



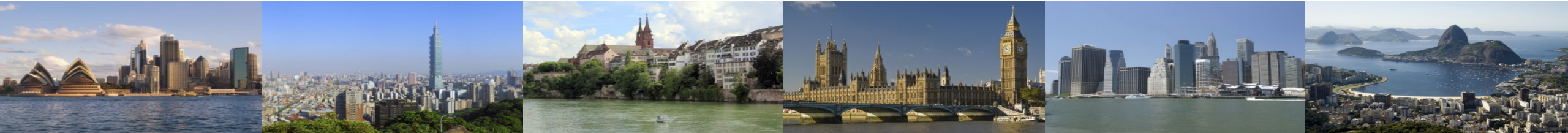
IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

Draft Application Paper on Macroprudential Supervision (Public Background Session)

Videshree Rooplall, Chair of Macroprudential Supervision Working Group

23 March 2021, 14:00 – 15:00 CET



Background

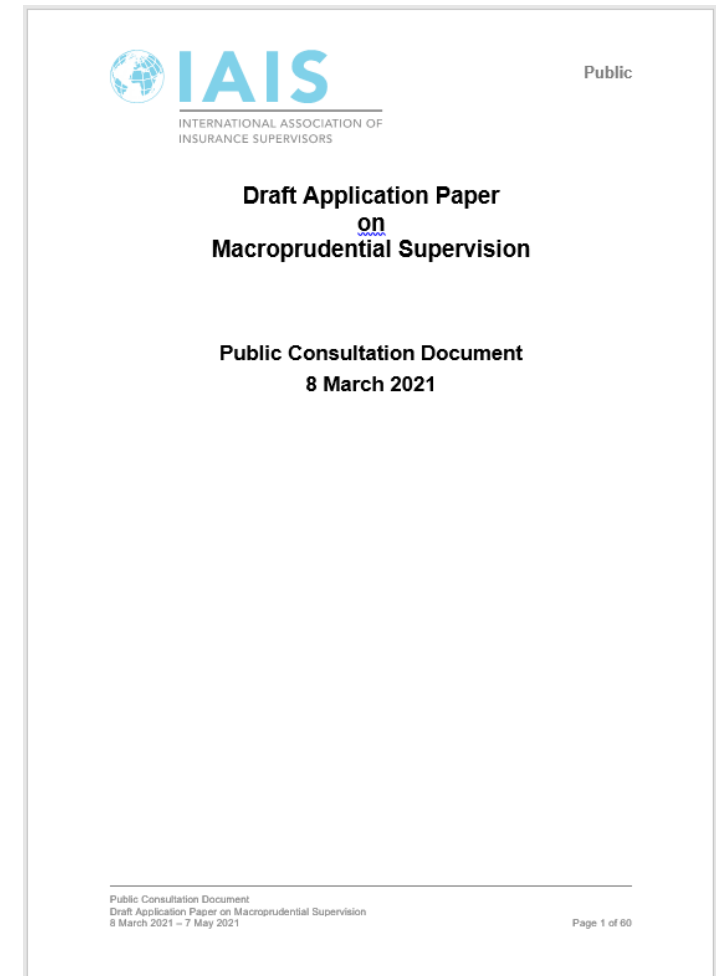
IAIS Application Papers

- As a standard setting body, the IAIS develops supervisory material and supporting material
- Supervisory material include:
 - Insurance Core Principles (ICPs), which apply to insurance supervision in all jurisdictions and to all insurers
 - ComFrame, which focuses on the group-wide supervision of Internationally Active Insurance Groups (IAIGs) only
- Supporting material include:
 - Application Papers
 - Issues Papers
 - These supporting materials do not create new standards
- Role of the proportionality principle

Background

Application Paper on Macroprudential Supervision


- Scope of the project:
 - As part of the holistic framework for the assessment and mitigation of systemic risk in the insurance sector, the IAIS revised Insurance Core Principle (ICP) 24 to more explicitly address, among other topics, the build-up and transmission of systemic risk at the individual insurer and sector-wide level.
- Objective of the paper:
 - Help with practical application of the supervisory material related to macroprudential supervision in ICP 24
 - Include examples on various components of macroprudential supervision



Structure

Application Paper on Macroprudential Supervision

- The Application Paper follows the structure of ICP 24 Macroprudential Supervision
 - Introduction
 - Data collection for macroprudential purposes
 - Insurance sector analysis
 - Assessing systemic importance
 - Supervisory response
 - Transparency



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Section 1: Introduction

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- Macroprudential supervision is aimed at identifying and, where necessary, addressing both vulnerabilities of individual insurers and the insurance sector to **inward risks** and **outward risks**.
- 1.1 Terms
- 1.2 Scope of application
 - relevant to the business of insurers and reinsurers, as well as to both insurance legal entities and insurance groups
- 1.3 Proportionality
- 1.4 Structure



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Section 2: Data collection for macroprudential purposes

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- 2.1 Consideration of data to collect
 - Reliant on timely and good quality data and information to support analysis and ultimately well-informed decision-making
 - Both quantitative and qualitative data should be collected
 - Annex 1 provides examples of indicators and data elements
- 2.2 Risk dashboard for monitoring key macroprudential indicators
 - Constructing a risk dashboard
 - The use of a risk dashboard
- Annex 2 provides example risk dashboards from South Africa and EIOPA



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Section 3: Insurance sector analysis

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- 3.1 Steps and approaches for insurance sector analysis
- 3.2 Common quantitative analysis methods
 - Trend analysis
 - Stress testing
 - Sensitivity analysis
- 3.3 Common qualitative analysis methods
 - Market intelligence and risk workshop with stakeholders
- 3.4 Common quantitative and qualitative analysis methods
 - Vulnerability analysis
 - Horizontal reviews



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Section 4: Assessing systemic importance

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- Identification of systemic importance in the insurance sector is one of the paramount objectives of macroprudential supervision.
- This section provides guidance and examples on how such processes can be set up and used in practice, both from the perspective of individual insurers (Section 4.1) as well as from a sector-wide perspective (Section 4.2)
- The potential systemic exposures, activities and transmission channels, as described in ICP 24.0.4, are briefly summarised:
 - Liquidity risk (asset liquidation)
 - Interconnectedness (exposure channel)
 - Limited substitutability (critical functions)



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Section 5: Supervisory response

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- 5.1 Includes guidance and examples to support effective interaction between macroprudential analysis and supervisory responses
- Supervisors are expected to limit the build-up of systemic risks and mitigate those risks. Supervisory responses may be targeted at individual insurers and/or the insurance sector as a whole and be either:
 - General supervisory requirements; and
 - Targeted supervisory responses
- Two different types of triggers are possible: rule-based; and supervisory discretion
- 5.2 Types of supervisory responses



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Section 6: Transparency

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- 6.1 Importance of transparency
- The supervisor is required to publish relevant data and statistics on the insurance sector.
- Transparency may in some ways be seen as a macroprudential instrument itself.
- 6.2 Possible macroprudential reporting
 - Financial stability report
 - Other forms of macroprudential reporting



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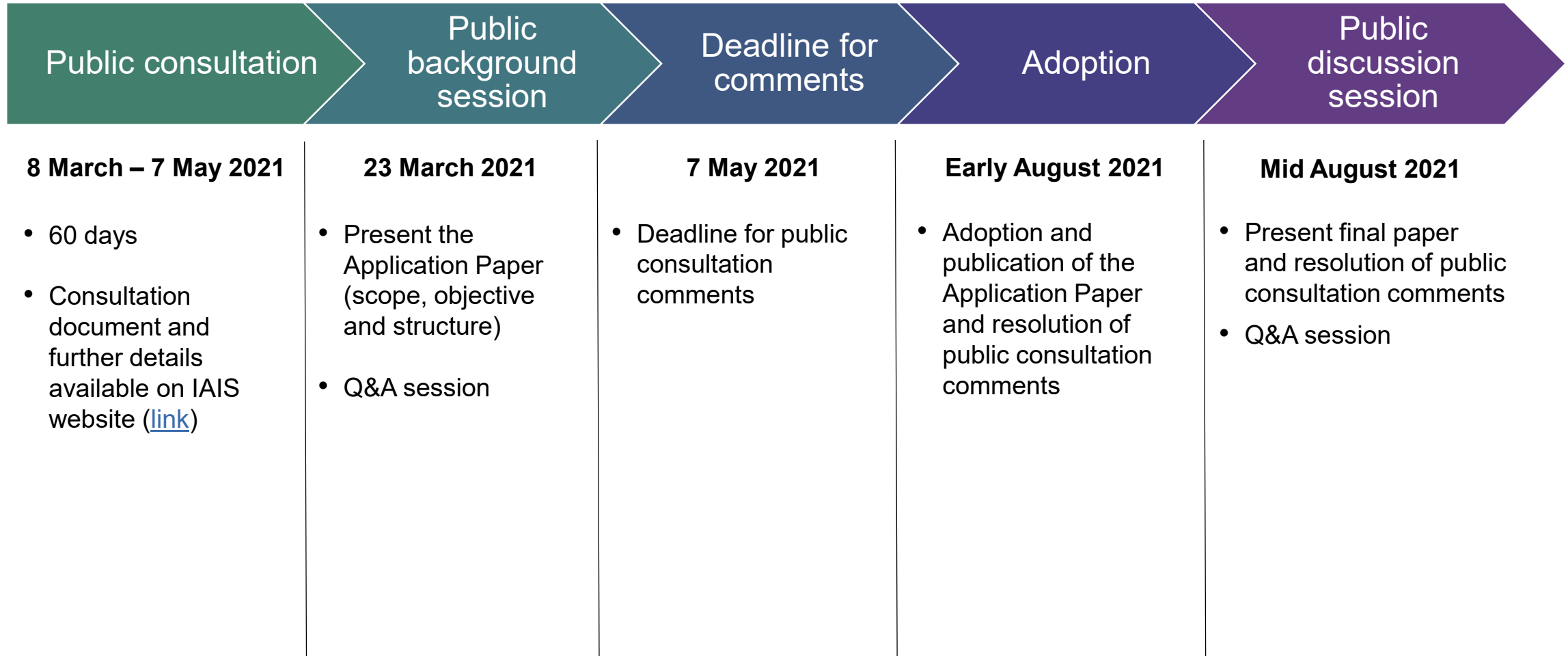
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Information on the process

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QUESTIONS?

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