

Operationalisation of the Monitoring Period

Purpose of the ICS and the Monitoring Period

The purpose of the ICS is to create a common language for supervisory discussions of group solvency 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. The intent has never been to raise capital in the market, nor to indicate that the insurance sector is undercapitalised.

The purpose of the five-year 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 and the additional reporting. 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.

Prior to the adoption of the ICS as a prescribed capital requirement (PCR)¹, there will be a public consultation on the ICS and the IAIS will undertake an economic impact assessment.

A main objective of the monitoring period is to receive feedback from supervisors and IAIGs on the reference ICS and, if applicable, additional reporting. The assessment by group-wide supervisors and supervisory colleges should include:

- A comparison with existing group capital standards or calculations that are in development;
- The extent to which material risks of the IAIG are captured;
- The appropriateness and practicality of the calculations required; and
- Any difficulties in implementing the measure (ie applying the specifications) by the IAIG or the supervisor.

During the monitoring period, the ICS will be used for confidential reporting to group-wide supervisors and discussion in supervisory colleges. It will not be used as a PCR (that is, the ICS results will not be used as a basis to trigger supervisory action). Therefore, during the monitoring period, IAIGs are not expected to manage their business to the ICS since it is not a PCR. ICS Version 2.0 for the monitoring period is not for decision making by supervisors, nor is it intended for use by third parties. In this context, the IAIS encourages IAIGs not to disclose their ICS Version 2.0 results to any third parties.

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, the public consultation and the results of the economic impact assessment, all

¹ Insurance Core Principle (ICP) 17.4 defines a PCR as a solvency control level above which the supervisor does not intervene on capital adequacy grounds. As the ICS is designed as a minimum standard, national supervisory authorities may elect to take a more prudent approach and set a PCR that is higher than the ICS PCR.

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.

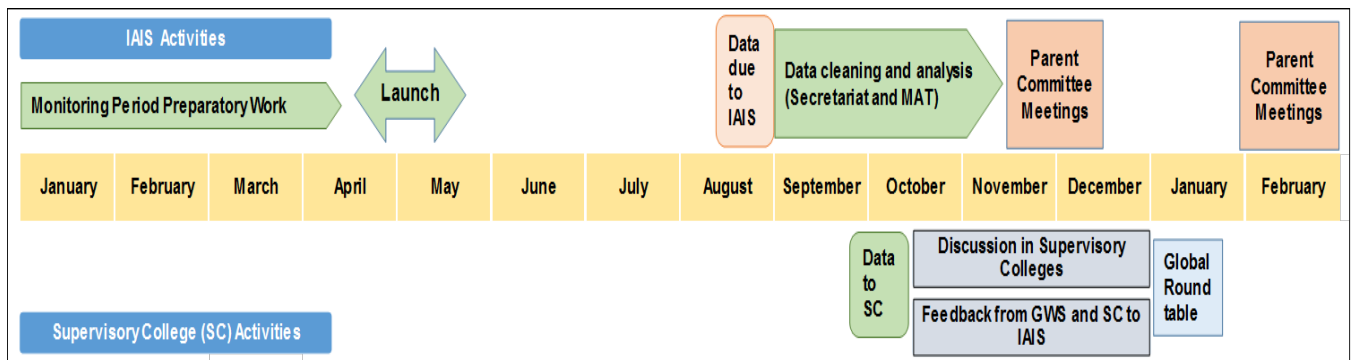
Once implemented as a PCR at the end of the monitoring period, the ICS will be a measure of capital adequacy for IAIGs. It will constitute the minimum standard to be achieved and one which the supervisors represented in the IAIS will implement or propose to implement taking into account specific market circumstances in their respective jurisdictions.² The ICS will be a minimum standard for a group PCR and not a legal entity PCR.

ICS Version 2.0: Monitoring Period

The monitoring period marks a different phase of the ICS project. This section sets out the timing and expectations for the monitoring period, focusing on the roles of the IAIS and supervisors during this five year period.

The following figure provides an overview of the timeline and activities related to the annual reporting and analysis during the first year of the monitoring period. Subsequent years may be adjusted following the experience of the first year.

Figure 1: Annual Reporting and Analysis during the Monitoring Period

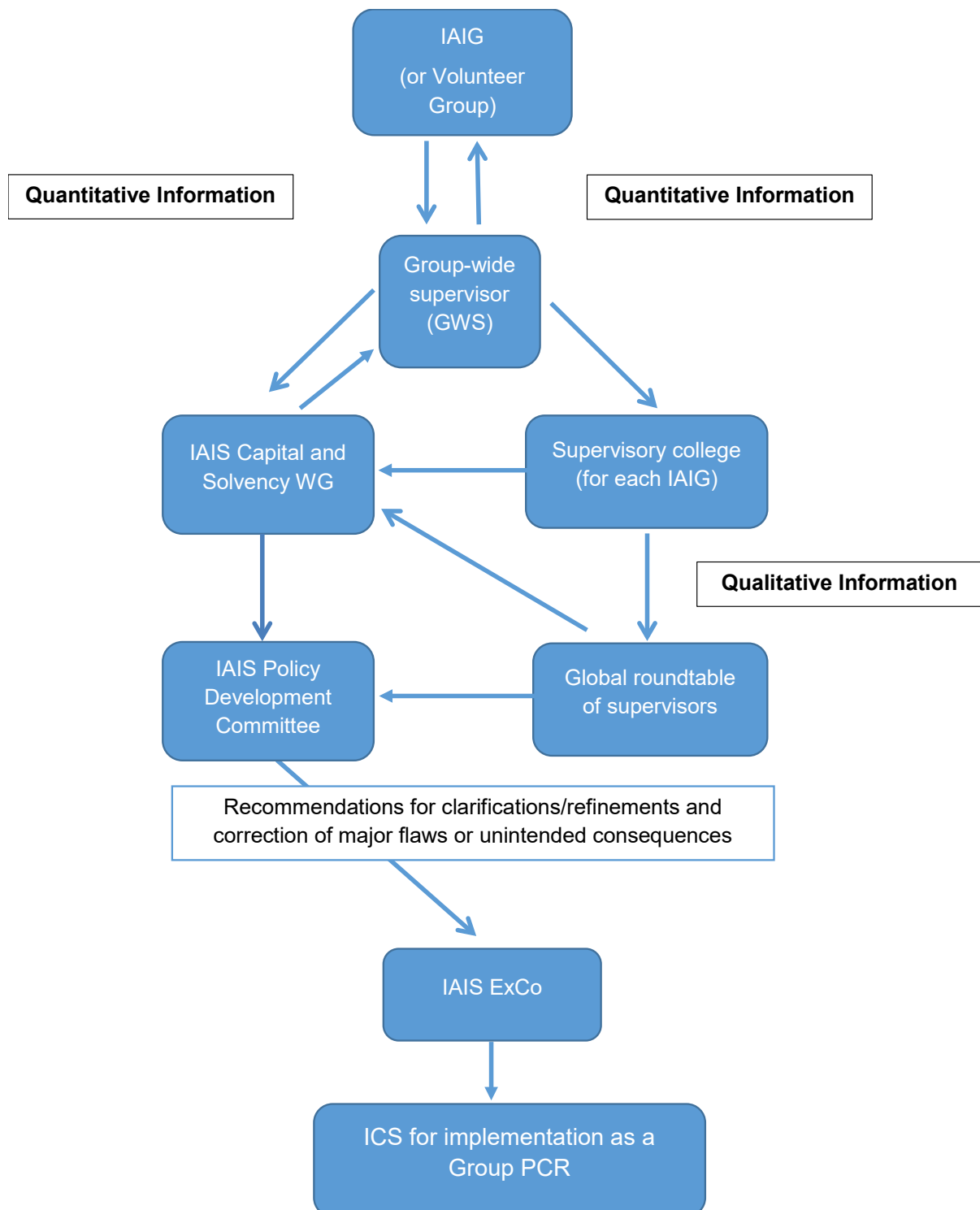


The following flowchart provides an illustration of how the monitoring period is envisaged to work.

² The IAIS is a standard setting body and does not have any legal power to directly mandate the implementation of the ICS as a PCR in jurisdictions. However, the IAIS By-Laws contain the following clause at Article 6(6):

- (6) *Members commit to:*
 - (a) *pursue the mission of the Association;*
 - (b) *implement IAIS supervisory material taking into account specific market circumstances; and*
 - (c) *undergo periodic self-assessments and peer reviews.*

Figure 2: Monitoring period process



Process for the Monitoring Period

As depicted in Figure 2, the process for the monitoring period will be very similar to the process followed during field testing. The left side of the figure is identical to the process followed during field testing. The main difference is the addition of the right side of the figure, which includes discussion of the ICS results within supervisory colleges and an annual global roundtable of supervisors. The arrows in the figure represent interactions and feedback loops between the various players in the monitoring period.

Any sharing of information within the feedback loops depicted in the figure will be done under strict confidentiality rules that will ensure the same level of data confidentiality as during field testing.

The following sections describe the roles of group-wide supervisors, supervisory colleges and the IAIS during the monitoring period and how those roles complement each other.

Role of the group-wide supervisor

Similar to ICS field testing, it is the GWS, and not the IAIG, that will submit the data template to the IAIS for continued monitoring of the ICS. Prior to submission, the GWS should perform reasonableness checks, at a minimum, on the data submission, to the extent it can do so under its jurisdictional law. Once the GWS is comfortable with the content of the data submission, it will provide a report of summary results to the supervisory college of the IAIG for discussion.

There will be a feedback loop between the GWS and the IAIS, since both have access to the confidential data provided by the IAIG. The GWS plays an important role in providing quantitative and qualitative feedback to the IAIS regarding the appropriateness of the reference ICS and any additional reporting.

Role of the IAIS

A capital and solvency working group (the “Working Group”) will be maintained by the IAIS with the mandate of facilitating and organising the annual confidential reporting of the reference ICS and, at the option of the group-wide supervisor, additional reporting. The Working Group will also further develop GAAP Plus (based on IFRS, US GAAP and Chinese GAAP) during the first two years of the monitoring period³ and perform data collection exercises, as needed, aimed at refining calibration for ICS risk charges at the end of the monitoring period.

A dedicated analysis team will assess on an annual basis the outcome of the reference ICS calculations, as well as the additional reporting(s). This will require interactions with IAIGs, via GWSs, for data cleaning and technical feedback purposes. The Working Group will meet regularly to discuss the quantitative results prepared by the analysis team, as well as feedback from GWSs, supervisory colleges and IAIGs to determine if there are material issues that should be addressed. The Working Group will regularly inform the IAIS about the results of the monitoring period and make recommendations to the Policy Development Committee (PDC) on clarifications/refinements and correction of major flaws or unintended consequences, where appropriate, before the implementation of ICS as a PCR. The Working Group will also maintain interactions with IAIGs through dedicated workshops in order to

³ Development and field testing will continue in 2020 and 2021 for GAAP Plus based on IFRS, US GAAP and Chinese GAAP with a three-year monitoring period beginning in 2022.

receive feedback on the reference ICS and any additional reporting during the monitoring period.

Supervisor engagement will be organised in the form of a network that combines in-person meetings, digital tools and questionnaires. Different forms of engagement will be used to ensure that all involved supervisors are able to provide feedback in a convenient and cost-effective way.

An Annual Global Roundtable will be organised. This will be an opportunity for all interested supervisors to discuss the experience of assessing the reference ICS and additional reporting among fellow supervisors (home and host). The purpose of the Global Roundtable is to discuss possible clarifications/refinements, major flaws or unintended consequences that have been identified, in order to improve the ongoing development of the ICS. This output of the Global Roundtable (with Secretariat support) would be a report for PDC on the experience of front-line supervisors with respect to the reference ICS and additional reporting.

During the first year of the monitoring period, an ICS Education Program will be developed in order to assist those front-line supervisors that will perform the assessment of the reference ICS and additional reporting. The ICS Education Program is envisioned to consist of a series of webinars on the ICS components, as well as regional Q&A sessions with supervisors and other online tools.

Role of supervisory colleges

Supervisory colleges play a key role during the monitoring period. The summary results provided by the GWS should be sufficient to enable the supervisory college to discuss and assess the effectiveness of the reference ICS and additional reporting. Each supervisory college will only discuss the results of its IAIG. The supervisory college will not discuss the results of other IAIGs, nor have access to any other individual data.

Supervisory college discussions should begin after the GWS and IAIS have had an opportunity to review the data. Supervisory college discussions should take place in time to be considered in the annual process (Global Roundtable, IAIS Parent Committee Meetings) ahead of the next year of confidential reporting.

The IAIS will collect feedback and views from supervisors, such as the added value of the ICS within supervisory colleges (eg better understanding of risks, better cross-border comparability, etc.). The IAIS will develop guidance and a targeted questionnaire for feedback in order to facilitate discussion in supervisory colleges and receive consistent feedback. The IAIS will provide a secure means to collect feedback from GWSs and host supervisors based on discussions in individual IAIG supervisory colleges.