

December 31, 2024

IAIS Adopts International Capital Standard

IAIS Also Adopts Updates to Insurance Core Principles and ComFrame; Issues 2024 Global Insurance Market Report

SUMMARY

At its December 2024 Annual General Meeting, the International Association of Insurance Supervisors (IAIS)¹ adopted the final version of the global International Capital Standard (ICS) to be used as a prescribed capital requirement (PCR) for internationally active insurance groups (IAIGs).² As explained in our [recent memorandum](#), however, given the IAIS's November 2024 comparability determination, U.S.-based IAIGs will not be required to implement the ICS as a PCR.³

The IAIS also adopted targeted updates to its Insurance Core Principles (ICPs) and related standards in the Common Framework for the Supervision of IAIGs (ComFrame), relating to: (1) climate risk in respect of ICPs applicable to investments and enterprise risk management; (2) enhanced supervisory measures in support of the IAIS Holistic Framework for Systemic Risk in the Insurance Sector (Holistic Framework), to be included in ICPs relating to liquidity risk, counterparty risk appetite, contingency funding plans, and recovery and resolution; and (3) revised ICPs related to valuation and capital adequacy.⁴

On December 3, 2024, the IAIS published its Global Insurance Market Report for 2024 (GIMAR), detailing the results of its 2024 Global Monitoring Exercise (GME), the annual risk assessment component of the Holistic Framework, which is intended to monitor key risks and assess the potential build-up of systemic risk in the global insurance sector.⁵

INTERNATIONAL CAPITAL STANDARD

The ICS forms the quantitative element of ComFrame. ComFrame supplements, for IAIGs only, the high-level standards and guidance set forth in the ICPs, which apply to insurers generally, at both an insurance legal entity and group-wide level, regardless of IAIG status.⁶

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The ICS had been in development since 2013. A transitional version, ICS Version 2.0, was adopted by the IAIS in 2019, and used for confidential reporting by IAIGs to their group-wide supervisors during a five-year monitoring period (2020-2024), with the goal of adopting the ICS as a prescribed capital requirement (PCR) for IAIGs by the end of 2024. PCR is defined in the ICPs as “the solvency control level at which assets will exceed technical provisions and other liabilities with a specified degree of safety over a defined time horizon” and below which “the supervisor intervenes on capital adequacy grounds.”⁷ The final ICS adopted by the IAIS is generally consistent with the “candidate ICS” as a PCR proposed in June 2023 and the June 2024 ICS data collection package, with the exception of limited technical revisions, including with respect to the mapping of credit ratings (i.e., rules for correlating credit rating agency ratings to specified ICS rating categories) and the determination of non-insurance risk (i.e., risk charges applied to non-insurance subsidiaries).

The ICS is not intended to replace existing capital standards or valuation methods for legal entity supervision in any jurisdiction; rather, it is intended to serve as a consolidated group-wide measure of capital adequacy for IAIGs and the minimum standard for a group-level PCR. The ICS consists of three components: (1) a MAV (market-adjusted valuation) method for the valuation of insurance assets and liabilities; (2) criteria for determining qualifying capital resources; and (3) a “standard” method for determining the ICS capital requirement. The ICS permits two “Other Methods” which can replace or modify the application of the ICS “standard method” for the ICS capital requirement: (1) internal models developed by individual insurers; and (2) supervisory credit risk assessments (where a supervisor or regulator employs an independent process for assessing credit risk). The ICS ratio is calculated as: Qualifying Capital Resources divided by the ICS Capital Requirement.

Perimeter. The ICS is derived from the audited consolidated GAAP/IFRS balance sheet of the insurance holding company (or financial holding company of a financial conglomerate).⁸ The audited GAAP balance sheet is then “split” into two components: (1) entities that are insurers or whose purpose is insurance-related; and (2) other entities, referred to as “non-insurance entities.” Non-insurance entities (financial and non-financial) are “incorporated” into the reference ICS, based on entity type and whether or not the entity is subject to an existing sectoral capital requirement (e.g., bank capital requirements). The final ICS provides more detailed rules regarding non-insurance risk charges than prior ICS versions, including different rules and risk charges for: (1) banking vs. financial non-banking vs. non-financial entities; (2) entities that are consolidated vs. reported as an equity method investment vs. reported as a market value investment; and (3) entities subject to sectoral capital requirements vs. those that are not. For all entities, whether insurance or non-insurance, the criteria for qualifying capital resources follow the framework set out in the ICS.

Valuation of Assets and Liabilities. MAV adjustments are applied to the items included in the consolidated balance sheet of the insurance and insurance-related entities. Assets are measured at fair

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value, and insurance liabilities at a hypothetical market value (adjusted market value), which is calculated as the sum of a “current estimate,” unless such liabilities are replicable by a portfolio of assets, in which case the value of insurance liabilities associated with the future cash flows can be determined on the basis of the market value of those financial instruments.⁹ A “margin over current estimate” (MOCE) is then added to the “current estimate.” No MAV adjustment is applied to the assets and liabilities of non-insurance entities, which remain as reported in the consolidated GAAP balance sheet.

Current Estimate. The current estimate of insurance liabilities is the probability-weighted average of the present values of the associated future cash flows. To calculate a current estimate under MAV, expected cash flows from insurance liabilities are discounted using specified yield curves, which are provided for each major currency and reflect a risk-free rate plus a specified spread intended to mitigate volatility in the capital measure; this discounted valuation yields the “adjusted market value” of such insurance liabilities. The spread varies depending on the nature and stability of the liability cash flows and is determined using a method referred to as the “Three-Bucket Approach,” whereby, as the stability of the cash flows associated with a given liability decreases, the relevant block of business is assigned to the next lower “bucket,” which reflects a lower spread over the risk-free rate. This market-based valuation differs from the methods generally used under U.S. statutory accounting principles (SAP), which place more emphasis on the long-term nature of life and annuity contracts and appropriate asset-liability management strategies. Critics of the MAV approach have also pointed out that, by adding an element of interest rate sensitivity to liability measurement, MAV may introduce unnecessary volatility and procyclicality to the valuation of insurance liabilities, including in cases where interest rate changes may have no direct impact on the valuation of expected insurance claims.

MOCE. MOCE is added to the current estimate to cover the inherent uncertainty in the cash flows related to insurance obligations. MOCE is calculated as a stated percentile (85th percentile for life, and 65th for non-life) of the normal distribution resulting in: (1) a mean equal to the “current estimate” of the relevant insurance obligations; and (2) a 99.5% percentile equal to the relevant risk charge. MOCE is not deducted from the ICS capital requirement, nor added to qualifying capital resources, and stress-based calculations applied in the ICS include only the current estimates for determining pre- and post-stress net asset values (i.e., the MOCE is kept constant during the stress).

Qualifying Capital. Qualifying capital resources are determined on a consolidated basis and comprise: (1) qualifying financial instruments and (2) qualifying capital elements other than financial instruments. Capital elements other than financial instruments include, among other items, retained earnings, share premium resulting from the issuance of eligible instruments, and accumulated other comprehensive income (AOCI). Capital resources are subject to specified deductions and netting requirements, with any item deducted from capital resources also excluded from the calculation of the capital requirement.¹⁰

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The ICS identifies two tiers of capital resources:

- Tier 1: financial instruments and other capital elements that absorb losses on a going-concern basis and in winding-up; and
- Tier 2: financial instruments and other capital elements that absorb losses only in winding-up.

The classification of financial instruments into tiers is based on five key principles: (1) loss absorbing capacity (going-concern and/or winding-up); (2) subordination; (3) availability to absorb losses; (4) permanence; and (5) absence of both encumbrances and mandatory servicing costs. Within each tier, financial instruments are allocated into two categories subject to differing treatment:

- Tier 1:
 - Tier 1 financial instruments for which there is no limit (Tier 1 Unlimited)
 - Tier 1 financial instruments for which there is a limit (Tier 1 Limited)
- Tier 2:
 - Tier 2 Paid-Up financial instruments (Tier 2 Paid-Up)
 - Tier 2 Non-Paid-Up financial instruments (Tier 2 Non-Paid-Up)

The table below provides an overview of the differences among the tiers (other than Tier 2 Non-Paid-Up items, which are restricted to mutual IAIGs).

Key Principles	Tier 1 Unlimited	Tier 1 Limited	Tier 2 Paid-Up
Loss absorbing capacity	Absorbs losses on both a going-concern basis and in winding-up	Absorbs losses on both a going-concern basis and in winding-up	Absorbs losses in winding-up
Level of subordination	Most subordinated (i.e., the first to absorb losses); subordinated to policyholders, other non-subordinated creditors and holders of Tier 2 capital instruments and holders of Tier 1 Limited capital instruments	Subordinated to policyholders, other non-subordinated creditors and holders of Tier 2 capital instruments	Subordinated to policyholders and other non-subordinated creditors
Availability to absorb losses	Fully paid-up	Fully paid-up	Fully paid-up
Permanence	Perpetual	Perpetual For mutuals, this requirement is considered to be met if redemption (for a dated instrument) can be deferred, subject to supervisory approval or a lock-in feature, subject to a sufficiently long initial maturity No incentives to redeem permitted Issuer may redeem after a	Sufficiently long initial maturity – may have incentives to redeem but first occurrence deemed to be “effective maturity date”

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Key Principles	Tier 1 Unlimited	Tier 1 Limited	Tier 2 Paid-Up
		minimum specified period after issuance or repurchase at any time, subject to prior supervisory approval	
Absence of encumbrances and mandatory servicing costs	IAIG has full discretion to cancel distributions (i.e., distributions are non-cumulative); the instrument is neither undermined nor rendered ineffective by encumbrances	IAIG has full discretion to cancel distributions (i.e., distributions are non-cumulative); the instrument is neither undermined nor rendered ineffective by encumbrances	The instrument is neither undermined nor rendered ineffective by encumbrances

The use of capital resources qualifying as Tier 1 Limited or Tier 2 to meet capital requirements is subject to limits, expressed as a maximum percentage of the ICS capital requirement that may be met with capital resources of the relevant category:

- For non-mutual IAIGs, the limits are: (i) Tier 1 Limited: 10% (increased to 15% if the instruments in excess of 10% possess a Principal Loss Absorbency Mechanism or PLAM¹¹); (ii) Tier 2: 50%; and (iii) Tier 2 Non-Paid-Up: no allowance (0%)
- For mutual IAIGs, the limits are: (i) Tier 1 Limited: 30%; (ii) Tier 1 Limited + Tier 2: 60%; and (iii) Tier 2 Non-Paid-Up: 10%

Tier 1 Limited capital resources that are in excess of applicable limits are nonetheless eligible for inclusion within (but subject to the limit applicable to) Tier 2 capital resources. The ICS accepts both contractual and structural subordination for purposes of meeting the “level of subordination” criterion for qualifying capital resources. Structural subordination under the ICS is defined to include situations where a holding company issues a financial instrument directly to third-party investors and then down-streams the proceeds into insurance subsidiaries; this is permitted as qualifying capital only where specified conditions are met, including that supervisory approval is required for redemptions and dividends issued by the insurance company.

Capital Requirement. The ICS capital requirement is based on the potential adverse changes in qualifying capital resources resulting from unexpected changes, events or other manifestations of specified risks. The standard method for the calculation of the ICS risk charges is calibrated based on a target of 99.5% value at risk (VaR) over a one-year time horizon. Internal models may be used in lieu of the standard method but they should result in the same level of protection as the standard method.

ICS capital requirements for insurance and insurance-related businesses address the following risks: (1) insurance risk; (2) market risk; (3) credit risk;¹² and (4) operational risk. Except for natural catastrophe risks, for which a stochastic or other vendor or proprietary model approach may be used, risks are to be measured using either a stress approach or a factor-based approach. The stress approach follows a dynamic approach using the IAIG’s current balance sheet pre-stress and the IAIG’s balance sheet post-stress; changes in net asset value under the stresses are then used as a proxy for changes in qualifying

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capital resources. The factor-based approach is determined by applying factors to specific exposure measures.

Risk / Sub-risk	Measurement Method
<i>Insurance Risks</i>	
• Mortality risk (life)	Stress
• Longevity risk (life)	Stress
• Morbidity/Disability risk (life)	Stress
• Lapse risk (life)	Stress
• Expense risk (life)	Stress
• Premium risk (non-life)	Factor
• Claims reserve risk (non-life)	Factor
• Catastrophe risk	Stress, except for natural catastrophe which may use a model
<i>Market Risks</i>	
• Interest rate risk	Stress
• Non-default spread risk	Stress
• Equity risk	Stress
• Real estate risk	Stress
• Currency risk	Stress
• Asset concentration risk	Factor
<i>Credit Risk</i>	Factor
<i>Operational Risk</i>	Factor

The ICS capital requirement expressly recognizes the effect of risk mitigation techniques (e.g., collateral, guarantees and credit derivatives, among other techniques) and management actions, subject to specific criteria and conditions.¹³ Capital requirements for non-insurance entities (i.e., non-insurance risk charges) are generally based on a jurisdictional sectoral requirement, or an equity risk charge. The ICS risk charges are then aggregated together, and combined in a manner intended to recognize risk diversification, by means of multiple aggregation levels and correlation matrices.

Tax. Deferred taxes recognized on the consolidated GAAP balance sheet are reflected on the ICS balance sheet. The ICS applies a group effective tax rate to calculate the change in deferred tax resulting from ICS valuation methods (i.e., MAV) and the tax effect on the ICS capital requirement. The effect of tax is also taken into account when determining the capital requirement, based on the net deferred tax asset that would result from an instantaneous operational loss equal to the capital requirement before tax

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(but after diversification and management actions are taken into account), subject to a specified ICS utilization assessment.

Other Methods. Methods other than the standard method (referred to as “Other Methods”) are only permitted in the calculation of the ICS capital requirement, and do not apply to the calculation of capital resources. Other Methods must be designed to achieve the same level of protection as the standard method (i.e., 99.5% VaR over a one-year time horizon). Two Other Methods are permitted: (1) “supervisor-owned and -controlled credit assessment processes” (SOCCA) and (2) internal models. SOCCA refers to “an independent and objective process for assessing credit risk, owned and controlled by a financial supervisory authority, and that relies upon credit assessment methodologies deemed suitable by the supervisory authority in determining the regulatory capital requirement for credit risk of supervised entities.” The ICS cites NAIC credit designations as an example of a SOCCA, and provides criteria (relating to independence, transparency, disclosure, credibility, resources, and objectivity) that the regulatory regime must meet in order for a supervisor to use a SOCCA process.

Similar to Solvency II, an internal model may be used as an Other Method for calculating the ICS capital requirement if the internal model is approved by the relevant IAIG’s group-wide supervisor. The final ICS contains detailed criteria, standards and guidance on:

- The internal model approval process, and potential criteria for internal model approval (e.g., statistical quality tests, calibration tests, use test and governance, and model governance);
- Post-approval monitoring and control processes;
- Ongoing validation and documentation standards;
- Model change policies, and use of external models and expert judgment; and
- Use and integration of partial internal models.

Implementation. As the final ICS has now been adopted, IAIS members are expected to establish the ICS as the PCR for IAIGs beginning in 2025.¹⁴ In alignment with the assessment methodology framework set forth in the ICPs/ComFrame, the IAIS will assess to what extent the ICS is “observed,” “largely observed,” “partly observed,” or “not observed” under each IAIS member jurisdiction’s insurance regulatory framework, as it pertains to capital adequacy as applied to IAIGs, and subject to proportionality considerations. It is possible that certain existing insurance capital regimes, such as Solvency II, will be found to already observe or largely observe the ICS, whereas supervisors in other jurisdictions may determine that revisions to their insurance capital regimes would be required in order to be assessed as observing the ICS. Although the ICS is only intended to apply to IAIGs, jurisdictions that implement a capital regime similar to or based on the ICS may decide to apply similar valuation and capital adequacy methods and standards to all insurers within their jurisdiction (whether or not IAIGs).

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The IAIS intends to develop a detailed ICS implementation assessment methodology in 2025, followed by a two-step assessment: (1) a baseline self-assessment by members in 2026, and (2) in-depth targeted jurisdictional assessments by the IAIS beginning in 2027. The goal of these assessment projects will be to analyze whether the jurisdictional implementation at least meets the ICS (i.e., produces at least the same level of prudence as the ICS and similar triggers of supervisory intervention).

As we recently [reported](#), the IAIS, prior to its December annual meeting, concluded its assessment of whether the Aggregation Method (AM) developed by the United States provides comparable outcomes to the ICS (AM Report). The AM Report concludes that a U.S. AM provides a “basis for implementation of the ICS to produce comparable outcomes,” but highlights certain areas where work in connection with the implementation of the final AM is necessary to ensure sufficient convergence with the ICS. The AM Report indicates that assessment of the U.S. implementation of the AM will proceed on the same timeline as ICS implementation assessments in other jurisdictions (self-assessment in 2026 and targeted jurisdictional assessments beginning in 2027).

It appears that the United States will be the only jurisdiction that employs an aggregation method to calculate insurance group capital requirements for IAIGs, as many other jurisdictions have adopted insurance group capital frameworks (such as Solvency II in Europe) that broadly align with the ICS framework. In particular, the ICS, like Solvency II and unlike the AM, follows a “consolidated approach” for group-capital standards, and bears other similarities to Solvency II (e.g., market-based valuation of insurance assets and liabilities and the tiering of qualifying capital resources). Moreover, key features of the ICS replicate elements of Solvency II (e.g., the ICS MOCE is comparable to the risk margin under Solvency II, and the liability discount rate calculated under the Three-Bucket Approach under the ICS results in similar adjustments to the base discount rate curves provided under Solvency II’s matching adjustment and volatility adjustment).

Unlike the ICS and Solvency II, the AM relies on existing local capital requirement calculations at the level of each subsidiary and then aggregates the required amounts (subject to scalars and adjustments) to produce a uniform standard of group capital adequacy. In the case of the AM, the standard is based on the National Association of Insurance Commissioners (NAIC) risk-based capital (RBC) framework (a framework that derives from statutory financial statements and does not generally provide for market-adjusted valuations). The NAIC and U.S. state insurance regulators have stated their intent to implement the AM by means of the NAIC’s existing Group Capital Calculation (GCC). As a result, U.S. IAIGs are unlikely to be required to implement substantial changes to their existing group-capital processes or systems in connection with the adoption of the final ICS.

ICPS AND COMFRAME

The IAIS also adopted targeted revisions to the ICPs and ComFrame, following multiple public consultations over the past few years.

Updates Related to the Holistic Framework. Revisions to ICPs and ComFrame include changes to supervisory material related to the Holistic Framework for systemic risk, which was initially adopted by the IAIS in 2019.¹⁵ The adopted revisions include updates to the standards and guidance related to recovery and resolution plans set forth in ICP 12 (*Exit from the market and resolution*) and ICP 16 (*Enterprise risks management for solvency purposes*), which are intended to further align these standards with the Financial Stability Board's (FSB) *Key Attributes of Effective Resolution Regimes for Financial Institutions*. The revised ICP 12 requires supervisors and/or resolution authorities to have a process in place to regularly assess for which insurers a resolution plan is necessary (which must include any insurers assessed as being systemically important or critical in the event of failure), and where a resolution plan is required, it must be regularly reviewed and resolvability assessments must be regularly undertaken.¹⁶ Similar revisions were made to ICP 16 and related ComFrame material relating to recovery planning requirements.¹⁷ The revisions also expand and clarify the list of powers that resolution authorities are expected to possess (e.g., additions were made for the establishment of a bridge institution and steps to provide continuity of essential services and functions).

Climate Change Updates. The ICPs and ComFrame have also been revised to better incorporate climate risk, including additions to assist supervisors in considering climate-related aspects of ICP 15 (*Investments*) and ICP 16 (*Enterprise risks management for solvency purposes*), as well as changes to the ICP Introduction to “position the response to climate change within the global framework for insurance supervision.” The IAIS intends to publish further supporting material in respect of climate change in April 2025.

Valuation and Capital Adequacy. ICP 14 (*Valuation*) and ICP 17 (*Capital adequacy*) have been modified from the 2019 ICP/ComFrame to align with the final ICS as a PCR, and reflect the result of public consultations that ran in parallel with the ICS consultations. These ICPs cover valuation of insurance assets and liabilities for solvency purposes (ICP 14) and insurer capital adequacy requirements for solvency purposes (ICP 17), and are intended to apply to all insurers, not only IAIGs.¹⁸ As these ICP materials are intended to apply broadly to all insurance companies and groups (and not specifically to IAIGs), the ICPs provide for various alternative supervisory methods that may be “decision-useful” for purposes of solvency supervision, as opposed to the more prescriptive standards for valuation and capital adequacy set forth in the ICS. For example, approaches based on a market-consistent economic valuation (as with the ICS), amortized cost valuation (as with U.S. SAP), or fulfillment value (i.e., cash-flow analysis based on the present value of assets an entity expects to be obliged to transfer as it fulfils a liability) may equally be employed by supervisors as “decision-useful” methods under ICP 14 (*Valuation*),

and capital adequacy assessments of insurance groups under ICP 17 (*Capital Adequacy*) may be conducted by means of a group-level (consolidated) approach (as with Solvency II) or a legal entity approach (as generally is the case in the United States), or hybrid variations combining both approaches. The revised ICPs 14 and 17 generally follow the substance of the 2019 versions, but reorganize and align the materials with the final ICS and developments since 2019; the revisions include, for example, expansion/clarification of standards relating to internal models, principal loss absorbency mechanisms, structural subordination, different approaches to achieve a MOCE, and explication of the fulfillment value approach.

GIMAR 2024

As part of the Holistic Framework, the IAIS conducts an annual GME to assess insurance market trends and developments and determine any potential build-up of systemic risk in the global insurance sector, and publishes the results in its annual global market insurance report (GIMAR).¹⁹ Each GME includes an assessment of potential systemic risk arising from sector-wide trends (sector-wide monitoring, or SWM) and the possible concentration of systemic risks at an individual insurer level (individual insurer monitoring, or IIM). The IIM is facilitated through assessment of systemic risk of insurers within an “Insurer Pool” (a pool of insurer participants selected based on specified asset/premium thresholds). The IAIS calculates systemic risk scores of the Insurer Pool participants by means of an indicator-based IIM assessment methodology, based on data collected in respect of five risk categories (size, global activity, interconnectedness, asset liquidation, and substitutability) and relevant indicators or ancillary indicators of each such category (e.g., the indicators for the size category are total assets and total liabilities); each indicator is assigned a weight for purposes of calculating the final systemic risk scores. The GME methodology and IIM indicators are updated by the IAIS on a triennial basis to reflect market and other developments.

In its 2024 GIMAR, the IAIS concludes that: (1) jurisdictional solvency ratios of life and non-life insurers generally “remained stable” from year-end 2023; (2) aggregate liquidity positions “improved slightly,” with liquid investments and premium income as the primary sources of liquidity; and (3) the systemic risk scores of Insurer Pool participants (derived from the IIM assessment methodology described above) increased by 5.3% at the end of 2023 compared to 2022, primarily as a result of a “significant increase in level 3 assets.” The 2024 GIMAR indicates that the recent rise in level 3 assets is largely driven by accounting changes from IFRS 9 (*Financial Instruments*) and IFRS 17 (*Insurance Contracts*), which led to changes in the valuation method of certain assets, particularly mortgages, from amortized cost to fair value. The IAIS reports that it is considering updating the level 3 assets indicator (which is one of the three indicators under the asset liquidation risk category) for its 2025 GME assessment review and plans to develop an ancillary indicator to “enhance risk assessment of mark-to-model assets.”

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The report also identifies and discusses key risks in the current macroeconomic environment, including interest rate and liquidity risk, surrender risk, funding risk, derivatives (in particular liquidity risks from margin calls), the impact of artificial intelligence (AI) and digitalization on the insurance sector, and credit risk from commercial real estate exposures. The report also discusses IAIS work on improving data collection that can support climate-related risk assessments, and climate-related risks to insurers' investments.

In addition, the report examines "structural shifts" in the life insurance sector, including what it describes as the increased use of cross-border asset-intensive reinsurance and increased investments in "alternative" or "non-traditional" assets. The IAIS expects to publish an issues paper on these topics for consultation in March 2025. The IAIS acknowledges that the shift towards alternative assets can "offer numerous benefits, including the potential for higher asset yields, diversification benefits and improved duration matching for insurers," but cautions that it "may also introduce significant risks related to valuation uncertainty, liquidity and complexity." Accordingly, the IAIS is developing a definition of "alternative assets" using risk-based principles to help insurance supervisors classify these assets and align supervisory practices. With respect to the increase in cross-border asset-intensive reinsurance, the report identifies supervisory concerns related to whether the transactions are driven by "regulatory differences," potential concentration risks, the increasing complexity of such reinsurance arrangements, and potential conflicts of interest. In respect of asset-intensive reinsurance, the IAIS signals its plan to examine, at the macroprudential level, the "potential procyclicality of recapture triggers" and the potential systemic risk implications of high levels of risk concentration in a few reinsurers and jurisdictions.

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Adoption of the final ICS marks a significant milestone for the IAIS. It remains to be seen to what extent existing insurance capital regimes will be assessed as observing the ICS and whether IAIS members' supervisory authorities and governments/legislatures will modify their capital regimes to align with the ICS. It will also be important to observe whether a trend towards the valuation and capital adequacy approaches as embodied in the ICS and Solvency II may become a global norm, both for jurisdictions with IAIGs and those without, and what effect any such trend will have on the global insurance market (particularly in respect of the availability of affordable long-term retirement and life insurance products) and insurers' financial and solvency positions. As a consequence of the IAIS comparability assessment, U.S.-based IAIGs will not be expected to implement the ICS as a PCR, but it is possible that the final AM to be used for purposes of the IAIS implementation assessments may be revised, as compared to the existing GCC, to reflect specific scalar methodologies and to address the "divergent outcomes" referenced in the AM Report.

We expect the IAIS in the next few years will undertake projects and propose new or additional standards and guidance relating to climate-related risks, systemic risk assessment, and the increasing use of asset-

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intensive reinsurance and investments in alternative assets by life insurers. These topics are currently the focus of ongoing work or assessment by insurance and financial supervisors in the United States, the United Kingdom, the EU, Bermuda and other jurisdictions—IAIS proposals in these areas will likely influence how supervisors approach these topics.

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ENDNOTES

- 1 The IAIS consists of insurance supervisors and regulators from more than 200 jurisdictions. IAIS standards and policy measures have no legal force unless enacted at the relevant jurisdictional level; however, IAIS members commit to implement policy measures promulgated by the IAIS, taking into account specific market circumstances, and to undergo periodic self-assessments and peer reviews with respect to their implementation.
- 2 [IAIS, IAIS adopts Insurance Capital Standard and other enhancements to its global standards to promote a resilient insurance sector, December 5, 2024](#) (IAIS Press Release). The ICS Level 1 and Level 2 texts along with supporting documents (including an ICS calibration document and economic impact assessment report) can be found here: [Insurance Capital Standard - International Association of Insurance Supervisors](#).
- 3 [IAIS, IAIS Executive Committee approves Insurance Capital Standard for adoption by IAIS members and concludes Aggregation Method comparability assessment, November 14, 2024](#).
- 4 See, IAIS Press Release, 3-4. The updated ICPs and ComFrame are available here: [IAIS-ICPs-and-ComFrame-adopted-in-December-2024.pdf](#).
- 5 [IAIS, Global Insurance Market Report \(GIMAR\), December 2024](#). See also, the related press release: [IAIS, Global Insurance Market Report 2024 highlights key risks and trends facing the global insurance sector, December 3, 2024](#).
- 6 Under ComFrame, the group-wide supervisor is responsible for the identification of IAIGs, considering whether a group meets both the “internationally active” and “size” criteria used to define IAIGs: (1) premiums are written in three or more jurisdictions and gross written premiums outside of the home jurisdiction are at least 10% of the group’s total gross written premiums; and (2) total assets are at least \$50 billion or total gross written premiums are at least \$10 billion (in each case based on a three-year rolling average). The IAIS periodically publishes a [list of IAIGs](#) designated by group-wide supervisors, which currently includes 59 insurance groups.
- 7 IAIS, *Insurance Core Principle (ICP) 17.4*.
- 8 If an IAIG does not prepare consolidated or group-level financial statements (e.g., certain mutual insurers), the IAIG is expected to aggregate statutory financial statements “to reflect the group-level starting balance sheet.”
- 9 Under the ICS, the conditions for applying this method are restrictive and likely will make it unavailable in practice for many assets, as it is permitted only where: the cash flows are “in every circumstance precisely matched by cash flows of corresponding assets;” the financial instruments are traded in deep, liquid and transparent markets; policyholders cannot exercise contractual options (e.g., lapses or surrenders); and the obligations do not depend on mortality, disability or morbidity rates.
- 10 For example, goodwill, intangible assets, defined benefit pension fund assets, reciprocal cross holdings, investments in own Tier 1 capital instruments, deferred tax assets, and certain types of reinsurance and encumbered assets are deducted from Tier 1 capital resources, after netting any associated deferred tax liabilities for certain of such assets that would be extinguished if the instrument becomes impaired or derecognized. Reciprocal cross holdings and investments in own Tier 2 capital instruments are deducted from Tier 2 capital resources.
- 11 PLAM is defined as a mechanism providing for either a write-down of the liability (principal and dividend) or a conversion of the instrument under predefined triggering conditions into a Tier 1 Unlimited instrument.
- 12 External credit ratings may be used for the calculation of the credit risk charge, subject to the credit rating agency meeting certain criteria. When used, external credit ratings are “mapped” to specified ICS rating categories; the final ICS expands the universe of eligible ratings for mapping,

ENDNOTES (CONTINUED)

- and provides that financial strength ratings must be used for purposes of calculating the risk charge on reinsurance exposures, as opposed to issuer credit ratings, which are to be used for credit risk charges for financial instruments and other credit exposures.
- ¹³ For example, only certain types of collateral are eligible for recognition (investment grade securities, gold, cash, letters of credit, etc.), the documentation must evidence legal enforceability, and the collateral must in general be pledged for the life of the exposure, with haircuts applied in certain situations (e.g., where the collateral is denominated in a different currency, or in respect of non-life ceded reinsurance risks where the pledge is not for the life of the obligation). Analogous criteria and conditions apply to the recognition of guaranties, derivatives and management actions.
- ¹⁴ ComFrame 17.4.a. now provides that “[t]he group-wide supervisor establishes the ICS as the PCR for IAIGs.”
- ¹⁵ The Holistic Framework departs from the binary approach taken by the IAIS between 2013 and 2016, in which a set of predetermined policy measures applied to only a small group of identified global systemically important insurers, or G-SIIs.
- ¹⁶ The relevant ICPs (ICP 12.3 to 12.4) apply to all insurers, not only to IAIGs. The related ComFrame material (CF 12.3.a and 12.4.a) has been revised to reflect conforming changes. For example, CF 12.4.a now states: “The group-wide supervisor and/or resolution authority conducts assessments of each IAIG within its jurisdiction to determine whether a resolution plan is needed, in consultation with the crisis management group of the IAIG.” On a related note, on December 5, 2024, the FSB [published](#) a list of 13 insurers in FSB jurisdictions for inclusion in a list of insurers subject to resolution planning standards consistent with the *Key Attributes*, a list the FSB intends to produce annually.
- ¹⁷ ICP 16.15 to 16.16 and CF 16.16.a. Recovery planning is intended to identify and plan for options to restore an insurer’s financial position and viability under severe stress scenarios but outside the context of resolution proceedings such as insolvency, rehabilitation or liquidation.
- ¹⁸ The 2019 versions of these ICPs contained no ComFrame material. The only ComFrame added to the 2024 adopted version is ComFrame 17.4.a, which establishes the ICS as the PCR for IAIGs.
- ¹⁹ The IAIS also publishes mid-year GIMARs, which provide mid-year updates on risks and trends in the global insurance sector.

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