HIGHER LOSS ABSORBENCY (HLA) PRINCIPLES
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The following principles will be followed in the development of Higher Loss Absorbency (HLA) for Global Systemically Important Insurers (G-SIIs).

HLA Principle 1 – Comparability.   Outcomes should be comparable across jurisdictions.

This implies the need to minimise distortions, including those arising from differing levels of conservatism included in valuation or other relevant processes or requirements. The level of discretions that may be applied or introduced should be minimised across jurisdictions and over time. 'Comparable' implies results should be similar and consistent across jurisdictions, but does not require that they be identical.

HLA Principle 2 – G-SII risks. The HLA should reflect the drivers (but is not restricted to only those drivers) of the assessment of G-SII status.

These drivers are indicative of the risks intended to be addressed by the HLA. The HLA should reflect individual characteristics of each G-SII.

HLA Principle 3 – Internalise costs. The failure or distress of a G-SII may result in costs to the financial system and overall economy. The HLA should internalise some of these costs that are otherwise external to that G-SII.

G-SIIs should be required by their group-wide supervisors to hold higher levels of regulatory capital than would be the case if they were not designated as G-SIIs. The HLA should be set at a level that offsets any advantage that may be expected to arise from the G-SII designation. Through internalising external costs, HLA may lead to a reduction in systemic activities as they become more expensive and therefore less attractive.

HLA Principle 4 – Resilient. HLA should work, and remain valid, in a wide variety of economic conditions (including a stressed macro environment).

In order to reflect the impact of major drivers of economic experience that are relevant to the scope of HLA, the adopted approaches should be able to be tested against historic data and circumstances.

HLA Principle 5 – Going concern. The HLA, and its foundation, assume G-SIIs are 'going concerns'.

In practice this requires that the capital requirement given by the sum of the foundation requirement and the HLA requirement is set reflecting a 'going concern' perspective, not a 'gone concern' perspective. The current foundation for the HLA is the BCR, but it is intended to replace the BCR with the ICS when the ICS is developed

HLA Principle 6 – Quality of capital. The HLA capital requirement is to be met by the 'highest quality capital'.

HLA Principle 7 – Pragmatic. The design of the HLA needs to be pragmatic and practical, with an appropriate balance between granularity and simplicity.

The form of presentation of the HLA, focusing on meaningful communication to external parties, should be practical yet sufficiently granular for the results to be fit for purpose. The HLA should utilise the minimum number of parameters and data requirements while attaining valid and robust outcomes with a focus on material issues.

HLA Principle 8 – Consistent. The structure of the HLA should be consistent and be applicable over the range of insurance and non-insurance entities it will need to cover and over time.

HLA Principle 9 – Transparent. The level of transparency, particularly with regard to the final results provided and the use of public data, should be optimised.

HLA Principle 10 – Refinement. The HLA will be refined in light of experience and data gathered by the IAIS in the course of Field Testing exercise.