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IAIS Develops Higher Loss Absorbency (HLA) Requirement for Global Systemically Important Insurers

Completes second step in process to develop group-wide global insurance capital standards

Basel – The International Association of Insurance Supervisors (IAIS) today announced that it has concluded initial development of the Higher Loss Absorbency (HLA) requirement for global systemically important insurers (G-SIIs). The HLA has also been endorsed by the Financial Stability Board.

“With initial development of the HLA and Basic Capital Requirements (BCR) now complete, the IAIS has met a major milestone in its commitment to address risks to the global financial system from systemically important insurers,” said Felix Hufeld, Chair of the IAIS Executive Committee. “As we have stressed before, the IAIS considers a sound capital and solvency framework for the insurance sector to be essential for supporting financial stability and we look forward to completing our next goal of developing ComFrame as a comprehensive, group-wide supervisory and regulatory framework for Internationally Active Insurance Groups (IAIGs).”

In July 2013, the IAIS published its initial assessment methodology and policy measures for G-SIIs. These policy measures include the HLA requirement, the primary purpose of which is to help reduce the probability and impact on the financial system of the distress or failure of a G-SII. The HLA will apply to G-SIIs from January 2019.

As a foundation for the HLA requirement, the IAIS developed in October 2014 the BCR to apply to all group activities, including non-insurance activities, of G-SIIs. From 2019, G-SIIs will be expected to hold qualifying regulatory capital that is not less than the sum of the required capital amounts from the BCR and HLA.

The total BCR and HLA required capital consists of the sum of six components. Three components – the BCR approved in 2014, an uplift to the 2014 BCR and the HLA – are each calculated for insurance and non-insurance activities. The first component, the BCR, is the same as announced in 2014. The second component, the BCR uplift, is meant to reduce the expected gap between the BCR and the ICS. As announced, an uplift of 33% will be applied to all insurance and non-insurance activities other than regulated banking non-insurance activities, the uplift for which is determined by reference to banking sector requirements. The uplift will be phased in over three years beginning in 2016.

The HLA required capital formula utilises a factor-based approach. It applies specific factors to a G-SII’s exposures based on the same components found in the BCR required capital formula. In order to reflect systemic risk sensitivity the HLA also utilises a bucketing approach that assigns G-SIIs to a Low, Mid or High bucket of systemic importance. The Mid bucket utilises factors 50% higher than the Low bucket, with the High bucket similarly utilising factors 50% higher than the Mid bucket. The IAIS anticipates that the High bucket will initially remain unpopulated and therefore act as a disincentive for G-SIIs to increase their systemic importance.

About the IAIS: The IAIS is a global standard setting body whose objectives are 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. Its membership includes insurance regulators and supervisors from more than 200 jurisdictions in nearly 140 countries. For more information, please visit www.iaisweb.org.

Beginning in 2016, the HLA will be reported on a confidential basis to group-wide supervisors and be shared with the IAIS for purposes of improving the HLA. The BCR has similarly been reported beginning in 2015. The IAIS plans to annually review the design and calibration of the HLA and BCR and recommend any necessary changes. It will also make any refinements necessitated by changes to the G-SII Assessment Methodology and the definitions of Non-Traditional and Non-Insurance activities, both of which will be the subject of public consultations later this year.

The development of the HLA is the second step of a long-term project to develop risk-based, group-wide global insurance capital standards. The first step was the development of BCR requirements in 2014. The third step is the development of a risk-based group-wide global Insurance Capital Standard (ICS), due to be adopted by the end of 2019.

For more information on the HLA and the BCR, including a Fact Sheet and some Frequently Asked Questions, please visit www.iaisweb.org or click [here](#). For more information on ComFrame and the ICS, including some Frequently Asked Questions, please visit www.iaisweb.org or click [here](#).