Report on the Aggregation Method Comparability Assessment

14 November 2024

About the IAIS

The International Association of Insurance Supervisors (IAIS) is a voluntary membership organisation of insurance supervisors and regulators from more than 200 jurisdictions. The mission of the IAIS is to promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders and to contribute to global financial stability.

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.

For more information, please visit www.iaisweb.org and follow us on LinkedIn: IAIS – International Association of Insurance Supervisors.

International Association of Insurance Supervisors
c/o Bank for International Settlements
CH-4002 Basel
Switzerland
Tel: +41 61 280 8090

Contents Overview

1 Executive Summary

The Insurance Capital Standard (ICS) has been developed as a consolidated group-wide capital standard for internationally active insurance groups (IAIGs). It aims to provide a globally comparable risk-based measure of capital adequacy of IAIGs, creating a common language for supervisory discussions on group solvency and enhancing global convergence amongst group capital standards.

The IAIS has undertaken an assessment of whether an Aggregation Method (AM) developed by the United States (US) as an alternative group capital approach to apply to IAIGs provides comparable outcomes to the ICS – and as such can provide a basis for implementation of the ICS to produce comparable outcomes to the ICS for US IAIGs.

The AM comparability assessment was based on a robust technical, evidence-based analysis of comparability, using a definition of comparable outcomes and comparability criteria for six High-Level Principles (HLPs) that were agreed by the IAIS following public consultation. The US was the only jurisdiction in scope of the AM comparability assessment.[1] The assessment was conducted using the Candidate ICS as a PCR and the Provisional AM developed by the US, based on data collected from nine US-based IAIGs and one US non-life non-IAIG volunteer group.

The comparability assessment recognised that the conceptual frameworks of the Provisional AM and ICS are different and needed to be evaluated with acceptance of these differences in mind. The focus of the comparability assessment was whether the Provisional AM results in comparable outcomes to the ICS – ie ensuring that differences in the design of the Provisional AM and the ICS do not result in significantly divergent outcomes. In assessing these outcomes, particular account was given to the definition of comparable outcomes – namely “Comparable outcomes to the ICS means that the AM would produce similar, but not necessarily identical, results over time that trigger supervisory action on group capital adequacy grounds” (ie the focus was on comparable outcomes with respect to supervisory intervention).

The criteria under HLPs 4, 5 and 6 were assessed as having been met, based on the analysis results with respect to the scope of the group included in the AM (HLP 4), the representativeness of the sample for the analysis (HLP 5), and the evidence of a commitment to meet ComFrame public disclosure and supervisory reporting requirements (HLP 6).

The assessment looked collectively at the respective elements and levels of prudence in the Provisional AM and ICS (HLPs 2 and 3), as well as whether the Provisional AM and ICS results move similarly in response to changing economic and financial market conditions (HLP 1), in order to determine whether the Provisional AM triggers supervisory action on group capital adequacy grounds under similar conditions over the business cycle as the ICS.

The assessment identified a number of areas in which the Provisional AM provides comparable outcomes to the ICS and some remaining areas where the Provisional AM results in divergent outcomes to the ICS in specific circumstances. These areas are:

[1] The outcomes from an AM are dependent on the local capital regimes that apply to the material underlying entities of the groups to which an AM is applied. The comparability of outcomes from an AM to the ICS will depend on how the business and risk exposures of groups are distributed across local capital regimes, and the extent to which those local capital regimes produce outcomes that are at least as prudent as the ICS and respond in similar ways as the ICS to changing economic and financial market conditions over the business cycle. This will vary by the jurisdiction in which an AM is implemented. As such, the conclusions of this assessment cannot be extended to the application of an AM in jurisdictions other than the US.

- The direction of movement of the Provisional AM and ICS results for US life IAIGs under some scenarios. In particular, changes in interest rates were noted to have the potential to drive divergent movements in the Provisional AM and ICS results for US life IAIGs; and
- The triggers for supervisory intervention on group capital adequacy grounds for US life IAIGs, noting that the Provisional AM may not always be as prudent as the ICS in specific circumstances.

In finalising the assessment, the IAIS included a forward-looking approach:

- The assessment considered the recent or planned changes to local solvency regimes applicable to the underlying legal entities of US life IAIGs; and potential changes to the scalars used in a US AM. They include:
    - The recent introduction of Principles Based Reserving (PBR) in the US Risk Based Capital (RBC) regime progressively for existing and newly written life insurance and annuity liabilities;
    - Implementation of the ICS in Japan in 2025 in the form of the new economic value-based solvency ratio (ESR) framework; and
    - Potentially moving to a new scaling methodology in a US AM from the Provisional (unscaled) approach.
- The assessment also recognised that the work as part of the implementation of a future version of a US AM (Final AM) is a means to address the remaining areas where the Provisional AM produces divergent outcomes to the ICS in specific circumstances. These adjustments could help ensure convergence of outcomes with the ICS for US life IAIGs (noting that the ICS is a minimum standard), while recognising that the decision on the changes to be implemented is for US supervisors to consider within the context of the US supervisory system.

In finalising the comparability assessment, the IAIS has concluded that a US AM provides a basis for implementation of the ICS to produce comparable outcomes. The comparability assessment of the Provisional AM has highlighted some areas where work as part of implementation of the Final AM will help ensure convergence, specifically treatment of interest rate risk and appropriate timing of supervisory intervention. In using the Final AM as its implementation of the ICS, the US commits to addressing those areas in appropriate ways, which will be reviewed during the IAIS ICS implementation assessment process.

As the Final AM will be the US' implementation of the ICS, the assessment of its implementation will be subject to the same timing as ICS implementation assessments in other jurisdictions (ie self-assessment in 2026, and intensive targeted jurisdictional assessments aiming to start in 2027, upon agreement of the relevant jurisdictions) and subject to a consistent methodology (including both qualitative and quantitative analysis), assessing whether the jurisdictional implementation at least meets the ICS (ie produces at least the same level of prudence as the ICS and similar triggers of supervisory intervention), whilst also focusing on the AM specificities.

2 Introduction

2.1 History and development of the ICS

The Insurance Capital Standard (ICS) has been developed as a consolidated group-wide capital standard for Internationally Active Insurance Groups (IAIGs). It aims to provide a globally comparable risk-based measure of capital adequacy of IAIGs, creating a common language for supervisory discussions of group solvency and enhancing global convergence among group capital standards. Once adopted, it will form the quantitative element of the Common Framework for the Supervision of IAIGs (ComFrame), the qualitative element of which was adopted in 2019. The ICS is planned for adoption at the end of 2024.

On 9 October 2013, the IAIS announced its plan to develop a risk-based global insurance capital standard, in response to the request by the Financial Stability Board (FSB) that the IAIS produce a work plan to create "a comprehensive group-wide supervisory and regulatory framework for Internationally Active Insurance Groups."[2] In its statement of 18 July 2013, the FSB stated that "a sound capital and supervisory framework for the insurance sector more broadly is essential for supporting financial stability". The FSB further reinforced its support for the development of the ICS in its statement of 6 November 2014.[3]

Between 2014 and 2019, the IAIS conducted six quantitative Field Testing exercises with volunteer insurance groups, covering the majority of IAIGs from a diversity of regions, to support the development of the ICS. Each quantitative ICS Field Testing exercise was informed by IAIS analysis of submitted data, as well as additional feedback and comments provided by volunteer insurance groups as part of their submissions or through dedicated workshops. In addition to the Field Testing process, the IAIS engaged with the broader group of stakeholders through dedicated stakeholder meetings and two public consultations on the ICS.

In November 2019, the IAIS adopted ICS Version 2.0. Starting from January 2020, the ICS entered a five-year monitoring period, during which ICS Version 2.0 has been used for confidential reporting to the group-wide supervisor, discussion in supervisory colleges, and further analysis by the IAIS.

The feedback received during the monitoring period has been used to further enhance the ICS. In June 2023, the IAIS launched a public consultation on the candidate ICS as a prescribed capital requirement (PCR) for IAIGs. Comments received through the public consultation on the candidate ICS, together with ICS data collected in 2023 and feedback received though an ICS Economic Impact Assessment conducted last year, informed ICS data collection in 2024, being the final year of the monitoring period. Publication of the 2024 data collection package has provided a clear indication of the final ICS set for adoption in December. Once adopted 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 that supervisors represented in the IAIS will implement or propose to implement taking into account specific market circumstances in their respective jurisdictions.[4]

[2] http://www.financialstabilityboard.org/publications/r_130718.pdf
[3] http://www.financialstabilityboard.org/wp-content/uploads/pr_141106a.pdf
[4] While the IAIS as a standard setting body does not have any legal power to directly mandate the implementation of the ICS as a PCR in jurisdictions, Article 6(6)(b) of the IAIS By-Laws notes that IAIS Members commit to "implementing IAIS supervisory material taking into account specific market circumstances".

The IAIS Executive Committee approved the final version of the ICS as a PCR for IAIGs at its meeting on 29 October 2024, which will be recommended for adoption at the IAIS Annual General Meeting on 5 December 2024.

2.2 Aggregation Method as an outcome equivalent implementation of the ICS

In November 2017, the United States (US) announced that the National Association of Insurance Commissioners (NAIC) and Federal Reserve Board were both developing an Aggregation Method (AM) to a group capital calculation, with the support of the Federal Insurance Office (FIO).

An AM was developed by the US and other interested jurisdictions as an alternative group capital approach to apply to IAIGs. The AM builds on existing local capital regimes that apply at legal entity level. The AM aggregates legal entity reported available and required capital (after adjustments to remove double-counting) to produce a measure of group capital adequacy. The contribution of each legal entity to the total capital requirement is equal to an exposure measure (for regulated financial entities, this is the local capital requirement) multiplied by a factor. For these regulated entities, the factor is referred to as a "scalar". Given differences between solvency frameworks, scalars are used to bring the required capital for each legal entity to a common level. To support the US in its development of the AM, the IAIS collected data from interested jurisdictions relevant to the development of the AM. The data collection included the Provisional AM and a range of alternative scaling options.[5]

In November 2019, the IAIS agreed on a process to assess, by the end of the ICS monitoring period, whether the AM being developed by the US and other interested jurisdictions 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 PCR.

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 to be used to assess whether the AM provides comparable outcomes to the ICS (see Box 1).

Box 1: Definition of comparable outcomes and high-level principles

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.

High-level principles (HLPs)

- HLP 1: 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.
- 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.

[5] The Provisional AM used for the IAIS comparability assessment uses an unscaled methodology: local capital requirements at a PCR (or equivalent) level without any further adjustment other than for double-counting (i.e. all scalars are 100%).

- HLP 3: The AM could be more but not less prudent than the ICS, which is being developed as a minimum standard.
- HLP 4: The AM and ICS use the same scope of the group, consistent with that set out in ComFrame.
- HLP 5: A representative sample of Volunteer Groups, covering a diversity of business models, provides both ICS and AM data under various economic and financial market conditions over the business cycle.
- 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.

2.3 Comparability criteria

In June 2022, the IAIS publicly consulted on draft comparability criteria to be used for each HLP. Following feedback, the IAIS agreed on the final criteria in March 2023. The final comparability criteria are included in Annex B, for ease of reference.

The final criteria were designed to ensure that the AM is neither precluded at the outset as an outcome equivalent approach to the ICS for measuring group capital nor given a free pass.

2.4 Scope of the AM comparability assessment

The AM comparability assessment was a robust technical, evidence-based analysis of comparability, using the agreed comparability criteria.

The United States was the only interested jurisdiction in scope of the AM comparability assessment.

The AM comparability assessment was conducted using the Candidate ICS as a PCR and the Provisional AM developed by the US[6], utilising the 2023 ICS and AM data collection packages that contain detailed technical specifications for both. The 2023 ICS and AM data collection packages were published in June 2023[7].

The AM comparability assessment was based on data collected from nine US-based IAIGs[8] and one US non-life non-IAIG volunteer group filing both the ICS and AM data collections.[9] The nine IAIGs within the scope of the assessment are shown in Annex A. Collectively, the nine US IAIGs and one

[6] The NAIC has published further detail on the Provisional AM for use in the comparability assessment on the NAIC website: Provisional AM for Use in the Comparability Assessment (September 2023). The NAIC document provides the history on the US development of the Aggregation Method and includes the purpose, principles and components of the provisional AM design that will be used for the comparability assessment as well as setting out the process for finalising the AM.

[7] The 2024 ICS and AM data submission were also reviewed to assess whether they provided any additional insights or information relevant to the comparability assessment, given the changes made to the ICS. Where appropriate, this information was incorporated into the analysis.

[8] As of 6 February 2023. After the start of the assessment process, three new IAIGs were identified in the US, namely, Athene Holding Company, Markel Group and Pacific Life Insurance Company. These groups are outside the scope of the AM comparability assessment.

[9] As per AM comparability criterion 5.2 c. iv.

US non-life non-IAIG volunteer group subject to the AM comparability assessment are referred to as "the US groups" in the remainder of this report. [10]

2.5 Governance of the AM comparability assessment

The IAIS Executive Committee mandated the IAIS' ICS and Comparability Task Force (ICSTF) to oversee the AM comparability assessment process. The ICSTF is chaired by the IAIS Executive Committee Chair.

To support the work of the ICSTF, an Aggregation Method Comparability Assessment Team (the AMCA team) was established, consisting of technical experts within the IAIS Secretariat, representing geographical diversity and expertise in both the AM and ICS. The AMCA team was led by the IAIS Secretary General.

The AMCA team was responsible for delivering the necessary technical analysis to support the ICSTF in making an informed recommendation to the IAIS Executive Committee on the outcome of the comparability assessment.

Based on the ICSTF's recommendations, the final decision on whether the AM provides comparable outcomes to the ICS was made by the IAIS Executive Committee at its meeting on 29 October 2024.

3 Comparability Assessment of the Provisional AM to the ICS

3.1 Analysis conducted

The AMCA team performed a technical analysis of comparability using the approved comparability criteria and following the agreed process and timelines to support the ICSTF in making an informed recommendation to the IAIS Executive Committee on the outcome of the comparability assessment.

The AMCA team received all requested data from US groups and relevant supervisors in order to perform the analysis. All US groups within scope of the AM comparability assessment, which included all US IAIGs at the time of the analysis, participated in the 2023 AM and ICS data collections or provided ICS approximations[11] (ie the data covered 100% of the AM required capital of all US IAIGs, meeting the requirements of HLP 5 with respect to including a representative sample of US IAIGs).

Further complementary information was collected in June 2024 from some US groups, together with further input from supervisors on details of local regulatory regimes applicable to the material underlying legal entities of the US groups.

In the analysis, no difference in the scope of the entities included in the Provisional AM calculations compared to the ICS were identified, consistent with the scope of the group set out in ComFrame, meaning that the criterion under HLP4 was met.

---

[10] IAIGs have been classified as Non-Life, Life or Composite groups depending on the relative weights of their exposure to life and non-life business, based on a series of metrics and, where necessary, expert judgement.

[11] In line with HLP 5 (criterion 5.2.c.iii), it was agreed that for US non-life IAIGs an approximation of ICS results based on audited publicly available data may be used for purposes of meeting the representativeness threshold. According to this approach, the consolidated group's annual public financial statements serve as the initial reference for the ICS balance sheet and calculation of the ICS capital requirement. This data is further supplemented by US statutory reporting and US Risk Based Capital (RBC) reporting. These approximations were tested against ICS calculations on a sample basis.

The quantitative analysis performed by the AMCA team focused on how required and available capital, as well as the resultant surplus capital and solvency ratios, under the Provisional AM and ICS react under various economic and financial conditions over the business cycle. In line with the agreed criteria, for purposes of the analysis the comparison of Provisional AM and ICS results over the business cycle was informed by six different sets of economic and financial market conditions (including the sensitivity analysis referenced in criterion 1.3-1.6).

This quantitative analysis was complemented by a qualitative analysis of the underlying regulatory regimes applicable to insurance legal entities most material to US groups, to better understand any differences in individual elements of the Provisional AM and ICS group solvency approach (ie valuation, capital resources and capital requirement) as well as to analyse potential drivers of any divergent results across the Provisional AM and the ICS.

Lastly, the analysis considered whether the Provisional 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 (HLP6). Specific ComFrame standards on supervisory reporting and public disclosure have not yet been developed for the ICS. However, the Provisional AM document published by the NAIC covers both reporting to the group-wide supervisor and public disclosure, stating that ComFrame will apply to the Provisional AM once implemented, and also providing an indication of how the ComFrame standards would be implemented in practice. This provided evidence of a commitment to meet ComFrame public disclosure and supervisory reporting requirements, in line with HLP 6. Once ComFrame standards on supervisory reporting and public disclosure are in place, jurisdictions' level of observance will be reviewed during an implementation assessment phase.

3.2 Approach to the assessment

As per the agreed approach, the comparability assessment was based on the analysis provided by the AMCA team.

While the agreed comparability criteria were assessed using a scaled approach that considers the degree to which each criterion is met, the final decision on comparability was based on the criteria as a whole.

The comparability assessment recognised that the conceptual frameworks of the Provisional AM and ICS are different and needed to be evaluated with acceptance of these differences in mind. The focus of the comparability assessment was whether the Provisional AM results in comparable outcomes to the ICS – ie ensuring that differences in the design of the Provisional AM and the ICS do not result in significantly divergent outcomes. In assessing these outcomes, particular account was given to the definition of comparable outcomes – namely "Comparable outcomes to the ICS means that the AM would produce similar, but not necessarily identical, results over time that trigger supervisory action on group capital adequacy grounds" (ie the focus was on comparable outcomes with respect to supervisory intervention).

The outcomes from an AM are dependent on the local capital regimes that apply to the material underlying entities of the groups to which an AM is applied. The comparability of outcomes from an AM to the ICS will depend on how the business and risk exposures of groups are distributed across local capital regimes, and the extent to which those local capital regimes produce outcomes that are at least as prudent as the ICS and respond in similar ways as the ICS to changing economic and financial market conditions over the business cycle. This will vary by the jurisdiction in which an AM is implemented. As such, the conclusions of this assessment cannot be extended to the application of an AM in other jurisdictions.

3.3 Assessment outcomes

The assessment looked collectively at the respective elements and levels of prudence in the Provisional AM and ICS (HLPs 2 and 3), as well as whether the Provisional AM and ICS results move similarly in response to changing economic and financial market conditions (HLP 1), in order to determine whether the Provisional AM triggers supervisory action on group capital adequacy grounds under similar conditions over the business cycle as the ICS – as discussed in the rest of this section.

The criteria under HLPs 4, 5 and 6 were assessed as having been met, based on the analysis results outlined in Section 3.1 with respect to the scope of the group included in the AM (HLP 4), the representativeness of the sample for the analysis as required by the criteria of HLP 5, and the evidence of a commitment to meet ComFrame public disclosure and supervisory reporting requirements in the absence, to date, of ComFrame standards in this regard (HLP 6).

3.3.1 Respective elements and levels of prudence in the Provisional AM and ICS

The individual elements of an AM solvency approach depend on the local capital regimes applicable to the underlying legal entities of the group. Based on the qualitative analysis of the current regulatory regimes applicable to the main legal entities of the US groups,[12] the assessment concluded that the Provisional AM generally captures the same underlying risks as the ICS[13], even if in some cases this is achieved differently, or to a different extent, within the quantitative calculation of the group capital requirement. In particular, some risks (such as interest rate risk) are partly captured within the capital requirement and partly in the valuation of insurance liabilities in the US RBC and similar regimes.

The overall quality and eligibility of capital resources allowed in the Provisional 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. The Provisional AM and ICS both apply limits on the composition of capital but using different mechanisms. The impact of the composition limits under the Provisional AM are assessed as being at least as prudent in most cases and not materially less prudent as those under the ICS.

The assessment also considered the interaction between the individual elements of the group solvency approach, specifically whether prudence in one element offsets less prudence in another element.

- For US non-life groups, the assessment is that the overall level of prudence in the Provisional AM is at least equivalent to that of the ICS. This is based on as analysis that points to a valuation of liabilities for non-life business in the Provisional AM that is generally at least as prudent as for the ICS (generally leading to lower available capital for US non-life groups under the Provisional AM compared to the ICS) and generally higher capital requirements under the Provisional AM compared to the ICS, particularly with respect to underwriting risks under the US RBC.
- For US life groups, particular differences between the Provisional AM and the ICS pertain to the valuation of insurance liabilities and the capital charge for interest rate risk in the US RBC and similar local capital regimes. The analysis suggests that, overall, available capital is lower under the Provisional AM, while at the same time there is also generally a lower capital requirement under the Provisional AM compared to the ICS. This points to some offsetting prudence in the

[12] Particularly the US RBC regime, given that this is applicable to legal entities that generally account for the majority of total AM available capital of US groups.

[13] Where exceptions were identified, these were not estimated to have a material impact on the outcome of the assessment.

valuation of life insurance liabilities – particularly under the US RBC – but the impact of these differences on the Provisional AM and ICS solvency ratios varies across US life groups under different scenarios, depending on the underlying balance sheet.

- In addition, for both US non-life and US life groups, available capital under the Provisional AM tends to fall rapidly in severe stress scenarios (as the Provisional AM solvency ratio approaches 100%) due to the impact of the limit on the recognition of financial instruments as a proportion of total available capital – although this will vary across groups depending on the composition of capital resources. This means that the solvency ratio under the Provisional AM tends to fall more sharply than the ICS solvency ratio in more severe stress scenarios.

3.3.2 Movements in the Provisional AM and ICS results in response to changing economic and financial market conditions

The assessment considered whether the Provisional AM and ICS results change similarly in response to changing economic and financial market conditions over the business cycle.

For US non-life groups, the analysis showed that the Provisional AM solvency ratio, as well as required and available capital, generally move in the same direction as the ICS results and, in most cases, by a similar quantum across the different points in the business cycle.

For US life groups, divergences in the direction of change of the Provisional AM and ICS solvency ratios, as well as in required and available capital, were observed for some groups under some scenarios, particularly in a low-yield scenario. The difference in the quantum of change in the relative results across the different points in the business cycle was also greater for US life groups than US non-life groups in some scenarios – although noting that the assessment approach recognises that the differences in quantum of change in the Provisional AM and ICS results across different points in the business cycle does not *per se* exclude comparability.

3.3.3 Comparable triggers of supervisory action on group capital adequacy grounds

The assessment considered whether the Provisional AM triggers supervisory action on group capital adequacy grounds under similar conditions over the business cycle as the ICS, showing that the level of solvency protection of the Provisional AM in totality is at least as prudent as that of the ICS. The primary 'trigger' considered in the assessment was the point at which a group's solvency ratio (ie holding company level) goes below 100%, though the role of other tools for supervisory intervention in the US supervisory system were considered as well.

The results of the analysis over the various scenarios showed that solvency ratios for US non-life groups under the Provisional AM are consistently lower relative to those under the ICS, indicating that the Provisional AM is at least as prudent as the ICS and would result in similar triggers of supervisory action on group capital adequacy grounds.

For US life groups, solvency ratios under the Provisional AM are typically higher than under the ICS, and multiple times higher in certain scenarios (particularly in a low-yield environment). Under more extreme stress scenarios, the relative Provisional AM and ICS solvency ratios converge.[14] However, the analysis shows that there are instances over the business cycle where a breach of the ICS (ICS ratio below 100%) would not result in a corresponding breach of the Provisional AM (ie Provisional AM ratio still well above 100%), suggesting that there are instances where the Provisional AM may not be as prudent as the ICS for US life groups. This was assessed as having the potential for

[14] See Section 3.3.1. This is largely due to the limit on the recognition of financial instruments as a proportion of total available capital applied in the Provisional AM, which tends to lead to a significant reduction in available capital under severe stress scenarios.

inconsistent triggers of supervisory action on group capital adequacy grounds for US life groups under the Provisional AM compared to the ICS.

3.3.4 Overall assessment for the Provisional AM

The assessment identified a number of areas in which the Provisional AM provides comparable outcomes to the ICS and some remaining areas where the Provisional AM results in divergent outcomes to the ICS in specific circumstances. These areas are:

- The direction of movement of the Provisional AM and ICS results for US life IAIGs under some scenarios. In particular, changes in interest rates were noted to have the potential to drive divergent movements in the Provisional AM and ICS results for US life IAIGs; and
- The triggers for supervisory intervention on group capital adequacy grounds for US life IAIGs, noting that the Provisional AM may not always be as prudent as the ICS in specific circumstances.

4 Comparability of a final US AM to the ICS

In finalising the assessment, the IAIS included a forward-looking approach:

- The assessment considered the recent or planned changes to local solvency regimes applicable to the underlying legal entities of US life IAIGs; and potential changes to the scalars used in a US AM. They include:
  - o The recent introduction of Principles Based Reserving (PBR) in the US Risk Based Capital (RBC) regime progressively for existing and newly written life insurance and annuity liabilities;
  - o Implementation of the ICS in Japan in 2025 in the form of the new economic value-based solvency ratio (ESR) framework; and
  - o Potentially moving to a new scaling methodology in a US AM from the Provisional (unscaled) approach.
- The assessment also recognised that the work as part of the implementation of a future version of a US AM (Final AM) is a means to address the remaining areas where the Provisional AM produces divergent outcomes to the ICS in specific circumstances (as set out in Section 3.3.4). These adjustments could help ensure convergence of outcomes with the ICS for US life IAIGs (noting that the ICS is a minimum standard), while recognising that the decision on the changes to be implemented is for US supervisors to consider within the context of the US supervisory system.

In finalising the comparability assessment, the IAIS has concluded that a US AM provides a basis for implementation of the ICS to produce comparable outcomes. The comparability assessment of the Provisional AM has highlighted some areas where work as part of implementation of the Final AM will help ensure convergence, specifically treatment of interest rate risk and appropriate timing of supervisory intervention. In using the Final AM as its implementation of the ICS, the US commits to addressing those areas in appropriate ways, which will be reviewed during the IAIS ICS implementation assessment process.

As the Final AM will be the US' implementation of the ICS, the assessment of its implementation will be subject to the same timing as ICS implementation assessments in other jurisdictions (ie self-assessment in 2026, and intensive targeted jurisdictional assessments aiming to start in 2027, upon agreement of the relevant jurisdictions) and subject to a consistent methodology (including both qualitative and quantitative analysis), assessing whether the jurisdictional implementation at least meets the ICS (ie produces at least the same level of prudence as the ICS and similar triggers of supervisory intervention), whilst also focusing on the AM specificities.

Annex A: US IAIGs in scope of the AM comparability assessment

Name of IAIG	Operations (for analysis)	Group-wide supervisor (GWS)
American International Group (AIG)	Non-life	New York State Department of Financial Services
Berkshire Hathaway, Inc.	Non-life	Nebraska Department of Insurance
Chubb Group of Companies	Non-life	Pennsylvania Insurance Department
CNA Financial	Non-life	Illinois Department of Insurance
Fairfax Financial Holdings Limited	Non-life	Delaware Department of Insurance
Liberty Mutual Insurance Group	Non-life	Massachusetts Division of Insurance
MetLife, Inc.	Life	New York State Department of Financial Services
Prudential Financial, Inc.	Life	New Jersey Department of Banking and Insurance
Reinsurance Group of America, Incorporated	Life	Missouri Department of Insurance, Financial Institutions & Professional Registration

Annex B: Comparability criteria used to assess whether the AM provides comparable outcomes to the ICS

1 Criteria relevant to HLP 1

HLP 1: 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 scenarios[15] 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 jurisdictions[16]. 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.

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

[16] To reflect the international activity of these IAIGs.

- 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.

1.6 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 ICS[17]. 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 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 grounds[18] 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

[17] 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.

[18] 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.

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 explained, 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.

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 ComFrame[19], 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.

[19] 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.*