



# IAIS

INTERNATIONAL ASSOCIATION OF  
INSURANCE SUPERVISORS

## Update on BCR development

### IAIS Observers Session

### 18 March 2014



# Proposed BCR formula

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- ▶ The determination of capital required for the BCR is currently envisaged to be presented as six factors applied to six exposures reflecting the main categories of activity, namely
  - Traditional Life insurance,
  - Traditional Non-Life insurance,
  - Assets,
  - Asset-Liability Matching,
  - Non-Traditional (NT) insurance and
  - Non-Insurance (NI).
- ▶ The BCR mandate requires consideration of all these items and the approach also addresses the BCR principle requiring that major risk categories should be reflected. Insurance is typically a long term liability driven business and this drives the need for managing the assets to reflect their relationship to the liabilities.

## Proposed BCR formula – details (1)

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- ▶ For each of the insurance activities, the amount is computed as the product of a factor and a risk weighted exposure.
- ▶ These risk weighted exposures are calculated as weighted sums of more granular factors with their associated exposures.
- ▶ The BCR required capital is currently:

$$\text{BCR required capital} = \alpha \times [\beta_1 \text{Traditional Life} + \beta_2 \text{Traditional Non-Life} + \beta_3 \text{Asset} + \beta_4 \text{ALM} + \beta_5 \text{NT}] + \gamma \times \text{NI}$$

## BCR formula – details (2)

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- ▶  $\alpha$  and  $\beta$  are scalars to adjust the overall BCR level and potentially target a specified confidence level. These factors allow the BCR required capital, overall, to be calibrated to a desired level.
- ▶  $\beta_1$ ,  $\beta_2$ ,  $\beta_3$ ,  $\beta_4$  and  $\beta_5$  are fixed risk weight factors reflecting relative riskiness between activities.
- ▶ Traditional Life is the risk weighted amount of traditional life insurance liabilities measured by their current estimate liabilities or other relevant measures
- ▶ Traditional Non-life is the risk weighted amount of traditional non-life insurance liabilities measured by their current estimate liabilities or other relevant measures

## BCR formula – details (3)

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- ▶ Asset is the risk weighted amount of assets. At a minimum inclusion of Assets is necessary to address NI and possibly NT. The need to address off-balance sheet exposures is also noted.
- ▶ ALM is the indicator of asset-liability mismatch
- ▶ NT reflects the risk weighted amount of non-traditional insurance activities measured by their current estimates and/or other relevant measures
- ▶ NI reflects the charges provided by sectoral rules. For example, Basel requirements.

# Valuation approaches

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- ▶ A major challenge to achieving the principle of global comparability of the BCR is overcoming differences in valuation approaches.
- ▶ The primary valuation basis for the Traditional Life and Traditional Non-Life exposures will be Current Estimates of liabilities.
- ▶ The primary valuation basis for assets will reflect their 'fair values'.

## NT and NI activities

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- ▶ An important aspect of the BCR is its reflection of NT and NI activities. For NI activities sectoral rules will be used.
- ▶ For example, regarding banking activities, it needs to be determined which of the Basel III Leverage Ratio or the fully risk-based Basel Accord is most appropriate for the BCR.
- ▶ Issues of this type will be addressed during field testing.

# Segmentation

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- ▶ The risk weighted amount for each of the main categories reflected in the BCR capital required will be calculated based on applying defined fixed risk weights to an underlying segmentation of these categories.
- ▶ It is currently envisaged that the underlying segmentations will lead to no more than 15 risk weights being required to address all categories.



# FT Segmentation (Life Ins - Traditional)

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- ▶ Protection - Life
- ▶ Protection - health
- ▶ Protection - other
- ▶ Savings without guarantees or living benefits
- ▶ Annuities
- ▶ Participating products
- ▶ Other traditional

## FT Segmentation (Life ins - Non-traditional)

- ▶ Separate accounts with portfolio choice and guarantee
- ▶ Separate accounts with guarantees
- ▶ of which guarantee
- ▶ GICs
- ▶ Synthetic GICs
- ▶ Other non-traditional

# FT Segmentation (Non-life Ins - Traditional)

- ▶ Motor
- ▶ Property Damage
- ▶ Non-proportional property, APH and motor damage (including property catastrophe)
- ▶ APH - Accident, protection and health
- ▶ Other liability
- ▶ Non-proportional liability
- ▶ MAT
- ▶ Non-proportional MAT
- ▶ Other traditional - short-tail
- ▶ Other traditional - long-tail

## FT Segmentation (Non-life Ins Non-Traditional)

- ▶ Mortgage Insurance
- ▶ Commercial credit insurance including suretyship
- ▶ Other non-traditional non-life insurance

# BCR Balance Sheet

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- ▶ The key data items, primarily taken from an adjusted balance sheet will be used as inputs to the BCR computations. In practice, there are some important issues to be addressed in obtaining appropriate and useable data.
- ▶ These issues are primarily being addressed by the Field Testing Task Force (FTTF) in its 2014 field testing exercise. Adequate resolution of these issues is a necessary prerequisite to the success of the BCR.

# BCR Balance Sheet (cont)

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- ▶ In the absence of convergence of accounting standards, to address the lack of comparability between insurance liabilities in differing jurisdictions, Current Estimates of Liabilities will be a proxy measure for insurance liabilities (excluding any prudential margins). This is a fundamental issue that must be addressed in order to obtain a globally comparable BCR.
- ▶ To address the lack of comparability of asset valuations between jurisdictions, it is intended to use generally accepted accounting principles in each relevant jurisdiction, with various adjustments. For example, for invested assets, fair value measurement will be used as a basis for valuation.
- ▶ For BCR purposes, it may be necessary to use a simplified method to determine capital resources in order to meet the required deadlines. The field testing is collecting information to support the approach to determining capital resources for BCR purposes.

# Proposed Implementation

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- ▶ The IAIS proposes that the implementation of the BCR should include these matters:
  - During the first few years of implementation, reporting of outcomes to supervisors, on a confidential basis, with use of that information by the IAIS for review.
  - The decision on possible application of the BCR to IAIGs will be made by the IAIS during 2014.
  - A target amount of BCR capital in excess of the MCR, but (significantly) lower than PCR would be appropriate. The approach to calibration will be refined based on information collected in field testing and from other data sources.