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NAIC Position Statement on the Conclusion of the IAIS AM Comparability Assessment

The International Association of Insurance Supervisors (IAIS) has successfully concluded the process which has determined that the Aggregation Method (AM) provides a basis for implementation in the U.S. of the Insurance Capital Standard (ICS) to produce comparable outcomes.

The finalization of the ICS and conclusion of the AM comparability assessment is a major milestone for the IAIS. It reflects the commitment of the international insurance supervisory community to moving forward together and the importance of having appropriate jurisdictional flexibility. Reaching this milestone is also a testament to the resolve of insurance supervisors to collaborate on setting standards that protect policyholders and enhance global financial stability.

In reaching an agreement, the IAIS has stated:

"In finalising the comparability assessment, the IAIS has concluded that a US AM provides a basis for implementation of the ICS to produce comparable outcomes. The comparability assessment of the provisional AM has highlighted some areas where work as part of implementation of the final AM will help ensure convergence, specifically treatment of interest rate risk and appropriate timing of supervisory intervention. In using the final AM as its implementation of the ICS, the US commits to addressing those areas in appropriate ways, which will be reviewed during the IAIS ICS implementation assessment process."

The agreement is important in noting that the comparability assessment process is complete and that decisions on both AM comparability and finalization of the ICS were made at the same time, in line with the IAIS project timeline agreed at the end of 2019 in Abu Dhabi. Additionally, to the extent the assessment process has highlighted some areas of work, the consideration of those issues and any potential ways to address them rests solely with the U.S. and will take place using the existing NAIC process. As work transitions into implementation, the NAIC will continue its collaboration and coordination with our international counterparts as they adapt the ICS to their respective jurisdictional approaches, and as we implement a U.S. approach to the AM.

The AM was developed as a more appropriate approach for the U.S. insurance market and supervisory regime and ensures policyholder protection and the availability of insurance products on which U.S. consumers rely. Recognizing that any international standards for the supervision of the insurance sector must appropriately reflect the risk characteristics of the underlying business and not undermine legal entity capital requirements, in parallel with the ICS, the NAIC and state insurance regulators, with the support of the Federal Reserve Board and Federal Insurance Office, undertook additional work to develop a complementary approach better suited for the U.S. market – the AM.

The AM leverages legal entity reported available and required capital to produce a measure of group capital adequacy. It is adaptable to the diverse business models, product designs, and risk management approaches employed by insurance groups around the world that create resilience within the insurance sector. The AM relies on a fully transparent methodology and is built on existing legal entity requirements and helps contribute to the overall stability of the insurance sector as a ready and sound capital framework for detecting a need for appropriate supervisory intervention.

The IAIS incorporated the AM as an alternative implementation approach into the broader ICS project, resulting in additional policy work, data reporting and analysis, and a comparability assessment. The AM comparability assessment has been a multi-year robust technical, evidence-based analysis of comparability, using data submitted by volunteer groups, information provided by insurance supervisors, and the agreed comparability criteria. The task of designing the comparability assessment was complex, especially because the ICS and the AM frameworks are methodologically and conceptually quite distinct.

The final decision on comparability comes from the commitment of the IAIS and its members to develop a common language for the supervision of internationally active insurance groups (IAIGs), including group solvency and capital adequacy. The years of data collection and analysis for both the ICS and the AM, as well as the annual collective discussions and regular supervisory colleges, have provided supervisors with a more comprehensive understanding of the risks presented by and to IAIGs, the market differences that exist across the world, and the importance of ensuring policyholder protection and global financial stability through strong supervisory standards.

The NAIC expresses our deepest appreciation for the collaboration and coordination in connection with the AM and the comparability assessment. We recognize the time, effort, and resources that have been dedicated to these projects, and the finalization of the ICS and conclusion of the AM comparability assessment is shared success. This gratitude extends to:

- Insurance supervisors from jurisdictions around the world who have kept an open mind as we worked together to build a comprehensive group-wide supervisory and regulatory framework for IAIGs and develop a risk-based global insurance capital standard, while recognizing the legal, regulatory, and market differences that exist. Together, we have been able to create a common language for supervisory discussions of group solvency, enhanced global understanding of group capital standards, and devised a path forward for a common methodology by which the ICS achieves comparable outcomes across jurisdictions.
- The IAIS Secretariat who has supported the collection and analysis of AM data throughout the monitoring period and staffed the Assessment Team, led by the Secretary General, with assistance from technical experts from within the Secretariat that represent geographical diversity and expertise in both the AM and ICS. The dedication of resources and unwavering commitment of the Secretariat to supporting supervisors has been critical to enhancing the oversight of the global insurance market.
- The IAIS Policy Development Committee (PDC) and the Capital, Solvency and Field Testing Working Group (CSFWG) for their work on capital standards and solvency, including the design of the ICS and the review and support for the technical specifications, analysis and confidential reporting of the ICS and AM data collections, and the development and review of the Economic Impact Assessment, as well as their work on updating supervisory material like Insurance Core Principles 14 (Valuation) and 17 (Capital Adequacy). The Insurance Capital Standard and Comparability Task Force (ICSTF) has had the difficult task of overseeing the work related to the comparability assessment and addressing how to deliver the agreed goal of an ICS that is fit for implementation as a prescribed capital requirement (PCR) by supervisors. Based on the strategic steering of the ICSTF, we appreciate the Executive Committee's (ExCo) commitment to the AM data collection for purposes of the comparability assessment, as well as agreeing and adhering to a timeline and framework for determining whether the AM provides comparable outcomes to the ICS.
- The volunteer groups that have submitted data during the monitoring period and participated in field testing, recognizing the extraordinary effort it has taken over the years to provide data, support the IAIS in its efforts to achieve a risk-based global capital standard, and participate in the public consultations that provide transparency to the IAIS work. Stakeholder engagement, including participation in the numerous workshops hosted by the IAIS, has supported the work of the insurance supervisory community and helps guide the development of appropriate capital standards, while recognizing the role of insurance supervisors in maintaining fair, safe, and stable insurance markets for the benefit and protection of policyholders.

With the successful development of a risk-based global ICS, the IAIS fully satisfies the 2013 charge of the Financial Stability Board (FSB) to develop a comprehensive, group-wide supervisory and regulatory framework for IAIGs, including a quantitative capital standard. The finalization of the ICS and conclusion of the AM comparability assessment will help in ensuring the Common Framework for the Supervision of IAIGs (ComFrame) establishes appropriate and effective supervisory standards and guidance tailored to the international activities and size of IAIGs.

