



Higher Loss Absorbency (HLA) requirements for G-SIIs – Public Consultation Questions

Question 1

Section 2.1 – Executive Summary Overview – Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issues that should be considered, then please outline them and how they may impact the conclusions reached.

Question 2

Section 2.2 – Key HLA consultation points – Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issues that should be considered, then please outline them and how they may impact the conclusions reached.

Question 3

Section 3.1 – Context Overview – Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.

Question 4

Section 3.2 – The purposes of HLA at July 2013 – Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.

The construction of the HLA requirement consists of a single factor applied to a simple uplift to the Basic Capital Requirement (BCR) . Whilst it is accepted that a straightforward measure is required to be developed in a limited timescale, it is important to be aware that the use of such a measure could result in management actions that do not appear sensible when viewed on a realistic, economic basis.

Question 5

Section 3.3 – IAIS position on systemic risk – Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.

Question 6

Section 3.4 – Relatively small size reported of BCR NT insurance and BCR NI required capital amounts – Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.

Question 7

Section 3.5 – HLA Relationship with ICS – Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.

Question 8

Section 3.6 – Principles for development of HLA – Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.

Question 9

Section 3.7 – HLA time frame – Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.

Question 10

Section 4.1 – BCR Calibration – Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.

Question 11

Section 4.2 – Components of total BCR + HLA – Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.

Question 12

Section 4.3 – Uplifting the BCR – Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.

It should be recognised that since the Prescribed Capital Requirement (PCR) calculation methodology will vary significantly according to the domicile of the G-SII, the 33% uplift factor does not represent any specific level of financial strength. In addition, the single factor takes a broad-brush approach, not recognising the differences in insurance liability profiles of the G-SIIs: for example, a G-SII which writes mostly unit-linked business could be less capital intensive than another G-SII which writes guaranteed savings business.

Question 13

Section 4.4 – Transition period for Uplifts – Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.

Question 14

Section 5.1 – Overall Approach (Possible HLA required capital formulas) – Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your

disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.

Question 15

Section 5.2 – Bucketing – Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.

The concept of 'bucketing' introduces an arbitrary cut-off between the HLA capital requirements of different G-SIIs. If a G-SII wishes to avoid being re-categorised into a higher bucket, it may have to take sub-optimal actions with an adverse economic impact.

Rather than use buckets, the HLA capital requirements could increase gradually as the G-SII becomes more systemically important.

Question 16

Section 5.3 – Proposed HLA Insurance formulas – Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.

Question 17

Section 5.4 – Calibration of HLA – Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you

disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.

For Choice 1, 'bucketing' factors are 10%, 15%, 20%; for Choice 2, they are 15%, 20%. It is not clear why for Choice 2, 15% was used instead of interpolating between 10% and 15% to give 12.5%. It would be helpful to provide the rationale for the Choice 2 factor of 15% or consider a factor less than 15%.

Question 18

Section 5.5 – HLA Non-Insurance required capital formulas – Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.

Question 19

Section 5.6 – Outcomes for a range of Combined HLA required capital formulas – Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.

Question 20

Section 5.7 – Coverage ratios using various calibration reference points – Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.

Question 21

Section 5.7 – Question 1: The IAIS is currently considering putting G-SIIs into one or two populated buckets when determining the HLA required capital. How many buckets should the IAIS consider selecting to manage the tension between risk sensitivity, complexity and volatility when calibrating the HLA required capital? Please provide a rationale for your response and suggest how this may be done if you consider it should be done.

We suggest it would be better to have one populated bucket to avoid an arbitrary level of requirements being applied to some G-SIIs. Having two populated buckets will increase the risk sensitivity in particular for systemic aspects that are not captured in the BCR. A possible improvement would be that if using two populated buckets care should be taken to avoid continuous up and down movement between the buckets resulting in a volatile HLA.

Question 22

Section 5.7 – Question 2: Should the IAIS consider selecting the size of gamma to manage the tension between risk sensitivity, complexity and volatility when calibrating the HLA required capital? Please provide a rationale for your response and suggest how this may be done if you consider it should be done.

The size of the gamma should be less than one as there is a need to strike a balance between the desirable greater risk sensitivity and the imperfect capture of NT/ NI (*) risk by using the simple BCR.

(*) NT: non-traditional insurance; NI: non insurance.

Question 23

Section 5.7 – Question 3: Should the IAIS consider selecting the calibration levels of the factors to manage the tension between risk sensitivity, complexity and volatility when calibrating the HLA required capital? Please provide a rationale for your response and suggest how this may be done if you consider it should be done.

Question 24

Section 5.7 - Question 4: Should the IAIS consider introducing ceilings and/or floors on results for G-SIIs to manage the tension between risk sensitivity, complexity and volatility when calibrating the HLA required capital? Please provide a rationale for your response and suggest how this may be done if you consider it should be done.

Question 25

Section 5.7 - Question 5: Should the IAIS consider using a combination of the above approaches to manage the tension between risk sensitivity, complexity and volatility when calibrating the HLA required capital? Please provide a rationale for your response and suggest how this may be done if you consider it should be done.

Question 26

Section 5.7 - Question 6: Should the IAIS consider using other approaches to manage the tension between risk sensitivity, complexity and volatility when calibrating the HLA required capital? Please provide a rationale for your response and suggest how this may be done if you consider it should be done.

Question 27

Section 6.1 – BCR and HLA capital resources – Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.

Question 28

Section 7.1 – HLA interaction with G-SII designation process – Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.

Question 29

Section 7.2 – Field Testing 2015 – Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.

Question 30

Section 7.3 – HLA reporting process – Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.

Question 31

Section 7.4 – BCR and HLA review process – Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.

Question 32

General - Are there any further comments you would like to make regarding this Consultation which have not been included in your responses under specific sections above?

The proposed methodology means that there is a critical dependence between the insurance business classified as traditional and the business classified as non-traditional. In view of this, there needs to be a very clear and unambiguous definition of non-traditional insurance business.

In the interest of proportionality, an allowance should be made for the level of materiality of G-SII's NT and NI activities.