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International Association of Insurance Supervisors Next Steps on the Insurance Capital Standard and the Aggregation Method Comparability

Federal Insurance Office

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The Insurance Capital Standard (ICS): Background



- The International Association of Insurance Supervisors (IAIS) initiated the development of the ICS when it received a request from the Financial Stability Board in 2013 to produce a work plan to create “a comprehensive group-wide supervisory and regulatory framework for Internationally Active Insurance Groups (IAIGs).”
- The IAIS responded by adopting the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) in 2019, a comprehensive and outcome-focused framework aimed at facilitating effective group-wide supervision of IAIGs.
- The ICS, representing the quantitative component of ComFrame, is intended to deliver a minimum risk-based capital standard for IAIGs, with the objective of establishing a common language for supervisors to discuss group solvency and enhance global convergence among existing group capital standards across jurisdictions.
- Following six years of field testing the ICS with volunteer insurance groups—with each year building upon the previous year’s analysis and discussions—and three separate public ICS consultations over that same period, the IAIS advanced version 2.0 of the ICS (reference ICS) into a five-year monitoring period in November 2019.
- FIO continues to work closely with the Federal Reserve Board, the U.S. states, and the National Association of Insurance Commissioners (NAIC) on improving ICS design elements to be more reflective of U.S. insurer business models.

ICS: Monitoring Period 2020-2024



- The purpose of the five-year ICS monitoring period has been for confidential reporting and discussion in supervisory colleges. ICS results have not been used as a basis for triggering supervisory action.
- In addition to the reference ICS and at the option of group-wide supervisors, IAIGs have been able to submit other reporting during the monitoring period, including the ICS based on GAAP Plus valuation and/or other methods of calculating the ICS capital requirement as well as results based on the Aggregation Method (AM).
- In 2023, the IAIS determined that there was a basis for advancing “other methods” to be part of the ICS framework and that GAAP Plus could be considered for a future version of the ICS after the monitoring period.
- These key decisions contributed to the formulation of the candidate ICS, with the IAIS issuing a final public consultation and an economic impact assessment of the candidate ICS in June 2023.
- Before adopting the ICS as a prescribed capital requirement (PCR) by year-end 2024, the IAIS will assess its appropriateness through a final data collection that will incorporate proposed design changes, considering recent stakeholder feedback.

Status

- The IAIS released the final ICS confidential reporting package at the end of April 2024, with a submission deadline of July 31, 2024.
- This year's data collection is solely focused on the candidate ICS, incorporating design adjustments reflective of stakeholder comments received from the 2023 ICS public consultation on the Candidate ICS as a PCR and the ICS economic impact assessment.
- The IAIS is drafting the risk methodology document, describing the approach taken to arrive at the final calibrations, which will be released after ICS adoption.
- IAIS members will be voting on the adoption of the final ICS in December 2024 and its planned implementation as a PCR on January 1, 2025.

The Aggregation Method (AM): Background



- The AM concept was introduced at the IAIS as an alternative group capital approach to the ICS for interested jurisdictions to apply to IAIGs.
 - Based on the Group Capital Calculation (GCC) in the U.S., the AM is being developed by the NAIC.
- At the 2017 IAIS Annual Meeting, the IAIS agreed to collect data from U.S.-based IAIGs and any other willing jurisdictions at the option of the group-wide supervisor to assist the U.S. and other interested jurisdictions in the development of the AM.
- The development of the AM is entirely separate from the development of the ICS at the IAIS. (While the IAIS collects data for the annual AM data collection exercise, the IAIS plays no role in the development of the AM methodology.)
- The AM is intended to be “jurisdiction agnostic”, utilizing and aggregating existing local regulatory capital results in a given jurisdiction.
- In 2023, 20 volunteer groups participated in the AM data collection exercise—5 from Asia (excluding Japan), 1 from Japan, and 14 from the U.S.
- Like the ICS, the final AM data collection was released on April 26, 2024.

The AM Comparability Assessment: Background



- In November 2017, the IAIS agreed to assess whether the AM provides comparable outcomes to the ICS. If so, it will be considered an outcome-equivalent approach for implementation of ICS as a PCR.
- In November 2019, the IAIS agreed on a draft definition of comparable outcomes and an overarching approach to guide the development of high-level principles and criteria for the comparability assessment.
- In May 2021, the IAIS published the final definition of comparable outcomes and high-level principles, governing the development of the criteria to be used in the comparability assessment
- After a public consultation in 2022, the IAIS finalized the criteria that will be used to assess whether the AM produces comparable outcomes to the ICS.
- The IAIS launched the AM comparability assessment in September 2023. While other jurisdictions have been participating in the AM data collection, the U.S. is the only jurisdiction in scope of the AM comparability assessment.
- FIO along with the NAIC and the Federal Reserve remains closely engaged in the IAIS comparability discussions.



Status

- The comparability assessment is ongoing, with final approval targeted for November.
- The AM Comparability Assessment (AMCA) Team led by the IAIS Secretariat is working closely with U.S. firms and members of the IAIS to facilitate next steps on the assessment.
- The AMCA Team will perform further analysis with additional data/information expected from firms in mid June, in preparation for the next ICS Task Force meeting.

ICS and AM Comparability: Next Steps



As the IAIS progresses towards the end of the monitoring period, the following timeline outlines projected next steps to completion of the ICS as a prospective PCR and the AM comparability assessment.

Q2 2024: IAIS to perform analysis of 2024 ICS and AM results and evaluate need for further modifications to either frameworks.

- IAIS Committee Meetings scheduled in Basel, June 18-20.
- AMCA Team to provide views on advancing comparability assessment at June meetings.
- IAIS virtual stakeholder event, June 27.

Q3 2024: IAIS to determine ICS structure as a PCR and final AM design, while also evaluating the potential implications for comparability.

- IAIS Committee meetings in September with aim to develop recommendation on comparability.

Q4 2024: IAIS to consider adoption of the ICS as PCR and render AM comparability decision.

- Annual General Assembly and Conference in South Africa, December 2-6.