IAIGs and G-SII are in the focus of international standard setting

Mexico City, 21 November 2014
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IAIS MISSION
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The mission of the Association is

• to promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders; and

• to contribute to global financial stability.
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• to **contribute to global financial stability**.
THREE LAYER APPROACH / TIMELINE
Architecture of IAIS international supervisory requirements

<table>
<thead>
<tr>
<th>Type of entity</th>
<th>Legal Entity</th>
<th>Group</th>
<th>Internationally Active Insurance Group (IAIG)</th>
<th>Global Systemically Important Insurer (G-SII)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supervisory requirements and actions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>First tier ICPs</td>
<td>ICPs that apply only to legal entities</td>
<td>ICPs that apply to legal entities and groups</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Second tier ComFrame</td>
<td></td>
<td></td>
<td>ComFrame</td>
<td></td>
</tr>
<tr>
<td>Third tier G-SII package</td>
<td></td>
<td></td>
<td>G-SII package</td>
<td></td>
</tr>
</tbody>
</table>
## Timeline for ComFrame and G-SII Measures

<table>
<thead>
<tr>
<th>Expected timing</th>
<th>Key milestone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov. 2014</td>
<td>G20 Leaders expected to endorse the BCR proposal</td>
</tr>
<tr>
<td>Dec. 2014</td>
<td>Initial consultation document on ICS released</td>
</tr>
<tr>
<td>From 2015</td>
<td>Confidential reporting of BCR to group-wide supervisors with access by the IAIS for the purpose of reviewing and refining the BCR (to be provided in conjunction with the IAIS field testing process)</td>
</tr>
<tr>
<td>Feb. 2015</td>
<td>Deadline for responses to the ICS consultation document</td>
</tr>
<tr>
<td>Mid-2015</td>
<td>Initial consultation document on HLA released</td>
</tr>
<tr>
<td>Mar. to Sept. 2015</td>
<td>Field testing of HLA and ComFrame, including ICS</td>
</tr>
<tr>
<td>Late-2015</td>
<td>HLA proposal to be finalised &amp; endorsed by G20</td>
</tr>
<tr>
<td>Mar. to Sept. 2016</td>
<td>Further field testing of ComFrame, including ICS</td>
</tr>
<tr>
<td>Dec. 2016</td>
<td>ICS to be agreed, subject to further refinement via field testing</td>
</tr>
<tr>
<td>2017-18</td>
<td>Further refinement of ComFrame, including ICS, via field testing</td>
</tr>
<tr>
<td>Late-2018</td>
<td>ComFrame, including ICS, to be adopted by IAIS</td>
</tr>
<tr>
<td>From 2019</td>
<td>Implementation of ComFrame, including ICS, to commence</td>
</tr>
<tr>
<td>From 2019</td>
<td>HLA commences to apply to G-SIIs, initially based on BCR as a foundation, later to be based on ICS as a foundation</td>
</tr>
</tbody>
</table>
INSURANCE CORE PRINCIPLES
IAIS ICPs

Scope
Insurance legal entities and insurance groups (unless otherwise specified)

Three levels
Principles, Standards, and Guidance

Proportionality
Tailored approach taking into account nature, scale and complexity of insurers.

ICP 23 on Group-wide Supervision
ICP updating process

IAIS STANDARD SETTING

Assessment
Self Assessment and Peer Review, Surveys (eg Supervisory Development Survey), Input from regional coordinators and implementation partners (eg FSI, A2ii)

Financial Inclusion
Support application of ICPs for inclusive markets linked with IAIS Standard Setting and Implementation

Feedback to Standard Setting Activities

Supervisory Cooperation
Support cooperation between supervisors through MMOU, Repository of Supervisory Colleges, etc.

Ongoing Monitoring
Targeting monitoring of implementation activities and progress.

Supervisory Development and Capacity Building
Targeted seminars, training material, leveraging partners
The Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame)

- is a set of international supervisory requirements

- focusing on the effective group-wide supervision of internationally active insurance groups (IAIGs)

- is built and expands upon the high level requirements and guidance currently set out in the ICPs which generally apply on both a legal entity and group-wide level.
• Focus on effective group-wide supervision

• ComFrame is built and expands upon the ICPs

• Benefits
  ▪ Customise supervisory requirements and processes
  ▪ Provide a basis for comparability
  ▪ Foster commonality
  ▪ Reduce complexity

• Structure of ComFrame
  ▪ Module 1 Scope of ComFrame
  ▪ Module 2 The IAIG
  ▪ Module 3 The Supervisors
ComFrame (3/3)

• Based on the criteria of size and international activity, it is expected that around 50-75 IAIGs will be identified by supervisors, representing more than 50% of global insurance business

• Field Testing

• Adoption planned for late 2018, followed by implementation

• Applicable to both IAIGs and G-SIIs

• ICS to be included in ComFrame
BASIC CAPITAL REQUIREMENTS
In July 2013, the IAIS published its assessment methodology and policy measures for G-SII. These policy measures include a requirement for Higher Loss Absorption (HLA) capacity.

As a foundation for HLA requirements, the IAIS has developed the BCR to apply to all group activities, including non-insurance activities, of G-SII.

**BCR Principles**
- Major risk categories should be reflected
- Comparability of outcomes across jurisdictions
- Resilience to stress
- Simple design and presentation
- Internal consistency
- Optimise transparency and use of public data
Basic Capital Requirements (2/4)

• Endorsed by IAIS and FSB

• Published on 23 October 2014

• Factor based approach

• Foundation for HLA

• Relevant for G-SII only

• To be replaced by the ICS
Basic Capital Requirements (3/4)

• Total Qualifying Capital Resources and Required Capital are initially derived from a comparable market adjusted valuation approach using current estimates of insurance liabilities.

• Capital Resources are determined on a consolidated group-wide basis for all financial and material non-financial activities and are classified as either core or additional capital.

• Required Capital is calculated on a consolidated group-wide basis for all financial and material non-financial activities.

• “Factor-based” approach with 15 factors applying to defined segments and their specified exposure measures within the main categories of a G-SII’s activity:
  - traditional life insurance
  - traditional non-life insurance
  - non-traditional insurance
  - assets
  - non-insurance.
Basic Capital Requirements (4/4)

- All holding companies, insurance legal entities, banking legal entities and any other companies in the group will be included in the consolidation.
- Individual non-financial entities within the group may be excluded from the scope of the BCR if the risks of or from those entities are negligible.
- Beginning in 2015, the BCR will be reported on a confidential basis to group-wide supervisors => refinement period
- From 2019, G-SIIs will be required to hold capital no lower than the BCR plus HLA.
HIGHER LOSS ABSORBENCY REQUIREMENTS
Higher Loss Absorbency Requirements (1/2)

• Comparability

• Reflection of the drivers of the assessment of G-SII status

• Internalise costs

• Resilience

• Assumption that G-SIIIs are „going concerns“

• Highest qualified capital
Higher Loss Absorbency Requirements (2/2)

• Pragmatic and practical

• Consistency

• Transparency

• Refinement through Field Testing
INSURANCE CAPITAL STANDARD
Insurance Capital Standard (1/2)

• A consolidated group-wide standard with a globally comparable risk-based measure of capital adequacy for IAIGs and G-SIIs

• Protection of policyholders and contribution to financial stability as main objectives

• Guided by agreed ICS principles, ICS consultation paper and consultative process

• The foundation for HLA for G-SIIs

• Reflects all material risks to which an IAIG is exposed

• Aims at comparability of outcomes across jurisdictions
Insurance Capital Standard (2/2)

- Promotes sound risk management by IAIGs and G-SIIs
- Promotes prudentially sound behaviour while minimising inappropriate procyclical behaviour by supervisors and IAIGs
- Strikes and appropriate balance between risk sensitivity and simplicity
- Is transparent
- The capital requirement is based on appropriate target criteria
THANK YOU FOR YOUR ATTENTION
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