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## Capital ideas for recovery

With the right capital framework, insurers can contribute to global economic recovery

Even if we discount the global spread of COVID-19, it has been an eventful 12 months for GFIA and the IAIS on matters relating to capital. In November 2019, the IAIS signed off a key agreement on its global Insurance Capital Standard (ICS) in Abu Dhabi, allowing the project to move forward into a five-year monitoring period.

The IAIS agreed on a high-level definition of comparability for the US Aggregation Method, that participation in the monitoring period should be “as wide as possible” and that, as part of the common framework (ComFrame) for the supervision of internationally active insurance groups (IAIGs), group-wide supervisors should identify the IAIGs that will be subject to the ICS in a public register. This register was published on the IAIS website in July 2020, with 30 firms initially listed but with the expectation that it will grow to 48 firms once all supervisors have contributed their national lists.

Given the impact of COVID-19, it was necessary for the IAIS to delay the first submission deadline for ICS confidential reporting by two months to the end of October 2020, and many associations were vocal in supporting this useful additional time. This reflects firms’ strained operational capacity due to COVID-19 and aligns with other regulatory forbearance relating to reporting requirements across different jurisdictions. At the same time, the IAIS wanted to ensure with the two-month delay that not too much time is lost out of the five-year monitoring period, allowing the IAIS to reflect to some extent on the impact of COVID-19 and keeping the monitoring period on track for future deadlines.

### Time for detailed comments on the ICS

Looking ahead, there will clearly be opportunities for the working group to make more detailed suggestions to

regulators on key elements of the ICS. A good example is the IAIS’s recent questionnaire on infrastructure and strategic equity investments. GFIA had previously asked that the ICS appropriately calibrates the capital requirements for long-term assets, so it intends to respond to the IAIS questionnaire and engage with the IAIS further on this topic, taking a risk-based approach grounded in good data.

Insurers around the world have the potential to play a much greater role than they currently do in investing in key infrastructure projects and strategic equity investments, thereby supporting public policy goals and economic growth. To achieve this, it is vital that insurers have access to a supply of suitable assets in which they can invest. In a number of jurisdictions, the demand from the insurance sector for suitable long-term assets that bring return and portfolio diversification is unfortunately much higher than the availability of assets.

### Getting capital requirements right

In addition to an appropriate supply of assets, the right capital framework is essential to ensure firms are not unnecessarily constrained by overly conservative capital requirements that exaggerate the actual risks to which insurers are exposed when investing.

There will be further opportunities for GFIA to comment too; for example as the IAIS consults on criteria for the comparability assessment and also as it looks to review the design of the ICS and undertake an economic impact assessment in 2023. Insurers have the potential to play a significant role in global economic recovery and ultimately contribute to global growth, and GFIA is keen to make sure that supervisors and policymakers reflect on this as new requirements are developed. 🏹