

ICS: The time to engage is now!

Contribution to the Eurofi Magazine - April 2021

SPEECH

DATE:

29 Apr 2021

The development of the Insurance Capital Standard (ICS) by the International Association of Insurance Supervisors (IAIS) as part of its comprehensive group-wide Common Framework (ComFrame) for the supervision of Internationally Active Insurance Groups (IAIGs) has been, since its inception, recognized as a key step for the enhancement of global financial stability as well as consumer protection.

It is thus extremely important that EU groups actively engage in the ICS development, enabling the IAIS to collect data from different European business models in order to ensure a proper calibration and risk sensitiveness of the ICS that can match the reality in the EU. It's important for European IAIGs not yet participating in the ICS monitoring period to understand that it is in their own interest to participate, to secure an ICS that continues to reflect the sound basic principles of Solvency II and which can truly foster global convergence and consistency of supervisory practices.

Working with its membership from all over the world, the IAIS has already achieved substantial progress in the development of the ICS, with the agreement of ICS 2.0 in 2019 representing the culmination of that progress.

In EIOPA's view, ICS 2.0 represents a significant step in the direction of the implementation of sound risk-based supervisory frameworks at a global level, enhancing the level playing field for European insurers as well as their competitiveness.

Even before its expected adoption by 2024, the ICS is already shaping the development of supervisory frameworks throughout the world. These should be very positive news both for large international groups as well as for the

supervisors in charge of controlling them.

EIOPA has always supported the development of an ICS that reflects the basic sound principles of Solvency II. Such an approach does not mean that the global standard should mirror Solvency II. It is reasonable to expect that a global standard may need to be less granular and allow some limited room for jurisdictions to accommodate national market specificities.

EIOPA strongly believes that Solvency II should become one of the practical implementations of the international standard. Upon finalization of the ICS, legislators should be open to adjust our European system if that is needed, with the aim that European groups are only subject to a single capital regime.

The development by the United States and other jurisdictions of an Aggregation Method (AM) – not part of the ICS – aspires to measure group capital adequacy by leveraging existing legal entity requirements through simple adjustments and scalars.

EIOPA still has reservations concerning whether reconciling the current diversity in approaches across jurisdictions in such a manner can effectively ensure sufficient comparability and a level playing field compared to the ICS. While we are open to the arguments in favour of the Aggregation Method, EIOPA holds the view that discussions around AM should not distract the IAIS from work needed to complete the ICS.

The High Level Principles for the comparability assessment between the AM and the ICS, recently under public consultation by the IAIS, already provide significant reassurance that the comparability assessment of the AM will be subject to high standards. The assessment will be based on data which should evidence similar results between AM and the ICS over time and under different economic and market conditions, ensuring that the level of prudence under the AM is at least the same as for the ICS.

Let's not fool ourselves: the road towards the finalisation of the ICS is still very long and the effort required is still huge. Nonetheless, effort will be worth it as international standards are the best response to fragmentation – particularly relevant in businesses like insurance and reinsurance that heavily rely on scale

and diversification.

The information collected during the monitoring period will by and large determine the final design of the ICS. This is why a high level of participation in the ICS development is so critical. If Europe's IAIGs want to see one single risk-based ICS that reflects the well tested principles of Solvency II and promotes a level playing field between IAIGs headquartered in different parts of the world, then they must take part. Indeed, the time to engage is now.

Thanks to Lazhare Bouldi and Carlos Guine for their contribution to this article.

LAST UPDATED ON:
29 Apr 2021