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Final boarding call for the ICS

With an expected time for the adoption by the International Association of Insurance Supervisors (IAIS) by end-2024, now is the final boarding call for shaping the international Insurance Capital Standard (ICS). In these last stages of development of the ICS, EIOPA remains fully engaged and calls on all EU stakeholders to engage as well. Since the beginning, EIOPA has aimed for a minimum global capital standard that reflects the main features of the Solvency II framework, enabling Solvency II to become a practical implementation of the ICS.

In place since 2016, Solvency II introduced a forward-looking risk-based approach to assess and mitigate risk in the EU insurance sector. This framework has proven to work well over the years, strengthening the sector's resilience to weather financial, pandemic, and geopolitical turbulences.

In its advice of 2020, EIOPA supported a gradual review of Solvency II as an important element of good regulation and aiming at keeping the framework fit for purpose. The review should be evolutionary and balanced, to keep the current level of protection of policyholders. EIOPA's recommendations for the review

included improvements to appropriately cope with changing macroeconomic environments, in particular for insurance products with long-term guarantees. We recommended completing the regulatory toolbox with macroprudential tools and measures, a comprehensive recovery and resolution framework and a European network of insurance guarantee schemes. Furthermore, EIOPA supported increasing proportionality across the three pillars of Solvency II, especially regarding low risk undertakings. Solvency II is now being considered by the co-legislators.

Solvency II is a competitive regulatory framework. European insurance groups and insurers successfully do business internationally based on Solvency II. The review of Solvency II should preserve that. We should keep in mind that competitiveness is more than the level of capital requirements and aim for sustainable competitiveness that relies on fair pricing and credible risk assessment, to build resilience and trust.

Turning to the ICS, the IAIS has already achieved great progress working with its members, with the agreement of ICS 2.0 in 2019 and the launch of the five-year monitoring period. Thanks to the information gathered during the past monitoring exercises, we were able to learn from each other and shape the candidate ICS as a Prescribed Capital Requirement (PCR) to appropriately capture the risk profile of Internationally Active Insurance Groups (IAIGs). We strongly believe that the introduction of a minimum risk-based regime globally that reflects the key elements of Solvency II will enhance global financial stability, consumer protection and level playing field across IAIGs. The candidate ICS as a PCR is now tested through the 2023 monitoring exercise and publicly consulted.

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In EIOPA's view, the candidate ICS as a PCR goes in the right direction of implementing sound risk-based supervisory frameworks globally and is consistent with the main features of Solvency II. For example, internal models are now acknowledged as part of the candidate ICS as a PCR, allowing the recognition of the specificities in the risk profiles of large, sophisticated groups.

Another important aspect of the implementation of the ICS is the comparability exercise of the ICS with the Aggregation Method (AM) – not part of the candidate ICS as a PCR – developed by the United States and other interested jurisdictions.

EIOPA believes that the IAIS criteria being used to assess whether the AM provides comparable outcomes to the ICS are sufficiently robust. These criteria were developed to provide a foundation to assess whether the AM delivers comparable outcomes to the ICS.

However, it is important to emphasize that the robustness of these criteria alone does not guarantee the comparability of outcomes. The agreed criteria are merely a framework that guides the assessment process. The true assurance of comparability will have to come through a thorough, evidence-based, and quantitative assessment that builds upon these criteria.

Only through such a rigorous process, that can start once we have a published version of the AM, can the IAIS conclude if it produces similar, even if not necessarily identical, results over time that trigger supervisory action on group capital adequacy grounds.

We are now in the last stage of shaping of the ICS. EIOPA regrets that a number of European IAIGs are not actively taking part in the ICS development process. Together, we can achieve a better ICS that also aligns with the key fundamental principles underlying Solvency II.

EIOPA urges all EU stakeholders to actively engage in the last steps of the ICS. The ICS plane is about to depart, and this is the final boarding call.