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CONTACT: Jules Gribble

+41 76 350 9128

Jules.Gribble@bis.org

Second Public Consultation Begins on Basic Capital Requirements for Global Systemically Important Insurers

Public consultation to continue through 8 August 2014

Basel – The International Association of Insurance Supervisors (IAIS) today released for public consultation its proposed Basic Capital Requirements (BCR) for global systemically important insurers (G-SIIs). This is the second public consultation on the BCR and is open until 8 August 2014.

In July 2013, the IAIS published its assessment methodology and policy measures for G-SIIs. These policy measures include a requirement for Higher Loss Absorption (HLA). As a foundation for HLA requirements, the IAIS has developed the BCR to apply to all group activities, including non-insurance activities, of G-SIIs.

In its first consultation, the IAIS sought feedback on design options for the development of the BCR. In this second consultation, the IAIS is seeking input on a specific proposal to facilitate the final design and calibration of the BCR before it is delivered to the G20 summit in November 2014.

The IAIS is proposing that BCR required capital will be calculated on a consolidated group-wide basis, with all holding companies, insurance legal entities, banking legal entities and any other service companies included in the consolidation. Consistent with the previously identified principles, the BCR has been developed to reflect major categories of risks impacting the businesses of G-SIIs and to account for on- and off-balance-sheet exposures. It will be constructed in three basic components: an insurance component; a banking component that applies the Basel III leverage ratio or risk weights; and a component for other non-insurance activities (financial and material non-financial) not currently subject to regulatory capital requirements. The BCR will be determined using a factor-based approach with 15 factors applying to defined segments within the main categories of insurance activity, namely Traditional Life insurance, Traditional Non-Life insurance, Non-Traditional (NT) insurance and Assets.

The development of the BCR is the first step of a long-term project to develop risk-based, group-wide global insurance capital standards. The second step is the development of HLA requirements to apply to G-SIIs, due to be completed by the end of 2015. The final step is the development of a risk-based group-wide global insurance capital standard (ICS), due to be completed by the end of 2016 and applied to Internationally Active Insurance Groups (IAIGs) from 2019.

For more information on the BCR, including how to submit comments, please visit www.iaisweb.org.

About the IAIS: The IAIS is a global standard setting body whose objectives are to promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders; and to contribute to global financial stability. Its membership includes insurance regulators and supervisors from more than 200 jurisdictions in nearly 140 countries. More than 130 organisations and individuals representing professional associations, insurance and reinsurance companies, international financial institutions, consultants and other professionals are Observers. For more information, please visit www.iaisweb.org.
