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Winning the race towards a global Insurance Capital Standard

As it was recognized by the Financial Stability Board in 2013, the development of a sound capital and supervisory framework for the insurance sector is essential for supporting financial stability. Since then, the International Association of Insurance Supervisors (IAIS) has embarked on a journey to develop a comprehensive, group-wide supervisory and regulatory framework for Internationally Active Insurance Groups (IAIGs), including a quantitative Insurance Capital Standard (ICS).

The journey to get where we are has been long. A marathon rather than a sprint. Nonetheless a major milestone was achieved on November 2019 with the agreement of the so-called ICS version 2.0., a consolidated group-wide reference standard with a globally comparable risk-based measure of capital adequacy for IAIGs.

From a European perspective the successful implementation of Solvency II and its proper fine-tuning and review is our biggest priority and in parallel we remain as strongly committed as ever to the next stages of the ICS journey.

We will continue to work with our international peers from all continents in order to ensure that the final ICS standard is based on a market-adjusted valuation, that capital requirements are sufficiently robust and risk-sensitive, and that internal models are allowed to be used under sound and prudent criteria.

Our vision is that in those circumstances European legislators should be comfortable to endorse the ICS and make any necessary adjustments to Solvency II to ensure that European IAIGs are required to use only one capital framework that meets international standards.

From an EIOPA standpoint the main objective of this journey continues to be the setting up of one single risk-based ICS that would promote a level playing field between IAIGs headquartered in different parts of the world, reducing arbitrage opportunities and supporting financial stability.

This objective is not easy to achieve because many different valuation methods and capital standards are currently used by different jurisdictions to assess group capital adequacy. Nevertheless, the progress made in the latest years, namely the agreement on the ICS 2.0, shows that this convergence process is unstoppable.

While recognizing that only the future implementation of the ICS throughout the world will bring the necessary convergence to the supervision of IAIGs, conceptually, it could be possible to imagine a situation where a different capital calculation methodology would deliver substantially the same outcomes as the ICS. The recognition of this comparability could help the path towards convergence.

It is in this spirit that EIOPA approaches the assessment of comparable outcomes of the Aggregate Method (AM) currently under development by the United States supervisors. The assessment needs to be based on data showing that the AM and the ICS produce similar results over time and under different economic and market conditions over the business cycle, and that they trigger similar supervisory action on group capital adequacy grounds. Above all, the AM cannot be less prudent than the ICS.

The information collected during the five years monitoring period together with the economic impact assessment will by and large determine the final design of the ICS and the factual basis for the assessment of comparability. It is extremely important to collect data from different business models in order to ensure a proper calibration and risk sensitiveness of the ICS and gather sufficient evidence to perform the comparability assessment.

The monitoring period is therefore a crucial part of the journey of building an ICS and insurance groups throughout the world should engage and participate. EIOPA strongly encourages all IAIGs, and, in particular, the European ones, to participate in this common effort and continue to contribute to shape the ICS. International standards are the best response to fragmentation and that is particularly relevant in businesses like insurance and reinsurance that heavily rely on scale and diversification.

To develop an international standard is a hard task and requires patience, strong commitment and leadership. That's what EIOPA expects from the leaders of all European supervisors and all European IAIGs.

In the race towards an ICS we can all be winners. But one thing is for sure, the ones that don't participate in the race can't win it.

Gabriel Bernardino

EIOPA Chairman