The report to Congress, titled "The Impact of the International Insurance Capital Standard on Consumers and Markets in the United States," presents findings from a study mandated by the Economic Growth, Regulatory Relief, and Consumer Protection Act. Conducted by key financial authorities, the study evaluates the potential effects of the International Association of Insurance Supervisors (IAIS) Insurance Capital Standard (ICS) on U.S. consumers and markets. The ICS aims to establish a global capital standard for large, internationally active insurance groups (IAIGs) to enhance financial stability and ensure these groups can withstand losses. However, the report emphasizes that the ICS's implementation hinges on state-level adoption, as the IAIS lacks the legal authority to enforce its standards. The study involved extensive engagement with industry stakeholders and analysis of confidential data from U.S. insurers, although limitations in data access hindered a comprehensive evaluation of the ICS's impacts.

The report identifies both potential costs and benefits associated with the ICS, noting that issues during its development could misrepresent solvency signals for U.S. insurance groups. In response, U.S. states have indicated that the ICS may not be suitable for the U.S. market and plan to implement an alternative known as the Aggregation Method (AM), which utilizes existing local regulatory capital results. The AM is expected to be integrated through the NAIC Group Capital Calculation (GCC), already adopted by states supervising U.S. IAIGs. The report concludes that the AM's implementation is not anticipated to significantly alter existing regulatory requirements or impact U.S. insurers, consumers, and markets. Overall, the findings suggest a cautious approach to adopting the ICS, emphasizing the need for a regulatory framework that aligns with the unique characteristics of the U.S. insurance market.

The ICS capital requirement calculation differs from the Basic Capital Requirement (BBA) and Group Capital Calculation (GCC), focusing on a groupwide approach that assesses capital adequacy through specified stresses and risk factors, adjusted for diversification and tax effects. The ICS is currently in its final year of a five-year monitoring period, with plans for adoption as a global prescribed capital requirement (PCR) by the IAIS in 2024, contingent on approval. It applies only to insurance companies identified as IAIGs, which must meet specific criteria regarding international activity and size. In the U.S., states are developing the AM as an alternative to the ICS, assessing group capital adequacy based on local legal entity capital requirements. The AM aims to identify and address capital deficiencies within an insurance group's structure and is expected to be implemented via the GCC. The IAIS has initiated a comparability assessment process to determine if the AM can produce outcomes comparable to the ICS, allowing it to be considered an equivalent approach for implementing the ICS as a PCR.

The document also highlights U.S. stakeholders' participation in the development and monitoring of the ICS, including a study by the Insurance Policy Advisory Committee (IPAC) on the potential effects of the ICS on long-duration life and retirement products. The IPAC's findings raised concerns about the ICS's design, particularly regarding its market-based valuation methodology, which could lead to inappropriate supervisory signals and regulatory capital arbitrage. Respondents to a Request for Information (RFI) issued by the Federal Insurance Office (FIO) expressed worries that the ICS might not accurately reflect the risks associated with U.S. products, potentially impairing policyholder protection and undermining established asset-liability management practices. Commenters urged that the AM should be evaluated on its own merits rather than being compared to the ICS, which they believe has design flaws.

The report analyzes the potential impacts of the ICS on U.S. consumers and markets, contingent on its implementation by states, which have indicated they will not adopt the ICS but will instead implement the AM via the GCC. The analysis compares these potential implementations against the current state policy on capital regulation. Due to data limitations and confidentiality restrictions, the agencies cannot quantify the impacts of either implementation. The ICS is designed as a minimum standard with flexibility for national discretion, while the AM is expected to have minimal incremental impacts on U.S. markets and product availability. The report highlights that the ICS could lead to

IAIGs operating with different capital levels, crucial for meeting obligations to policyholders. For U.S. life IAIGs, the ICS may impose higher and more variable capital requirements compared to local standards, while for property and casualty IAIGs, it may result in lower requirements. The report also notes that the ICS methodology may be overly conservative, particularly for long-term products, potentially affecting perceptions of solvency and the cost of capital. The implementation of the ICS would incur significant one-time and ongoing costs for IAIGs, necessitating substantial investments in new systems and processes. Additionally, the ICS could alter business strategies and product availability, similar to the effects seen with the European Union's Solvency II framework. However, it may also provide benefits such as a global benchmark for capital adequacy, improved transparency among international supervisors, and enhanced risk management tools, contingent on the ICS's accuracy as an indicator of potential issues. Overall, while the ICS could streamline compliance for U.S. companies in international markets, its implementation remains complex and uncertain.

The ICS aims to reduce regulatory fragmentation, potentially easing entry for foreign insurers operating under similar frameworks. The impact of the ICS on consumers and markets is influenced by the market share of IAIGs, which currently hold 14% of U.S. life and annuity reserves. Competitive pressures may limit IAIGs' ability to pass increased costs from ICS implementation onto consumers, potentially disadvantaging them in the market. In contrast, IAIGs with larger market shares may face economic pressure to alter product offerings, such as reducing long-term products or adjusting capital costs. The ICS is expected to have a lesser impact on property and casualty (P&C) insurance markets compared to life and annuity markets, as the capital requirements under ICS are generally less conservative than U.S. models. The reinsurance market is likely to experience similar effects as primary markets, with little evidence of stakeholder concerns regarding negative impacts. The offshore asset-intensive life and annuity reinsurance market may be affected, but quantifiable impacts are limited due to insufficient data.

U.S. stakeholders have advocated for design changes to the ICS to better align with U.S.

regulations and market practices, particularly concerning the Market-Adjusted Valuation (MAV) approach used to calculate the ICS ratio, which measures IAIG solvency. The MAV approach has been criticized for being overly conservative and volatile, particularly in its treatment of insurance liabilities. U.S. members of the IAIS have pushed for adjustments to the MAV discounting method to reduce conservatism and volatility, leading to a more accurate measure of long-term liabilities. Changes to the criteria for qualifying capital resources have also been supported to enhance consistency with U.S. practices.

The IAIS plans to adopt the ICS as a global minimum standard in December 2024, although its implementation is not mandatory for member jurisdictions. U.S. state regulators have expressed concerns about the ICS's reliance on market-based valuation and its treatment of certain financial instruments, opting instead to pursue the AM as a comparable alternative. The AM is expected to be less disruptive and more aligned with existing capital frameworks, minimizing operational costs and competitive disadvantages for U.S. IAIGs. Common themes from stakeholder comments highlight concerns about the ICS promoting regulatory capital arbitrage, increasing volatility, and creating competitive hurdles for IAIGs. In contrast, the AM is viewed as providing transparency and stability without the procyclical incentives present in the ICS.