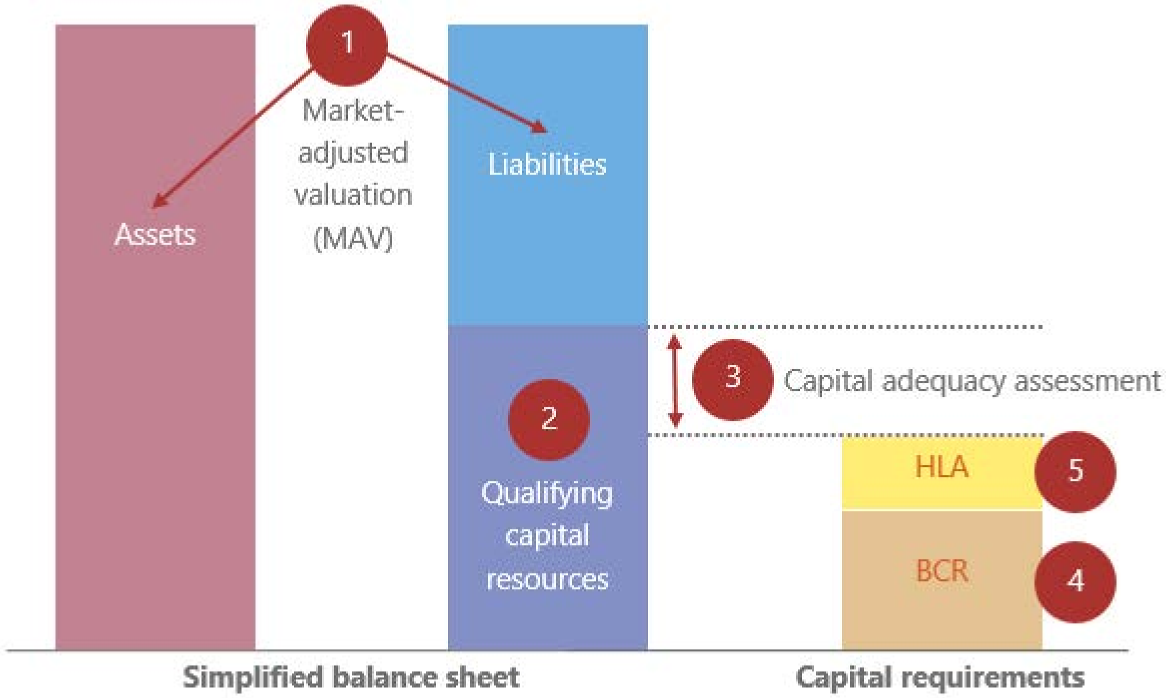
G-SIIs: capital adequacy – Executive Summary

Background and policy objectives

In the insurance sector, the main policy reform in response to the Great Financial Crisis was the introduction of capital adequacy requirements for global systemically important insurers (G-SIIs) by the International Association of Insurance Supervisors (IAIS). The requirements are as follows:

	Basic Capital Requirements (BCR)	Higher Loss Absorbency Requirement (HLA)
Publication	October 2014	October 2015
Objectives	• Provide a comparable capital basis across jurisdictions • Serve as foundation for the HLA	• Require G-SIIs to internalise negative externalities • Disincentivise insurers from undertaking systemically risky activities • Allow timely supervisory intervention • Offset any potential benefit from the G-SII designation
Implementation	G-SIIs are required to submit confidential reporting of the BCR and HLA to their supervisors until these requirements are implemented, currently scheduled for 2022. The existing plan of the IAIS is to replace the BCR with the global Insurance Capital Standard (ICS) after ICS Version 2.0 is completed, currently scheduled for 2019. All dates may change, subject to further IAIS reviews of the BCR, HLA and ICS.	

Key components



1	MAV	• Based on audited, consolidated general purpose balance sheet, with certain adjustments • Financial instruments valued on fair value basis • Insurance liabilities and reinsurance recoverable valued on MAV basis
2	Qualifying Capital Resources	• Capital instruments classified either as Core or Additional Capital based on quality criteria • Additional Capital cannot exceed 50% of BCR Required Capital • HLA Required Capital can only be met by Core Capital
3	Capital Adequacy Assessment	$\textbf{BCR+HLA ratio} = \dfrac{\textbf{Total Qualifying Capital Resources}}{\textbf{BCR+HLA Required Capital}} \geq \textbf{100\%}$
4	BCR	Sum of (scaling factor x risk factor x exposure measure)
5	HLA	Sum of (HLA factor x scaling factor x risk factor x exposure measure)

BCR Required Capital

In general, the BCR Required Capital is calculated as follows:

BCR Required Capital = Required Capital for insurance business and non-insurance business

BCR Required Capital for insurance business = scaling factor (133%) x risk factor x exposure measure for each segment (see table below)

Risk category	Segment	Exposure measure	Factor
Traditional life	Protection life	Net amount at risk	0.06%
	Participating products	Net current estimate	0.6%
	Annuities	Net current estimate	1.2%
	Other life	Net current estimate	0.6%
Traditional non-life	Property	Premium measure	6.3%
	Motor	Net current estimate	6.3%
	Casualty	Net current estimate	11.3%
	Other non-life	Net current estimate	7.5%
Non-traditional insurance	Variable annuities	Notional value	1.2%
	Mortgage insurance	Risk in force	4.0%
	Guaranteed investment contracts (GICs) and synthetic GICs	Notional value	1.1%
	Other non-traditional	Net current estimate	1.3%
Assets	Credit – investment grade	Fair value	0.7%
	Credit – non-investment grade	Fair value	1.8%
	Equity, real estate and non-credit investment assets	Fair value	8.4%

BCR Required Capital for non-insurance business =

- Regulated banking business: max (capital required to meet the Basel III minimum leverage ratio of 3%, 8% of risk-weighted assets)
- Non-regulated banking business: capital required to meet the Basel III minimum leverage ratio of 3%, scaled up by 133%
- Securities business: 12% of three-year average gross income, scaled up by 133%
- Other non-insurance business: the applicable global capital standard, scaled up by 133%

As a transitional measure, the scaling factor (133%) is introduced gradually, increasing from 111% in 2016 to 122% in 2017 and 133% in 2018.

HLA Required Capital

The HLA Required Capital essentially uplifts each component of the BCR Required Capital by specified HLA factors depending on the systemic relevance bucket of each G-SII, as measured by its G-SII score.

Risk category	**HLA factors**		
	Low-bucket	**Mid-bucket**	**High-bucket**
Traditional life insurance Traditional non-life insurance Assets	6%	9%	13.5%
Non-traditional insurance Non-insurance – assets under management Non-insurance other	12%	18%	27%
Non-insurance regulated banking	8.5%	12.5%	18.75%
Non-insurance – unregulated banking	12.5%	18.75%	25%

This Executive Summary and related tutorials are also available in FSI Connect, the online learning tool of the Bank for International Settlements.