



MEMORANDUM

18 December 2015

To: Global Systemically Important Insurers (G-SIIs)
From: The International Association of Insurance Supervisors (IAIS)
Re: **Basic Capital Requirement and Higher Loss Absorbency – Confidential Reporting**

1. Purpose & Background

1. Following the endorsement of the final Basic Capital Requirement (BCR) by the G-20 Summit in November 2014, there will be a period of confidential reporting of the BCR by G-SIIs to their group-wide supervisors beginning in 2015.
2. Following the endorsement of the final Higher Loss Absorbency requirement (HLA) proposal by the G-20 Summit in November 2015, there will be a period of confidential reporting of the HLA by G-SIIs to their group-wide supervisors beginning in 2016.
3. In October 2014 the IAIS provided guidance regarding the Confidential Reporting of the BCR. This guidance is now extended so the reporting requirements include the HLA. The same reporting process is to be used for both BCR and HLA.
4. The BCR Document published on 23 October 2014 states in paragraph 58:
Initially, the BCR will be reported on a confidential basis to group-wide supervisors, subject to access by the IAIS for refinement of the BCR, if necessary. The IAIS will maintain appropriate governance and security protocols to protect the confidentiality of the information collected. The IAIS will review the suitability of the BCR factors over time to ensure that the BCR remains fit for purpose.
5. The HLA Document approved by the IAIS General Meeting on 12 November and subsequently endorsed by the G20 states in paragraph 118:

The same confidential reporting process as used for BCR will be applied for the HLA.

The information contained in this document is classified as Secret and contains highly sensitive information. Direct access to information classified as Secret is limited to the persons individually named by the Owner. Any recipient of information in this category may redistribute it to other persons within their organisation whose access to this information is necessary to carry out or assist in connection with the relevant business activity or operations (need-to-know principle). If distributed further, the original receiver maintains sole responsibility for ensuring the information is not distributed to unintended recipients. If you are an unintended recipient of this information please do not distribute this information further and destroy all copies of this information immediately. In addition, please notify the IAIS immediately: International Association of Insurance Supervisors, c/o Bank for International Settlements, CH-4002 Basel. Phone: +41 61 225 7300; Fax: +41 61 280 9151; Website: www.iaisweb.org; E-mail: iais@bis.org

-
6. This memo provides guidance on the IAIS approach for confidential reporting of BCR and HLA during the period up to and including 2018.

2. Objectives

7. Confidential reporting of BCR and HLA to group-wide supervisors and the IAIS supports three objectives:
 - a. It provides the supervisor with firm-specific information on the ability of the firm to meet the BCR and HLA requirements and information about future changes that may be required to maintain, or achieve compliance.
 - b. It also provides the IAIS with information on both a firm specific and G-SII basis to aid in the identification and analysis of potential changes to the BCR and HLA requirements.
 - c. Lastly, and of equal importance, is the information and opportunity to restructure risk and capital (if needed) provided to the firm and the ability to engage in conversations with supervisors.
8. The confidential reporting phase of the BCR and HLA will provide time for monitoring and refinement of the BCR and HLA which should enable its suitability to be assessed and improved.

3. Considerations

9. The confidential reporting needs to be sufficiently frequent, and of sufficient granularity, to facilitate the objectives outlined above.
10. The process of reporting should also ensure sufficient data quality, and consider practical considerations in reporting.
11. The confidentiality of data received needs to be ensured in a robust and transparent manner, at a similar level to the established field testing processes.
12. In particular, there needs to be a regular reassessment of the materiality of Non-Financial activities and Non-Insurance activities, to ensure that they are reported appropriately.

4. Approach

13. Based on the objectives and considerations outlined above, the IAIS intends to adopt the following approach:
 - a. *Each G-SII will report its BCR and HLA to its group-wide supervisor at least annually, in conjunction with the IAIS field testing data collection process. Each G-SII should monitor their BCR and HLA, and recalculate them whenever its risk profile changes significantly from the assumptions underlying the last reported BCR and HLA, or at the request of the group-wide supervisor.*

- i) The IAIS intends to utilise the infrastructure and processes that have already been established for field testing. Such arrangements have been designed to facilitate and safeguard the submission of confidential data and would be appropriate for confidential reporting of the BCR and HLA. Similar to the field testing process used in 2014 and 2015, technical instructions and a reporting template will be specified by the IAIS to facilitate consistent reporting of the BCR and HLA.
 - ii) Although a higher frequency of reporting (e.g. quarterly) would be beneficial to IAIS' analysis of BCR and HLA calibration and stability, it was noted that key pieces of information required in the BCR and HLA (e.g. current estimates) are not maintained by many G-SIIs on a continued basis, and actuarial estimates are frequently assumed to be pro-rated for quarterly reports. Therefore, the IAIS intends for regular reporting to be on an annual basis.
 - iii) At the same time, it is acknowledged that a higher frequency of reporting would be particularly worthwhile and even necessary during unusual conditions, such as stressed market conditions or immediately following a material event¹ to the G-SII. Reporting during or shortly after such conditions is necessary to assess the performance of the BCR and HLA under stressed scenarios and the onus will be on the firms to monitor their risk profile and inform the supervisor accordingly. Group-wide supervisors will also have the flexibility to request for the BCR and HLA to be recalculated and reported on an ad hoc basis at their discretion.
- b. *Granularity of data which will be provided to IAIS during the confidential reporting phase will include all exposure measures by the segmentation specified in the BCR and HLA, as well as information on the relevant jurisdictional group Prescribed Capital Requirement (PCR) that applies to the G-SII.*

The information reported needs to be sufficiently granular in order to enable the assessment and, if necessary, refinement of the BCR and HLA. This should include quantitative information on all segments used in the BCR and HLA that would be needed to reproduce the G-SII's BCR and HLA calculations. It is also necessary to include information on the relevant jurisdictional PCR in the reporting to allow IAIS to monitor the calibration level of the BCR and HLA relative to existing jurisdictional requirements.

- c. *Application of 'best efforts' in calculation of data for BCR and HLA purposes.*

Recognising that the specification of the data requirements for both the BCR and HLA (as at November 2015) are clear and established, it is expected that the quality of data provided to support their determination will be of high quality. That is, while it is acknowledged that the field testing process acceptable that in some circumstances

¹ Examples of such events could be, but are not limited to, major catastrophe losses, downgrade in credit rating, major acquisitions or divestments, significant impairment charges incurred in unregulated entities.

'best efforts' are made to provide data items that may not be immediately available more precisely and reliably to inform the development of the ICS, it is expected that higher levels of precision, validation and consistency will be applied in the provision of all the BCR and HLA data requirements.

- d. *Group-wide supervisors should verify the submitted data before providing the data to IAIS.*

The possibility of requiring that all BCR and HLA related information submitted to group-wide supervisors be audited was considered but deemed to not to be practical. Nonetheless, group-wide supervisors will verify the data submitted against regulatory reporting, financial statements or other means of verification, in order to incentivise firms to report accurately and ensure sufficient data quality. The quality and extent verification for reasonableness and consistency of BCR and HLA data made by group-wide supervisors will be made at a higher level than that applied for other field testing data.