

ICS public background session

27 June 2024

Privacy

- The IAIS' privacy notice is available at <https://www.iaisweb.org/privacy-notice/>
- This webinar will be recorded and made available on the IAIS website.

Introduction

Objective of the event

- Update on the Insurance Capital Standard (ICS) and final steps towards its adoption.
- Provide an overview of the changes made to the candidate ICS, as set out in the 2024 data collection package.
 - The changes to the candidate ICS reflect the feedback from the 2023 ICS public consultation and the outcome of the ICS Economic Impact Assessment, as well as the 2023 ICS data collection results.
- This webinar focuses on the ICS and will not deal with the Aggregation Method comparability assessment. An update on this will be provided at the IAIS Global Seminar in July.

Agenda

- An introduction to the ICS
- From 2023 to 2024
 - 2023 ICS public consultation
 - ICS Economic Impact Assessment
 - Changes to the candidate ICS
- ICS calibration document
- ICP 14 and 17
- Next steps in 2024
- ICS implementation
- Q&As

An introduction to the ICS

The ICS and its key component

Scope



- Quantitative element of the Common Framework for the Supervision of Internationally Active Insurance Groups (IAIGs) (ComFrame)
- Consolidated group-wide standard; not legal entity
- Minimum standard that all IAIS members will implement or propose to implement, taking into consideration specific market circumstances in their respective jurisdictions
- Focus on insurance activities; non-insurance activities in the ICS will leverage on existing international frameworks (e.g. Basel III for banking activities)

3 Main Components



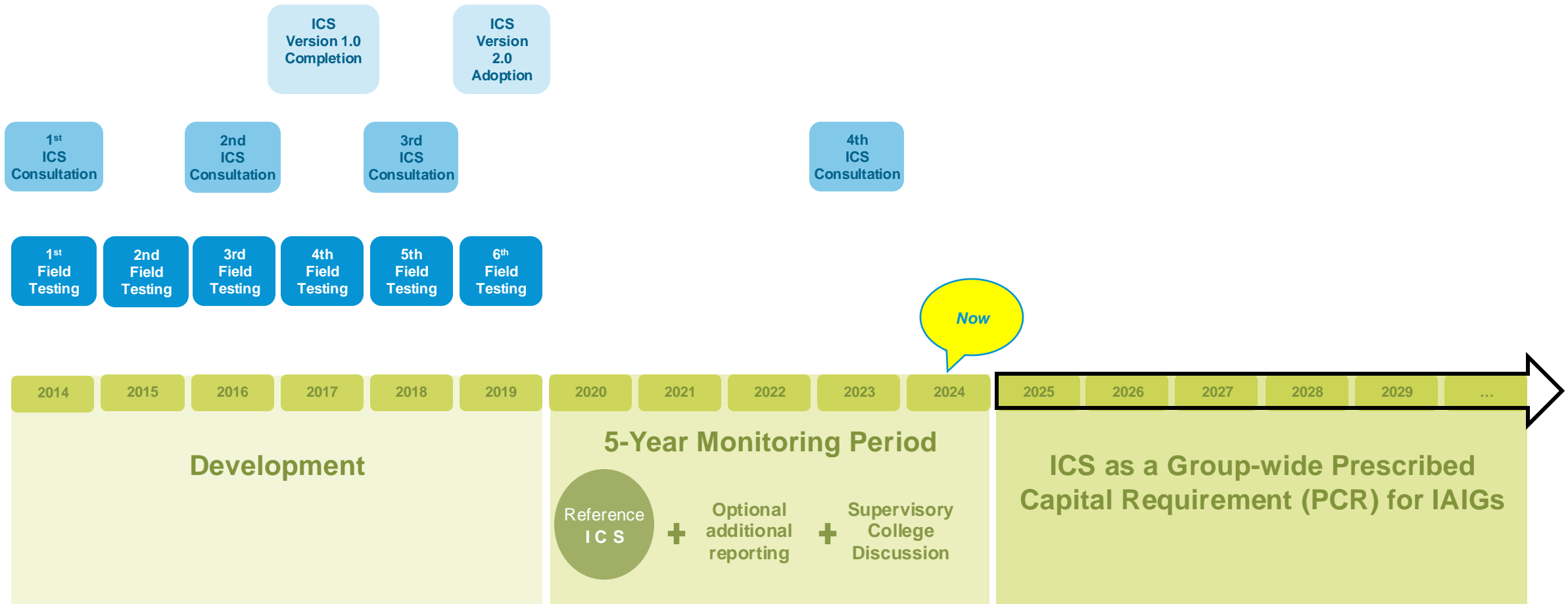
- Valuation
- Capital requirement
- Qualifying capital resources

Risk Coverage



- The ICS reflects all material risks (e.g. insurance, market, credit, operational) of an IAIG's portfolio of activities taking into account assets, liabilities, non-insurance risks and off-balance sheet activities. To the extent that risks are not quantified in the ICS, they are addressed elsewhere in ComFrame.

Where are we now?



From 2023 to 2024

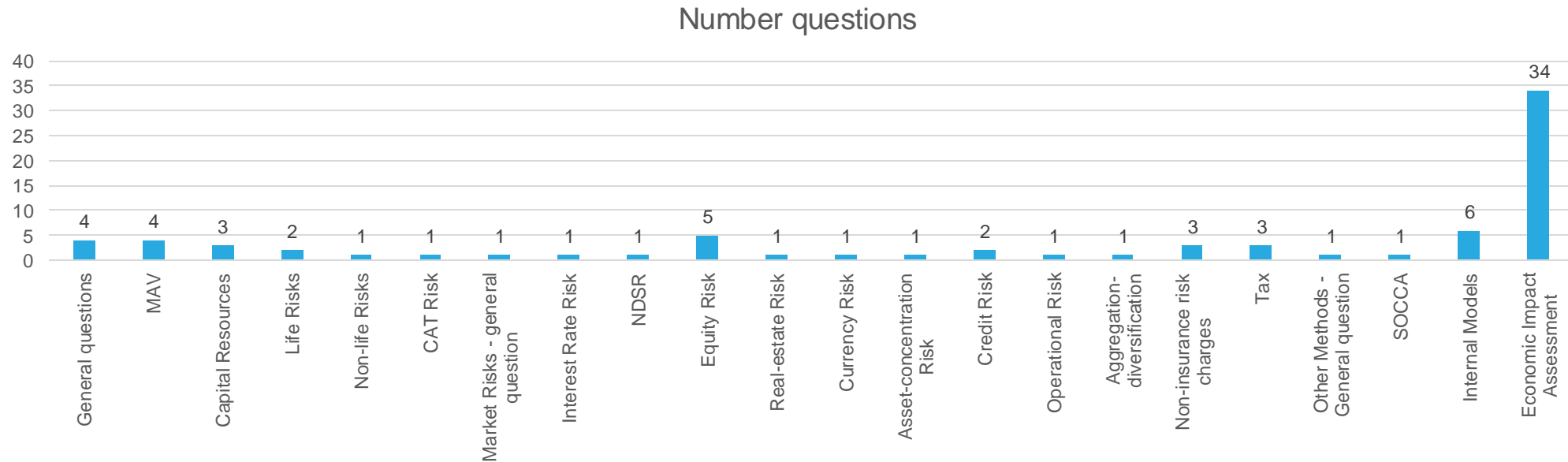
From 2023 to 2024

- In March 2023, the IAIS approved the candidate ICS as a PCR.
- That version of the ICS was the basis for:
 - The June 2023 public consultation on the design of the ICS,
 - The ICS Economic Impact Assessment (EIA), and
 - The 2023 data collection and annual cycle of analysis.
- The IAIS considered the input received from the public consultation, the feedback received with regards to the EIA as well as the results of the 2023 data collection and made some additional adjustments which have been reflected in the 2024 data collection package (for the final year of the monitoring period).
- The 2024 data collection was launched in April and the IAIS will release the data collection package to the public in June.

2023 ICS public consultation

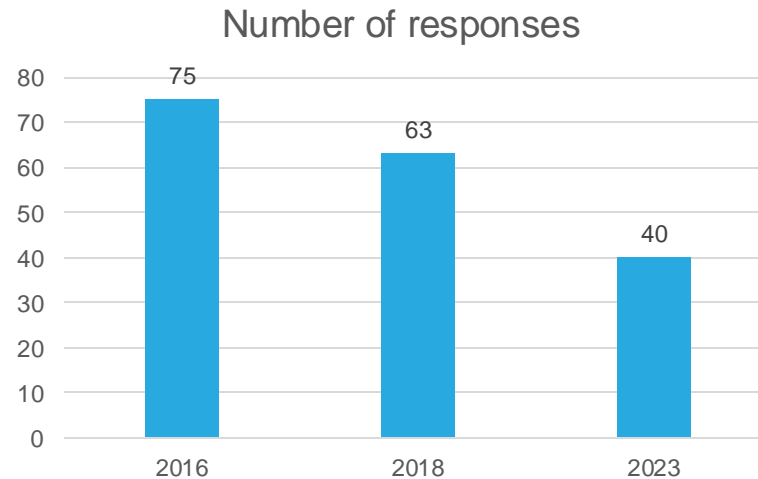
Questions asked

- In June 2023, the IAIS launched a [public consultation on the candidate ICS as a prescribed capital requirement \(PCR\)](#). Comments were invited by end-September 2023.
- The consultation included 78 questions on the following 22 themes:



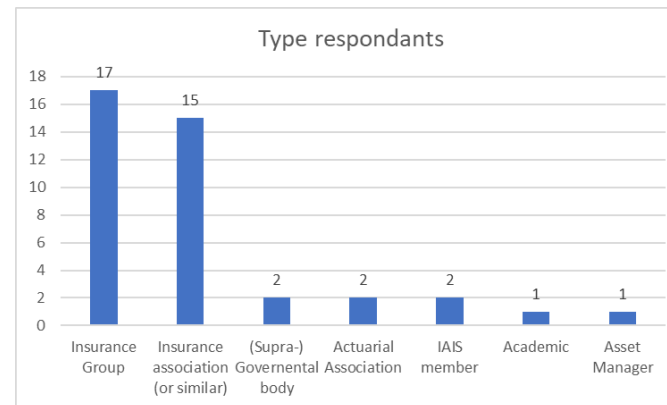
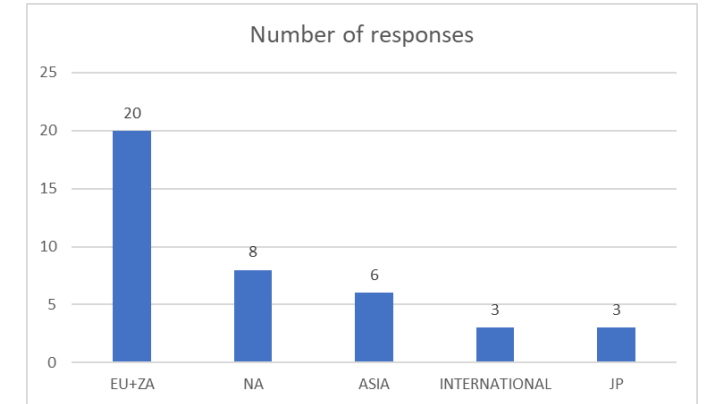
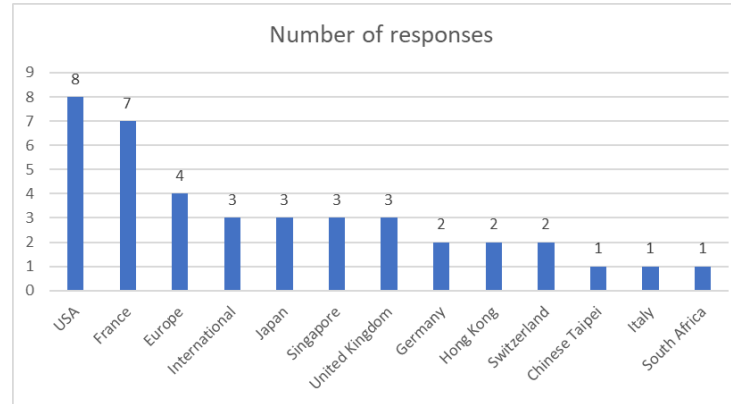
Number of responses

- The IAIS received **40 responses** to the consultation. This number of responses is lower than in previous consultations.



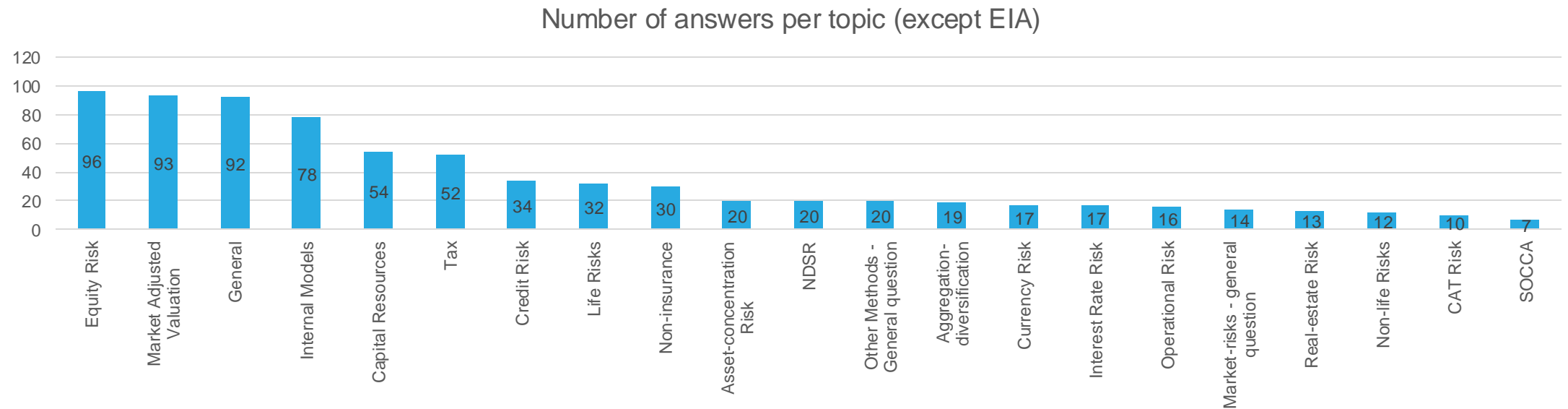
Diversity of respondents

- The IAIS received responses from **15 different jurisdictions**. Responses were received from **all regions** (Europe and South Africa, North America, Asia / Oceania and Japan).
- A diverse group of stakeholders replied to the consultation.



Topics

- **Equity risk, MAV and internal models** topics received the most responses.
- This is in line with the number of questions asked on these subjects.



ICS Economic Impact Assessment

Objective of the ICS Economic Impact Assessment

- In 2019, when the IAIS agreed on ICS Version 2.0 for the monitoring period, the IAIS committed to producing an **Economic Impact Assessment (EIA) of the ICS** ahead of its implementation. The purpose of this assessment is to develop an understanding of any potential significant effects of implementation of the ICS, which could be positive or negative, and to inform the finalisation of the ICS.
- The assessment contemplates:
 - using the specifications for the candidate ICS released for the **2024 monitoring period exercise** (which includes further adjustments compared to the 2023 consultation document); and
 - assuming a consistent implementation of the candidate ICS in the jurisdiction where the IAIG is headquartered.
- The objectives of the EIA do not contemplate **a quantitative cost-benefit analysis.**

Structure of the EIA

- The EIA considers issues across different regions and covering a broad range of potential impacts. In particular, it focuses on the impact that the implementation of the ICS may have on the following four areas:
 - **Insurance products offered by IAIGs**, particularly with regards to long-term products, their guarantees, duration and features, and potential risks of protection gaps;
 - **Investment policies of IAIGs**, particularly with regard to significant changes in asset allocations;
 - **The ability of IAIGs to raise capital or debt**; and
 - **The business models of IAIGs and their profitability.**

Stakeholder engagement on the EIA

- During the performance of EIA related analysis, the IAIS aimed to consider views from a wide **range of stakeholders**, apart from IAIGs and group-wide-supervisors that have been engaged in development, testing and monitoring for a number of years, including for example, consumer groups, rating agencies and other stakeholder groups with a focus on geographical diversity.
- The 2023 public consultation on the candidate ICS also contained 34 questions specifically on the EIA. For each of them, the IAIS received between 20-35 responses from 40 different stakeholders. Those responses provide a wide range of opinions on the impact of the ICS that were contemplated in the **refinement the ICS for the final round of the monitoring period data collection in 2024.**

Changes made to the candidate ICS as a PCR

Overview of the ICS changes

- For the 2024 and final ICS data collection for the monitoring period, some changes were made to the candidate ICS with respect to the following topics:
 - MAV
 - Capital resources
 - Non-life risk
 - Interest rate risk
 - Currency risk
 - Non Default Spread risk
 - Credit risk
 - Non-insurance
- These changes are described in the following slides.
 - Note that the IAIS will consider the outcome of the 2024 ICS data collection and may include further changes for the final version of the ICS to be adopted in December 2024.

Valuation

Rationale for change	Description of change
<p>The modulation factor is computed using a parallel shift of 1 bp to the discount curve. While this was used as a simplification, it is inconsistent with the valuation methodology where an extrapolation approach after the last observed term (LOT) is used. This can lead to too conservative results for the modulation factor.</p>	<p>Alignment of the calculation of the Modulation factor with the valuation approach, ie use an extrapolation instead of a parallel shift.</p>
<p>The scope of management actions is rather narrow and only allows adjustments to future discretionary benefits, while adjustments to premiums, especially for health insurance, are very common.</p>	<p>Modification to a more principle-based approach for management actions to allow for actions such as premium adjustments (within the limits set by contract boundaries).</p>

Valuation

Rationale for change	Description of change
<p>Middle Bucket</p> <ul style="list-style-type: none">• It may happen that liabilities qualify for the Middle Bucket once, but do not qualify for the Middle Bucket the following year. This potentially results in balance sheet volatility.• Cashflows from callable assets are not allowed for in the cashflow test, even though they cannot be changed up to the first call date.• Cashflows from assets in a different currency are only allowed for in the cashflow test when a hedge is in place. For some currency pairs, such hedges may not be available or only at prohibitive costs.	<ul style="list-style-type: none">• Addition of a “Continuity criterion” to limit potential volatility. If liabilities passed the criteria in the last three years, they can remain in the Middle Bucket even if not all criteria are passed for one more year.• Exclusion of cashflows from callable assets only after the first call date.• Allowance of cashflows from assets in a different currency subject to safeguards, and only if proof is provided to the supervisor that no practical or economic hedges are available.

Capital resources

Rationale for change	Description of change
<p>The candidate ICS does not include a provision whereby immaterial entities can be excluded from the scope of the group. The deduction in paragraph L2-63i is therefore without object, and might create confusion.</p>	<p>The provision is deleted from the technical specifications.</p>

Non-insurance

Rationale for change	Description of change
Non-insurance charge is open to interpretations.	Wording added to paragraphs L2-340 and L2-341 to clarify the calculation of the capital requirement for financial non-insurance entities.
The capital requirement is equal to the equity charge on the equity method, which does not include a zero flooring. This will result in a negative risk charge for non-financial entities with negative equity.	Wording added to paragraph L2-342 to amend the treatment of non-financial entities with negative equity.
A capital requirement for non-financial consolidated entities was not specified.	Paragraph L2-342 has been reworded to include all non-financial entities.

Non-life risk

Rationale for change	Description of change
Treatment of short-tail medical expenses for Hong Kong SAR is not appropriate.	Update of the premium risk factor for the Hong Kong “Accident and Health” line of business to 10%.

Interest rate risk

Rationale for change	Description of change
The Interest rate risk methodology requires to evaluate the impact of 5 scenarios per currency in order to combine the results within a currency and across currencies. This can be complex.	Reduction of the number of stresses per currency to 3 by dropping the two “twist” stresses.
Under the Interest rate risk scenario, the LTFR is stressed by +/- 10% which can be higher than the maximum annual change of the LTFR which is set at 15 bps.	Cap of the interest rate stress on LTFR to the maximum annual amount defined under the LTFR specification.

Currency risk

Rationale for change	Description of change
<p>When rounding calibration results, currency pairs with a market observed volatility under 2.5% are attributed an absolute minimum of 5%.</p>	<p>Decrease of the absolute floor of the currency risk factor from 5% to 2% for the following currency pairs:</p> <ul style="list-style-type: none">• DKK / EUR• USD / HKD• USD / SAR• HKD / SAR

NDSR

Rationale for change	Description of change
<p>To reflect the dynamics of a spread term structure for discounting, a NDSR bi-directional relative stress of 75% was introduced in the Candidate ICS and consulted upon. A proportional uncapped stress can lead to unrealistic scenarios and procyclical behaviour in initial high spread environments.</p>	<p>Introduction of a cap and a floor to NDSR up, ie:</p> <ul style="list-style-type: none">○ a movement cap (maximum of 150bps increase of spreads for the up-stress); and○ a movement floor (min of 40bps)

Credit risk

Rationale for change	Description of change
List of eligible assets for collateral does not include cash.	Cash added to list of eligible assets.

ICS calibration document

Objective of the calibration document

- The IAIS committed to preparing and releasing publicly a calibration document for the ICS risk charges ahead of its implementation in 2025.
- The calibration document aims to provide background information about the analysis carried out by the IAIS and data used for the calibration of ICS risk charges, including their aggregation, as specified in the Level 1 and Level 2 documents.
- The calibration document is intended to be **factual and transparent**, building on the work performed by the IAIS during the development and monitoring of the ICS and on stakeholder feedback. However, **no information covered by the confidentiality guidelines will be shared.**

Content of the calibration document

- The calibration document will provide explanations on the determination of **the different risk factors for the calculation and aggregation of ICS risk charges**. Detailed information will be made available for all risk modules within Insurance risks, Market risks, Credit risk and Operational risk, as well as for correlation matrices used for aggregating risk charges.
- Because non-insurance risk charges essentially rely on sectoral requirements for which calibration is not performed by the IAIS, **those risk charges will be excluded from the scope of this document**.
- **The ICS treatment of tax will also be excluded from this document**, as this item does not constitute a risk charge that relies on a calibration process.

ICP 14 and 17

Overview of feedback received to the 2023 public consultation

	ICP 14	ICP 17
Number of questions	116	242
Number of individual responses	9	13
Total comments received	26	95
Average number of comments per stakeholder	2.9	7.31

General support for the amendments made to ICPs 14 and 17.

Main stakeholder feedback

- ICP 14 :
 - Request for clarification on whether certain concepts common to ICP14 and IFRS17 (eg fulfilment value and contract boundary) are consistent.
 - Further clarifications on MOCE are requested.
 - A number of editorial suggestions were made to improve consistency and readability.
- ICP 17 :
 - A number of editorial suggestions were made to improve consistency and readability.
 - References to climate risk and cyber risk should be added.

Next steps in 2024

Next steps in 2024

- 2024 data will be submitted by Volunteer Groups by end-July 2024.
- Results will be analysed and inform the final version of the ICS, to be adopted in December 2024 at the Cape Town meeting.
- The IAIS then plans to release:
 - The ICS in the form of **level 1 and level 2 document**
 - The **resolution of comments** received from the public consultation
 - The **report on the ICS Economic Impact Assessment**
- In parallel, the IAIS plans:
 - to adopt **changes to ICP14 and ICP17** following the public consultation
 - to release a **report on the AM comparability assessment**
- Shortly after publication of the ICS, the IAIS plans to release the **ICS calibration document**.

ICS implementation

Role of the IAIS

- 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 national legislations.**
- However, **IAIS members are committed to implementing IAIS standards and supervisory material**, while also adapting it to their specific market circumstances.
- As for other IAIS Standards, ICS will constitute a minimum standard, which IAIS members will implement or propose to implement, taking into account market specificities in their jurisdiction.

Implementation assessment high-level timeline

- At its June meeting, the IAIS ExCo has set a **high-level timeline** for its plan to assess the comprehensive and consistent implementation of the ICS across jurisdictions.
- This timeline recognises 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 agreed that ICS implementation assessment will follow a **two-step approach**, mirroring the successful model used for the IAIS' implementation assessment of the [Holistic Framework supervisory material](#), the IAIS' standards for macroprudential supervision that were adopted in 2019.
- In 2026, the IAIS will coordinate a **baseline self-assessment** by IAIS members of their progress in implementing the ICS, which will serve as a baseline for future implementation progress monitoring. The IAIS will then aim to start in-depth **targeted jurisdictional assessments** in 2027.

Implementation assessment methodology

- In preparation, the IAIS will begin developing a **detailed ICS implementation assessment methodology in 2025**, leveraging 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 IAIS will also undertake further work this year to define the need for and scope of any future ICS-related data collection from insurance groups and group-wide supervisors that may be necessary to facilitate the consistent implementation of the ICS.
- While the scope of such potential data collection has yet to be defined, by its nature any such data collection would be **more targeted** than the data collection undertaken during the monitoring period, which supported the development of the ICS.

AM implementation assessment

- In parallel with the finalisation of the ICS, the United States is developing an Aggregation Method (AM) for group capital adequacy, which, if deemed comparable, will be considered an outcome-equivalent approach for implementation of the ICS.
- Issues related to the implementation assessment of an AM will be considered by the IAIS once there is greater clarity on the outcome of the AM comparability assessment and the overall ICS implementation assessment methodology.
- The 2024 AM data collection package was also released to volunteers in April and published today.



Q&As



Thank you

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