



IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

Global Insurance Capital Standards

21 April 2014

Yoshihiro KAWAI

Secretary General

IAIS



Contents – Global Insurance Capital Standards

- Why do we need them?
- What are they?
- When will they be developed?

WHY?

Why?

- Globalised insurance markets need a global solution
- Insurance companies/markets are increasingly globalised
- Supervisors need to develop a common supervisory language
- Global capital standards are a solution

WHAT?

What ?

Three global capital standards

- Basic Capital Requirements (BCR)
- Higher Loss Absorbency (HLA)
- Risk Based Insurance Capital Standards (ICS)

What ? : Basic Capital Requirements (BCR)

- Simple and basic capital requirements
- Scope of application: G-SIIs (Global Systemically Important Insurers) and potentially IAIGs (Internationally Active Insurance Groups)
- BCR will inform development of ICS
- Development deadline: November 2014 (ready for implementation)
- Factor based approach

What ? : BCR High Level Principles

- Consideration of major risk categories
- Resilience to stress
- Simple design
- Comparability across jurisdictions
- Internal consistency over entities
- Transparency

Balance between Simplicity and Risk Sensitivity is key

What ? : BCR Factor Based Approach (1/2)

- Six major activities

Traditional life insurance liabilities (TL)

Traditional non-life liabilities (TNL)

Assets (A)

Asset-liability matching (ALM)

Non-traditional insurance activities (NT)

Non-insurance activities (NI)

What ? : BCR Factor Based Approach (2/2)

- Required Capital =
 $\alpha \times [\beta_1 \text{ TL} + \beta_2 \text{ TNL} + \beta_3 \text{ A} + \beta_4 \text{ ALM} + \beta_5 \text{ NT}] + \gamma \times \text{NI}$
- BCR Adequacy Ratio = Qualifying Capital Resources / Required Capital
- Qualifying capital resources in 2 classes: Core and additional

What ? : BCR Valuations and Group consolidation

- Best estimates (current estimates) for insurance liabilities
- GAAP with adjustments for valuations
- Consolidated group balance sheet

What ? : Level of BCR

- Minimum capital requirement (MCR) as an initial marker
- BCR: higher than MCR but lower than prescribed capital requirement (PCR)

What ? : Higher Loss Absorbency Requirements (HLA)

- Capital add on for G-SIIs (Global Systemically Important Insurers)
- Development deadline: End of 2015
- Relations of HLA with BCR and ICS: BCR will be a foundation for HLA. But when the ICS is developed, HLA could be determined using ICS as a foundation.

What ? : Risk based insurance capital standard (ICS)

- Risk based insurance capital standard for IAIGs (Internationally Active Insurance Groups)
- Development deadline: End of 2016
- Consolidated group-wide framework
- ICS may be a front stop capital requirement

What ? : Risk based insurance capital standard (ICS)

- ICS will include a framework of
 - Risks to be covered
 - Target criteria
 - Risk mitigation instruments
 - Risk diversification
- Two approaches
 - A standard method
 - Other risk-based methods including internal models

WHEN?

When ?

- Basic Capital Requirements (BCR) by November 2014
- Higher Loss Absorbency (HLA) by end of 2015
- Risk based Insurance Capital Standards (ICS) by end of 2016
- ICS's application from 2019

FINAL REMARKS

Final Remarks

- Global capital standard: Solution for globalised markets
- New solution: not a copy of any jurisdictional or regional approach
- Evolutionary initiative