



**Frequently Asked Questions for
The global risk-based Insurance Capital Standard (ICS)
Updated 21 July 2017**

Questions

1.	What is the risk-based global insurance capital standard (ICS)?	2
2.	When will the ICS be developed?.....	2
3.	What is meant by extended field testing and do all IAIGs need to comply?.....	3
4.	What is an Internationally Active Insurance Group (IAIG)?.....	3
5.	Will jurisdictional group-wide capital standards be considered consistent with the ICS?.....	3
6.	How will the ICS be used by supervisors in their supervisory process?	4
7.	Will the ICS be part of the International Monetary Fund (IMF) Financial Sector Assessment Program (FSAP).....	4
8.	What are the major components of the ICS?	4
9.	What is the ICS ratio?	4
10.	How is the ICS being developed?	5
11.	Why is the IAIS developing the ICS in addition to the solvency related ICPs, ICP 14 and ICP 17?	6
12.	What is the purpose of field testing of the ICS?	6
13.	How many ICS Consultation Documents will there be before 2019?	7
14.	What is the timetable for the development of the ICS?	7
15.	Will the ICS include transitional provisions applicable to existing jurisdictional group-wide capital frameworks?.....	7
16.	What are the principles underpinning the ICS development?.....	7
17.	Why is the IAIS addressing valuation in the ICS rather than leaving this to local accounting standards?	8
18.	Why does the ICS include two valuation approaches?	8
19.	ICS Version 1.0 for extended field testing only includes a standard method for determining the ICS capital requirement, does this mean that the IAIS will not consider internal models?.....	9
20.	What is the tiering approach to capital resources in the ICS?	9

1. What is the risk-based global insurance capital standard (ICS)?

Once finalised, the ICS will be a measure of capital adequacy for Internationally Active Insurance Groups (IAIGs) and Global Systemically Important Insurers (G-SIIs). 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. The ICS would serve as a minimum standard for a group Prescribed Capital Requirement (PCR).¹ The PCR treatment provides the most flexibility as supervisors are able to initiate discussions with the IAIG in order to restore its PCR.

The ICS is one component of the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) that should be used by group wide supervisors to assess the financial condition of an IAIG. Please refer to ComFrame and the Insurance Core Principles (ICPs) for more information about other proposed expectations in the assessment of IAIGs' capital adequacy and with respect to the setting of IAIG-specific internal capital targets and capital management policies (eg ORSA and ERM).

2. When will the ICS be developed?

The IAIS has developed the ICS Version 1.0 for extended field testing which was published on 21 July 2017. ICS Version 2.0 is due to be completed by the end of 2019 for adoption by the IAIS along with the remainder of ComFrame. Implementation is scheduled to begin after the end of 2019.

ICS Version 1.0 for extended field testing (2017 ICS version): The goal for this milestone is the delivery of an ICS for extended field testing purposes based on:

- the identified two valuation approaches
- a standard method for calculating the ICS capital requirement

Upon completion of ICS Version 1.0 for extended field testing, there will also be a plan to consider other methods of calculation of the ICS capital requirement including:

- the use of internal models (partial or full)
- external models
- variations of the standard method.

ICS Version 2.0 for adoption within ComFrame (2019 ICS version): The goal for this milestone is the delivery of an ICS that is fit for implementation by supervisors:

- that will achieve an improved level of comparability compared to ICS Version 1.0 but possibly not the level of comparability envisaged by the ultimate goal
- may still include the two valuation approaches but aspires to reduce differences in valuation
- may allow for both the standard method for calculating the ICS capital requirement and other methods of calculation including:
 - the use of internal models (partial or full)
 - external models
 - variations of the standard method.

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.

The IAIS' ultimate goal, by a date yet to be determined, is a single ICS that includes a common methodology by which one ICS achieves comparable, i.e. substantially the same, outcomes across jurisdictions. Ongoing work is intended to lead to improved convergence over time on the key elements of the ICS towards the ultimate goal. Not prejudging the substance, the key elements include valuation, capital resources and capital requirements.

3. What is meant by extended field testing and do all IAIGs need to comply?

Extended field testing of the ICS is a natural extension of the existing voluntary field testing process. The exercise contains extended data requests on technical and policy issues that the IAIS will be seeking to resolve for ICS Version 2.0. The design and calibration of 2017 Field Testing, including options provided, is not necessarily indicative of decisions that will be made for ICS Version 2.0.

During the extended field testing, the IAIS aspires to have 100% of likely IAIGs participating in Field Testing, plus any other Volunteer Group that is interested in participating in the exercise.

4. What is an Internationally Active Insurance Group (IAIG)?

An IAIG is a large, internationally active group that includes at least one sizeable insurance entity. The IAIS does not intend itself to develop a definitive list of IAIGs, but will provide criteria for supervisors to assess, on a regular basis, whether they should apply ComFrame to a particular insurance group. The proposed criteria are based on size and international activity, but allow a degree of supervisory discretion on whether a particular group should, or should not, be considered an IAIG. Specifically, the proposed criteria are:

A. International Activity

- Premiums are written in not fewer than three jurisdictions, **and**
- Percentage of gross premiums written outside the home jurisdiction is not less than 10% of the group's total gross written premium;

AND

B. Size (based on a rolling three-year average):

- Total assets of not less than USD 50 Billion, **or**
- Gross written premiums of not less than USD 10 Billion.

The IAIS expects that in excess of 50 IAIGs will be identified by supervisors.

5. Will jurisdictional group-wide capital standards be considered consistent with the ICS?

As the ICS is still being developed, it is too early to say to what extent jurisdictional group capital frameworks will be considered consistent with the ICS. The entire point of the ICS is to create a global, consistent capital standard to address the lack of comparability among existing jurisdictional group capital standards.

6. How will the ICS be used by supervisors in their supervisory process?

This will be the subject of a consultation in November 2016 on the supervisory process and supervisory cooperation and coordination elements of ComFrame. However, it is important to note that the ICS will not be the sole supervisory tool used as a basis of making decisions on supervisory activities to undertake, or supervisory actions to impose on IAIGs. There are many inputs that will be taken into account, including the IAIG's Own Risk and Solvency Assessment (ORSA), assessment of governance and Enterprise Risk Management (ERM) against the requirements of ComFrame.

7. Will the ICS be part of the International Monetary Fund (IMF) Financial Sector Assessment Program (FSAP)

The IMF is responsible for its FSAP and the IAIS will liaise with the IMF on this issue.

8. What are the major components of the ICS?

There are three major components of the ICS:

- a. Valuation, which is a foundation for the next two components;
- b. Qualifying capital resources; and
- c. ICS capital requirement.

The valuation basis of assets and liabilities is an integral component of the ICS. The ICS Version 1.0 contains two valuation approaches – Market Adjusted Valuation (MAV) and Generally Accepted Accounting Principles with adjustments (GAAP with adjustments or GAAP Plus).

The definition of qualifying capital resources sets out criteria and specifications that consider policyholder protection and loss absorbency. All potential capital resources are assessed against this definition to determine whether they are qualifying capital resources.

The ICS capital requirement, calculated using a risk-based method, is the amount of capital resources needed to cover loss(es) at the specified target criteria. The ICS capital requirement specifies the risks to be covered and the target criteria to be met.

The capital requirement of ICS Version 1.0 has been developed as a standard method specifying the appropriate treatment of risk, the treatment of risk mitigation techniques and the approach to aggregation/diversification.

9. What is the ICS ratio?

The ICS Ratio (a capital adequacy measure) is determined by comparing the amount of qualifying capital resources to the ICS capital requirement using the following ratio:

$$\text{ICS Ratio} = \text{qualifying capital resources}/\text{ICS capital requirement}$$

10. How is the ICS being developed?

The ICS is a collaborative development within the IAIS membership with significant engagement with stakeholders. The ICS development is a very open and transparent process.

With respect to the internal process within the IAIS, a working group within the IAIS made up of Members from many jurisdictions representing all regions of the world is developing the ICS. This working group is called the Capital, Solvency and Field Testing Working Group (CSFWG). This work is subject to oversight of the IAIS' Financial Stability and Technical Committee (FSTC) again with representation from all regions of the world.

The FSTC reports to the Executive Committee. In 2017, the Executive Committee established and ICS Task Force. The ICS Task Force is responsible for providing strategic steering to the Executive Committee on the development and practical implementation of ICS Version 2.0. The Task Force will focus on developing a consensus on the subset of issues that remain unresolved after technical discussion at CSFWG and FSTC to make progress towards delivering ICS Version 2.0.

With respect to stakeholder engagement there are a number of formal and informal interactions with stakeholders, which includes firms that may be impacted by the development of the ICS as well as engagement with the broader stakeholder community interested in insurance regulation and supervision. Engagement with stakeholders has been through meetings, panel discussions at the IAIS Global Seminar and Annual Conference as well as through an extensive consultation process that has included consultations in late-2014 and mid-2016 with another scheduled in mid-2018.

Most of the key issues set out in ICS Version 1.0 for extended field testing have been previewed with stakeholders through this consultation process.

Since its announcement in October 2013, the IAIS has been undertaking a multi-year quantitative Field Testing process with field testing volunteers. The first quantitative Field Testing focusing on development of the ICS occurred in 2015. The analysis by the IAIS of the submitted data as well as additional feedback and comments provided by field testing volunteers as part of their submission or during dedicated workshops informed the development of the subsequent field testing exercises in 2016 and 2017.

There is more in-depth engagement with field testing volunteers which are likely to be impacted by the development of the ICS. There is ongoing engagement with the field testing volunteers through workshops and other interactions and the field testing process itself. In essence, 2017 field testing covers the same topics and approaches as ICS Version 1.0 for extended field testing.

Alternative approaches to some specific aspects of the proposed ICS are covered in ICS Version 1.0 and in the prior consultation documents. This has enabled the IAIS to collect data and receive feedback to resolve issues where both IAIS Members and stakeholders may have different views. Field Testing can provide information about the differences among alternative approaches, practical implementation considerations and comparisons to existing practices. Seeking views in the consultation documents on these same issues as explored in Field Testing has enabled the IAIS to obtain information from a wider stakeholder community.

11. Why is the IAIS developing the ICS in addition to the solvency related ICPs like ICP 14 and ICP 17?

On 9 October 2013, the IAIS announced its plan to develop a risk-based global insurance capital standard (ICS). This followed a 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

The development of the ICS also fits with the IAIS mission which is to:

- (a) 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
- (b) contribute to global financial stability.

The ICS must necessarily achieve a greater degree of comparability than achieved through implementation of the ICPs. The ICPs are general in nature and are designed to be implemented in a wide variety of contexts in a proportionate manner. This intent is best described in the Assessment Methodology set out in the ICPs:

Paragraph 12 of the ICPs updated November 2015:⁴

The framework described by the ICPs is general. Supervisors have flexibility in determining the specific methods for implementation which are tailored to their domestic context (eg legal and market structure). The standards set requirements that are fundamental to the implementation of each ICP. They also facilitate assessments that are comprehensive, precise and consistent. While the results of the assessments may not always be made public, it is still important for their credibility that they are conducted in a broadly uniform manner from jurisdiction to jurisdiction.

12. What is the purpose of field testing of the ICS?

Field Testing of the ICS is an annual process that began in 2015 and will continue through to 2019. The overall objective of field testing is to:

- perform impact studies of the ICS, to test if it is an effective measure of group-wide capital adequacy, is practical and does not lead to excessive costs to IAIGs and
- assess the results of such field testing so that the IAIS can determine any evidence-based changes that are necessary to the ICS in view of a target date of adoption at the 2019 General Meeting

² http://www.financialstabilityboard.org/publications/r_130718.pdf

³ http://www.financialstabilityboard.org/wp-content/uploads/pr_141106a.pdf

⁴ See <http://www.iaisweb.org/page/supervisory-material/insurance-core-principles>

13. How many ICS Consultation Documents will there be before 2019?

There will be three consultation documents in total prior to the 2019 adoption of the ICS. This is in addition to the 2017 publication of ICS Version 1.0 for extend field testing which although not a formal consultation does provide a basis for ongoing discussions with stakeholders.

14. What is the timetable for the development of the ICS?

The broad timetable can be summarised as follows:

DATE	MILESTONE
September 2017	Data due for 2017 field testing process Discussion of ICS Version 2.0 begins
2nd quarter 2018	Launch of 2018 field testing process
Mid-2018	Publication of comprehensive ComFrame consultation including ICS Version 2.0
3rd quarter 2018	Data due for 2018 field testing process
Late 2018	Comments due on ICS Version 2.0 and ComFrame consultation
Late 1st/early 2nd quarter 2019	Launch of 2019 field testing process
Early 3rd quarter 2019	Data due for 2019 field testing process
IAIS 2019 General Meeting	Adoption of ComFrame, including ICS Version 2.0

15. Will the ICS include transitional provisions applicable to existing jurisdictional group-wide capital frameworks?

In the period between the completion of ICS Version 1.0 for extended field testing and ICS Version 2.0, the IAIS will also consider transitional arrangements (e.g. with respect to qualifying capital resources) that help ensure a smooth implementation of the ICS. It is not uncommon to allow for gradual phase-in of new requirements depending on the extent of system changes that may be expected of those impacted insurance groups. Transitional periods for implementation are also common where requisite laws and/or regulations are necessary to be adopted by relevant jurisdictions.

16. What are the principles underpinning the ICS development?

ICS Principle 1: The ICS is a consolidated group-wide standard with a globally comparable risk-based measure of capital adequacy for IAIGs and G-SIIs. The standard incorporates consistent valuation principles for assets and liabilities, a definition of qualifying capital resources and a risk-based capital requirement. The amount of capital required to be held and the definition of capital resources are based on the characteristics of risks held by the IAIG irrespective of the location of its headquarters.
ICS Principle 2: The main objectives of the ICS are protection of policyholders and to contribute to financial stability. The ICS is being developed in the context of the IAIS Mission, which 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.
ICS Principle 3: One of the purposes of the ICS is the foundation for Higher Loss Absorbency (HLA) for G-SIIs. Initially, the Basic Capital Requirements (BCR) is the foundation for HLA for G-SIIs.

ICS Principle 4: The ICS reflects all material risks to which an IAIG is exposed. The ICS reflects all material risks of IAIGs' portfolios 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 in ComFrame.

ICS Principle 5: The ICS aims at comparability of outcomes across jurisdictions and therefore provides increased mutual understanding and greater confidence in cross-border analysis of IAIGs among group-wide and host supervisors. Applying a common means to measure capital adequacy on a group-wide consolidated basis can contribute to a level playing field and reduce the possibility of capital arbitrage.

ICS Principle 6: The ICS promotes sound risk management by IAIGs and G-SIIs. This includes an explicit recognition of appropriate and effective risk mitigation techniques.

ICS Principle 7: The ICS promotes prudentially sound behaviour while minimising inappropriate pro-cyclical behaviour by supervisors and IAIGs. The ICS does not encourage IAIGs to take actions in a stress event that exacerbate the impact of that event. Examples of pro-cyclical behaviour are building up high sales of products that expose the IAIG to significant risks in a downturn or fire sales of assets during a crisis.

ICS Principle 8: The ICS strikes an appropriate balance between risk sensitivity and simplicity. Underlying granularity and complexity are sufficient to reflect the wide variety of risks held by IAIGs. However, additional complexity that results in limited incremental benefit in risk sensitivity is avoided.

ICS Principle 9: The ICS is transparent, particularly with regard to the disclosure of final results.

ICS Principle 10: The capital requirement in the ICS is based on appropriate target criteria which underlie the calibration. The level at which regulatory capital requirements are set reflects the level of solvency protection deemed appropriate by the IAIS.

17. Why is the IAIS addressing valuation in the ICS rather than leaving this to local accounting standards?

To satisfy ICS Principles 1 and 5, which address outcomes across jurisdictions and comparability of risk-based measures of capital adequacy, the ICS should be comparable across IAIGs regardless of the jurisdiction in which any IAIG's head office is located or that of the IAIG's legal domicile. Current regulatory regimes vary, in particular, in the degree of prudence included in the valuation of insurance liabilities (eg margins) and in the valuation of invested assets.⁵ If these differences are not addressed, they would affect both the measurement of qualifying capital resources and the ICS capital requirement.

18. Why does the ICS include two valuation approaches?

Informed by 2014 Field Testing results, the IAIS arrived at the following decisions on two possible valuation approaches:

"The market-adjusted valuation approach will be used as the initial basis to develop an example of a standard method in the ICS.

The GAAP valuation approach data will be collected. Reconciliation between the market-adjusted valuation approach and GAAP valuation approach will be requested

⁵ ICP 14 addresses valuation but is not sufficiently granular to create comparability across jurisdictions. It is meant to set out the issues to be addressed by each individual jurisdiction and its development did not include the goal of comparability across jurisdictions.

of the participating IAIGs. This will be used to explore and, if possible, develop a GAAP with adjustments valuation approach."

In 2015 Field Testing, the IAIS tested the full example of a standard method on a MAV basis but was limited to particular risks on a GAAP Plus basis (Mortality risk, Interest Rate risk, Equity risk, Premium risk, Claims Reserve risk and Catastrophe risk). In 2016 and 2017 Field Testing, the standard method is being fully tested using both valuation approaches.

19. ICS Version 1.0 for extended field testing only includes a standard method for determining the ICS capital requirement, does this mean that the IAIS will not consider internal models?

Upon completion of ICS Version 1.0, there will also be a plan to consider other methods of calculation of the ICS capital requirement including:

- the use of internal models (partial or full);
- external models; and
- variations of the standard method.

20. What is the tiering approach to capital resources in the ICS?

Tier 1 capital resources comprise qualifying financial instruments, and capital elements other than financial instruments, that absorb losses on a going-concern basis and in winding-up. Tier 2 financial instruments and capital elements other than financial instruments absorb losses only in winding-up.

Within each tier, financial instruments may be allocated into two categories with differing qualifying criteria:

a. Tier 1:

- i) Tier 1 financial instruments for which there is no limit (Tier 1 Unlimited)
- ii) Tier 1 financial instruments for which there is a limit (Tier 1 Limited)

b. Tier 2:

- i) Paid-Up Tier 2 financial instruments (Tier 2 Paid-Up)
- ii) Non-Paid-Up Tier 2 financial instruments (Tier 2 Non-Paid-Up)