



OPINION



Petra Hielkema
Chairperson, European Insurance & Occupational Pensions Authority (EIOPA)

ICS

Long-standing support

EIOPA is fully committed to the success of the ambitious Insurance Capital Standard project

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 in 2013, recognised by EIOPA as a key step in the enhancement of global financial stability as well as consumer protection.

Indeed, the 2008 crisis exposed shortcomings in cooperation, coordination, consistent application of supervisory measures and trust among insurance supervisors. The ICS should help prevent regulatory arbitrage, increase financial stability, promote a level playing field and strengthen international supervisory coordination, to the benefit of the economy at large, including financial institutions, consumers and employees.

College education

Another important advantage of the ICS is that it will reinforce supervisory cooperation by providing competent authorities with a common system. It will facilitate the work of the colleges of supervisors that play an important role in an increasingly globalised market. With the ICS, supervisory authorities present in the colleges will obtain a common understanding of qualitative and quantitative requirements for insurance groups, which is fundamental for the colleges' efficient, effective and consistent functioning.

Working with its worldwide membership, the IAIS has already achieved substantial progress in the development of the ICS, with the agreement of ICS 2.0 and the launch of the monitoring period in 2019 representing the culmination of that progress.

Use Solvency II principles

From a European perspective, the successful implementation of Solvency II and its proper fine-tuning is, of course, EIOPA's main priority. However, in parallel, we remain as strongly committed as ever to this phase of the ICS journey. We are currently working with our international peers to ensure that the final ICS standard is based on a well-designed, market-adjusted valuation, that capital requirements are sufficiently robust and risk-sensitive, and that the use of internal models is allowed under sound and prudent criteria.

"The basic sound principles underlying the EU risk-based prudential framework should be applied internationally."

Indeed, EIOPA believes that the basic sound principles underlying the EU risk-based prudential framework should be applied internationally. This means that the ICS should incorporate its fundamental principles, allowing it to become a practical implementation of the international standard. Our vision is that, in those circumstances, European legislators should be comfortable, at the end of the monitoring period in 2024, endorsing the ICS and considering any necessary adjustments to Solvency II to ensure that European IAIGs are subject to only one capital framework, which meets international standards.

The information collected during the ICS monitoring period until the end of 2024 will, by and large, determine its final design. It is extremely important to collect data from different business models to ensure a proper calibration and risk sensitiveness of the ICS. The monitoring period is therefore a crucial part of the journey and IAIGs throughout the world should participate. EIOPA strongly encourages all European IAIGs to take part in this common effort to shape the ICS.

In particular, one should note that internal models are part of the monitoring period as an additional reporting item, at the discretion of the volunteer groups and IAIGs. In practical terms,

this means that internal models are not part of the agreed reference ICS and discussion continues about their potential integration in the future.

At the IAIS, EIOPA has supported the inclusion of internal models, focusing on their use as an enhanced risk management instrument, which enables a more appropriate reflection of the complex risk profile of IAIGs. In our view, these positive aspects are not adequately considered, due to an almost exclusive focus on the capital figures produced, as well as on possible supervisory and comparability issues. Another difficulty arises from the relatively low participation rates in the voluntary reporting of internal model results by IAIGs, in particular using their own internal model structure.

US develops Aggregation Method

In parallel, the United States and other interested jurisdictions are developing an Aggregation Method (AM) for group capital calculation. Although this is not part of the ICS, the IAIS is helping to collect data from the US and others to aid in developing the AM. The concept aspires to measure group capital adequacy by leveraging existing legal entity jurisdictional requirements and resources as building blocks. Legal entity figures are adjusted and scaled to provide more comparable measures of capital adequacy across jurisdictions.

While recognising that only the worldwide implementation of the ICS will bring the necessary convergence to the supervision of IAIGs, conceptually it could be possible to imagine a situation in which a different capital calculation methodology would deliver substantially the same outcomes and be a proper implementation of 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 AM. The assessment needs to be based on detailed data showing whether the AM and the ICS produce similar results over time and under different economic and market conditions and whether they trigger similar supervisory action on group capital adequacy grounds. Above all, EIOPA cannot accept that the AM, as a framework for implementation of the ICS, is less prudent than the ICS.

The close of the monitoring period in 2024 will mark the end of a decade-long ICS marathon and the pace will increase to a final sprint towards finalisation. EIOPA thanks all stakeholders, in particular the EU IAIGs, for their continued engagement. ■