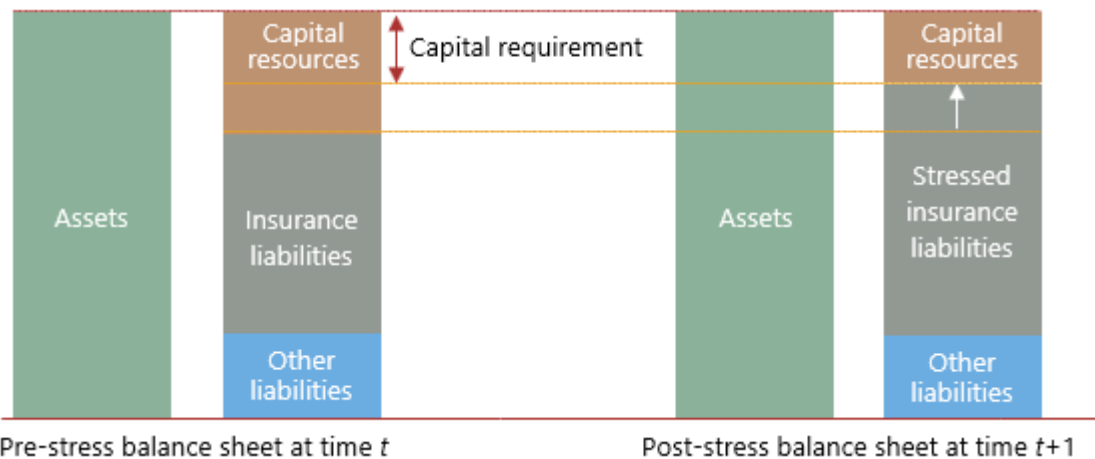


## ICS – life insurance risk charges – Executive Summary

The Insurance Capital Standard (ICS) is a consolidated group-wide capital standard that applies to internationally active insurance groups (IAIGs). During the monitoring period from 2020 to 2024, IAIGs are expected to report their ICS solvency ratio, which is calculated as qualifying capital resources divided by the standard method ICS capital requirement. Life insurance risk charges are components of the standard method ICS capital requirement.

### General methodology and scope

The standard method ICS life insurance risk charges cover mortality risk, longevity risk, morbidity/disability risk, lapse risk and expense risk. Those risk charges are calculated using a stress-based approach that considers the impact of adverse scenarios on an IAIG’s capital resources over a one-year time horizon. In practice, this means revaluing an IAIG’s insurance assets and liabilities using stressed valuation assumptions as prescribed under the ICS. As shown in the diagram below, the value of insurance liabilities increases after the stress, leading to a reduction in capital resources that represent the capital requirement for life insurance risks.



The calculation is undertaken for each portfolio of life insurance contracts with similar risk characteristics, also known as a homogenous risk group. Characteristics that determine each group include a common underwriting policy, a similar claims settlement pattern, product features and the risk profile of policyholders.

To recognise diversification effects between the different life insurance risks, an IAIG can reduce the calculated capital requirement by applying a prescribed set of correlation factors when summing up the components of life insurance risks. In addition, risk mitigation techniques that satisfy certain criteria – for example, legal enforceability – can further reduce the risk charge.

## Components of life insurance risk charges

The table below provides a high-level overview of the main components of the standard method life insurance risk charges:

Element	Component and description of stress factors	Examples of stress factors
<b>Mortality risk</b>	<ul style="list-style-type: none"> <li>Stress factors are prescribed in terms of relative increase in mortality rates by geographical region.</li> <li>The calculation applies only to policies where an increase in mortality rates leads to a decrease in capital resources.</li> </ul>	The stress factor is 10% for risk exposures in Japan and 12.5% elsewhere.
<b>Longevity</b>	<ul style="list-style-type: none"> <li>Stress factors are prescribed in terms of relative decrease in mortality rates.</li> <li>The calculation applies only to policies where a decrease in mortality rates leads to a decrease in capital resources.</li> </ul>	The stress factor is 17.5% for all geographical regions.
<b>Morbidity and disability risk</b>	<ul style="list-style-type: none"> <li>Stress factors are prescribed for four different types of benefit for policies considered similar to a life contract: <ul style="list-style-type: none"> <li>medical expenses</li> <li>lump sum payment upon occurrence of a health event</li> <li>short-term recurring payments</li> <li>long-term recurring payments</li> </ul> </li> <li>Within each category, policies are further segmented in terms of those with an original term of up to five years (short-term) and those with a longer original term (long-term).</li> <li>Stress factors are prescribed in terms of increase in inception rates and, additionally, for recurring payment benefits, a decrease in recovery rates.</li> </ul>	<p>The stress factors for short-term policies are:</p> <ul style="list-style-type: none"> <li>medical expense and short-term recurring payments: 20%</li> <li>lump sum payment: 25%</li> <li>long-term recurring payments: 25% increase in inception rates and 20% decrease in recovery rates</li> </ul> <p>The stress factors for long-term policies are:</p> <ul style="list-style-type: none"> <li>medical expense: 8%</li> <li>lump sum payment: 8% for risk exposure in Japan; 20% elsewhere</li> <li>short-term recurring payments: 10% for risk exposure in Japan; 12% elsewhere</li> <li>long-term recurring payments: 20% increase in inception rates and 20% decrease in recovery rates</li> </ul>
<b>Lapse risk</b>	<ul style="list-style-type: none"> <li>The risk charge for lapse risk consists of two components: <ul style="list-style-type: none"> <li>level and trend component</li> <li>mass lapse component</li> </ul> </li> <li>The level and trend component is calculated as the most adverse of an upward and downward stress to lapse rates.</li> </ul>	<ul style="list-style-type: none"> <li>Level and trend component: the stress factor is 20% for risk exposures in Japan and 40% for all other regions.</li> <li>Mass lapse component: an immediate surrender of 30% of retail insurance policies and 50% of non-retail policies.</li> </ul>
<b>Expense risk</b>	<ul style="list-style-type: none"> <li>The risk charge for expense risk consists of two components: <ul style="list-style-type: none"> <li>unit expense</li> <li>expense inflation</li> </ul> </li> <li>For each of the six geographical regions, stress factors are prescribed in terms of relative increase in unit expense assumptions and absolute increase in annual expense inflation.</li> </ul>	<ul style="list-style-type: none"> <li>Unit expense: the stress factor is a 6% increase for risk exposure in Europe, Canada, the United States and Japan and 8% elsewhere.</li> <li>Expense inflation: the stress factor is a 1% absolute increase for risk exposure in Europe, Canada, the United States and Japan, and varies between 1% and 3% on a decreasing timescale elsewhere.</li> </ul>

This Executive Summary and related tutorials are also available in [FSI Connect](#), the online learning tool of the Bank for International Settlements.