



IAIS 25
YEARS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

Public discussion session – Holistic Framework for Systemic Risk

10 December 2019, 14.00 – 15.30 CET
Teleconference



Content of today's session

- Holistic Framework for Systemic Risk
- Supervisory material
- Application Paper on Liquidity Risk Management
- Global monitoring exercise
- Implementation Assessment

HOLISTIC FRAMEWORK FOR SYSTEMIC RISK

Alberto Corinti, Chair of the Macroprudential Committee

Holistic Framework for Systemic Risk

Development and key elements

Several rounds of consultation:

- December 2017: Interim Consultation Document (development of an “ABA”)
- November 2018: Consultation Document on overall Holistic Framework (including revisions to the methodology for assessing systemic risk stemming from individual insurers)
- June 2019: Consultation Document on Holistic Framework related revisions to ICPs and ComFrame

Key elements of the Holistic Framework

- **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
- **An assessment by the IAIS of the consistent implementation** of enhanced on-going supervisory policy measures and powers of intervention

Holistic Framework for Systemic Risk

Available documents

The IAIS Annual General Meeting adopted:

- The overarching document that sets out all key elements of the Holistic Framework:
- The ICPs and ComFrame that reflect an enhanced set of supervisory policy measures and powers of intervention

The Executive Committee approved:

- A document setting out the objectives and process for the global monitoring exercise
- An Application Paper on Liquidity Risk Management for public consultation

All documents are available on the IAIS Website – [Financial Stability page](#)

The FSB welcomed the finalisation and publication of the Holistic Framework for Systemic Risk in the Insurance Sector, for implementation in 2020

Holistic Framework for Systemic Risk

Implementation phase

From 2020:

- Implementation of the holistic framework and its key elements
- Suspension of the G-SII identification

In 2022:

- FSB review on the need to either discontinue or re-establish an annual identification of G-SIIs

SUPERVISORY MATERIAL

Alberto Corinti, Chair of the Macroprudential Committee

Supervisory material

Scope and objectives

Thematic area	High-level description	Location	Scope of application	
			Legal entity / Group	IAIG
Macroprudential supervision	Enhance the link of macroprudential supervision to supervisory review and reporting	ICP 9 (Supervisory Review and Reporting) incl ComFrame	●	●
	Requirements on Macroprudential Supervision	ICP 24 (Macroprudential Supervision)	●	●
Requirements on insurers	Enterprise Risk Management requirements related to: <ul style="list-style-type: none"> • Liquidity risk; • Counterparty exposures; and • Macroeconomic exposure. 	ICP 16 (Enterprise Risk Management for Solvency Purposes) incl ComFrame	○	●
	Public disclosure requirement for liquidity risk	ICP 20 (Public Disclosure)	●	●
Crisis management and planning	Coordination of crisis management preparations	ICP 25 (Supervisory Cooperation and Coordination) incl ComFrame	●	●
	• including the establishment of crisis management groups			●
	Requirement on recovery planning	ICP 16 incl ComFrame	○	●
	Resolution framework including resolution powers	ICP 12 (Exit from the Market and Resolution) incl ComFrame	●	●
	Requirement on resolution planning			○
Powers of intervention	Preventive and corrective measures	ICP 10 (Preventive Measures, Corrective Measures, and Sanctions) incl ComFrame	○	○

Supervisory material

Outcome of the public consultation

- Public consultation between mid-June and mid-August 2019.
- The IAIS received over 600 comments from 27 different Members and stakeholders.

General:

- Scope of the consultation.
- Importance of the principle of proportionality.

ICP 9 and ComFrame:

- Based on consultation comments, some changes made to improve clarity.

ICP 10:

- Revisions were aimed at making explicit that preventive / corrective measures are also aimed at addressing financial stability concerns, as well as to add examples of powers the supervisor may have available.
- Application is subject to existing supervisory framework and due processes (eg ICP 9 and 10).

Supervisory material

Outcome of the public consultation (continued)

ICP 16 and ComFrame:

- Role of supervisor versus insurer.
- “inward” versus “outward” risks.

ICP 20:

- Some concerns on the prescriptiveness of the requirement.
- Role of quantitative versus qualitative disclosures.

ICP 24:

- Clarity on scope and objective of the ICP.
- Upcoming Application Paper to provide practical guidance for supervisors in implementing macroprudential supervision.

APPLICATION PAPER ON LIQUIDITY RISK MANAGEMENT

Alberto Corinti, Chair of the Macroprudential Committee

Application Paper on Liquidity Risk Management

Background and objectives

Background:

- The Application Paper relates to material in ICP 16 (Enterprise Risk Management for Solvency Purposes), new Standards 16.8 and 16.9 and ComFrame 16.9.a – 16.9.d which were included to explicitly address liquidity risk
- The Paper was published on [the IAIS website](#) on 19 November 2019 and **comments are due by 20 January 2020 (24.00 CET)**

Objective of the Paper:

Provide guidance and examples on:

- Proportionate application of liquidity risk management measures
- Integrating liquidity risk in ERM frameworks, including recommendations for governance
- More details on the following risk management processes:
 - Liquidity stress testing
 - Liquidity portfolio
 - Contingency funding plan
 - Liquidity risk management report

Application Paper on Liquidity Risk Management

Scope

- The Paper is especially relevant for the supervision of IAIGs, and other insurers as necessary, based on the nature, scale and complexity of their activities that lead to increased liquidity risk exposures and risk amplification effects related to their size
- Liquidity risk arises when there is an imbalance between the insurer's liquidity sources and needs.
- Certain activities can increase insurers' exposure to liquidity risk by generating unexpected liquidity needs, such as:
 - Derivatives
 - Securities lending transactions
 - Backing liquid liabilities with illiquid assets
- When not properly managed, these activities can threaten the solvency of the insurer and, in certain circumstances, contribute to systemic risk.

GLOBAL MONITORING EXERCISE

Dieter Hendrickx, Chair of the Macroprudential Policy and Surveillance Working Group

Global monitoring exercise

Objective

The global monitoring exercise (GME) serves to assess global insurance market trends and developments and to determine any potential build-up of systemic risk at a global level.

The GME consists of:

- **Sector-wide** monitoring (SWM)
- **Individual insurer** monitoring (IIM)
- Data analysis including **interplays** between SWM and IIM
- **A forward-looking collective discussion** of the results of the systemic risk assessment within the IAIS and appropriate supervisory responses to systemic risk (if it arises)
- **Reporting** to participating insurers, IAIS Members, the FSB and the public.

The GME monitors 10 categories:

Size

Asset liquidation

Substitutability

Underwriting & Solvency

Emerging risks

Interconnectedness – Counterparty exposure

Interconnectedness – Macroeconomic exposure

Global activity

Policyholder behaviour

Economic environment

Global monitoring exercise

Sector-wide monitoring

- The SWM is aimed at assessing sector-wide trends with regard to specific activities and exposures and consists of qualitative and quantitative parts.
- It is a complement to the IIM and both their outcomes feed into the IAIS assessment of systemic risk as well as the IAIS collective discussions.
- The SWM includes an annual data collection exercise that contains the following elements:
 - Information from IAIS Members, based on:
 - Quantitative data elements, for the 10 categories. This part of the SWM relies on aggregated data from insurance legal entities operating in IAIS Member jurisdictions; and
 - A qualitative information request that covers supervisors' assessments of macroprudential risks, in terms of probability, impact and trends; and
 - Additional data collection on financial and insurance markets (performed by the IAIS Secretariat), based on public sources.

Global monitoring exercise

Individual insurer monitoring

- Continued annual data collection exercise amongst largest insurers worldwide; timelines remain largely unchanged
- With the FSB's decision to suspend G-SII identification, the IIM assessment is no longer focussed on identifying prospective G-SIIs, but supports an assessment on the potential build-up of systemic risk in the insurance sector as a whole by looking at potential systemic risk from activities or exposures concentrated in individual insurers.
- An updated 2019 Methodology was developed, which is predominantly based on an absolute assessment approach (ie calculating scores of insurers against a fixed benchmark based on the sample total in a defined base year).
- The IIM assessment includes:
 - Individual absolute assessment
 - Individual relative assessment
 - Cross-sectoral analysis, comparing the systemic footprint of individual insurers and the Insurer Pool with that of banks
 - Trend developments within the Insurance Pool
 - Ancillary indicators, such as liquidity risk metrics

Global monitoring exercise

Reporting

Reporting to participating insurers and IAIS Members:

- Continue to provide participating insurers and their GWSs with insight into how the individual insurer's risk scores relate to the Insurance Pool score and other relevant descriptive statistics.

Reporting to the FSB:

- Reporting on the outcomes of the IAIS collective discussion on the assessment of global systemic risk, the supervisory response, and the outcomes of the SWM and IIM data analysis.

Reporting to the public:

- The objective is to provide insight into the key (systemic) risks and trends in the global insurance sector
- The existing Global Insurance Market Report (GIMAR) will be enhanced for this purpose, to not only include a broad overview of the macroeconomic environment and global insurance market developments, but also the IAIS assessment of systemic risk, including disclosures of the outcomes of the SWM and IIM.
- Continued annual publication of special topics, covering deep-dives into relevant topics stemming from each year's global monitoring exercise.

IMPLEMENTATION ASSESSMENT

Alberto Corinti, Chair of the Macroprudential Committee

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.
- A transparent process of implementation assessment will help ensure a globally consistent application of macroprudential policy measures.
- The assessment will proceed in phases:
 - A baseline assessment in 2020
 - More intensive jurisdictional assessments starting in 2021
- The IAIS will share the outcomes of the assessments with relevant stakeholders, such as the FSB and the general public.

QUESTIONS?
