Global capital standards will reinforce the international level playing field

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The introduction of global capital standards in the insurance field should help prevent regulatory arbitrage, increase financial stability, guarantee a level playing field and strengthen international supervisory coordination, for the benefit of the economy at large, including financial institutions and consumers.

In this context, the development of a Basic Capital Requirement (BCR) has the main objective of creating a first layer of comparability at global level, allowing its use as a basis for the calculation of Higher Loss Absorbency (HLA) for the Global Systemically Important Insurers (G-SIIs).

The BCR should be kept simple and straightforward in its presentation, therefore relying on a factor-based approach. However, it is inappropriate to use a single factor solution, similar to the banking sector Leverage Ratio. Insurance balance sheets are far more complex than banking ones.

As for the development of the Insurance Capital Standard (ICS), we would need an evolutionary approach. The basic sound principles of Solvency II should be applied internationally. This means that the international capital standards should incorporate the fundamental principles underlying Solvency II: a total balance sheet approach, clear and transparent target criteria for calibration of capital requirements, explicit recognition of risk diversification and consideration in capital requirements of all the material risks to which the group is exposed.

But, that does not mean that the ICS need to be as granular as Solvency II. A step-by-step approach that will allow for the use of calculations with different levels of sophistication and progressively create more commonality at the level of calibration could be envisaged.

In this context, Solvency II could be viewed as a practical implementation of the ICS, but going forward we should be open to make adjustments to it if that is needed. Groups should be subject to only one capital regime.