

ICS implementation assessment methodology

High-Level Principles

July 2025

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1 Introduction to the High-Level Principles

The High-Level Principles (HLPs) and the associated explanatory text are meant to guide the development of the ICS¹ implementation assessment methodology and may also be considered when finalising the ICS self-assessment questionnaire. They are not meant to be used once the assessment methodology has been finalised.

When reading the HLPs, the following terms should be understood as follows:

The **rating** is the level of observance of the ICS standard for the jurisdictional implementation of ICS. In line with the IAIS ICP assessment methodology, there are five rating categories²: observed, largely observed, partly observed, not observed, not applicable.

A **component** is a subset of ICS items for which the assessors need to determine a rating as defined above.

The **assessment** is a set of analyses performed to determine a level of observance. The assessment considers the legislation³, as well as the supervisory practices that contribute to achieving the outcome. The assessment will result in a rating at the level of each component and the overall ICS, but it can involve analyses at a more granular level. The assessment methodology will specify the appropriate level of granularity at which analyses should be made and offsets recognised, and how a rating by component should be derived from those analyses. The assessment methodology will also specify how the overall rating of observance of the ICS is derived from the rating of each component.

In addition, the assessment should ensure that the jurisdictional implementation produces at least the same level of prudence and similar triggers of supervisory intervention as the ICS.

2 ICS implementation assessment methodology HLPs

Scope of implementation assessment methodology

HLP1 – These high-level principles apply only to the development of the methodology for the implementation assessment of what is contained in and specific to the Level 1 and Level 2 ICS texts (“the ICS”). They supplement but do not replace the IAIS assessment methodology as set out in the ICPs or ComFrame⁴.

The implementation assessment of other parts related to ComFrame (eg supervisory reporting and public disclosure) will follow the general ComFrame assessment, separate from the ICS implementation assessment.

Definition of components

¹ Any reference to the ICS in this document means “ICS Level 1 and Level 2 texts”.

² Cf [IAIS ICPs and ComFrame – December 2024](#), paragraph 42, pp 12-13

³ The term legislation should be understood as defined in paragraph 16 of the [ICP introduction](#).

⁴ Cf [IAIS ICPs and ComFrame – December 2024](#), section B of the Introduction and Assessment Methodology, pp 10-15

HLP2 – The assessment is made component by component.

Components include the following:

- **Valuation (ICS sections 3 and 6);**
- **Capital requirement (sections 5, 6 and 7);**
- **Capital resources (section 4); and**
- **General principles and perimeter of the ICS (sections 1 and 2).**

For each component, the assessment result follows the general IAIS assessment ratings. An overall assessment of the ICS is then derived as set out in HLP5.

When assessing a component, assessors should analyse all aspects of that component. For example, the assessment of *Capital requirement* should include analysis of Market risks, Life risks, Non-life risks, etc, as relevant according to HLP4.

Deviations and offsets within components

HLP3 – The assessment should examine deviations based on a qualitative textual comparison between the ICS and its local implementation and, when necessary, evidence from quantitative tests comparing ICS results according to the Level 1 and Level 2 text and the implementation of the ICS being assessed.

For each component, the assessment examines deviations from the ICS, considering whether:

- a. The deviation leads to a materially different outcome;**
- b. The deviation is less prudent; and**
- c. The deviation is impairing the objectives of a common language and risk-based standard.**

When identifying deviations and assessing their materiality and prudence, offsets may be recognised, subject to criteria to be developed in the methodology under the following fundamental conditions:

- **Offsets are quantified;**
- **They lead to an equivalent or higher policyholder protection for any business model and risk profile relevant to the assessed jurisdiction under various economic conditions.**

For the purpose of quantitative analyses, the assessment will leverage past data and publicly available information, as well as relevant proxies, to the extent possible. They may require additional data from IAIGs if past data are not available or sufficiently accurate.

The methodology will need to specify when quantitative evidence is needed when identifying deviations.

When assessing whether deviations impair the objective of a common language, assessors should consider, in particular, topics such as mutual understanding between supervisors and communication within supervisory colleges. In addition, they should consider both the number of

material deviations and whether deviations are related to a fundamental aspect of the ICS component.

When assessing whether deviations impair the objective of a risk-based standard, assessors should consider, in particular, whether material risks that are quantified in the ICS and relevant to any business model and risk profile of IAIGs headquartered in the jurisdiction are captured in the jurisdictional implementation of the ICS.

The level of policyholder protection should be assessed with reference to the ICS characteristics of a MAV balance sheet, quality requirements for capital resources and a 99.5% VaR at a one-year time horizon.

Deviations that meet criterion a) in combination with either criterion b) or c) should affect the outcome of the assessment. When assessing the materiality and prudence of a deviation, the assessors should consider:

- How the deviation impacts the level of policyholder protection set out in the ICS (eg through different trigger points for supervisory action); and
- Whether the impact of the deviation is offset by any other deviation within the component.

Offsets are compensations between parts of a jurisdiction's ICS implementation that are more prudent than the ICS, and parts that are less prudent. The condition "offsets are quantified" implies that both positive and negative deviations are quantified. Any excess of prudence for some business models and risk profiles cannot be used to compensate for the lack of prudence recorded for others.

The methodology will need to specify how to assess points a. b. and c.

Scope of assessment

HLP4 – The assessment is limited to parts of the ICS relevant to the jurisdiction.

The relevant parts of the ICS shall be determined at the time of the assessment considering the business model and risk profiles of the jurisdiction's IAIGs. Non relevant parts shall not be assessed and shall not affect the outcome of the assessment. Those non-relevant parts should be explicitly identified in the assessment report.

For example:

- The observance of the other methods section should be assessed only if the jurisdiction has authorised the use of such other method;
- If a jurisdiction has IAIGs with only Non-life business, the parts of the ICS specifically related to Life business should not be assessed and not affect the outcome of the assessment in that jurisdiction.

The methodology will need to specify how to assess the applicability of different parts of the ICS.

Overall assessment and potential offsets between components

HLP5 – The overall observance rating for the ICS implementation is derived by aggregating the ratings of individual components.

Offsetting between components may be considered when determining the overall rating, provided it originates from a common underlying driver across different components. This offsetting follows the same principles as outlined in HLP3 and will be further detailed in the methodology.

The offsetting considered for the overall rating does not alter the individual component ratings.

Recognition of offsetting in determining the overall rating is subject to specific guardrails, to be specified in the methodology. An overarching guardrail, consistent with the ICP assessment methodology, is that the overall ICS observance rating can only be deemed “Observed” if all individual components are rated as “Observed”.

As outlined in the HLP, for offsets between components to be recognised, they should originate from one common underlying driver across different components. For example, this offset could be considered if, instead of deducting intangible assets from capital resources, the local implementation imposes a capital charge on intangibles in a way that produces a similar overall result.

The methodology will specify how the guardrails will operate and how offsets will be taken into account when determining the overall observance level. Offsets between components may allow a jurisdiction to achieve an observance rating up to (and including) Largely Observed.

Assessment of the US Aggregation Method

HLP6 – The assessment of the implementation of the ICS in the US in the form of the final Aggregation Method (AM) is subject to the same methodology as the ICS. It will be complemented by a specific list of instructions, to be drafted at the same time as the detailed assessment methodology, to guide assessors in their implementation assessment of the US AM.