INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

9 July 2014

Subject: Copy of BCR Consultation Tool

**Please note that these comments were submitted using the IAIS online submission form. The CIA's comments are indicated in yellow below.*

1 Purpose

The purpose of this document is to provide a copy of the BCR Consultation tool in a format that can be shared among multiple staff members of an organisation. This should facilitate the process of gathering comments.

SPECIFICATIONS OF THE BCR CONSULTATION TOOL

IAIS Consultations

Your information:

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Organisation	<free text>	Mandatory
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Note: You need to click on **“Next”** or you use the **“Jump to Section…”** drop down box on the right top to save your entries. You can go back to the previous page to change or review the last set of questions by clicking on **“Previous”**

Q-Nr	Reference question	Jump to Section <drop down menu of Sections and questions>
2. Executive Summary		
Q1	2. General comments on Executive Summary	
<Free text box>		
Q2	2.1 Comments on Background & Mandate	
We understand that the BCR is being developed relatively quickly, as a stop-gap measure, so that capital requirements for G-SIIs can be established in short order. We also understand that the BCR will act as a foundation for the development of incremental HLA capital requirements, such that total capital requirement for G-SIIs will be BCR plus HLA. Finally, we understand that the ICS, when fully developed, is intended to replace the BCR as the foundation for HLA for G-SIIs, as well as to serve as the capital requirements for IAIGs that are not G-SIIs. We applaud the work done to date and the plans for HLA and ICS. It is also said that the role of the BCR will be reassessed when the development of the ICS is completed. It is our expectation that the ICS will more fully address entity-specific risks than the BCR and will generally be a superior risk-based capital requirement standard than the BCR. Given the compromises that were made in developing the BCR, as well as the lack of granularity in the BCR approach, we would encourage replacing the BCR with the ICS in defining the foundation for capital requirements for G-SIIs as soon as the ICS is fully developed.		
Q3	2.2 Comments on BCR Design	
We are pleased that the calibration of the BCR factors implicitly reflects some degree of diversification, and accounts for the absence of an ALM factor, but we suggest that this approach is not as robust as an explicit recognition of entity-specific diversification and ALM positions. Given the nature and variety of business and risk composition amongst insurance entities, we view this as a key difference relative to banks, which warrants an entity-specific treatment. However, we understand that the urgency with which the BCR is being developed may not permit the development of explicit recognition of diversification and ALM position within the formula. We therefore strongly suggest that the design of the ICS include explicit recognition of entity-specific diversification and ALM.		
Q4	2.3 Comments on Next Steps	
<Free text box>		
3. Proposed BCR Approach		
Q5	3 General Comments on Proposed BCR Approach	
<Free text box>		
Q6	3.1 Comments Application of BCR	
<Free text box>		
Q7	3.2 Comments on BCR ratio	
<Free text box>		

<table>
<tr><td>Q8</td><td>3.3 Comments on Required Capital</td></tr>
<tr><td colspan="2">The chart under paragraph 44 shows that over 50% of the capital requirements for insurance entities relate to asset risks. However, the table under paragraph 36 shows there are only three asset factors in the BCR formula (two for credit risk, and one for equity risk). We encourage making this component of BCR more granular by expanding the number of asset factors used. For example, we believe that 10 to 15 factors would be sufficient. We also believe this more granular credit and asset class data would be readily available to insurers, so the extra effort required to calculate the BCR formula would be minimal. To expedite the development of these factors for BCR purposes, existing factor-based insurance entity capital frameworks could be used as a source of factors for a wide array of asset classes and qualities. The factors in use in two or three such frameworks could possibly be averaged, after adjusting each source for known underlying differences.</td></tr>
<tr><td>Q9</td><td>3.4 Comments on Insurance</td></tr>
<tr><td colspan="2">Products in which the policyholder shares in the risk (e.g., traditional dividend-paying participating products, non-par adjustable products, and other so-called risk pass-through products—collectively referred to here as “participating products”) typically represent a markedly different and much lower risk to the insurance entity than otherwise similar but fully guaranteed non-par products. Accordingly, we would expect the insurance risk capital requirements for participating products to be markedly lower than for otherwise similar non-par products.

For the same reasons, we would expect the asset factors for required capital to be lower for assets supporting participating products than for assets supporting guaranteed non-par products.</td></tr>
<tr><td>Q10</td><td>3.5 Comments on Non-insurance</td></tr>
<tr><td colspan="2"><Free text box></td></tr>
<tr><td>Q11</td><td>3.6 Comments on Indicative capital allocation</td></tr>
<tr><td colspan="2"><Free text box></td></tr>
<tr><td>Q12</td><td>3.7 Comments on BCR principles</td></tr>
<tr><td colspan="2"><Free text box></td></tr>
<tr><td colspan="2">4. Qualifying Capital Resources</td></tr>
<tr><td>Q13</td><td>4 General Comments on Qualifying Capital Resources</td></tr>
<tr><td colspan="2"><Free text box></td></tr>
<tr><td>Q14</td><td>4.1 Comments on Tiering of Capital Resources</td></tr>
<tr><td colspan="2">Available Capital Resources are intended to be split between core capital and additional capital. Without a full testing of the proposed tiering, we are concerned that there may be unintended consequences. We recommend implementing the tiering mechanism only after full testing has been conducted and any ripple effects have been assessed.</td></tr>
<tr><td>Q15</td><td>4.2 Comments on BCR Ratio and HLA requirement</td></tr>
<tr><td colspan="2"><Free text box></td></tr>
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<tr><td>Q16</td><td>4.3. Comments on Further work potentially affecting the current definition of Core Capital</td></tr>
<tr><td colspan="2"><Free text box></td></tr>
<tr><td>Q17</td><td>4.4 Comments on G-SII capital resources</td></tr>
<tr><td colspan="2"><Free text box></td></tr>
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<tr><td colspan="3">5. Market Adjusted Valuation Approach</td></tr>
<tr><td>Q-Nr</td><td>Reference question</td><td>Jump to Section <drop down menu of Sections and questions></td></tr>
</table>

Q18	5 General Comments on Market Adjusted Valuation Approach
<Free text box>	
Q19	5.1 Comments on Valuation principles
The measure of “current estimate” of insurance liabilities is meant to be unbiased. There is mention, however, of potentially reintroducing the Margins on Current Estimates (MOCE), or some portion thereof, into the technical provisions. The decision to include MOCE or risk margins is not an important concern to us, but consistency is. From that perspective, we suggest that: (1) All entities in all geographies should be subject to the same requirements. This would likely be easier to accomplish if MOCE was not included in the current estimate of liabilities; (2) The measurement of Qualifying Capital Resources should be consistent with the measurement of the current estimate of liability; and (3) The calibration of Required Capital should consider that the liability is a current estimate. The treatment of MOCE should also be reviewed in the context of the development of the ICS. We expect that the revaluation discussed in paragraph 57 has a consequent impact on the amount of Capital Resources available to meet capital requirements; e.g., if a revaluation lowers a liability relative to its balance sheet value, then Capital Resources would ordinarily increase by the decrease in the liability.	
6. Impact on G-SIIs and potential G-SIIs	
Q20	6 General Comments on Impact on G-SIIs and potential G-SIIs
<Free text box>	
Q21	6.1 Comments on Calibration Level and Capital Resources
<Free text box>	
Q22	6.2 Comments on Reporting and Applicability
<Free text box>	
Q23	6.3 Comments on Implementation of the BCR
<Free text box>	
7. Communication plans and next steps	
Q24	7 General Comments on Communication plans and next steps
<Free text box>	
Q25	Comments on Annex A – BCR Principles
<Free text box>	
Q26	Comments on Annex B – Glossary
<Free text box>	

Q27	Comments on Annex C – Insurance Liabilities and Reinsurance Recoverables
Our most significant concern with the consultation document is the prescription that the discount spot curve be flat after 30 years (paragraph 46 of annex C). Our understanding is that the prescribed discount curves have a direct impact on the valuation of insurance liabilities, and hence on the value of Capital Resources available to meet capital requirements. There is also a second-order impact on capital requirements, which are a factor applied against the current estimate of liabilities calculated in this manner. Our concern is that the discount rates used for years 30+ will, for several insurance entities, have a very material effect both on the available Capital Resources and on the capital requirements (i.e., both the numerator and the denominator, and in opposite directions, exacerbating the impact on the capital ratio).	

We would strongly encourage that the discount rates only be linked to the current market data for durations where the market is deep and liquid and in sufficient volume to be credible. Discount rates used for the period beyond the last liquid point of the observable spot curve should be graded (over a reasonably short period of time) to an ultimate discount rate at a duration that is prescribed. The ultimate discount rate should be developed giving more weight to long-term estimates than to short-term fluctuations. The ultimate discount rate would only be promulgated from time to time based on an updated long-term estimate. This would replace the proposal of a simple flat extension of the current 30-year spot rate.

As an example, assume that the current 20-year spot rate is the last liquid point observable with a rate of 3.5%, and that the long-term estimate is a rate of 5%. We would then suggest that the discount rates for the period beyond the last liquid duration of the observable term structure be prescribed to grade from the longest observable rate (3.5% at year 20) to a rate of 5% by year 30 or 40, for example, and then be level for all subsequent years. This seems to us consistent with the principle of calculating an unbiased current estimate of the liability, and simultaneously mitigates the undue volatility in the capital ratios. The Canadian Institute of Actuaries would be happy to support the development of long-term discount rate assumptions consistent with this approach.

In addition, in paragraph 48, the meaning of the term “investment grade corporate bond” should be clarified. A possibility would be to refer to a specific rating category (or an average across two or more rating categories). This assumes that the discount rates will be derived by the insurance entities themselves, as opposed to being supplied by the IAIS indefinitely.

Q28	Comments on Annex D – Qualifying Capital Resources – ComFrame
In paragraph 9, the meaning of the term “realizable value” should be further clarified.	
Q29	Comments on Annex E – Guidance for specific balance sheet items
<Free text box>	
Q30	Comments on Annex F – BCR Formula and Derivation
<Free text box>	
Q31	Comments on Annex G – Mapping table: BCR category to field testing data collection
<Free text box>	
Q32	Comments on Annex H – Sensitivity Analysis
<Free text box>	