

Approaches for MOCE

From IAA MOCE Task Force

**Presented by Dave Sandberg, Chair IAA Insurance Regulation
Committee
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Purpose of ICS

1. Tool to facilitate members of a supervisory college to sustainably oversee insurers.
2. Provide an approximate indicator of the relevant relative strength of IAIG's through metrics in combination with other ComFrame tools.
3. These combined tools should highlight issues of possible concern and allow proactive planning for any recovery and/or resolution issues.



Assessing Risk & Uncertainty

1. Risks with relatively stable and known distributions can be reliably quantified.
2. How to handle uncertainties of unknown distributions. Only estimated through ranges, at best.
3. MOCE and capital are provisions both for risk and uncertainty
4. A single number/ratio will not capture all the dimensions of the risks and mitigants of an insurer. Other Level 2 (ORSA, stress testing, etc.) and Level 3 (disclosures to regulator) are needed to address this issue.



Keys to Consistent and Comparable Assessment of Financial Strength



I. Central Estimates

Need to be part of a comprehensive set of financial statements certified by auditors, appointed actuaries and/or other suitable person



II. MOCE

1. Should be determinable and be disclosed in the financials or other documentation as to their approximate relative sizes.
2. Require documentation to supervisors to disclose risks covered and methodology.
3. If underlying set of numbers and results can be trusted as reasonably reliable then supervisors can assess significance and relation of margins and capital for financial/non-financial risks and short and long term risks and uncertainties.



III. Stress & Cash Flow Testing

1. Identify and assess issues not apparent on face of the statements
2. Assess the sufficiency and implications of actual cash flows to address the vulnerabilities unique to a specific IAIG
3. Facilitate recovery/resolution pre-agreements for members of a supervisory college
4. It can also be used, over time, to help adjust the design and overall calibration of the overall ICS/MOCE regime.



Equivalence

Keys of Central Estimates, MOCE & Stress Testing will be valuable to assess and calibrate jurisdictional differences in required margins and capital requirements.



Is MOCE Capital?

One approach – allow no credit for margins as available capital at first level of intervention.

1. Triggers required sharing and disclosure of margins
2. Can then assess relative credit to allow for financial vs. non-financial, short vs. long tail business and par products in order to judge relative strength within and across jurisdictions.
3. Can also assess what is needed to run off the business



Consistency Challenge

1. Each will have different risk profiles and relative strengths.
2. Thus the MOCE relative size will vary from one insurer to the next and due to differing professional judgements on the split between current estimate and risk margin and a need for greater conservatism (due to more uncertainty) in the risk margin (MOCE) itself.
3. Supervisors benefit from knowledge of these differences and should use this information in their ladders of supervisory intervention and to allow levels of partial credit.



IAA Formal Feedback

1. Written summary of reasoning behind these recommendations
2. Table of considerations and issues for C-MOCE and P-MOCE alternatives for various balance sheets (MAV, OAG, IFRS 17, Solvency 2, GAAP+, Australian and Canadian GAAP and US Statutory)



Thank you



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