



IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

Public Background Session on the Draft Holistic Framework for Systemic Risk in the Insurance Sector

29 November 2018, Teleconference



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Introduction

Systemic Risk Workplan

- **February 2017:** Announcement of the work plan to develop a holistic framework for assessing and mitigating systemic risk in the insurance sector, which includes three work streams:
 - Development of an Activities-Based Approach
 - Addressing cross-sectoral aspects
 - Revising the Entities-Based Approach
- **December 2017:** Launch of an interim consultation, focusing on the first work stream only.
- **November 2018:** Launch of a public consultation on a draft Holistic Framework for Systemic Risk in the Insurance Sector, bringing the three strands of work together.
- **June 2019:** Launch of public consultation of revised ICP & ComFrame
- **November 2019:** adoption by AGM of Holistic Framework

Introduction

Objectives of the framework

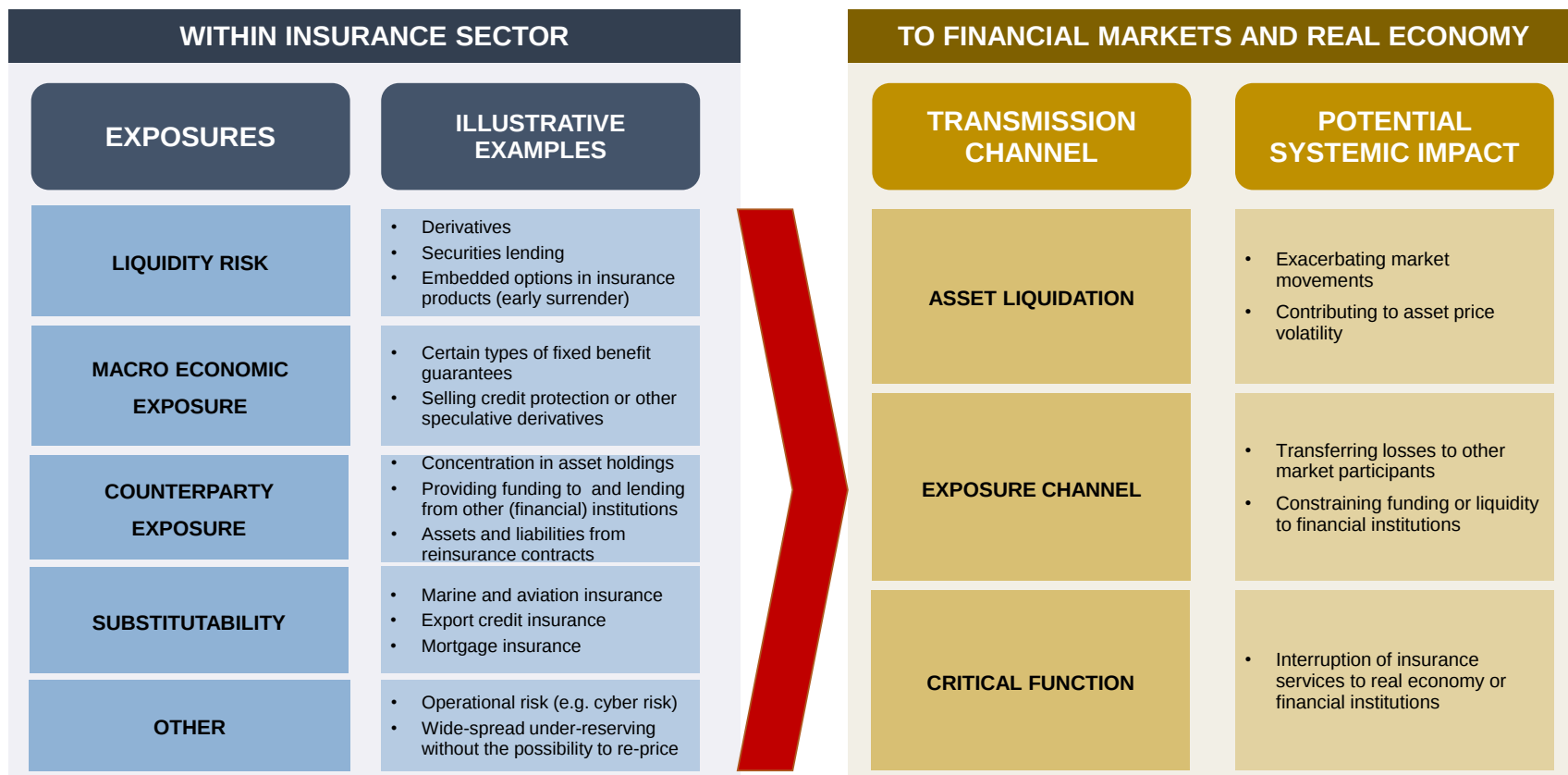
- The aim of the framework is to be able to **prevent** systemic risk from materialising, **identify** the build-up of potential systemic risks and, lastly, to **mitigate** these risks should they materialise anyway.
- With the holistic framework, the IAIS proposes to evolve its current approach to systemic risk, by:
 - Taking into account both the ABA and EBA
 - Addressing cross-sectoral aspects of systemic risk
 - Moving away from a binary approach to a proportionate application of an enhanced set of policy measures for macroprudential purposes



Questions to Stakeholders

The purpose of this consultation is to provide an opportunity for stakeholders to give feedback on the overall holistic framework and its key elements.

Sources of systemic risk



Key elements of the framework

The key elements of the holistic framework are:

- **An enhanced set of supervisory policy measures** for macroprudential purposes
- **A global monitoring exercise by the IAIS** designed to detect the possible build-up of systemic risk in the global insurance sector
- Where a potential systemic risk is detected, **supervisory powers of intervention** that enable a prompt and appropriate response
- **Mechanisms that help ensure the global consistent application of the framework**, by having a collective assessment of potential global systemic risk and a coordinated supervisory response when needed
- Lastly, there is **an assessment by the IAIS of the consistent implementation** of enhanced on-going supervisory policy measures and powers of intervention

Supervisory policy measures

Introduction

- The policy measures for macroprudential purposes provide the pre-emptive part of the framework.
- They consist of three elements:
 - Macroprudential surveillance by supervisors
 - Requirements on insurers
 - Crisis management and planning
- The requirements on insurers will be explicitly targeted at a certain identified potential systemic risk, the other elements will have a broader application to assess and/or mitigate potential systemic risks.
- The policy measures will be integrated in the IAIS supervisory and supporting material (ICPs, ComFrame, Application Papers)
- Hence, the proportionality principle also applies.

Supervisory policy measures

An overview

	<i>Policy measure</i>	<i>Scope of application</i>	
		<i>ICP: Legal entity / Group</i>	<i>ComFrame: IAIG</i>
Macroprudential surveillance	Enhance link of macroprudential monitoring to the supervisory framework	●	●
Requirements on insurers	Liquidity management & planning	○	●
	Strengthened enterprise risk management	○	●
	Disclosure requirements on liquidity risk	●	●
Crisis management and planning	Crisis management groups		●
	Recovery plan	○	●
	Resolution plan		○

[] Not applicable; [○] Required as necessary only; [●] Required



- Scope of application of measures (eg IAIGs and other insurers “as necessary”)
- Appropriateness of the policy measures in addressing the identified sources of systemic risk

Global Monitoring exercise

Objectives

The annual monitoring exercise by the IAIS will serve to determine any potential build-up of systemic risk at a **global** level, as a **complement** to the macroprudential surveillance by supervisors

The exercise entails:

- A continuation of the data collection to assess any potential systemic risk stemming from an individual insurer level, but based on an updated assessment methodology
- A broadening of the purpose of the exercise to assess also sector-wide trends and developments
- A collective discussion on the assessment of potential systemic risks and an appropriate supervisory response (see slide 12)
- A report of outcomes to participating insurers, the FSB, and the public

Global monitoring exercise

Further work in 2019

- Finalising the updated assessment methodology for individual insurer systemic risk:
 - A move to a more absolute approach
 - Using a combination of criteria to indicate a high level and/or trend of increasing global systemic risk
 - The role of the ancillary indicators, as well as the development of a liquidity metric
- Developing the scope, structure and modalities of the sector-wide systemic risk monitoring including data collection



- Input on the move towards a more absolute approach and the introduction of a liquidity metric
- Suggestions for the development of the sector-wide monitoring

Supervisory powers of intervention

OBJECTIVES

- In response to an indication of the build-up of systemic risk...
 - at the entity or sector-wide level
 - based on the jurisdictional macroprudential surveillance or on the global monitoring exercise by the IAIS
- Having a sufficient broad set of powers at its disposal, enables the supervisor to take prompt action

RECOMMENDED TOOLBOX

- Reporting on the management of systemic risk
- Restrictions on business activities
- Large exposure limits
- Reinforcement of the financial position, such as:
 - Requiring measures that reduce or mitigate risks
 - Requiring an increase in capital
 - Restricting or suspending dividend payments

Globally consistent application

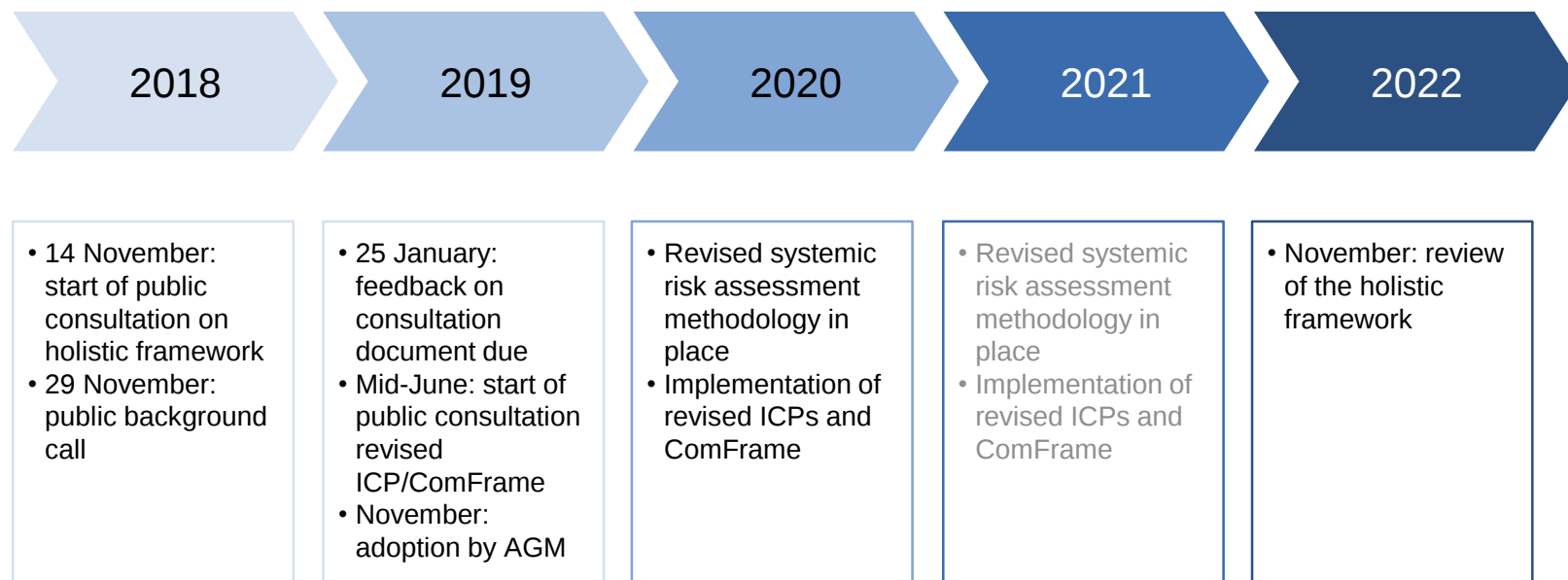
Mechanisms that help ensure the consistent application of the framework involve:

- Collective discussion at the IAIS level, to:
 - Assess trends and any systemic risks identified at a sector-wide level
 - Consider any insurer that is demonstrating a significant level and/or trend of increasing potential global systemic impact of failure
 - Consider the appropriate supervisory response, taking into account the supervisory on-going policy measures and powers of intervention.
- Reporting to the FSB on the outcomes of the IAIS assessment and the supervisory response.
 - Proposal to suspend the annual identification of G-SIIs until the review in November 2022

Implementation Assessment

- Robust implementation assessment can be seen as the final step in a mutually reinforcing cycle of activities that consists of monitoring, standard setting and implementation assessment.
 - Also an important part of the new strategic plan
- A transparent process of implementation assessment will thus help ensure a globally consistent application of macroprudential policy measures.
- In practice, these activities will build on existing implementation assessment methods for international supervisory material such as the IAIS Peer Review Process (successor of the Self-Assessment and Peer Review).

Next steps and timelines



- Until 25 January 2019 on the holistic framework consultation document
- In June 2019 on the exact language of the proposed revised supervisory material

QUESTIONS?
