of credit risk ratings and the determination of non-insurance risk.

1.6 What are the next steps for IAIS members following ICS adoption?

While the IAIS is the global standard setter for insurance supervision, the IAIS does not have the legal authority to mandate implementation of its standards into jurisdictional legislations. However, IAIS members are committed to implementing IAIS standards and supervisory material, while also adapting it to their specific market circumstances. As with other IAIS standards, the ICS constitutes a minimum standard.

The IAIS will provide support to its members to facilitate their implementation of the ICS. The IAIS is considering what material, such as examples and guidance, may be helpful to publish to support the implementation of the ICS.

1.7 What is the timeline for the ICS implementation assessment?

The IAIS acknowledges that it will take some time for jurisdictions to finalise any necessary regulatory and supervisory changes to align with the ICS, taking into account jurisdictional circumstances, and for the IAIS to prepare for implementation assessment.

The IAIS Executive Committee has agreed on a two-step approach for ICS implementation assessment. In 2026, the IAIS will coordinate a baseline self-assessment by IAIS members of their progress in implementing the ICS. The IAIS will then aim to start in-depth targeted jurisdictional assessments in 2027.

1.8 How will implementation of the ICS be assessed?

The IAIS will develop a detailed ICS implementation assessment methodology in 2025. The methodology will leverage the IAIS' general principles and methodologies for assessing its standards, while taking into account the quantitative nature of the ICS. Recognising that the assessment should not be a line-by-line exercise, the methodology will specify an appropriate level of granularity and articulate the quantitative and qualitative analyses to be used in the assessment. The assessment will analyse whether the jurisdictional implementation at least meets the ICS (ie produces at least the same level of prudence as the ICS and similar triggers of supervisory intervention).

2 Aggregation Method (AM) comparability assessment

2.1 What is the Aggregation Method?

An AM was developed by the US and other interested jurisdictions as an alternative group capital approach to apply to IAIGs. The AM builds on existing local capital regimes that apply at legal entity level. The AM aggregates legal entity reported available and required capital (after adjustments to

remove double-counting) to produce a measure of group capital adequacy. The contribution of each legal entity to the total capital requirement is equal to an exposure measure (for regulated financial entities, this is the local capital requirement) multiplied by a factor. For these regulated entities, the factor is referred to as a “scalar”. Given differences between solvency frameworks, scalars are used to bring the required capital for each legal entity to a common level. To support the US in its development of the AM, the IAIS collected data from interested jurisdictions relevant to the development of the AM. The data collection included the provisional AM and a range of alternative scaling options.

2.2 How does the Aggregation Method (AM) relate to the ICS?

As set out in Section 4 of the AM comparability assessment report, the final AM will be the US’ implementation of the ICS. The assessment of its implementation will be subject to the same timing as ICS implementation assessments in other jurisdictions (ie self-assessment in 2026, and intensive targeted jurisdictional assessments aiming to start in 2027, upon agreement of the relevant jurisdictions) and subject to a consistent methodology (including both qualitative and quantitative analysis), assessing whether the jurisdictional implementation at least meets the ICS (ie produces at least the same level of prudence as the ICS and similar triggers of supervisory intervention), whilst also focusing on the AM specificities.

2.3 What is the comparability assessment of the AM to the ICS and how was it conducted by the IAIS?

In November 2017, the IAIS set out an agreement on the implementation of ICS, 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. The agreement acknowledges the development by the US of the AM. In November 2019, the IAIS agreed on a process to assess, by the end of the ICS monitoring period, whether the AM provides comparable outcomes to the ICS. In March 2021, following public consultation, the IAIS agreed on a definition of comparable outcomes and six high-level principles (HLPs) to guide the development of the comparability criteria to be used to assess whether the AM provides comparable outcomes to the ICS. In March 2023, following public consultation, the IAIS agreed on the final criteria. The final criteria were designed to ensure 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.

As per the agreed approach, the comparability assessment was based on a robust technical, evidence-based analysis of comparability, using a definition of comparable outcomes and comparability criteria for the six HLPs that were agreed by the IAIS following public consultation. The US was the only jurisdiction in scope of the AM comparability assessment. The assessment was conducted using the candidate ICS as a PCR and the provisional AM developed by the US, based on data collected from nine US-based IAIGs and one US non-life non-IAIG volunteer group.

While the agreed comparability criteria were assessed using a scaled approach that considers the degree to which each criterion is met, the final decision on comparability was based on the criteria as a whole. The comparability assessment recognised that the conceptual frameworks of the provisional AM and ICS are different and needed to be evaluated with acceptance of these differences in mind. The focus of the comparability assessment was whether the provisional AM

results in comparable outcomes to the ICS – ie ensuring that differences in the design of the provisional AM and the ICS do not result in significantly divergent outcomes. In assessing these outcomes, particular account was given to the definition of comparable outcomes – namely “Comparable outcomes to the ICS means that the AM would produce similar, but not necessarily identical, results over time that trigger supervisory action on group capital adequacy grounds” (ie the focus was on comparable outcomes with respect to supervisory intervention).

In finalising the assessment, the IAIS included a forward-looking approach. The assessment considered the recent or planned changes to local solvency regimes applicable to the underlying legal entities of US life IAIGs; and potential changes to the scalars used in a US AM. The assessment also recognised that work as part of the implementation of a future version of a US AM (final AM) is a means to help ensure convergence with respect to the remaining areas where the provisional AM produces divergent outcomes to the ICS in specific circumstances (see question 2.5).

2.4 What was the conclusion of the Aggregation Method comparability assessment?

In finalising the comparability assessment, the IAIS has concluded that a US AM provides a basis for implementation of the ICS to produce comparable outcomes. The comparability assessment of the provisional AM has highlighted some areas where work as part of implementation of the final AM will help ensure convergence, specifically treatment of interest rate risk and appropriate timing of supervisory intervention. In using the final AM as its implementation of the ICS, the US commits to addressing those areas in appropriate ways, which will be reviewed during the IAIS ICS implementation assessment process.

As set out in the AM comparability assessment report, the comparability assessment identified a number of areas in which the provisional AM provides comparable outcomes to the ICS and some remaining areas where the provisional AM results in divergent outcomes to the ICS in specific circumstances, specifically for US life IAIGs (see next question).

In finalising the assessment, the IAIS included a forward-looking approach:

- The assessment considered the recent or planned changes to local solvency regimes applicable to the underlying legal entities of US life IAIGs; and potential changes to the scalars used in a US AM. They include:
 - The recent introduction of Principles Based Reserving (PBR) in the US Risk Based Capital (RBC) regime progressively for existing and newly written life insurance and annuity liabilities;
 - Implementation of the ICS in Japan in 2025 in the form of the new economic value-based solvency ratio (ESR) framework; and
 - Potentially moving to a new scaling methodology in a US AM from the Provisional (unscaled) approach.
- The assessment also recognised that the work as part of the implementation of a future version of a US AM (final AM) is a means to address the remaining areas where the provisional AM produces divergent outcomes to the ICS in specific circumstances (as set out in Section 3.3.4 of the assessment report). These adjustments could help ensure convergence of outcomes with

the ICS for US life IAIGs (noting that the ICS is a minimum standard), while recognising that the decision on the changes to be implemented is for US supervisors to consider within the context of the US supervisory system.

2.5 What are the areas where work as part of implementation of the final AM will help ensure convergence to the ICS?

As set out in Section 3.3.4 of the AM comparability assessment report, the comparability assessment of the provisional AM has highlighted some areas where work as part of implementation of the final AM will help ensure convergence. These are:

- The direction of movement of the provisional AM and ICS results for US life IAIGs under some scenarios. In particular, changes in interest rates were noted to have the potential to drive divergent movements in the provisional AM and ICS results for US life IAIGs; and
- The triggers for supervisory intervention on group capital adequacy grounds for US life IAIGs.

2.6 What is meant by the US “addressing these areas in appropriate ways”?

In using the final AM as its implementation of the ICS, the US commits to addressing the identified areas for further work in appropriate ways, to help ensure convergence. This refers to measures that would be effective in addressing the highlighted issues while being feasible within the context of the US supervisory system. The US will keep the IAIS informed of deliberations in this regard (eg during the ICS self-assessment in 2026).

2.7 How will the implementation of the final AM (including changes compared to the provisional AM) be assessed by the IAIS?

The US has set out that the final AM will be the US’ implementation of the ICS. The assessment of its implementation will be subject to the same timing as ICS implementation assessments in other jurisdictions (ie self-assessment in 2026, and intensive targeted jurisdictional assessments aiming to start in 2027, upon agreement of the relevant jurisdictions) and subject to a consistent methodology (see above), whilst also focusing on the AM specificities.