

IAA Views on Margins Over Current Estimates (MOCE)

**Presented by Dave Sandberg, Chair IAA Insurance Regulation
Committee
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IAA Observations

- I. We see strongly-held, diverse views held on both the determination and meaning of a MOCE AND on the most relevant financial reporting basis within which to determine a MOCE.
- II. We recommend considering the following set of key considerations to assess various options for determining a MOCE, noting:
 - A. No MOCE approach will meet all of these considerations
 - B. But understanding any shortcomings should allow the appropriate qualitative elements of ComFrame to be used
 - C. These are not a closed set. They are a suggested starting point



Consideration 1

Is the MOCE well-defined and accompanied with required disclosures that are helpful? This includes how:

- **to calibrate it to give a sensible starting position;**
- **it is released over time as risk is released;**
- **it impacts reported and future income; and**
- **it reacts to changing (particularly market) conditions in a non- pro-cyclical manner.**



Consideration 2

Do balance sheet items or disclosures show explicit amounts at key levels of aggregation (segments)?



Consideration 3

Do performance statements, capital accounts, and disclosures indicate how and why MOCE and/or capital is increasing (decreasing)?



Consideration 4

Is there consistency among those that apply a given accounting standard relative to the risks to which they are exposed (or will it get there over time as they are disclosed and/or audited) ?



Consideration 5

To address the IAIS questions, is the Own Assets with Guardrails (OAG) method compliant with IFRS requirements and can it be usefully evaluated as part of the field tests?



Consideration 6

Analyses should start with audited financial statements. Any adjustments to reported values, such as additional MOCE or provisions for asset losses, should be made as double entries, so that the effects on the financial statements are captured across the entire balance sheet and income statements; e.g.,

- 1. Where do changes in MOCE comes from?**
- 2. Impact on deferred tax assets, etc.**



Consideration 7

Are any adjustments (or additional calculations) needed when the purpose of a MOCE for solvency purposes is to provide information related to the total risks and uncertainty of the portfolio of insurance contracts?



What's Next?

- Any missing Considerations?
- Additional considerations:
 - What will MOCE be used for?
 - Likely not to sell an entire IAIG to another buyer
 - Will be useful for selling entities or blocks of business within an entity
 - P&C claim reserves are often not transferable
 - Magnitude & Focus on Precision of MOCE vs. Significant and Simple Aggregation Discount



Could Stress Tests Help To:

- (1) Understand short and long-term capital needs and performance as they relate to the specific risk profiles**
- (2) Assess recovery/resolution options for the entity and**
- (3) Address the likely unique needs and interests of the members of the supervisory college.**

Thank you



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