

Comparability criteria that will be used to assess whether the Aggregation Method provides comparable outcomes to the Insurance Capital Standard

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About the IAIS

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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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Introduction

In November 2017, the International Association of Insurance Supervisors (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. 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 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. Detailed criteria were since developed for each HLP then publicly consulted on between 15 June and 15 August 2022. Based on stakeholder feedback, the IAIS held a series of workshops, post-consultation, in order to receive further feedback, both verbal and written, on the development and design of scenarios that could be used to inform the sensitivity analysis envisaged in the comparability criteria for HLP 1.

The purpose of this document is to set out the final comparability criteria the IAIS will use for the comparability assessment along with the previously published definition of comparable outcomes and HLPs.

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.

1 Criteria relevant to HLP 1

HLP1: 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.

Criteria:

- 1.1 The ICS and AM results are significantly correlated, changing similarly in response to changing economic and financial market conditions over the business cycle (as per the sensitivity analysis referenced in criterion 1.3-1.6) excluding short term market fluctuations.
- 1.2 In assessing whether the results are significantly correlated, correlation of results is analysed over the business cycle, considering both direction and quantum of change, although the quantum of change may differ. The correlation analysis is based on multiple points in time over the business cycle (including the sensitivity analysis referenced in criterion 1.3-1.6) to

avoid false indications due to short-term market fluctuations, but the results will be assessed over the business cycle as a whole.

- a. This analysis considers direction and quantum of change together over the business cycle to understand how the ICS and AM respond to changing economic and financial market conditions.

1.3 Each Volunteer Group in the representative sample conducts sensitivity analysis using scenarios¹ that reflect changing risks that are relevant and material for the sector (life or non-life) as per criterion 1.4 and 1.5.

- a. For AM, sensitivity analysis is conducted by legal entities representing at least two-thirds of total AM required capital, with legal entities from at least three jurisdictions². In determining the two-thirds level, material legal entities (ie those with the largest total AM required capital) should be included. For the remaining one-third, an approximation or simplified approach may be used to determine the impact of the sensitivity analysis. This allows for a more proportionate approach through the use of a materiality threshold.
- b. For ICS, the sensitivity analysis is conducted on the consolidated group.

1.4 For life business, the IAIS will rely on previously submitted data to the extent possible, as well as data that is already planned to be submitted or publicly available. Three scenarios will be used to inform the analysis of correlation of results over the business cycle:

- 2020 pandemic (using the end-March 2020 alternative balance sheet that Volunteer Groups have already submitted). Volunteer Groups may be asked to recalculate and resubmit this information if changes to the ICS or changes in the scope of group since 2020 would produce significantly different results.
- 2022 interest rate and inflation spike (using the end-December 2022 data that Volunteer Groups will submit in 2023).
- 2007-09 Global Financial Market Crisis scenario, as specified by the IAIS.
- If necessary, an additional scenario, such as an upward scenario, could be requested.

1.5 For non-life business, the IAIS will rely on previously submitted data to the extent possible, as well as data that is already planned to be submitted or publicly available. Three scenarios will be used to inform the analysis of correlation of results over the business cycle:

- 2020 pandemic (using the end-March 2020 alternative balance sheet that Volunteer Groups have already submitted). Volunteer Groups may be asked to recalculate and resubmit this information if changes to the ICS or changes in the scope of group since 2020 would produce significantly different results.
- 2022 interest rate and inflation spike (using the end-December 2022 data that Volunteer Groups will submit in 2023).
- A scenario that captures specific changes to non-life insurance risks, such as a catastrophe event.

¹ Information collected as part of the 2022 AM Data Collection may be used to develop scenarios referenced in criterion 1.3.

² To reflect the international activity of these IAIGs.

1.6 Volunteer Groups also provide the following information to inform the analysis:

- a. The AM results and a description of an economic and/or underwriting scenario that would cause AM capital resources to become less than AM capital requirement at the group level, as well as the corresponding impact on the ICS.
- b. The ICS results and a description of an economic and/or underwriting scenario that would cause ICS capital resources to become less than ICS capital requirement at the group level, as well as the corresponding impact on the AM.

2 Criteria relevant to HLP 2

HLP 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.

Criteria:

- 2.1 When carrying out the analysis of individual elements of a group solvency approach, ie valuation, capital resources and capital requirement, prudence in one element may be used to offset less prudence in another element. The analysis should consider interaction between valuation (eg insurance liabilities), capital resources and capital requirement, including an analysis of the differences in the underlying components.
- 2.2 The AM captures the same underlying risks as the ICS. To this end, an analysis of risks is performed to understand and determine how all of the risks covered in the ICS are captured in the AM calculation. This could be either an explicit risk charge (taking into account different risk groupings), prudence embedded in valuation (ie accounting conservatism) or other such quantitative measures (eg scalars). In addition, any material risks captured in the AM, but not in the ICS, should be disclosed and analysed.
- 2.3 The analysis includes whether the overall AM, which relies on underlying legal entity valuation and capital requirements, provides a similar level of solvency protection as the

ICS³. As part of this analysis, the proportion of non-risk-based regimes as determined by the AM represents less than 5% of available capital.

2.4 The overall quality and eligibility of capital resources allowed in the AM is similar to the ICS for the representative sample. This determination is made by considering the following:

- a. An analysis of **capital elements other than financial instruments** is performed to determine how the capital resources recognised in the ICS are treated in the AM. Any capital elements recognised in the AM, but not in the ICS, should be disclosed and analysed.
- b. An analysis of **deductions** from ICS capital resources is performed to determine how the AM treats such items. This could take the form of non-admitted assets that have already been removed from the entity level balance sheet.
- c. The **financial instruments** recognised in the AM are 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.
- d. The **capital composition limits** in the AM are compared to those of the ICS and analysed.

³ The ICS has a target calibration of 99.5% Value at Risk over a one-year time horizon. The AM capital requirement is computed as the aggregation of scaled risk-based legal entity capital requirements that have a target calibration of at least a 0.5% probability of default.

3 Criteria relevant to HLP 3

HLP 3: The AM could be more but not less prudent than the ICS, which is being developed as a minimum standard.

Criteria:

- 3.1 The AM triggers supervisory action on group capital adequacy grounds⁴ under similar conditions over the business cycle as the ICS showing that the level of solvency protection of the two methods is similar in totality (or where not, the AM could be more but not less prudent than the ICS).
- a. For purposes of the analysis, the AM and ICS solvency ratios for individual IAIGs are used to understand when the AM triggers supervisory action compared to the ICS; however, the assessment will consider the results for similar risk profiles of the representative sample in totality. Additionally, to support this understanding, the analysis considers movements in capital resources and capital requirement (as well as their difference - ie excess capital) at different points in time to understand the drivers of the movements in solvency ratios. Material differences in these items (between the ICS and AM) are explained⁵, taking into account any design elements of the two approaches that may impact the results.

4 Criteria relevant to HLP 4

HLP 4: The AM and ICS use the same scope of the group, consistent with that set out in ComFrame.

Criteria:

- 4.1 The scope of the group for the AM is determined as per ICP 23.2, which is the same as that for the ICS. In particular, all entities in the scope of the ICS calculation are also captured in the AM calculation.

⁴ A prescribed capital requirement (PCR) is a solvency control level above which the supervisor does not intervene on capital adequacy grounds, as defined in ICP 17.

⁵ The explanation of differences will also take into account any changes made to the ICS in response to the public consultation and the ICS economic impact assessment on the final design of the ICS as a PCR.

5 Criteria relevant to HLP 5

HLP 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.

Criteria:

5.1 The sample of Volunteer Groups providing both AM and ICS results is representative of the business models, geography and risks of IAIGs headquartered in the US or other interested jurisdictions. Representativeness is determined separately for life and non-life operations (as per criterion 5.2) with composite groups being split between their life and non-life operations.

5.2 For purposes of the determination of representativeness:

- a. Material geographical areas, as determined by the legal entity location, of US (or other interested jurisdictions) IAIGs are included in the representative sample including, as applicable, North America, Europe and South Africa, Japan, Asia and Oceania.
- b. For life Volunteer Groups:
 - i. Relevant and sufficient data are provided for both the ICS and AM data collections necessary to assess the criteria.
 - ii. Representativeness is determined as the ratio of total AM required capital of US (or other interested jurisdictions) IAIGs participating in both the ICS and AM data collections to the total AM required capital of all US (or other interested jurisdictions) IAIGs. The minimum level of representativeness is set at 80%.
- c. For non-life Volunteer Groups:
 - i. Relevant and sufficient data are provided for both the ICS and AM data collections necessary to assess the criteria.
 - ii. Representativeness is determined as the ratio of total AM required capital of US (or other interested jurisdictions) IAIGs participating in both the ICS and AM data collections to the total AM required capital of all US (or other interested jurisdictions) IAIGs. The minimum level of representativeness is set at 80%.
 - iii. For US non-life IAIGs, an approximation of ICS results derived from audited publicly available data may be used for representativeness.
 - iv. Both IAIGs and other Volunteer Groups can contribute to the determination of representativeness (geographical areas and lines of business), when both AM and ICS results are provided.

5.3 The number of Volunteer Groups providing both AM and ICS data, and the overall scope and quality of information that they provide, is stable or increases during the monitoring period.

6 Criteria relevant to HLP 6

HLP 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.

Criteria:

- 6.1 When introduced in ComFrame⁶, IAIG capital reporting to group-wide supervisors and public disclosure requirements, including their content, granularity, and frequency, will also apply to the AM.
- 6.2 The assessment considers preparatory work that shows evidence of a commitment to meet ComFrame public disclosure and supervisory reporting requirements, including, for example, relevant text in the AM Level 1 document.

⁶ ComFrame requirements on transparency will be developed consistent with ICS Principle 9: *The ICS is transparent, particularly with regard to the disclosure of final results.*