Insurance Capital Standard

Economic impact assessment report

(December 2024)

About the IAIS

The International Association of Insurance Supervisors (IAIS) is a voluntary membership organisation of insurance supervisors and regulators from more than 200 jurisdictions. The mission of the IAIS is to promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders and to contribute to global financial stability.

Established in 1994, the IAIS is the international standard-setting body responsible for developing principles, standards and other supporting material for the supervision of the insurance sector and assisting in their implementation. The IAIS also provides a forum for Members to share their experiences and understanding of insurance supervision and insurance markets.

The IAIS coordinates its work with other international financial policymakers and associations of supervisors or regulators, and assists in shaping financial systems globally. In particular, the IAIS is a member of the Financial Stability Board (FSB), member of the Standards Advisory Council of the International Accounting Standards Board (IASB), and partner in the Access to Insurance Initiative (A2ii). In recognition of its collective expertise, the IAIS also is routinely called upon by the G20 leaders and other international standard-setting bodies for input on insurance issues as well as on issues related to the regulation and supervision of the global financial sector.

For more information, please visit www.iaisweb.org and follow us on LinkedIn: IAIS – International Association of Insurance Supervisors.

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List of Acronyms

ComFrame (Common Framework for the Supervision of IAIGs)

EIA (Economic Impact Assessment)

ESR (Economic value-based Solvency Ratio)

FSB (Financial Stability Board)

GAAP (Generally Accepted Accounting Principles)

GWS (Group-Wide Supervisor)

IAIG (Internationally Active Insurance Group)

IAIS (International Association of Insurance Supervisors)

ICS (Insurance Capital Standard)

JFSA (Financial Services Agency of Japan)

MAV (Market Adjusted Valuation)

NAD (Neutral Adjusted Dampener)

NDSR (Non-Default Spread Risk)

PCR (Prescribed Capital Requirement)

VaR (Value-at-Risk)

1 Executive Summary

1. The Insurance Capital Standard (ICS) has been developed as a consolidated group-wide capital standard for Internationally Active Insurance Groups (IAIGs). The purpose of the ICS is to create a common language for supervisory discussions of group solvency of IAIGs to enhance global convergence among group capital standards. In addition, it aims to incentivise prudent management of IAIGs and enhance transparency. As such, it serves to improve policyholder protection and contribute to the maintenance of global financial stability.
2. This Economic Impact Assessment (EIA), conducted ahead of the actual implementation of the ICS as a Prescribed Capital Requirement (PCR) for IAIGs, is qualitative and delves into potential effects of the implementation of the ICS across jurisdictions, evaluating impacts on insurance products, investment policies, capital, and business models, assuming consistent implementation of ICS specifications.
3. The EIA, complemented with data and additional feedback collected from IAIGs, supervisory colleges and other stakeholders during the monitoring period, has informed the finalisation of the ICS as PCR, embedding refinements compared to previous versions.
4. Input provided by stakeholders, notably in response to the 2023 public consultation document[1], points to potential impacts from the implementation of the ICS that range from changes in the product landscape to shifts in asset allocations, risk management practices and market dynamics.
5. The adoption of the ICS is expected to enhance transparency, as well as simplify the capital-raising process for IAIGs. The overall capital adequacy of IAIGs is expected to remain stable post-implementation of the ICS.
6. Any potential impact on profitability may vary across regions based on convergence in differing capital requirements. Implementation costs, both initial and ongoing, are expected to be manageable.
7. The ICS is expected to enhance supervisory action and cooperation, and to potentially become a standardised measure for investors and rating agencies, ultimately helping to safeguard policyholder protection and global financial stability.

[1] Public Consultation on Insurance Capital Standard as a Prescribed Capital Requirement - International Association of Insurance Supervisors (iaisweb.org)

2 Background

2.1 Objectives and history of development of the ICS

8. The ICS has been developed as a consolidated group-wide capital standard for Internationally Active Insurance Groups (IAIGs). The ICS applies to IAIGs as part of the Common Framework for the Supervision of IAIGs (ComFrame). The ICS will form the quantitative element of ComFrame, the qualitative element of which was adopted in 2019.
9. The ICS has been developed in the context of the IAIS mission, which is to promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders and to contribute to global financial stability.
10. On 9 October 2013, the IAIS announced its plan to develop a risk-based global insurance capital standard, in response to a request by the Financial Stability Board (FSB)[2]. Following this announcement, the IAIS undertook a multi-year quantitative Field Testing process with Volunteer Insurance Groups, including IAIGs. The IAIS conducted six quantitative Field Testing exercises in the development of the ICS between 2014 and 2019. Each quantitative ICS Field Testing exercise was informed by IAIS analysis of submitted data, as well as additional feedback and comments provided by Volunteer Insurance Groups as part of their submissions and through dedicated workshops. In addition to the Field Testing process, the IAIS engaged with a broader group of stakeholders through dedicated stakeholder meetings and three public consultations on the ICS.
11. In November 2019, the IAIS adopted ICS Version 2.0. Starting from January 2020, the ICS entered a five-year monitoring period, during which ICS Version 2.0 was used for confidential reporting to the Group-Wide Supervisor (GWS), discussion in supervisory colleges, and further analysis by the IAIS.
12. The ICS was adopted as a Prescribed Capital Requirement (PCR) for IAIGs on 5 December 2024. It constitutes the minimum standard to be achieved and that supervisors represented in the IAIS will implement or propose to implement taking into account specific market circumstances in their respective jurisdictions.[3]

2.2 Methodology and scope of the ICS Economic Impact Assessment

13. As part of the agreement for the ICS to enter the monitoring period, the IAIS committed[4] to produce an economic impact assessment of the ICS ahead of its implementation as a PCR in 2025. The purpose of this assessment is to develop an understanding of any potential significant effects of implementation of the ICS, which could be positive or negative, to inform the finalisation of the ICS as PCR.

[2] http://www.financialstabilityboard.org/publications/r_130718.pdf

[3] While the IAIS as a standard setting body does not have any legal power to directly mandate the implementation of the ICS as a PCR in jurisdictions, Article 6(6)(b) of the IAIS By-Laws notes that IAIS Members commit to “implementing IAIS supervisory material taking into account specific market circumstances”.

[4] 191120-Explanatory-Note-on-the-ICS.pdf (iaisweb.org)

14. The assessment was conducted using the Candidate ICS as a PCR that was released during the 2023 monitoring period. Analyses and feedback are based on the assumption of a consistent implementation of this version of the ICS in the jurisdiction where the IAIG is headquartered.
15. This assessment considers issues across different regions and covers a broad range of potential impacts, such as those that might affect the market operations of insurers, the financial markets or the availability of insurance products. In particular, it focuses on evaluating the impact that the implementation of the ICS may have on the following four areas:
    a. Insurance products offered by IAIGs, particularly with regards to long-term products, their guarantees, duration and features, and potential risks of protection gaps;
    b. Investment policies of IAIGs, particularly with regard to significant changes in asset allocations;
    c. The ability of IAIGs to raise capital or debt; and
    d. The business models of IAIGs and their profitability.
16. The objective of this EIA was not to perform a quantitative cost-benefit analysis. The cost of implementation was considered throughout the design and Field Testing phase of the ICS, via the qualitative questionnaire accompanying the annual data collection. Moreover, there are many methodological challenges in trying to isolate the marginal costs of ICS implementation compared to other costs linked to implementation of ComFrame, Generally Accepted Accounting Principles (GAAP) or current or future regulatory requirements, particularly with several jurisdictions in the process of moving to risk-based standards using similar IT processes and data requirements.
17. The methodology of the EIA aimed at allowing for the largest possible range of stakeholders to express their views, not only IAIGs or involved supervisors. This included consumer groups, rating agencies and other stakeholder groups, with a focus on geographical diversity. It included the following steps:
    a. A virtual stakeholder event was held in January 2023 following on from an in-person event in December 2022. Both events gave participants the opportunity to provide input on the key areas of focus for the ICS EIA.
    b. The 2023 monitoring period exercise included a questionnaire containing questions about the economic impact of the ICS, submitted to Volunteer Insurance Groups. Furthermore, Colleges of Supervisors reviewing the 2023 ICS results were also asked to share their views about this topic.
    c. Launched in June 2023, the public consultation on the candidate ICS as a PCR contained 34 questions specifically on the EIA. For each of them, between 20-35 responses were received from 40 different stakeholders. Those responses constitute a valuable input that informed the present report. They provide a wide range of opinion on the impact of the ICS. The responses are included in the resolution of comments document to the 2023 public consultation on the candidate ICS as a PCR, provided they were submitted as non-confidential.
    d. The IAIS held a public background session in June 2023 on the ICS and EIA after the launch of the 2023 public consultation on the candidate ICS as a PCR.

3 Impact on insurance products offered by IAIGs

18. Evaluating the potential impact of the ICS on the insurance products offered by IAIGs is essential for understanding its broader implications. This section examines the potential changes in product pricing, the provision of long-term guarantees, and the overall features of insurance products. This provides insights into how IAIGs might adjust their product offerings to align with the ICS requirements, which will help inform supervisory efforts to ensure continued policyholder protection and market stability.

3.1 Pricing

19. A risk-based capital approach, like the ICS, is expected to promote effective risk management and encourage innovation, both in product offering and product pricing, in terms of how risks are appropriately considered. The ICS, by aligning capital requirements with the overall risk profile of each insurer, will encourage more sophisticated risk assessment and management tools. These tools could be designed to better understand and mitigate a wide range of risks, including emerging ones. The need for such innovation is further amplified by the competitive landscape of the insurance industry, where the ability to accurately price risk, made increasingly necessary in the presence of a global capital framework, and offer comprehensive coverage could provide a significant competitive advantage.This approach could therefore bolster policyholder protection (by helping ensure that risks are appropriately priced and managed) and encourage the availability of necessary coverage at appropriate prices.
20. Internal cross-financing, a common practice within insurance groups, involves utilising profits from more profitable lines of business to subsidise low profit ones. Facilitated by the ICS, more transparent risk-based pricing methodologies will make such internal cross-financing between various business lines more apparent, potentially impacting some insurance product pricing. The ICS, notably through its Market Adjusted Valuation (MAV) framework, could help IAIGs further understand the underlying risks of the products they offer and to do so with more accurate insights on the costs related to each component of those products, such as guarantees embedded in some life policies. Even though the ICS does not include restrictions on capital fungibility and does allow diversification benefits through aggregation between ICS risk modules, a more transparent risk-based pricing enabled by the ICS could lead IAIGs to consider the financial performance of each business line in a more standalone manner, potentially impacting the overall product offering of IAIGs and causing price increases and/or decreases in response to improved risk insights.

3.2 Long-term guarantees

21. During the course of the development of the ICS, as well as in their responses to the 2023 public consultation, some stakeholders have shared concerns that the implementation of the ICS could have an impact on the design, pricing or availability of certain products, with a particular focus on long-term life guarantees. According to this feedback, such an effect has been attributed to the design of the MAV framework, potentially leading to higher quantitative requirements for insurance products with extended durations. In particular, some respondents highlighted that the MAV discounting approach may not fully recognise the appropriateness of the asset and liability matching strategy already put in place by IAIGs.

22. While the IAIS has made adjustments to the ICS based on the feedback received, for instance with regards to the recognition of spread stemming from non-fixed income assets for discounting purposes, it should be noted that the ICS, being a risk-based regime, is neutral in terms of products offered by IAIGs. It is not intended to preclude any specific product from being offered, but rather aims to ensure that an IAIG holds an adequate level of capital, considering its risk profile (including choice of insurance product offerings) so as to provide the targeted level of protection to policyholders, relying on a 99.5% Value-at-Risk (VaR) over a one year horizon.
23. Data collection during the ICS Field Testing and monitoring period has provided significant insights on the impact of the ICS, in its different versions, on different types of Volunteer Insurance Groups (Life, Non-life, Composite), covering a large share of the IAIGs expected to be subject to the ICS. As such, the Field Testing and monitoring periods have allowed the IAIS to consider the extent of this potential impact, and to introduce changes where necessary. In particular, further changes were considered as part of the 2024 data collection on the design of the MAV approach and the interest rate risk and non-default spread risk capital charges, which were identified by some stakeholders as among the potential sources of unintended consequences for long-term guarantee products.

The impact of the ICS on insurance products can be multifaceted. While adjustments could be expected in the short-term, the long-term outlook could include increased transparency, innovation, and efficient risk management, potentially ultimately benefiting policyholders and strengthening the insurance industry.

4 Impact on investment policies of IAIGs

24. The investment strategies of IAIGs are a critical component of their financial health and stability. This section explores how the ICS may influence asset allocations, risk management practices, and the use of derivatives for market risk mitigation. It also examines the potential effects on diversification strategies, procyclicality, and the broader financial markets. Understanding these potential shifts is important in terms of assessing the broader implications for IAIGs as institutional investors and their role in the global financial system.

4.1 Possible shifts in investment strategies

25. The ICS, as a risk-based regulatory framework, does not prescribe or favour any particular investment strategy for IAIGs. It does not impose restrictions on specific investment choices.

26. However, some respondents to the public consultation shared views that a shift in investment strategies of IAIGs could be expected with the implementation of ICS, as it would introduce capital charges aligned with the risk levels associated with various asset classes with regards to the associated liabilities. In particular, some investment products may not have been subject to explicit or market-driven capital requirements in existing local regulatory frameworks, especially in regions where market valuation methods are not fully applied in the statutory valuation of assets and liabilities.[5]

4.2 Impact on diversification and risk management

27. The ICS' total balance sheet approach[6] places significant importance on asset-liability management. IAIGs might respond by fine-tuning their investment portfolios to match liabilities and enhance risk management. This adjustment could involve diversification strategies and modifications to the duration gap between assets and liabilities, potentially favouring long-term fixed-income assets or the use of derivatives.

28. Some responses to the public consultation highlighted the possibility that a shift towards a higher percentage of long-term fixed-income assets may present challenges if there is a scarcity of such instruments. IAIGs may find themselves exploring more complex structured assets to fill such a gap, introducing challenges in risk management and potentially impacting market dynamics. In environments with limited capital markets, IAIGs might need to shift into foreign currency investments to overcome domestic market constraints, introducing additional currency risk. Nevertheless, the ICS would quantify such risks, ensuring that any increase in foreign investments aligns with appropriate capital requirements.

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[5] In 2023, the Financial Services Agency of Japan (JFSA) conducted a comprehensive study on the potential impact of rebalancing toward financial markets to meet the Economic value-based Solvency Ratio (ESR), a regulation, similar in substance to the ICS, the JFSA aims to introduce in fiscal year 2025. In order to attain their targeted level of capital under the new regime, some Japanese insurers might consider selling equities, but the JFSA's research anticipates that the market impact related to the key assets held by Japanese insurers will likely be limited. This analysis considers various scenarios, including a financial crisis scenario, providing valuable insights into the potential dynamics of IAIGs' investment adjustments.

[6] The ICS aims at prescribing the assessment of the overall financial position of an IAIG based on consistent measurement of assets and liabilities and explicit identification and consistent measurement of risks and their potential impact on all components of the balance sheet.

4.3 Increased use of derivatives for market risk mitigation

29. Some respondents to the public consultation suggest that IAIGs may boost their use of derivatives in response to the implementation of the ICS, to address market risk exposures more effectively. While this could influence how financial stability risks are transmitted through derivatives, the strategic adjustment would aim to minimise the volatility of balance sheet movements and strengthen the overall risk management framework of the IAIG.

4.4 Evolution of risk mitigation practices for others risks

30. Beyond market risks, IAIGs may change their approach in mitigating various risks under the ICS. In response to the implementation of the ICS, there could be an incentive for IAIGs to actively expand or pursue new risk mitigation strategies. For instance, life insurers might further explore various avenues, such as more innovative approaches to securitising catastrophic mortality or longevity risks, as part of their risk mitigation efforts..

Securitisation of catastrophic mortality or longevity risks involves the creation of financial securities backed by these risks, allowing insurers to transfer some of the risk to the capital markets. In the case of catastrophic mortality risks, securitisation could entail issuing bonds or other financial instruments whose returns are linked to the occurrence of specific catastrophic events. Similarly, for longevity risks, IAIGs might more actively explore the issuance of securities tied to the life expectancy of a specific population. These innovative instruments would not only provide IAIGs with avenues to externalise risk but could also contribute to the development of a more dynamic and responsive risk mitigation landscape in the insurance industry.

4.5 Procyclicality

31. Some responses to the public consultation indicated that the ICS may exacerbate procyclical investment behaviour. In particular, a concern was raised that in the event of a market downturn, IAIGs looking to maintain their solvency position could have the incentive to sell assets whose market prices may already be depressed to buy government bonds, which attract no risk charge, further depreciating the value of the assets initially held. Countercyclical tools, such as the Neutral Adjusted Dampener[7] (NAD), embedded in the ICS Equity risk methodology should help prevent such a situation from materialising. Moreover, the Middle and Top buckets[8] of the MAV approach have the effect of dampening the impact of short-term market volatility in credit spreads on the calculation of technical provisions, particularly for long-term insurance products. Therefore, during periods of heightened market volatility, this bucketing of liabilities could contribute to stabilising the valuation of insurance liabilities and prevent excessive fluctuations in capital requirements, thus potentially mitigating procyclical effects. Caps and floors in credit spread movements have also been incorporated into the Non-Default Spread Risk (NDSR) module to avoid potential unrealistic scenarios and procyclical behaviour in an initial high-spread environment.

[7] The NAD is an additional component of the Equity risk charge, reducing it when equity markets perform below expectations and increasing when they perform above expectations. The objective of such a measure is to counteract the effects of equity market changes on IAIGs, thereby reducing the risk of procyclical investment behaviour (fire sales).

[8] Under the MAV approach, insurance liabilities are classified into three categories (General, Middle and Top buckets) based on the degree of matching with the assets backing them, resulting in applying different discount rates for each category.

4.6 Effects on financial markets

32. Some responses to the public consultation indicated that the ICS's risk-based approach could impact the dynamics of the overall bond market, resulting from shifts in demand for long-term bonds by IAIGs. Because of the role of IAIGs as institutional investors, this influence could extend to observed credit spreads and potentially affect other markets, such as real estate, if deemed suitable for duration matching by IAIGs.

The implementation of the ICS could be expected to potentially affect IAIGs' investment policies, focusing on optimising risk/return profiles, and potentially having broader market implications due to the role of insurers as institutional investors.

5 Impact on capital

33. *Capital adequacy is fundamental to the solvency and financial resilience of insurance groups. This section assesses the potential impact of the ICS on the ability of IAIGs to raise capital or debt, overall capital adequacy, and the appropriateness of solvency signals. By examining these factors, the aim is to better understand how the ICS may influence the capital structure and financial soundness of IAIGs.*

5.1 IAIGs' ability to raise capital or debt

34. The adoption of a global risk-based framework could improve transparency within the global insurance sector. This increased transparency would likely simplify the process of raising capital for IAIGs thanks to the convergence of available solvency information at group level.

5.2 Overall capital adequacy

35. The results of the recent monitoring period data collections do not indicate any uniform anticipated increase in either required or available capital under the ICS. It is worth noting that a significant majority of IAIGs participating in the monitoring period maintain robust capital positions under the ICS, with ICS ratios consistently higher than 100%.
36. The overall capital adequacy of IAIGs is expected to remain stable post-implementation of the ICS. The limited number of IAIGs currently facing challenges, stemming from underlying business issues, are anticipated to have the opportunity to adjust their business models with the support of transitional arrangements implemented by their local supervisors, post ICS adoption.

5.3 Appropriateness of solvency signals

37. Some stakeholders in their response to the public consultation have expressed concerns about the solvency signals resulting from the ICS implementation. According to the feedback received, the dynamics of the ICS may lead to different solvency signals compared to existing local prudential frameworks, potentially impacting decision-making processes.
38. The ICS is designed to provide an appropriate reflection of all material risks faced by insurers within a one-year time horizon. The emphasis on risk-based assessments under the ICS should promote a comprehensive evaluation of an IAIG's financial health, taking into account the actual challenges and uncertainties in the market. This nuanced approach should generally contribute to a realistic and responsive regulatory framework.
39. The concerns around the solvency signals should not overshadow the benefits of enhanced transparency and risk sensitivity. The ICS's dynamic nature should allow for an understanding of an IAIG's financial resilience, enabling regulators and stakeholders to make informed decisions.

The implementation of the ICS could be expected to affect the ability of IAIGs to raise capital or debt.The overall capital adequacy of IAIGs is expected to remain stable post-implementation of the ICS.

6 Impact on the business models of IAIGs and their profitability

40. *The implementation of the ICS may necessitate adjustments to the business models and profitability strategies of IAIGs. This section investigates how the ICS may affect profitability in different regions, the initial and ongoing costs of implementation, and the potential need for IAIGs to re-evaluate their product portfolios and pricing strategies. By analysing these impacts, the aim is to anticipate the strategic adjustments IAIGs may undertake in response to the new regulatory environment and the associated costs.*

6.1 Potential adverse impact on profitability in certain regions

41. The ICS may lead to a more appropriate pricing of risk that may diminish profitability for particular insurance products in regions where the standard imposes higher capital requirements. This may prompt IAIGs to re-evaluate their product portfolios and pricing strategies to adapt to the changing regulatory environment following the implementation of the ICS.
42. Respondents to the public consultation shared their opinion on the impact of ICS on profitability. In North America, some comments indicate that a potential reduction in the profitability of long-term insurance products could arise, particularly for those with guarantee features, such as guaranteed interest rates, guarantees on Universal Life coverage, and guaranteed benefits for Variable Annuity products. In Asia, especially in markets reliant on equities, the ICS is seen as a factor that could potentially influence investment strategies, possibly affecting the profitability of insurance products. Japanese and European stakeholders mostly foresee negligible impact on profitability.

6.2 Initial and ongoing implementation costs

43. The implementation of new regulatory rules and capital standards, in line with the ICS, could bring about costs for both affected firms and supervisory authorities.
44. These costs could represent an investment in updated risk management systems and a transition towards a risk-based approach. The extent of these costs would be contingent on the nature and scope of the ICS implementation. In particular, in cases where insurers were already subject to a prudential framework similar to the ICS, the additional costs of the global standard could be expected to be significantly lower. Until supervisors update their framework to be fully consistent with the ICS, there could be costs associated with calculating both the ICS and the existing requirement.
45. For some jurisdictions, as noted in responses to the public consultation, the education of supervisors, actuaries, accountants, analysts, and management on the ICS would be a non-trivial task with inherent challenges, due to the novelty that the ICS will represent for them. This educational aspect could introduce complexity and uncertainties with respect to the costs associated with implementation. However, a significant proportion of IAIGs already have an understanding of the ICS, as they been participating in the ICS data collections in place for more than a decade, during the field testing phase and monitoring period of the ICS development.
46. The analysis of the consultation document responses on the consequences of the ICS for insurers' operational costs indicates that these would be manageable overall.
47. Feedback received from Colleges of Supervisors suggests that the implementation of the ICS in some jurisdictions may necessitate additional resources to be allocated by insurance groups.

These resource allocations could extend beyond IT-related costs, encompassing a broader spectrum of education, training, and key resource considerations.

48. Initially, insurance groups might utilise simplifications and judgments to generate ICS results, leveraging existing models. However, over time, extra resources may be needed to fortify the ICS implementation. This could involve refining systems, developing models, and implementing stringent process controls.
49. Potential resource shortages could arise and add an additional layer of complexity to the implementation of the ICS, possibly impacting both the speed and effectiveness of the process. In this context, considering or planning transitional arrangements could become relevant to mitigate the challenges posed.
50. In addition to the annual reporting of ICS results, there might be a need for more frequent monitoring, prompting the allocation of resources. These resources could be dedicated to constructing controls, analysing calculations, establishing reporting processes, and overseeing audits.
51. Furthermore, the integration of ICS implications into business planning, strategy, risk management processes, and communication with top management and stakeholders could demand additional resources.

The implementation of the ICS could impact the business models of IAIGs, potentially reducing profitability in some business lines. The implementation of the ICS could be expected to lead to manageable initial and ongoing costs for most supervisors and IAIGs. These may vary across groups, depending on the existing prudential frameworks and risk management systems in place.

7 Other impacts from the implementation of the ICS

52. Beyond the direct effects on products, investments, capital, and business models, the ICS may have additional implications for IAIGs and the broader insurance industry. This section examines the potential increased role of internal models. By exploring these additional dimensions, the aim is to provide a holistic view of how the ICS might influence the regulatory landscape and risk management practices within the insurance industry.

7.1 Potential increased role for internal models

53. The ICS includes internal models as one of the methods for calculating capital requirements, subject to prior approval by the GWS and compliance with a series of requirements. If the GWS permits the use of internal models, IAIGs may decide to apply for authorisation to use them. The adoption of internal models for regulatory purposes may therefore increase as the ICS is implemented.
54. The adoption of internal models by IAIGs, endorsed by local supervisory authorities, may contribute to more precise risk analysis, control and management of insurers' financial positions. This could become particularly relevant in avoiding parallel and procyclical behaviours during market crises, potentially mitigating systemic risk.
55. However, the use of internal models could pose new challenges, such as the complexity of implementation, the requirement to manage any additional model risk and the need for consistent supervisory oversight to ensure their reliability and effectiveness in diverse market conditions.

8 Benefits of implementing the ICS

56. While the ICS introduces new regulatory requirements, it also offers significant benefits that can enhance the stability and transparency of the global insurance sector. This section outlines the expected advantages of implementing the ICS, including the harmonisation of capital standards, improved cross-border supervisory collaboration, increased transparency for investors and rating agencies, and better policyholder protection. These benefits highlight the positive long-term outcomes of the ICS for the insurance industry and its stakeholders, fostering a more resilient global insurance sector.

8.1 Harmonisation

57. By providing a globally recognised and accepted minimum standard, the ICS should promote greater consistency and comparability in assessing the capital adequacy of IAIGs. This harmonisation should result in a more level playing field for insurers, reducing regulatory complexity, and enhancing operational efficiency.

8.2 Fostering cross-border supervisory collaboration

58. The ICS should facilitate enhanced supervisory cooperation amongst regulatory and supervisory authorities. Home and host supervisors should be able to assess group solvency, using a common language and metrics. This coordination and comparability of outcomes across jurisdictions should not only reduce regulatory arbitrage but also raise the standards that IAIGs are subject to.

The potential significance of the ICS extends to its application across a diverse range of IAIGs worldwide. As of 30 October 2024, 59 IAIGs were identified by relevant GWSs from various continents, representing a global presence in North America, South America, Europe, Asia, Africa, and Oceania.

This prevalance of IAIGs across different continents underscores the potential international scope of the ICS.

8.3 Transparency for investors and rating agencies

59. The implementation of the ICS could provide investors and rating agencies with a standardised measure to assess and compare the solvency of insurance groups operating internationally. Currently, the lack of a common measure makes it challenging for market participants, including investors and rating agencies, to evaluate the financial strength and risk profiles of insurance groups operating across borders. The ICS could bridge this gap, enabling investors and rating agencies to make more informed decisions and enhancing market discipline in the insurance industry.

8.4 Better policyholder protection and market stability

60. The ICS should contribute to the stability of insurance markets globally. By potentially mitigating the risk of spillover of shocks in one part of the world, threatening the safety and soundness of insurance groups in a globalised insurance market, it should help protect policyholders across

different regions. The minimum standard provided by the ICS is intended to reduce the likelihood of insolvencies and enhance consumer confidence.

By implementing the ICS, benefits for the entire insurance ecosystem can be expected. This includes benefits for the industry, supervisors, policyholders, investors and rating agencies. The ICS should support a more resilient global insurance sector that better serves and protects policyholders around the world.