# INSURANCE CAPITAL STANDARD (ICS) PRINCIPLES

**12 September 2014**

The following principles will be followed in the development of the risk-based global insurance capital standard (ICS).

**ICS Principle 1 – The ICS is a consolidated group-wide standard with a globally comparable risk-based measure of capital adequacy for IAIGs and G-SIIs.**

The standard incorporates consistent valuation principles for assets and liabilities, a definition of qualifying capital resources and a risk-based capital requirement. The amount of capital required to be held and the definition of capital resources are based on the characteristics of risks held by the IAIG irrespective of the location of its headquarters.

**ICS Principle 2 - The main objectives of the ICS are protection of policyholders and to contribute to financial stability.**

The ICS is being 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.

**ICS Principle 3 – ICS is the foundation for HLA for G-SIIs**

Initially, the BCR is the foundation for HLA for G-SIIs.

**ICS Principle 4 – The ICS reflects all material risks to which an IAIG is exposed.**

The ICS reflects all material risks of IAIGs' portfolios of activities taking into account assets, liabilities, non-insurance risks and off-balance sheet activities.

To the extent that risks are not quantified in the ICS they are addressed in ComFrame.

**ICS Principle 5 – The ICS aims at comparability of outcomes across jurisdictions and therefore provides increased mutual understanding and greater confidence in cross-border analysis of IAIGs among group-wide and host supervisors.**

Applying a common means to measure capital adequacy on a group-wide consolidated basis can contribute to a level playing field and reduce the possibility of capital arbitrage.

**ICS Principle 6 – The ICS promotes sound risk management by IAIGs and G-SIIs.**

**ICS Principle 7 – The ICS promotes prudentially sound behaviour while minimising inappropriate procyclical behaviour by supervisors and IAIGs.**

The ICS does not encourage IAIGs to take actions in a stress event that exacerbate the impact of that event.

Examples of procyclical behaviour are building up high sales of products that expose the IAIG to significant risks in a downturn or fire sales of assets during a crisis.

**ICS Principle 8 – The ICS strikes an appropriate balance between risk sensitivity and simplicity.**

Underlying granularity and complexity are sufficient to reflect the wide variety of risks held by IAIGs. However, additional complexity that results in limited incremental benefit in risk sensitivity is avoided.

**ICS Principle 9 – The ICS is transparent, particularly with regard to the disclosure of final results.**

**ICS Principle 10 – The capital requirement in the ICS is based on appropriate target criteria which underlie the calibration.**

The level at which regulatory capital requirements are set reflects the level of solvency protection deemed appropriate by the IAIS.