GLOBAL FEDERATION OF INSURANCE ASSOCIATIONS

8 August 2014

GFIA comments on the IAIS' second BCR consultation

The Global Federation of Insurance Associations (GFIA) through its 38 member associations represents insurers that account for around 87% or more than $4.0 trillion in total insurance premiums worldwide.

The GFIA welcomes the opportunity to provide input into the discussion. GFIA members will be doing individual responses to reflect their jurisdictions' perspectives, however, at a global level there are comments on the BCR consultation that are shared by industry worldwide.

Responding to the BCR is complicated by the high level of uncertainty in many of its components which remain subject to change. For instance, the calibration of the alpha scalar will hugely impact the level of the BCR and thus ultimately the impact it will have on G-SIIs.

In addition, the development of the HLA is separate from the BCR, which means there remains a great deal of uncertainty in what the final BCR+HLA measure will look like. How the BCR and HLA will apply together is still not clear to observers, and any assessment of the BCR will necessarily need to be viewed in the context of what the final measure looks like. While the desire to keep the valuation approach and capital assessment as simple as possible is understood, this is very difficult to achieve while at the same time creating a framework that works as intended across all the G-SIIs and across a range of economic conditions. Particular examples of simplifications that can potentially raise concerns are the exclusion of explicit recognition of risk mitigation techniques such as asset-liability matching, non-proportional reinsurance, profit sharing and diversification, all of which can have a very significant impact on the overall measure. Whether or not such simplifications can result in BCR/HLA measures that will cause problems by e.g. biting too often or forcing pro-cyclical behaviour will depend on the level of calibration of the BCR and design/calibration of the HLA and requires further testing.

We are also concerned that the principle that "G-SIIs should hold higher levels of capital than would be the case if they were not designated as G-SIIs" could be misunderstood to mean the G-SIIs should automatically hold more than required under their local requirements. The IAIS should clarify that capital charges imposed via national legislation might be above the HLA uplift, in which case there would effectively be no capital increase. Higher capital for G-SIIs is therefore not a valid objective in its own right — rather it should be that the BCR/HLA framework provides additional reassurance that the GSIIs hold enough capital.

The relationship between the BCR and the ICS also requires further clarification. From the consultation we understand that the development of the BCR is intended to inform the development of the ICS, and that the IAIS intends to replace the BCR with the ICS as the basis for the HLA. Both statements create concerns for us as we believe it is too early to say to what extent the ICS can actually be informed by and/or replace the BCR, especially given its simplicity and lack of sophistication. Given that the BCR and the ICS are being developed with significantly different

Global Federation of Insurance Associations (GFIA)
Secretariat: rue Montoyer 51, 1000 Brussels, Belgium
Tel: +32 2 894 30 81 E-mail: grant@GFIAinsurance.org
www.GFIAinsurance.org

purposes and timelines, transition from one to the other may not be appropriate or effective and therefore the discussions should be kept separated at this stage.

The timeline of the development remains aggressive, and we continue to hope that the IAIS will not sacrifice the quality of the BCR in order to finalise the BCR on time. In line with the BCR principles, it should be expected that the IAIS has done extensive testing of the BCR before finalisation to ensure that it does not produce unintended negative consequences. However, we are concerned that the field testing exercise will not allow sufficient time for the necessary impact assessment and testing, in particular how the BCR works during periods of financial market stress.

The current approach to valuation of liabilities leaves a lot of room for refinements to better reflect the long-term nature of the insurance business. We understand that the current approach was used for timing and simplification reasons, but future developments should consider how to improve this.

The definition of qualifying capital resources is very prescriptive, and should be reconsidered to ensure that it is designed with the insurance industry in mind. Given that the BCR is designed as a going-concern measure, the current design of tiering capital should be reconsidered to be more appropriate for its purpose. We especially disagree with the idea of introducing MOCE as part of the technical provisions – which would in effect be additional provisions for the same risks that the capital requirements are intended to cover.

Overall, we would like to express our appreciation for the thoughtfulness that the IAIS has demonstrated in this BCR consultation document, and we recognise the IAIS' desire to deliver a workable BCR proposal later this year. That said, to increase confidence in the quality and effectiveness of the BCR, future refinements should be allowed for and extensive empirical testing will need to be done. Equally, we urge the IAIS to provide sufficient comment periods for expected public consultations. The GFIA is keen to provide input into these discussions going forward and intends to assist the IAIS however it can.