ACTUARIAL ASSOCIATION OF EUROPE

International Capital Standards

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International Capital Standards (1)

International Association of Insurance Supervisors (2)

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.

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.

IAIS
INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

"Its mission 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."

International Capital Standards (3)

31 July 2018: Consultation document published:
“**Risk-based Global Insurance Capital Standard Version 2.0**”
Deadline for comments: 30 October 2018

> ***2.4.3 Ultimate Goal***
>
> *26. 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, ie 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.*

ICS 2.0 is based on several field tests in the past years. Current field test started in May 2018.

International Capital Standards (4)

Goal:
– a unified path to convergence of group capital standards
– a single ICS that achieves comparable outcomes across jurisdictions.

Implementation of ICS Version 2.0 in two phases:

- A five-year "monitoring period", ICS 2.0 used for confidential reporting
- Implementation of the ICS as a group-wide PCR.

DATE	MILESTONE
May 2018	Launch of 2018 Quantitative Field Testing
July 2018	Publication of ICS Version 2.0 CD and comprehensive ComFrame consultation
Sep 18	Field Testing submissions due
October 2018	Feedback on ICS Version 2.0 CD and comprehensive ComFrame consultation due
Apr 19	Launch of final round of ICS Field Testing
July 2019	Data due for 2019 Field Testing
IAIS 2019 General Meeting	Adoption of ComFrame, including ICS Version 2.0 for the monitoring period
Early-2020 to Late-2024	Five-year monitoring period
Nov 24	Adoption of the ICS Version 2.0 for implementation as a group-wide consolidated PCR

PCR= Prescribed Capital Requirement

ICS: Comparable issues to Solvency II (5)

Methodology used in the ICS is to some extent comparable to that of Solvency II. Might be suitable for a comparison when discussing the revision of Solvency II.

Some examples

Market consistent valuation	⇔	market adjusted valuation
Risik margin	⇔	Margin Over Current Estimate (MOCE)
Ultimate Forward Rate (UFR)	⇔	Long Term Forward Rate (LTFR)
Last Liquid Point (LLP)	⇔	Last Observed Term (LOT)
Standard formula	⇔	Standard method

Final decision under consideration of the results of the field test.

Risk margin ⇔ Margin over current estimate (6)

Solvency II	ICS 2.0
Risk margin The risk margin is the discounted sum of current and future SCR multiplied by the Cost of Capital – Rate $\text{RM} = \text{CoC} \cdot \sum_{t \geq 0} \frac{SCR(t)}{(1+r(t+1))^{t+1}}$ – SCR(t) SCR after t years; – r(t+1): risk-free rate for the maturity of t+1 year – CoC = 6%	**<u>Margin over current estimate (MOCE)</u>** C-MOCE = Cost of Capital MOCE C-MOCE sum of discounted current and future capital requirements multiplied by a Cost of Capital - Rate: $C\!-\!MOCE = \text{CoC} \cdot \sum_{t \geq 0} \frac{Capital\ Requirement\ (t)}{(1+discount\ rate)^t}$ CoC two approaches tested in field test a) CoC = 5% b) CoC depending on risk-free interest rate: CoC = 3% + 10 year risk-free interest rate Limitation: $3\% \leq \text{CoC} \leq 10\%$

ICS: EIOPA's involvement (7)

European Insurance and Occupational Pensions Authority
Revise Single Programming Document 2017-2019 (AWP 2018)
from 29 January 2018

Planning priority for 2018:

coordinate the EU position in further refinement of the version 2.0 of the international capital standard expected to be published in 2019 –

IAIS is seeking to agree by 2019 a worldwide single capital standard to apply to all internationally active insurance groups and EIOPA will continue to advance a European position in the negotiations.

The ICS Principles

Backup

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.

The ICS Principles

Backup

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.