



Implementation of ICS Version 2.0

In the development of Insurance Capital Standard (ICS) Version 1.0 for extended field testing and the years of field testing preceding it, the IAIS has had the opportunity to learn and appreciate the commonalities and differences among solvency regimes across the range of jurisdictions where head offices of Internationally Active Insurance Groups (IAIGs) reside. There are many practical implementation issues to consider for the ICS to be implemented as a Prescribed Capital Requirement (PCR). The IAIS is aware that stakeholders have been calling for greater clarity on what the implementation of the ICS, following the completion of field testing in 2019, will mean in practice.

The IAIS has agreed that implementation of ICS Version 2.0 will be conducted in two phases:

1. In the first phase, referred to as the “monitoring period”, ICS Version 2.0 will be used for confidential reporting to group-wide supervisors and discussion in supervisory colleges. ICS will not be used as a PCR in this phase (i.e. the ICS results will not be used as a basis to trigger supervisory action). This will allow group-wide supervisors and host supervisors to discuss and assess the ICS in comparison with existing group capital standards or calculations that are in development. The monitoring period will last for five years.
2. The second phase will be “implementation of the ICS as a group-wide PCR”.

The IAIS embarked on the development of the ICS to create a common language for supervisory discussions of group solvency to enhance global convergence among group capital standards. Setting out goals for the development of the ICS (i.e. Version 1.0, Version 2.0 and the Ultimate Goal) indicated the need to take a carefully considered step-by-step approach to this convergence process. The decision to take a two-phase approach to the implementation of ICS Version 2.0 is a further demonstration of this stepwise convergence process.

Implementation of ICS Version 2.0 will have two equally important components:

- Mandatory confidential reporting by all IAIGs of a reference ICS which is based on market-adjusted valuation (MAV), the standard method for capital requirements and converged criteria for qualifying capital resources; and
- Additional reporting, at the option of the group-wide supervisor, of ICS based on GAAP Plus valuation and/or an internal model-based capital requirement calculation.

The reference ICS will provide a basis for comparison across IAIGs, and over time, during the monitoring period. The reference ICS could include a limited number of national discretions for issues that cannot be resolved. If national discretions are used, the impact of those national discretions should be reconcilable.

The reference ICS and additional reporting at the option of the group-wide supervisor within ICS Version 2.0 are equally important components. Both GAAP Plus and internal models are viable options that will be considered for inclusion in the ICS by the end of the monitoring period. GAAP Plus valuations are based on the different GAAP applicable in jurisdictions and some of them may be subject to changes in the coming year. The choice of MAV for the reference ICS is due to its construction as a stable, comparable IAIS developed valuation basis.

At the same time, the United States has announced an important and significant development in its regulatory regime. The NAIC and Federal Reserve Board are both developing an aggregation method to a group capital calculation, with the support of the Federal Insurance Office. The IAIS recognises that the aggregation method is still at an early stage of development. The IAIS has agreed to collect data from interested jurisdictions relevant to the development of the aggregation method. Although this is not part of ICS Version 2.0, the IAIS appreciates the significance of this development, and so it will collect data from interested jurisdictions that will aid in the development of the aggregation method. Through this approach, the IAIS aims to be in a position by the end of the monitoring period to assess whether the aggregation method provides comparable, i.e. 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 PCR.

Overall, this stepwise approach will enable a collective response to the ultimate goal of providing comparable outcomes for the group-wide supervision of IAIGs across the world.