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# The ICS as a key macro prudential tool

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Since the FSB announced the first list of G-SIIs in 2013, the IAIS has published a number of systemic risk policy measures, including capital measures, such as the BCR and the HLA. At the same time, the IAIS has undertaken a longer term project to develop the Insurance Capital Standard (ICS), a global standard to be included in the Common Framework for internationally active insurance groups.

The ICS is designed to be the capital standard for the supervision of individual groups, but it will also be key to enhance global financial stability.

First of all, globally comparable and risk sensitive capital requirements would help to promptly detect macro-trends and risk concentration that could threaten financial stability. Indeed, different ways to measures risks and calibrate capital requirements, even if they are effective within a single region, produce an inherently flawed assessment of financial stability at a global level. Using the same metrics to measure risks and to assess solvency is key to detect global threats and to allow supervisors to cooperate effectively in a global environment.

Moreover, regulatory arbitrage could weaken financial stability, via cross border as well as cross sector effects. Banking regulation has been significantly strengthened over the past years and will be further strengthened. A stronger and more harmonized regulation in the insurance sector would help to avoid risks being transferred from one jurisdiction to another as well as from one sector to another.

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Finally, it is quite apparent that the current capital measures for G-SIIs, based on BCR and HLA, imply certain limitations due to their unavoidable lack of risk sensitiveness. This could lead to undesired incentives and inconsistencies with local requirements. Basing the design and calibration of HLA on a more risk sensitive measure, such as the ICS, would increase the effectiveness and consistency of the whole framework and ensure a level playing field in the treatment of systemically important insurers.