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# IAIS Roadmap

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## IAIS 2024 Roadmap: Adoption of ICS as a PCR; Assessment of AM Outcome Equivalency

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### SUMMARY

The International Association of Insurance Supervisors (IAIS) recently published its 2023-2024 Roadmap (“Roadmap”),<sup>1</sup> which is the final workplan developed under the IAIS’s five-year June 2019 Strategic Plan.<sup>2</sup> The Roadmap outlines key deliverables for 2024, including culmination of the Insurance Capital Standard (ICS) as a group-wide prescribed capital requirement (PCR), *i.e.*, a “solvency control level” above which the supervisor does not intervene on capital adequacy grounds, and finalization of the IAIS’s assessment as to whether the Aggregation Method (AM) developed by the United States provides comparable outcomes to the ICS. The next IAIS Strategic Plan, covering the period 2025 to 2029, will be published later in 2024, following consultations with IAIS members and stakeholders.

### BACKGROUND

The current five-year Strategic Plan commenced with the adoption in late 2019 of key IAIS standards developed largely in response to the 2008 financial crisis, including ComFrame and the Holistic Framework.<sup>3</sup> In November 2019, the IAIS adopted the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame), a set of reforms intended to establish supervisory standards and guidance for the effective group-wide supervision of Internationally Active Insurance Groups (IAIGs). ComFrame built and expanded on the standards and guidance set forth in the IAIS’s Insurance Core Principles (ICPs), which more broadly apply, at both an insurance-legal-entity and group-wide level, to the supervision of all insurers within a jurisdiction (including, but not only, IAIGs).

The ICS, which is the “quantitative element” of ComFrame, is intended to be a group-wide, consolidated insurance capital standard for application to IAIGs. It is designed to enhance global convergence among group capital standards for insurers. ICS Version 2.0, adopted in 2019, is being implemented in two phases:

(1) a five-year “monitoring period” (2020-2024), during which the standard is being used for confidential reporting to group-wide supervisors and discussion in supervisory colleges; followed by (2) implementation as a group-wide PCR. Confidential reporting to date has covered a “reference ICS” based on a market-adjusted valuation approach,<sup>4</sup> and, at the option of group-wide supervisors, additional confidential reporting based on other methods of calculation, including the use by insurers of their internal models.

In addition, the IAIS has been collecting data during the ICS monitoring period from the United States and other interested jurisdictions to assess whether an aggregation method (AM) to group capital calculations and standards may provide comparable outcomes to the ICS. Unlike the ICS and other “consolidated” approaches to group capital, the AM relies on existing local capital requirement calculations at the level of a group’s various subsidiaries rather than on the creation of a single, standardized calculation at the consolidated group level. If deemed comparable to the ICS, the AM approach will be considered an “outcome-equivalent approach” for implementation of the ICS as a group-wide PCR.

The Holistic Framework for Systemic Risk in the Insurance Sector (Holistic Framework), also adopted in 2019, and intended to mitigate systemic risk in insurance, consists of: (1) an enhanced set of supervisory policy measures and powers of intervention; (2) an annual global monitoring exercise (GME); and (3) implementation assessment activities aimed at assessing and mitigating the potential build-up of systemic risk in the global insurance sector. Prior to the implementation of the Holistic Framework, in the 2017-2020 period, the IAIS identified, on an annual basis, a small group of global systemically important insurers (G-SIIs)<sup>5</sup> to which it applied a set of pre-determined policy measures. The Holistic Framework reflected a move away from this entity-based designation approach to systemic risk, in favor of an activities-based approach, and the G-SII designation process has been discontinued.<sup>6</sup>

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## ELEMENTS OF THE ROADMAP

Like prior IAIS roadmaps and strategic plans, the Roadmap categorizes projects and activities along five “high-level goals” or “HLGs.”

### **HLG 1: Assessing and responding to global market trends and developments which present opportunities, challenges and risks.**

The IAIS conducts an annual GME to detect key risks and trends and the potential build-up of systemic risk in the global insurance sector. These include potential systemic risk arising either sector-wide in connection with specific activities and exposures (referred to as sector-wide monitoring, or SWM), or at an individual insurer level (referred to as individual insurer monitoring, or IIM). The key outcomes of the GME are shared with the FSB and included in the IAIS’s annual Global Insurance Market Report (GIMAR). The Roadmap indicates the IAIS’s intent, in 2024, to:

- continue the development of ancillary indicators on credit risk, reinsurance and derivatives, and explore ancillary indicators for emerging risks, for which a public consultation will take place in 2024; and

- continue to refine the GME data collection, including on climate-related risk.

In addition, the IAIS will continue to focus on monitoring structural shifts in the life insurance sector. This follows the work it did in 2023 to evaluate the macroprudential supervision of: (1) the impact of high inflation and tightening interest rates on the insurance sector, in particular regarding credit risk and liquidity risk; and (2) “structural shifts in the life insurance sector, including the involvement of private equity, as well as increased cross-border reinsurance and changes in asset allocation towards more complex, illiquid investments.” For “asset-intensive reinsurance,” the IAIS will examine various jurisdictions’ approaches to capital and collateral requirements, and reserving and asset valuation for such reinsurance arrangements and assess the extent to which asset-intensive reinsurance is adequately covered under ICP 13 (Reinsurance and Other Forms of Risk Transfer); if needed, the IAIS will explore the development of additional supervisory material. Finally, the IAIS aims to continue to monitor trends relating to alternative asset allocation, and “share best practices and develop a principles-based classification.”

### **HLG 2: Setting and maintaining globally recognized standards.**

During 2024, the IAIS will conduct a final data collection with volunteer groups on the candidate ICS as a PCR, which will be adopted in December 2024 at the conclusion of the five-year monitoring period. The data collection will reflect revisions based on the outcomes of data collection and analysis the IAIS conducted in 2023, which included certain additional reporting elements. The IAIS will also issue a report on the ICS economic impact assessment it initiated in the third quarter of 2023 and, following public consultations in 2023, will adopt revisions to ICP 14 (Valuation) and ICP 17 (Capital Adequacy) in December 2024. The IAIS will continue to analyze the data received for the 2023 AM data collection, collect additional data as required, and publish the final AM comparability assessment report in late 2024, using the final criteria adopted in March 2023.<sup>7</sup>

Finally, the IAIS will review Holistic Framework supervisory and related materials, based on the findings of ongoing “Targeted Jurisdictional Assessments” or “TJAs” of certain jurisdictions’ implementation of the Holistic Framework supervisory material, and expects to publish proposed revisions to such material for consultation in early 2024.

### **HLG 3: Sharing good supervisory practices and facilitating understanding of supervisory issues.**

The IAIS will focus on key strategic themes affecting the insurance sector, including climate-related risk; digital innovation; cyber risk; and diversity, equity and inclusion (DEI).

On climate-related risk, the IAIS intends to provide an updated application paper during the final quarter of 2024, following two consultations launched in 2023 (on climate scenario analysis and market conduct issues related to climate-related risks). The IAIS will also launch a third consultation in the first quarter of 2024 covering climate risk in relation to valuation and enterprise risk management.

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Other areas of IAIS focus will include:

- **Insurance protection gaps.** Additional work based on the findings of a 2023 report on the role of supervisors in addressing natural catastrophes and disaster risk protection gaps.
- **DEI and conduct and culture.** Consultations on two application papers focused on DEI.
- **Financial inclusion.** Consultation on regulation supporting inclusive insurance markets.
- **Digital innovation/AI.** Draft application paper providing guidance to supervisors on how the ICPs can be interpreted and applied in the context of artificial intelligence and machine learning, to be followed by a consultation, by the end of 2024.
- **Operational resilience.** Consultation (in the form of an application paper) in the second half of 2024 on supervisory approaches to operational resilience, including cyber resilience, IT third-party outsourcing and business continuity management, through a set of principles-based objectives.
- **Recovery and resolution.** Continued coordination with the FSB on the application of resolution planning standards.
- **IFRS 17.** Continued monitoring of the implementation of IFRS 17.

## **HLG 4: Implementation assessment and support.**

The IAIS will begin a second phase of the TJA of the Holistic Framework material in six jurisdictions, following on implementation assessments begun in 2022. The IAIS will also continue its preparation for an assessment of ComFrame, and finalize a “Peer Review Process” on ICP 16 (Enterprise Risk Management for Solvency Purposes).

## **HLG 5: Efficient, effective and transparent operations and communication with stakeholders.**

The IAIS will continue to develop, and then finalize, its next five-year Strategic Plan (2025-2029).

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## ENDNOTES

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- 1 IAIS, [IAIS Roadmap outlines key deliverables for 2024 - International Association of Insurance Supervisors \(iaisweb.org\)](#), January 25, 2024.
- 2 See, [IAIS, 2020-2024 Strategic Plan, June 2019](#).
- 3 See, IAIS, *Media Release – IAIS adopts first global frameworks for supervision of internationally active insurance groups and mitigation of systemic risk in the insurance sector*, November 14, 2019, available at: <https://www.iaisweb.org/uploads/2022/01/191114-Media-Release-IAIS-adopts-first-global-frameworks-for-supervision-of-internationally-active-insurance-groups-and-mitigation-of-systemic-risk-in-the-insurance-sector.pdf>. For further information, see our Client Memorandum, *IAIS—International Capital Standard, ComFrame, Holistic Framework for Systemic Risk in the Insurance Sector*, dated December 18, 2019, available at: <https://www.sullcrom.com/iais-adopts-global-frameworks-for-insurance-supervision>.
- 4 For the ICS “market-adjusted” balance sheet, assets are measured at fair value, and insurance liabilities at a hypothetical market value (“adjusted market value”), based on a probability-weighted average of expected future cash flows discounted using IAIS-prescribed yield curves; the result is referred to as a “current estimate” to which a margin over the current estimate, or “MOCE,” is then added.
- 5 Between 2013 and 2016, the Financial Stability Board (FSB), in consultation with the IAIS and national authorities, had published an annual list of identified G-SIIs.
- 6 FSB, *The FSB endorses an improved framework for the assessment and mitigation of systemic risk in the insurance sector and discontinues annual identification of global systemically important insurers (G-SIIs)*, December 9, 2022, available at: <https://www.fsb.org/2022/12/the-fsb-endorses-an-improved-framework-for-the-assessment-and-mitigation-of-systemic-risk-in-the-insurance-sector-and-discontinues-annual-identification-of-global-systemically-important-insurers/>. For further information, see our Client Memorandum, *FSB Discontinues Annual Identification of G-SIIs*, December 15, 2022, available at: <https://www.sullcrom.com/insights/memo/2022/December/FSB-Discontinues-Annual-Identification-of-GSIIs>.
- 7 For further information, see our Client Memorandum, *IAIS Finalizes Criteria for Aggregation Method Comparability Assessment*, March 31, 2023, available at: <https://www.sullcrom.com/insights/memo/2023/March/IAIS-Finalizes-Criteria-for-Aggregation-Method-Comparability-Assessment>.

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