



IAIS Global Seminar 2021

23 June 2021

Public Q&A summary

International Capital Standard (ICS)

1. *How has internal work and thinking with regard to Solvency II Internal Models in relation to the ICS evolved, other than what has been announced after the 2019 meeting during which the ICS was approved?*
 - The work on the possible inclusion of internal models as part of other methods of calculation of the ICS capital requirement is still ongoing. As noted in 2019, a decision on the inclusion of internal models, similar to the GAAP with Adjustments valuation approach, will be made by the end of the monitoring period.
 - The public consultation on ICS as a prescribed capital requirement (PCR), scheduled for 2023, will also cover internal models and the question of their inclusion.
 - The IAIS is considering internal models more broadly than just Solvency II Internal Models, as the ICS will apply to Internationally Active Insurance Groups (IAIGs) from all over the world.
2. *To what extent can the insurance industry support the IAIS with regard to the Internal Model topic?*
 - We would encourage insurers to take part in the ICS monitoring period as this is the most effective way to engage with the ICS process.
 - Further, since reporting on internal model results is part of additional reporting, it is optional at the discretion of the group-wide supervisor (GWS). As such, we have a smaller subset of Volunteer Groups providing this information. This makes it even more important that those Volunteer Groups advocating for the inclusion of internal models in the ICS as PCR provide high-quality and robust data.
3. *Is there a working group within the IAIS that is dealing with the Internal Models question – if so, what are they doing in this regard (is there an update they could provide)?*
 - Yes, there is a work stream of the Capital, Solvency and Field Testing Working Group (CSFWG) that is considering this issue. This group makes recommendations regarding the data that should be collected on internal models, as well as the prerequisites for the submission of internal model results.
4. *There was a request for the ICS Monitoring Period to continue at last year's best effort basis – rather than improving accuracy (considering the continuing difficult environment).*
 - One of the goals during the monitoring period is to improve the accuracy of reporting over the five years. Last year, submissions in year one of the monitoring period were on a best-efforts basis to provide operational relief to participating Volunteer Groups. However, as the monitoring period progresses, there should be fewer simplifications

and simplifying assumptions. The IAIS is not asking that full systems be developed immediately for ICS calculations, but rather that the reliance on these simplifications decrease over the monitoring period. We have seen that simplifications can have an impact on the overall solvency ratio. As such, we have asked Volunteer Groups to begin improving the accuracy of reporting so that we can appropriately assess the ICS performance.

5. *Monitoring Period: the pandemic has limited the opportunity for relevant stakeholders to meet to discuss the outcomes of the ICS – hence there is fear that the ICS Monitoring Period may not be as effective. How is the IAIS making sure the Monitoring Period is effective despite the current challenges and is the IAIS considering extending the Monitoring Period?*

- The IAIS has continued its direct engagement with Volunteer Groups, through virtual means, including regular check-ins during the reporting period for the first year of the monitoring period, as well as a workshop to discuss the results and the analysis conducted. In addition, the IAIS held an ICS Stakeholder Event in early June to provide an overview of the first year of the monitoring period and communicate changes to the specifications for year two.
- Despite the pandemic, the ICS project remains firmly on track and we have no plans to extend the monitoring period. In setting our 2021-2022 Roadmap, the IAIS ExCo agreed that delivering on the further refinement of the ICS during the remaining four years of the monitoring period remains a key priority for the IAIS and that there was no need to adjust this workplan at this time.
- For last year's data collection, due to Covid-19, we adjusted some of our timelines for data submission and discussions in supervisory colleges. Despite this, we still managed to have very good engagement with Volunteer Groups from all parts of the world. ICS also moved from being a "policy development" project to a "supervisory" discussion, as despite the shorter timeframes we still managed to receive very helpful feedback from GWSs and supervisory colleges about ICS performance. This substantial feedback from Volunteer Groups and supervisors will contribute to further refinements during the monitoring period.
- In common with other implementation monitoring periods for other international standards, the five-year monitoring period for the ICS was set to allow it to capture an economic cycle. The events thrown at us during 2020/21 provided more than enough data points and evidence of a stress event. Therefore, there is no reason to further extend the monitoring period.

Aggregation Method comparability

6. How does the IAIS plan to engage with the stakeholders other than a planned consultation towards the end of the year?

- Many of the comments received during the public consultation requested clarification of the terminology used. Clarity of interpretation is intended to be addressed as part of the development of the criteria.
- The IAIS received numerous comments that provided valuable input for further advancing this work. The feedback received, to the extent that it is consistent with

and does not contradict the high-level principles and/or previous IAIS decisions regarding comparability, will be considered in the development of the draft criteria.

- Once draft criteria are agreed, there will be a public consultation. Further stakeholder input on this topic is, of course, always welcome.

Data collection

7. *A topic of concern raised was the Covid-19 data collection, which has been rather demanding. It would be good to get a sense as to how future requests will be coordinated (with national supervisors, GIMAR, consultations etc.) and whether they will be more focused.*

- Last year we streamlined the Global Monitoring Exercise (GME) to focus purely on monitoring the impact of Covid-19 on the insurance sector. To provide operational relief to the industry, Covid-19 targeted data collections were reduced in scope compared to the regular GME data collections. Their frequency was increased because of the need to more closely monitor the impact of the pandemic on the global insurance industry. From liaising with insurance groups either directly, through workshops or in international virtual meetings, the output of the targeted Covid-19 assessment was insightful and appreciated, not only by our Members but also by participating insurers. It has also been important to monitor the impact of Covid-19 on the global insurance sector to be able to report on its operational and financial resilience as well as on the potential vulnerabilities towards the Financial Stability Board (FSB) and the G20.
- The IAIS has suspended the Covid-19 data collections, with the possibility to restart collecting Covid-19 data for instance in the case of significant financial market downturns. Future requests will be coordinated with our Members. Developments in financial markets are monitored closely through our financial markets risk dashboard. Lessons-learned from last year's Covid-19 data collections and this year's regular GME will feed into the further improvement of next year's data collections – and future consideration of whether there is room to reduce market fragmentation in supervisory reporting on key indicators.

8. *What is the IAIS' view on the level of burden insurers face in data collection exercises? Is it robustly justified? What would be the potential solution to keep the burden to the minimum necessary level, while also taking account of proportionality considerations?*

- The IAIS always seeks to adopt a proportionate approach in developing our data collection exercises. We only ask for data that is relevant to the issues we are trying to assess and/or monitor.
 - For the ICS, we believe insurers recognise the importance of the data collection to allow for effective analysis to ensure the ICS represents a standard that appropriately captures risk.
 - For the GME, the data request is focused on collecting a proportionate set of data to effectively assess emerging risks in the global insurance sector.
 - If firms have specific data requests that they have concerns about or suggestions on alternative data sources, we would welcome feedback on these issues.

- Last-year we streamlined the GME to focus purely on monitoring the impact of Covid-19 on the insurance sector. To provide operational relief to the industry, Covid-19 targeted data collections were reduced in scope compared to the regular GME data collections. An increased frequency was necessary to monitor the impact of the pandemic on the global insurance industry.
- Going forward, the IAIS has decided to suspend the Covid-19 data collections, with the possibility to restart collecting Covid-19 data for instance in case of significant financial market downturns.
- Lessons learned from data collections will feed into the further improvement of next years' data collections.

IAIS Holistic Framework

9. *Concerns have been raised on how the liquidity metric being developed as an ancillary indicator for individual insurer monitoring (IIM) will be used in practice by the IAIS or individual supervisors. What is the current IAIS thinking in this regard?*
- The GME takes a holistic approach by looking at potential risks arising both from sector-wide trends with regard to specific activities and exposures, but also from the possible concentration of systemic risks at an individual insurer level arising from these activities and exposures. Liquidity risk is one of the key exposures that we monitor at both the individual insurer and sector-wide level.
 - In the GME, the IAIS can make use of ancillary indicators. Ancillary indicators do not affect the total individual insurer systemic risk score. However, they may provide additional context that can inform the overall assessment.
 - The IAIS is currently developing liquidity metrics as ancillary indicators. These liquidity metrics will serve as a tool for the IAIS to assess insurers' liquidity exposures as part of the GME. They will not be a binding requirement, but rather a monitoring tool, and will help identify trends in insurer and insurance-sector liquidity risks. A first such metric was consulted upon, the "insurance liquidity ratio", which intentionally is a simplified factor-based measure aimed at monitoring liquidity risk developments without creating additional reporting burden for insurers participating in the GME (IIM). As part of the next phase of this work, the IAIS will consider whether additional granularity is needed in developing other approaches, for instance the company projection approach, which uses insurers' projections of cash flows to assess liquidity risk.
 - Separately, as part of the Holistic Framework supervisory material, the IAIS enhanced the enterprise risk management requirements in ICP 16 to more explicitly address liquidity risk, and published an Application Paper last year providing more practical guidance for supervisors to implement these new requirements. ERM requirements are tailored to the nature, scale and complexity of an insurer's activities that lead to increased liquidity risk exposures and risk amplification effects related to their size. So it is important to note that the development of liquidity metrics as part of the GME serves a different purpose— and is not linked to supervisory requirements.
10. *What are the emerging conclusions of the IAIS discussions on the potential build-up of systemic risk in the global insurance sector based on the outcome of the 2021 GME*

(which happened after adoption of the holistic framework)? Are there any key themes that the IAIS already has in mind?

- During the [Global Seminar panel discussion](#), we provided an update on the outcomes of the 2020 GME, which was focused on the impact of Covid-19 on the global insurance sector.

11. *What are the most important global market trends and developments that the IAIS is assessing at the present time? How is the IAIS coordinating this assessment of trends and developments with other standard setters, including the Financial Stability Board? How has the IAIS revised its risk dashboard in light of Covid-19 risks and challenges?*

- The GME is the IAIS' risk assessment framework to monitor key trends and financial stability risks and the potential build-up of systemic risk in the global insurance sector. It allows the IAIS to provide a financial stability perspective on the global insurance sector in the international policy debate, through our reports to the FSB, which coordinates inputs across all financial sectors and reports to the G20. For the July G20 meeting, the FSB will report to the G20 on lessons learnt from Covid-19, to which the IAIS has provided an insurance sector perspective. The IAIS also reports on the key outcomes of the GME to its other main stakeholders, which are the insurers participating to the GME, through workshops and insurer reports, and the public through the Global Insurance Market Report (GIMAR).
- In the 2021 GME, four thematic global insurance sector areas of focus were identified, which will be assessed more closely going forward:
 - The low interest rate environment. Covid-19 has triggered unprecedented monetary policy interventions, further deepening interest rates in many jurisdictions. This has direct effects on insurers, for instance through profitability strains, as well as indirect effects from associated management actions, such as potentially reaching for yield and changing business models by altering life insurance product offerings and transferring (parts of) the (re)insurance business. Relatedly, the private equity industry has a growing interest in acquiring life insurance assets, which has the potential to increase risk in the global insurance sector and financial system.
 - Increased credit risk. Sovereign and corporate debt levels are at historic levels. This could lead to credit spreads widening, defaults and rating changes. Insurers, as substantial fixed-income investors, need to manage this risk in their asset and liability portfolios. Relatedly, insurers may be taking on more credit risk in their search for yield in this low interest rate environment.
 - Cyber risk. Cyber risk was already increasing before the pandemic, however during the pandemic a rising number of cyber-attacks was recorded (in terms of numbers, impact and sophistication). Recent trends such as increased remote working, the shift to digitalisation and rise of new technologies increase cyber risk going forward. Insurers face risks both as firms that can themselves be attacked and as underwriters of these risks.
 - Climate risk. Climate risk impacts insurers on both sides of the balance sheet, and is global and system-wide in nature. It can stress economies and cause market disruptions that affect both policyholders and insurers. More frequent catastrophes can put pressure on insurers' business models and make

insuring some risk unaffordable for customers or difficult to cover for insurers. Climate risks can be either physical, directly affecting the insurance business, or transitional, affecting insurers' portfolios as assets are repriced. In 2021, the IAIS climate risk assessment will focus on the impact on the asset side of insurers.

- The IAIS also monitors key developments in financial markets using a risk dashboard and data from external providers. This complemented the monitoring of confidential data from insurers and supervisors. Key categories monitored in the risk dashboard are insurers' financial market performance (eg insurers equity prices, insurers' debt yields and spreads), insurers' credit ratings and rating outlooks, the macroeconomic outlook, and the performance of key asset classes such as sovereign and corporate bond markets (yields, spreads, ratings and rating outlooks) and real estate markets.

12. *What have been the key findings of the ongoing monitoring by the IAIS and relevant group-wide supervisors of internationally active insurance groups and how has this influenced the development of IAIS guidance?*

- The IAIS targeted Covid-19 data collection concluded that despite a significant initial shock to financial markets caused by the pandemic, the global insurance sector demonstrated both operational and financial resilience, aided by supervisory measures providing operational relief and by significant monetary and fiscal support measures in financial markets in certain regions.
- This year, we are performing the regular GME – the process as it was initially designed – with the aim to monitor key risks and trends and detect the possible build-up of systemic risk in the global insurance sector.
- More broadly, the GME also feeds into our annual Roadmap process. Any significant insurance sector trends or risks that we think are important to address in terms of our mission of policyholder protection and contributing to global financial stability will be the subject of further standard setting, guidance on supervisory practices or supervisory capacity building, as appropriate. The outcome of the GME this year, plus the current GIMAR special topic on climate risk, will provide key input into further shaping our work programme.
- In addition, our annual CRO Roundtable (which is part of the GME process) also feeds into the Roadmap process. Here we have discussed risks posed from the low-for-long interest rate environment, credit risk, cyber risk and climate risk.

Technological innovation

13. *The COVID-19 crisis has clearly demonstrated the importance of digital communication for business continuity and accelerated consumers' expectations of being able to carry out paperless transactions. How does the IAIS align its work to this?*

- The IAIS identified digitalisation and technological innovation issues as an important part of its Strategic Plan. The crisis definitely accelerated the demand for, and supply of, digitalised applications to maintain the ongoing resilience of insurers as well as to ensure the delivery of uninterrupted, high quality services to policyholders.

- Increasing customer demand for these types of digitalised offerings has also increased pressure on incumbent insurers to adopt more innovative approaches to insurance services in order to compete with BigTech and FinTech market entrants.
- These accelerations have reinforced the need for supervisors to ramp up their own efforts to enable the digital transformation of the sector in a meaningful and responsible way.
- To this end, the IAIS' FinTech Forum is currently exploring how our members can and should respond to the emerging opportunities and risks triggered by specific technology applications in the insurance sector. In particular, they are looking at the adequacy of current regulatory and supervisory frameworks to respond to increasing demands for the use of Artificial Intelligence, Machine Learning, Interoperable Data Interfaces and Blockchain technology to open up the insurance landscape for more innovative product development and wider market access.
- An important part of this work also includes ensuring that, while promoting increasingly digital-friendly insurance markets, supervisors continue to be mindful of potential new or heightened risks posed to policyholders and insurers as a result of the rapid pace of digital transformation being experienced by the sector.

Cyber resilience

14. *Following the IAIS' Cyber Underwriting Small Group (CUSG) report in December, what does the IAIS intend to do regarding cyber underwriting or cyber resilience issues? If the focus is to be on cyber resilience of insurers or outsourcing providers, how will any conclusions be balanced against the substantial positive effects of digitalization and the adoption of InsurTech in the sector? What are the IAIS's plans for future stakeholder engagement as it moves to next steps on cyber?*

- Cyber risk and resilience is certainly an important topic, receiving ever more attention in this time of rapid digitalisation and technological innovation. Insurance supervisors have a clear interest in the continued resilience of insurers as they navigate this changing landscape.
- The IAIS has established an Operational Resilience Task Force (ORTF) that is taking stock of existing supervisory practices with respect to cyber resilience, IT third party outsourcing, and lessons learnt on business continuity planning during the Covid-19 pandemic. This Task Force is in an information gathering stage and is aiming to engage with stakeholders towards the end of the year, followed by the development of issues paper/supporting materials (ie not standards) in 2022.
- Coordination and cooperation between international standard-setting bodies is paramount on this cross-cutting issue. The IAIS is actively engaged in the FSB's work on cyber resilience. Specifically, the IAIS is represented on the FSB's cyber incident reporting working group and has provided input to the FSB's work on outsourcing and third party relationships.
- On sound cyber underwriting practices, the IAIS is considering follow-on work arising from recommendations of the Cyber Underwriting Small Group, which issued its report in December 2020. A decision on specific areas for further work will be

considered as part of the development of the IAIS' 2022-2023 Roadmap. Early and transparent stakeholder engagement will continue to be emphasised.

Climate risk

15. *In the IAIS consultation paper on the supervision of climate-related risks in the insurance sector, it was stated that a proper assessment of industry exposures to climate risks, supervisors need qualitative information on climate risk management and quantitative information on the exposure to physical, transition and liability risks for the industry. The paper noted that relevant public data may come from TCFD-aligned disclosures as this becomes more common. What are the IAIS' views on how supervisors can help improve the availability of ESG data? And what specific action can be taken by the IAIS and its member supervisors to address the issue?*

- As with any risks, having the relevant information (qualitative and quantitative) for assessing and monitoring the risks is an essential starting point – this is no different for risks related to climate change and sustainability. As outlined in our recently published Application Paper, this means that (i) supervisors should have quantitative and qualitative information on the exposure to physical, transition and liability risks and on climate risk management; and (ii) that insurers publicly disclose information on the climate-related risks they face, as well as how these are managed.
- The IAIS itself has a role to play by contributing to the availability of data in various ways:
 - By developing supervisory guidance, such as the Application Paper, which set out recommendations and examples for better assessing the risks, including listing concrete indicators;
 - By conducting its own analysis and developing its own risk expertise, and publishing the results: this year we have conducted a targeted climate data collection amongst members to measure investment exposures to climate-related risks. We plan to publish this in September as part of our GIMAR special topic.
 - Finally, the IAIS follows and supports various global and cross-sectoral initiatives to further improve the availability of data, notably in the field of reporting and public disclosures. The IAIS actively supports various FSB work streams, including a work stream on data gaps, which is due to publish a final report in July. The IAIS also promotes disclosures aligned with the Task Force on Climate-related Financial Disclosures (TCFD) framework, as discussed in a 2020 Issues Paper and the recent Application Paper. In December last year, the IAIS released a public statement setting out our support for the IFRS Foundation proposals to create a Sustainability Standards Board. We believe this will be an important step forward in developing a more globally consistent approach to sustainability disclosure. We support the IFRS approach to move forward first with work on climate and to use the disclosures agreed by the TCFD as a base to work from.

16. *How will the IAIS make further progress toward clear, consistent and proportionate standards in the context of climate risks supervision?*

- We are very clear on the importance of avoiding fragmentation of the supervisory approaches to climate change. We are helping supervisors have a consistent assessment of the risks from climate change and approaches to supervising this risk.
- On risk assessment, we are currently working on a GIMAR special report on climate. The analysis in the report is focused on insurers' asset exposures to climate risk, based on data collected from the IAIS membership, which covers a wide geographic sample and about 75% of the global insurance market. This work will provide us with a clear view of the risks to which insurers' assets are exposed.
- We recently published an [Application Paper on the Supervision of Climate-related Risks in the Insurance Sector](#), developed jointly with the Sustainable Insurance Forum (SIF). This paper, the first of its kind by a global standard-setting body, provides insurance supervisors with concrete *tools* to further strengthen their efforts in assessing and addressing climate-related risks and to promote a globally consistent approach to the supervision of climate-related risks.
- At its June meeting, the IAIS ExCo agreed on a number of steps to further progress our work on climate risk. This package of work outlines a range of activities in support of the High-Level Goals of the IAIS, including on standard-setting and supervisory practices – in particular a gap analysis of IAIS supervisory material, to determine whether climate risk warrants further standard setting work or enhanced supervisory practices or supervisory capacity building.

17. *Sustainable finance appears to be a key priority of the Italian G20 presidency. A number of international organisations appear to be involved in global discussions regarding key aspects such as ESG data, reporting standards, taxonomy. What is the (expected) role of the IAIS in these developments?*

- We are contributing to the coordinated G20 response on climate being led by the FSB.
- During the Global Seminar we set out the work the IAIS is undertaking both to assess the risks from climate and to support more consistent supervisory responses.

18. *Given the natural alignment of interest between supervisors and insurers [with respect to climate risk], there is a good scope for dialogue and cooperation between the two. How does the IAIS plan to enhance its own engagement and encourage member supervisors to engage?*

- The challenges from climate change are so big and so complex that we must take a multi-stakeholder approach. Therefore, the IAIS puts great emphasis on continuing engagement and collaboration with the industry and with our key partners from the supervisory community like the SIF.
- We already have an excellent dialogue on these issues with trade associations and firms, and in carrying out our activities, such as developing Application Papers, we organise regular consultations and outreach events with the insurance industry. We will continue to support this dialogue, as it is essential for our collective understanding of how the insurance sector can manage the risks from climate.

- As our work on climate moves forward we will continue to engage with a wide range of stakeholders.
- Our implementation partners at the Access to Insurance Initiative (A2ii) and the Financial Stability Institute (FSI) at the Bank for International Settlements (BIS) also continue to undertake significant supervisory capacity building work in this space.

19. *For insurers to contribute even more in tackling climate change, more needs to be done outside the remit of supervision/ICPs to improve the sustainability performance of the real economy. How does the IAIS perceive the commitments of its members to contribute to this important policy debate at both global and jurisdictional level?*

- Insurance supervisors have a role to play in tackling climate change as it impacts their supervisory objectives of protecting policyholders, contributing to financial stability and promoting the maintenance of a fair, safe and stable insurance market. As such, insurance supervisors have an important role to play in ensuring that the insurance sector effectively assesses and addresses risks from climate change.
- It is for governments to take the necessary policy changes to support mitigation and adaption to the challenges of climate change, as well as the transition to “net-zero”. As supervisors, we will stand ready to support these efforts. Also, in case there are certain shortcomings that may hamper the ability to achieve supervisory objectives, the IAIS does recommend supervisors to make its government aware of these – see the ICP Assessment Methodology and the recently published Application Paper.

20. *The term ‘sustainability’ can have a wide variety of possible meanings to stakeholders (e.g. in Reference to UN Sustainable Development Goals? To Environment, Social and Governance criteria for screening investments? To IFRS Foundation work towards standards for Sustainability reporting? To sustainability of insurance?). In view of that, how is the IAIS targeting its work on sustainability and differentiating it from that being addressed by Sustainable Insurance Forum?*

- The IAIS Strategic Plan sets out the integrated cycle of IAIS activities, with a focus on certain key strategic themes, many of which are areas of common interest to the global community. This includes the theme of climate change risk as well as financial inclusion and sustainable economic development.
- From a climate change perspective, we have various activities underway – many of these jointly with the SIF - as set out in answer to the related questions above. We will continue to take this work forward to ensure that the risks to which are insurers are exposed are effectively addressed. Our work involves both (i) risk assessments, including the current work through the GIMAR special report and possible further work in terms of addressing climate risk data gaps through future GME data collections, and (ii) supervisory practices, through work such as the recently published application paper and future work on a gap analysis of the IAIS supervisory material that will inform areas where further work may be needed in terms of standard setting or supervisory practices.
- In terms of financial inclusion and sustainable economic development, the IAIS activities are often undertaken in collaboration with our implementation partners including the A2ii and the FSI. We will continue to take forward our work on financial inclusion and sustainable development. For instance, the UN Sustainable

Development Goals are the A2ii theme of the year 2021. The IAIS and A2ii are organising a number of public and supervisor-only events in support of this theme.

- Finally, addressing protection gaps is an important part of IAIS work. On the pandemic protection gap we are currently focused on a stocktake of initiatives underway in various regions – together with key supervisory considerations in this regard. The IAIS is in a unique position to draw comparisons and identify key issues for supervisors to consider. We will work on this together with A2ii, which has been active in developing information sharing platforms, including a series of webinars that explored the pandemic risk protection gap.

21. *The IAIS has noted that it will embed strategic work on climate risk into IAIS governance. What is envisioned in this exercise?*

- The IAIS has decided to establish a Climate Risk Steering Group to consider climate risk, consisting of senior-level representatives with climate risk expertise, tasked with the role of coordinating and steering all IAIS work on climate risk, as well as being a point of contact to coordinate with external bodies and partners including the SIF.

Conduct and culture

22. *What is the thinking behind the Issues Paper on Insurer Culture? And how it intersects with prudential and conduct issues? Clear explanation on the overview and key aspects of the project will be much appreciated.*

- Our Strategic Plan identifies culture as a focus area in insurance supervision, given its impact on key aspects of the IAIS' mission of policyholder protection and fair insurance markets.
- We recognise that issues relating to culture are of increasing importance to both conduct and prudential supervisors, particularly in light of rapidly changing financial markets driven by innovation, shifts in consumer expectations and broader societal challenges. This has been further reinforced recently in light of global insurer and supervisory responses to the impact of Covid-19 on policyholders.
- Insurers, therefore, are expected to demonstrate solid leadership and cultural commitment to embedding principles relating to both sound prudential management and the fair treatment of customers across all aspects of their business.
- As an exploratory first step, this paper acknowledges the role of insurer culture as an important intersection point for managing prudential and conduct risks, and for maintaining trust in the insurance sector. Contextualised against the Insurance Core Principles (ICPs), the paper highlights that an insurer's values, business objectives and strategies, clear leadership accountability and communication, as well as positive reinforcement and incentive structures for good behaviour may be effective in promoting a desirable culture, leading to good outcomes for insurers and policyholders alike.
- Using illustrative examples, the paper attempts to show how the collective set of norms, practices, decision-making and behavioural elements that make up an insurer's culture can directly influence how that insurer manages both prudential and conduct risks.

- The paper also recognises that many of the attributes of an effective culture can help insurers deal with major changes or respond to stress situations, such as Covid-19. For insurers with an ineffective culture, the challenges and operational changes brought about by an event like Covid-19 could further exacerbate issues such as misconduct, non-compliance or risky behaviour, potentially leading to adverse outcomes. A sound, effective culture on the other hand, can contribute to the ability and willingness of insurers to adapt swiftly to an event as significant as the current pandemic.
- Recognising that an insurer's culture consists of various dynamic elements that often require subjective assessment over time, following publication of this foundational paper we will consider how best to advance the observations outlined therein in greater depth in future. This could include more targeted exploration of, or practical supervisory guidance on, specific cultural drivers such as remuneration practices and conflicts of interest management by insurers. We also think it would be important to consider how insurers' approaches to issues of diversity and inclusion can influence their overall culture, and vice versa
- We recently published the paper for public comment and held a [public session](#) on the paper.

23. *How will the IAIS reflect national and regional cultural differences in its work on conduct, culture and governance? What are your thoughts on grounding this work in policyholder protection rather than trying to develop a single global standard for 'good' conduct, culture, or governance? What is the current thinking of the IAIS about the need to reflect differences between retail and wholesale (or business-to-business) insurance in the development of conduct standards?*

- The ICPs on Conduct of Business set out a number of well-established tenets regarding the expectations of insurers to treat customers fairly. These are based on universally understood outcomes that are sufficiently flexible, and meant to be understood and applied within the specific traditions, cultures and legal regimes of individual jurisdictions.
- This IAIS, through its diverse membership, recognises that supervisory approaches to conduct of business tend to vary depending on individual national and regional circumstances. Such diversity should be taken into account when implementing our standards and related guidance material, in order to achieve the universally understood outcomes of fair treatment or "good conduct". As mentioned in the ICP material itself, this encompasses concepts such as ethical behaviour, acting in good faith and prohibition of abusive practices, which are commonly accepted norms across jurisdictions.
- Our current work on culture, conduct and governance does not aspire to ascribe a singular "right" or good culture for all insurers in all circumstances. Instead, as you will see in our upcoming *Issues Paper on Insurer Culture*, we suggest that an insurer's culture may be viewed through a variety of lenses to understand whether it appears healthy, sustainable, purposeful and safe. For supervisors, in any jurisdiction, this would entail understanding whether in a given context a particular insurer's culture effectively promotes positive outcomes related to, for example, sound governance and fair customer treatment as broadly described in the ICPs.

- In respect of reflecting differences between retail and wholesale insurance models in our standards, here again the ICPs are explicit in recognising that supervisory approaches to conduct of business may differ depending on the nature of the customer and the type of insurance cover provided. In assessing whether a particular fairness outcome is being achieved, supervisors would be expected to consider the level of risk of unfair treatment taking into account the nature of the customer (retail or wholesale) and complexity of the cover being provided. We are aware that some jurisdictions are intensifying their vigilance of conduct-related risks for wholesale customers, due to the nature of recent insurance sector developments in these markets.
- This risk-based approach to conduct supervision is reflected in the ICPs and in previous IAIS guidance material, such as the *Application Paper on Approaches to Conduct of Business Supervision*.

24. *What is the IAIS's preliminary thinking around the topic of remuneration in the context of conduct, culture and governance? How is this thinking affected by different insurance business models, ownership structures or lines of business?*

- Remuneration-related issues are considered as one of the crucial aspects of insurer corporate governance. ICP 7.6 states that a remuneration policy should among others – be in line with the corporate culture and long term interests of the insurer, and should have proper regard to the interests of its policyholders and other stakeholders.
- In the draft [*Issues Paper on Insurer Culture*](#), which has been released for public consultation, remuneration is recognised as one of key drivers in facilitating the desired behaviours and supporting a sound culture of an insurer. The paper highlights that remuneration policy that aligns performance-based incentives with long-term value creation and the fair treatment of customers can be a strong indicator of a sound overall culture within the insurer.
- Recognising that an insurer's culture consists of various dynamic elements that often require subjective assessment, as a next step the IAIS will consider how best to advance the observations outlined in this Issues Paper in greater depth. This would include more targeted exploration of specific cultural drivers, such as remuneration practices.
- We are at the early stages of work focused on remuneration. This year the Governance Working Group will start exploratory work on remuneration issues. This work is aimed at identifying outstanding issues for supervisors and insurers with respect to remuneration and to analyse current trends and challenges in the context of existing IAIS material and work by other standard-setting bodies. The outcome will be presented to the IAIS Parent Committees in mid-2022, with a recommendation for next steps.
- As a member of the FSB, the IAIS has supported the implementation of the Principles and Standards for Sound Compensation Practices, which set out a range of measures to effectively align compensation and risk at all financial firms.

25. *What is the IAIS's preliminary thinking around the FinTech implications of conduct, culture and governance? The Roadmap references a member-only report on regulatory*

and supervisory responses to fintech developments, an overview of market developments and implications for the future development of global insurance markets. Will the report (or at least a version of this report) be made public, given the importance of these topics to multiple stakeholders?

- One of the objectives of the survey and members-only report is to help identify and prioritise key areas of focus for the IAIS as it plans its future work on FinTech and digital transformation. This will feed into future IAIS strategy and Roadmap discussions, which we will certainly share with stakeholders.
- The IAIS' preliminary thinking on FinTech implications for conduct in particular can be found in our previously published material such as the *Issues Paper on Increasing Digitalisation in Insurance and its Potential Impact on Consumer Outcomes* (2018) and *Issues Paper on the Use of Big Data Analytics in Insurance* (2020).
- There are other projects reflected in the Roadmap that are envisaged to cover broader implications of FinTech for issues such as conduct, culture and governance. For example, the Marking Conduct Working Group is currently working on a project relating to the use of key indicators and data gathering techniques for supervising conduct. This could lead to the development of guidance to address potential inconsistencies and/or gaps in conduct frameworks in responding to the impact of increasing digitalisation and FinTech on consumers.
- The work being done by our FinTech Forum will specifically look at governance, accountability and consumer implications relating to the use of various FinTech applications for core insurance functions, including product design, underwriting, pricing, claims and so forth. The outcome of this work is envisaged to be shared publicly in the form of short information notes and/or articles in future.

Diversity & Inclusion (D&I)

26. What are the key (preliminary) findings from the IAIS' member survey? And how can stakeholder provide feedback to this important topic?

- Our 2021-2022 Roadmap sets out a commitment to advance the theme of Diversity and Inclusion. We aim to promote and facilitate the efforts of our Members in advancing D&I in their organisations and in the global insurance sector. We are in the early stages of this work and currently scoping what work could entail here. We expect the IAIS ExCo to make a decision in September on what specific work should be within scope – this will likely include a Member survey later this year.
- In general, we aim to promote and facilitate efforts of our Members in embedding D&I in their own organisations. We also aim to explore how supervisors can support the insurance sector's efforts to embed D&I aspects in their own organisations and governance, including in their approach towards policyholder protection and fair treatment of customers, as well as achieving broader objectives related to financial inclusion and sustainable economic development.
- We will be looking to establish regular dialogue, consultation and collaboration with stakeholders on D&I issues, given that this is very much a shared challenge.

Addressing regulatory fragmentation

27. How is the IAIS balancing the need to minimize regulatory fragmentation with the need, in certain cases, to take into consideration local markets and regulation? How is this balancing received by the FSB, where concerns about fragmentation have received considerable attention?

- We are well aware of the importance of balancing the need to minimise regulatory fragmentation with the need, in certain cases, to take into consideration local markets and regulation. We do this through seeking consistent minimum global standards for the insurance sector that nevertheless provide some flexibility to adapt the details to local circumstances. We have previously contributed to the FSB's work on these issues.
- The ICPs form the globally agreed minimum standard for insurance supervision and our members commit to consistent implementation.
- We are aware that there are some areas, such as climate change, where there is a desire to have a more consistent approach, especially with regard to data collection exercises and the monitoring of vulnerabilities. Meanwhile there are other areas in which local considerations may be more appropriate. Ultimately, national and regional legislatures determine what is set out in insurance legislation in individual jurisdictions.
- If there are specific concerns about issues of fragmentation, we would of course be interested in discussing these with stakeholders.

Upcoming projects and consultations

28. The IAIS is undertaking a project aimed at exploring issues and challenges associated with implementing risk-based solvency frameworks in emerging market and developing economy countries. What is the specific focus and scope of this project? What is the timeframe for completion of this project and will it be the subject of an IAIS consultation?

- We are in the early stages of a two-year project to provide practical guidance to help Members develop risk-based solvency regimes. We will start by undertaking a stocktake on materials related to implementation of risk-based frameworks.
- Such regimes are integral for protecting policyholders, maintaining financial stability and supporting market development.
- We see an excellent opportunity here for the IAIS Membership to share experiences and advice to support those jurisdictions that want to undertake this change.

29. We would be interested in feedback on how the IAIS intends to move forward on recent consultations on infrastructure and strategic equity investments, macroprudential supervision, liquidity metrics and the supervision of control functions.

- Infrastructure – the Infrastructure Task Force is currently analysing data from the surveys it conducted together with stakeholder outreach to inform its future recommendation on whether infrastructure and strategic equity should be granted a differentiated treatment under the ICS. That substantive work will continue over the

second half of this year, and a recommendation will be delivered to the IAIS ExCo in early 2022.

- Supervision of Control functions – the final [Application Paper has now been published](#).
- See Q9 for more details on liquidity metrics.

30. *Will revisions to ICP 14 (Valuation) and ICP 17 (Capital Adequacy) and work on operational resilience and business continuity be the subjects of public consultations?*

- Yes, all revisions to ICPs are subject to consultation.