

Global Insurance Capital Standards

Perspectives of a U.S. G-SII

International Congress of Actuaries

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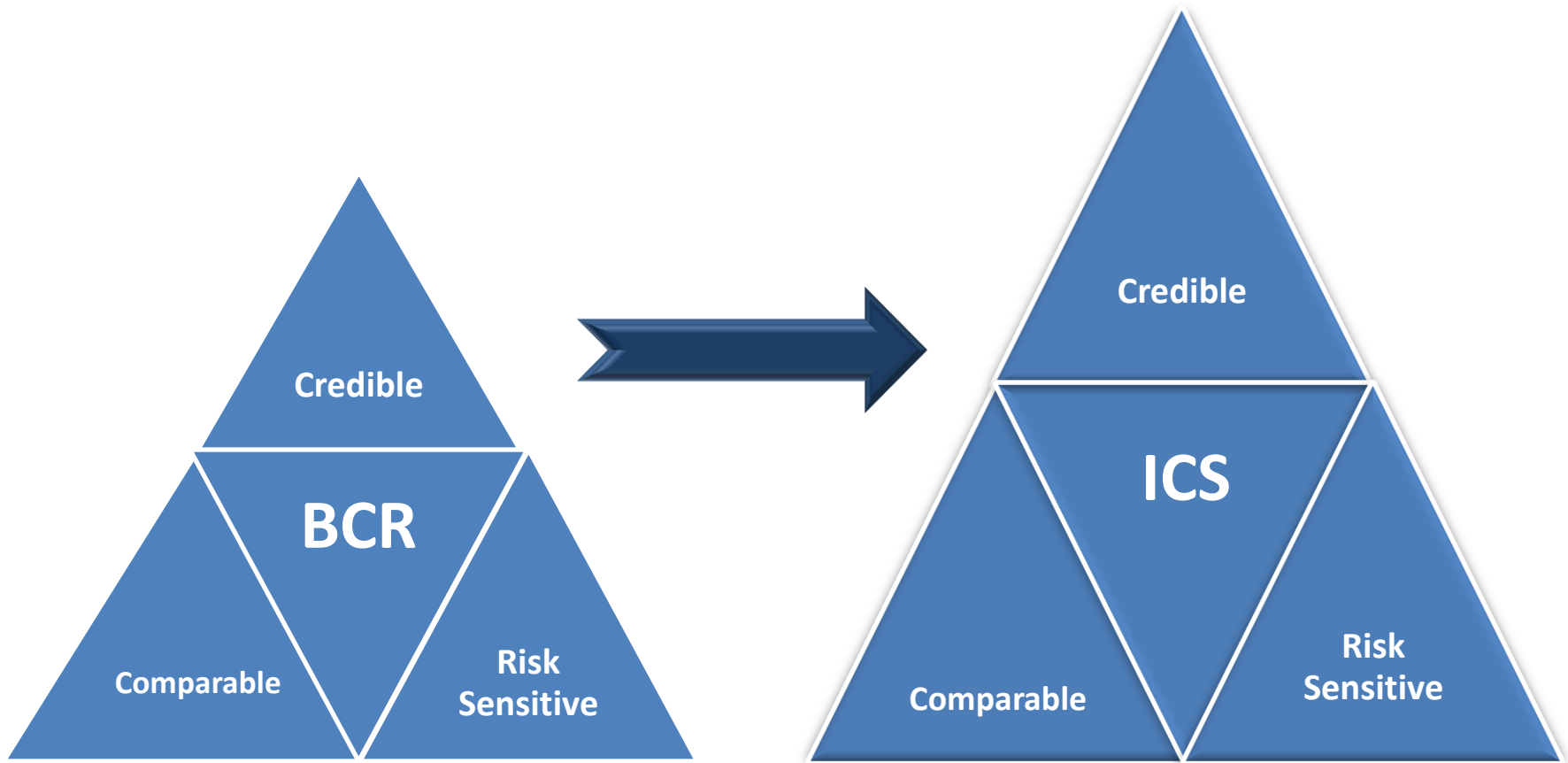
Perspectives on Group Supervision

Group-wide supervision of at least large, multi-national insurance enterprises is inevitable.

Group capital standards for insurers are a necessary part of the framework.

We believe that a required capital framework can achieve comparability and risk sensitivity while accommodating local accounting bases.

Common Foundation for BCR and ICS



- **Factor-based**
- **Balances simplicity with risk sensitivity**

- **Stress/Scenario-based**
- **Increased risk sensitivity**

A Framework for the BCR & ICS: 4 Key Elements

BEST ESTIMATE LIABILITIES (BEL)

- Recognize the loss absorbing capacity of assets backing margins in reserves

CONSISTENCY BETWEEN VALUATION OF INSURANCE LIABILITIES AND RELATED ASSETS

- Valuation of BEL follows existing frameworks and drives how assets backing BEL are determined.
- *Identical* valuation of BEL is not as critical as *consistency between* the valuation of BEL and how assets backing BEL are determined.

FAIR VALUE OF AVAILABLE CAPITAL

- Everything on the balance sheet, other than BEL and assets backing BEL, should be on a fair value basis.

RISK-BASED DETERMINATION OF REQUIRED CAPITAL

- BCR: Balances simplicity with risk sensitivity – applies risk factors to risk drivers (e.g., sums insured)
- ICS: Comprehensive, robust, risk sensitive – reflects the impact of stresses on assets and liabilities
- Agnostic with respect to accounting frameworks

Building Credible, Comparable and Risk Sensitive Measures of Capital

BCR

&

ICS

Available Capital =

Fair value of assets in excess of those required to support the best estimate of insurance liabilities (BEL)

- Use of BEL eliminates the major source of inconsistency
- Assets backing BEL determined on a basis consistent with the valuation of BEL
- All other assets and liabilities valued on a fair value basis

Required Capital =

Capital required for each risk to which the insurance company is exposed, net of diversification

- BCR: Focus on a few key risks (mortality, equity, credit, operational, P&C) through factors applied to drivers
- ICS: Reflect all risks (including asset-liability mismatch, policyholder behavior, etc.) through a total balance sheet response to stress