Public consultation on ancillary risk indicators in the Global Monitoring Exercise

Background session for stakeholders

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This session will be recorded

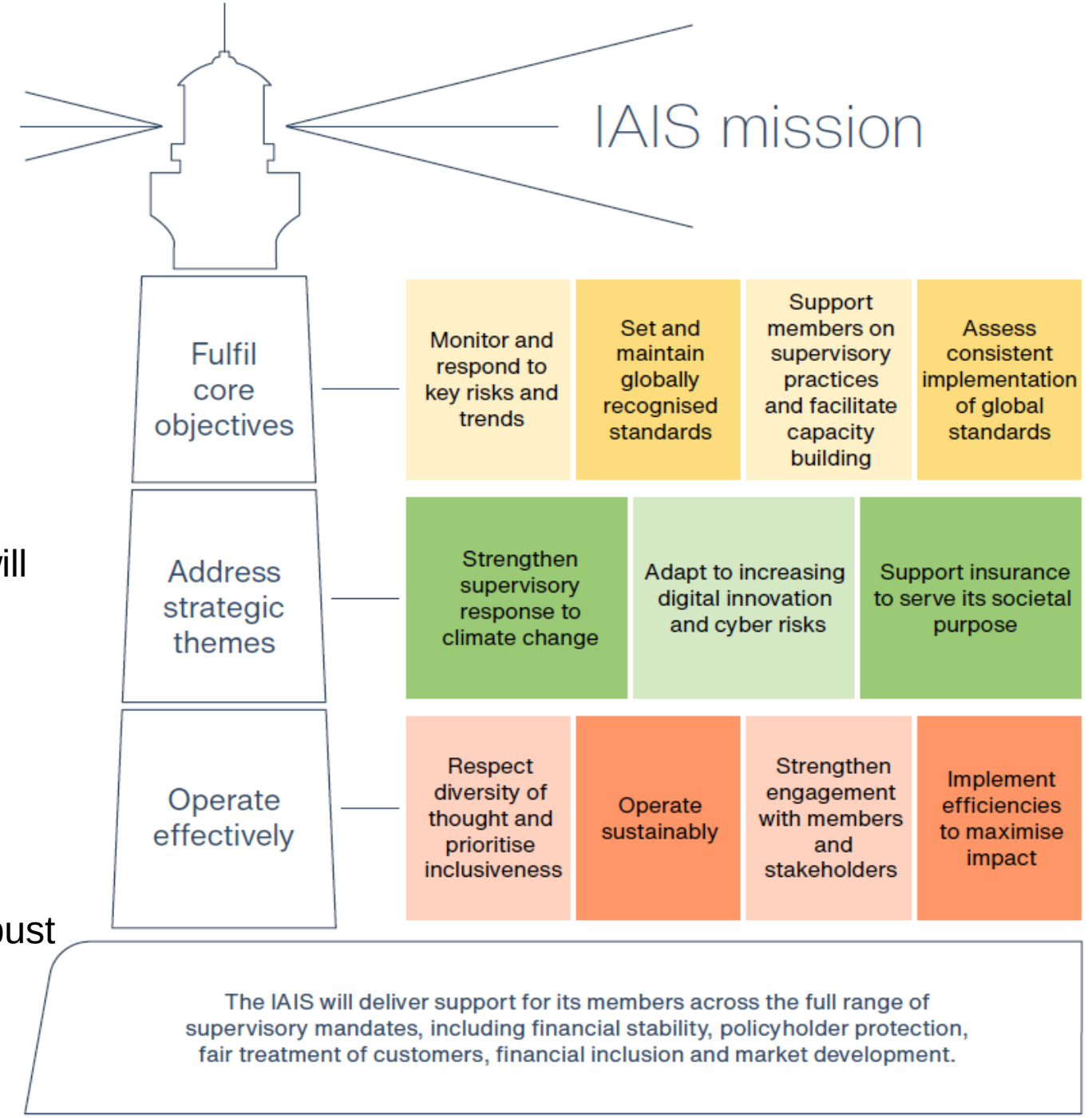
Agenda

- Background:
  - IAIS Strategic Plan
  - Holistic Framework
  - Global Monitoring Exercise (GME)
  - Individual Insurer Monitoring
- Public consultation document:
  - Outline
  - Summary of chapters
- Consultation process:
  - Timeline
  - Questions for stakeholders
  - How to submit responses
- Q&A

Background

Strategic Plan

- In October 2024, the IAIS published its 2025-2029 Strategic Plan, which sets the strategic direction for the Association over the next five years, in support of its mission
- The 2025-2029 period follows an intensive standard setting phase; going forward there will be a shift to maintenance and refinement of these standards
- **Focus shifts to: assessing key risks and trends in the global insurance sector**; supporting effective supervisory practices; robust implementation assessment and support



IAIS

Holistic Framework

Work to support the Holistic Framework is a key focus of the IAIS workplan over the coming years.

Risk assessment

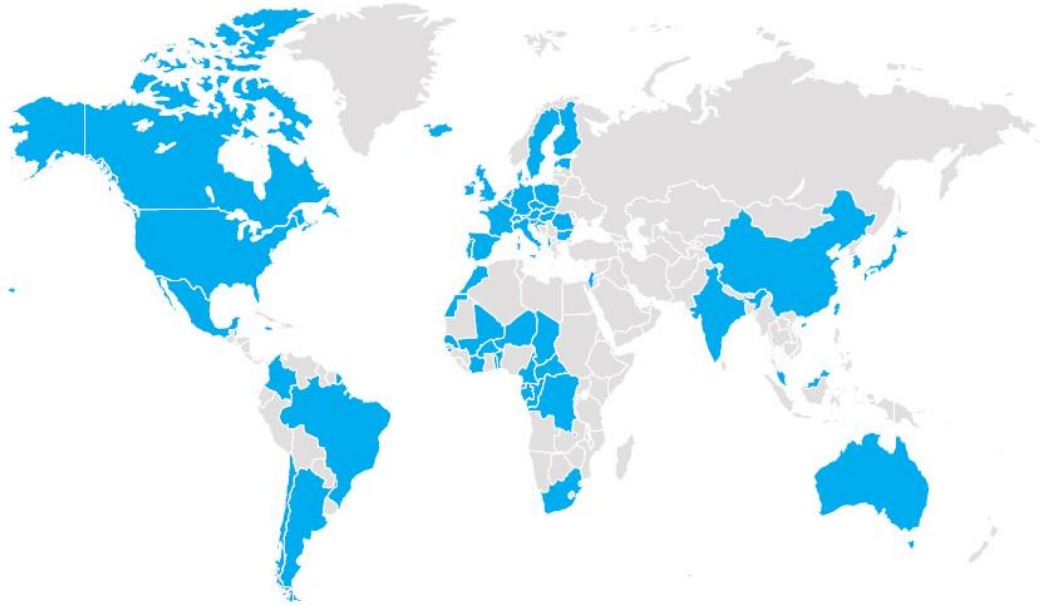
- **Refine and build on the GME, including developing other ancillary indicators, in addition to the liquidity metrics.**
- Evaluate the macroprudential supervision of sector-wide themes, including:
  - Interest rate, liquidity and credit risks in a challenging macroeconomic environment; and
  - Structural shifts in the life insurance sector, including greater allocation of capital to alternative assets and increased reliance on cross-border asset-intensive reinsurance.

The Global Monitoring Exercise: data collections

Two confidential data collections:

1. **Individual insurer monitoring (IIM)** of groups included in the Insurer Pool according to predetermined criteria: **approximately 60 insurance groups from 19 jurisdictions**; [1] and

2. **Sector-wide monitoring (SWM)** of aggregate insurance market data collected from 26 IAIS members meeting the criteria set out in the GME document[2] plus voluntary members. 53 jurisdictions participated in at least one of the components of the SWM 2024 data collection, representing **>90% of global gross written premiums**.



1 Insurer Pool criteria: Total assets of more than $65 billion and a ratio of premiums from jurisdictions outside the home jurisdiction to total premiums of 5% or more, or total assets of more than $215 billion and a ratio of premiums from jurisdictions outside the home jurisdiction to total premiums greater than 0%, or applying jurisdictional discretion.
2 Jurisdiction Pool criteria: The jurisdiction is a member of the FSB; or The jurisdiction is a home jurisdiction of at least one Internationally Active Insurance Group (IAIG) and/or of an Insurer Pool participating insurer.

The Global Monitoring Exercise: timeline

An annual cycle

- Further input on how to refine monitoring through ancillary indicators on derivatives, credit risk, reinsurance and mark-to-model assets sought through public consultation in 2024
- Review of IIM assessment methodology (including public consultation) will follow in 2025

March	• Launch of the data collection packages • Workshop with participating insurers and supervisors

May-June	• Data submissions. Cleaning and analysis
	• Identification of scope of collective discussion:
	  • Individual insurers with potential build-up of systemic risk
	  • Sector-wide, macroprudential risks and trends
	• Launch of targeted feedback-loop with group-wide supervisors (supervisory responses in place / planned)

Sept.	• IAIS collective discussion on key identified risks and trends • Coordination of supervisory measures at the global level • Input to IAIS two-year draft roadmap
Nov.-Dec.	• Reporting to the public (Global Insurance Market Report – GIMAR) • Reporting to participating insurers and supervisors • Reporting to the FSB SRC, FSB Plenary

Individual insurer monitoring: assessment methodology

Assessing systemic risk stemming from an individual insurer's distress or disorderly failure

Recognises that potentially systemic activities or exposures may become concentrated in an individual insurer, such that its distress or disorderly failure would pose a serious threat to global financial stability

- Assessment methodology:
  5 systemic risk categories, 13 indicators
- Systemic risk indicators are weighted to produce a **total score** per insurer
- **Absolute methodology**: denominators values kept fixed at year-end 2018 reference point
- **3 year cycle for reviewing the methodology: next review taking place in 2025 to be applied to the 2026-2028 GME**

Category	Indicator
Size	Total assets
	Total revenues
Global activity	Revenues outside of home country
	Number of countries
Interconnectedness	Intra-financial assets
	Intra-financial liabilities
	Derivatives
	Derivatives Trading (CDS or similar derivatives instrument protection sold)
	Minimum guarantees on variable products
Asset liquidation	Short term funding
	Level 3 assets
	Liability liquidity
Substitutability	Premiums for specific business lines

See GIMAR 2024 – Annexes for formulae and more details

Individual insurer monitoring: other tools

Assessment of systemic risk in the global insurance sector.

Other tools:

- **Liquidity metrics:** a set of ancillary indicators on liquidity finalised in November 2022 after three years of testing and two public consultations. Combines an exposure approach and a cash-flow projection approach under stressed scenario.

- **Ancillary indicators under consultation:** credit risk, derivatives, reinsurance, mark-to-model assets, potential revisions to the liquidity metrics.

- **Emerging risks** – deep dive assessments in GIMAR "Special topic" reports
  - GIMAR Special Topic Climate risk published in 2021
  - GIMAR Special Topic on Cyber risk published in 2023
  - GIMAR Special Topic on Protection Gap will be published in 2025

Public consultation document

Outline of the public consultation document

Chapters:

1. Introduction
2. Ancillary indicator on credit risk
3. Ancillary indicator on derivatives
4. Ancillary indicator on reinsurance
5. Ancillary indicator on mark-to-model assets
6. Amendments to the liquidity metrics
7. Conclusion

For each proposed ancillary indicator:

- Objective (including transmission channels to systemic risk)
- Definition of the metrics
- Results from GME 2024
- Questions seeking views on the proposals

Questions for stakeholders are also summarised in a separate document

1. Introduction

- To further aid the assessment of systemic risk in the global insurance sector, the IAIS can make use of ancillary indicators in its analysis. **Ancillary indicators do not affect the total individual quantitative score.** However, they may provide **additional context** that can inform the overall assessment.

- In November 2022 the IAIS has completed the development of the first IIM ancillary indicator consisting of **liquidity metrics**, following two public consultations. These liquidity metrics serve as a tool for the IAIS to assess insurers' liquidity exposures. They **are not a binding requirement, but rather a monitoring tool**, and help identify trends in insurer and insurance- sector liquidity.

- The new consultation document seeks feedback on an additional set of proposed ancillary indicators concerning **credit risk, derivatives, reinsurance, and mark-to-model assets**. Additionally, it outlines **potential revisions to the liquidity metrics**.

2. Ancillary indicator on credit risk

- Transmission channels to systemic risk:
  - asset liquidation
  - counterparty risk

Table 1: Ancillary indicator on credit risk	Metric	Numerator	Denominator
Investments by credit rating	CRE.1.a	Investments in debt securities (unrated, below IG, at IG)	Total investments
	CRE.1.b	Investments in debt securities (unrated, below IG, at IG)	Total investments in debt securities (unrated, below IG, at IG, above IG)
Credit risk scenario analysis	CRE.2.a	Simulated credit losses for debt securities	Total investments
	CRE.2.b	Simulated credit losses for debt securities	Total investments in debt securities
	CRE.2.c	Simulated credit losses for debt securities	Net assets

3. Ancillary indicator on derivatives

- Transmission channels to systemic risk:
  - interconnectedness
  - counterparty risk
  - liquidity risk
  - leverage

Table 4: Ancillary indicator on derivatives	Metric	Numerator	Denominator
Relative usage of derivatives	DER.1.a	Gross notional amount (GNA) of derivatives	Total assets
	DER.1.b	GNA of over-the-counter (OTC) derivatives	Total assets
	DER.1.c	Net fair value (FV) of derivatives	Total assets
	DER.1.d	Activated FV of derivatives	GNA of derivatives
	DER.1.e	GNA of interest rate risk (IRR), FX, equity, reinsurance, credit risk and other derivatives	GNA of all derivatives
Potential future exposure (PFE)	DER.2.a	PFE of derivatives	Total assets
Materiality of OTC derivatives	DER.3.a	GNA of OTC derivatives	Sector wide GNA of OTC derivatives
Margin and collateral calls	DER.4.a	Max 10-day variation margin (VM) call	Cash
	DER.4.b	Max 10-day VM call	Insurance Liquidity Ratio (ILR) liquidity sources
	DER.4.c	Max 10-day VM call	Average 10-day VM call
Central clearing	DER.5.a	GNA of centrally cleared OTC derivatives	GNA of OTC derivatives
Hedging	DER.6.a	GNA of derivatives used for hedging	GNA of all derivatives

4. Ancillary indicator on reinsurance

- Transmission channels to systemic risk:
  - leverage
  - complexity
  - interconnectedness
  - counterparty risk
  - provision of critical service

Table 5: Ancillary indicator on reinsurance	Metric	Numerator	Denominator
Reliance on reinsurance	RE.1.a	Ceded life technical provisions	Life technical provisions
	RE.1.b	Ceded non-life premiums	Non-life gross written premiums
Cross-border life reinsurance	RE.2.a	Life technical provisions ceded cross-border	Total gross technical provisions
(Re)insurers' market share	RE.3.a	Assumed premiums	Sector-wide gross reinsurance premiums assumed (SWM)
	RE.3.b	Assumed premiums	Aggregate Insurer Pool assumed premiums (IIM)

5. Ancillary indicator on mark-to-model assets

- Transmission channels to systemic risk:
  - asset valuation
  - liquidity
  - complexity

Table 6: Ancillary indicator on mark-to-model assets	Metric	Numerator	Denominator
Adjusted mark-to-model assets indicator	MTM.1.a	Adjusted mark-to-model assets	Total assets
	MTM.1.b	Adjusted mark-to-model assets	Total investments
	MTM.1.c	Adjusted mark-to-model assets	Aggregate Insurer Pool adjusted mark-to-model assets

"Adjusted mark-to-model assets" defined as the sum of:

- Level 3 assets (within the fair value hierarchy)
- Level 3 assets: any other holding of physical real estate not included in the above
- Assets held at cost which would be Level 3 if held at fair value
- Residential and commercial mortgages not included in the above (eg if held as Level 2 assets)

6. Amendments to the liquidity metrics

Table 7: Liquidity stress categories	Component	Description
Life stress	Surrender values - institutional	Surrenders from institutional clients
	Surrender values - retail	Surrenders from retail clients
	Unearned premiums	Unearned premiums from business and retail policyholders
P&C stress	Cat risk	Payments arising from catastrophe risk related losses
	Claims and expenses	Non-life claims payments and incurred expenses
	Reserving	Liquidity needs from potential under reserving
	Recoveries	Liquidity needs from unrecovered reinsurance payments
Repos & securities lending	Repos	Repurchase transaction liabilities
	Securities Lending	Securities lending liabilities
Funding	Funding	Short term borrowing and contingent liabilities
	Bank deposits	Retail and institutional bank deposits
	Credit downgrades	Additional payments due as the result of credit downgrade
Derivative	Derivatives	Derivatives margin payments
Operational Risk	Operational and cyber risk	Operational and cyber risk liquidity needs

Table 8: Stress scenario correlation matrix	Life stress	P&C stress	Repos/securities lending	Funding	Derivative	Operational risk
Life stress	100%	$\rho_{P,L}$	$\rho_{R,L}$	$\rho_{F,L}$	$\rho_{D,L}$	$\rho_{O,L}$
P&C stress	$\rho_{P,L}$	100%	$\rho_{R,P}$	$\rho_{F,P}$	$\rho_{D,P}$	$\rho_{O,P}$
Repos / securities lending	$\rho_{R,L}$	$\rho_{R,P}$	100%	$\rho_{F,R}$	$\rho_{D,R}$	$\rho_{O,R}$
Funding	$\rho_{F,L}$	$\rho_{F,P}$	$\rho_{F,R}$	100%	$\rho_{D,F}$	$\rho_{O,F}$
Derivative	$\rho_{D,L}$	$\rho_{D,P}$	$\rho_{D,R}$	$\rho_{D,F}$	100%	$\rho_{O,D}$
Operational risk	$\rho_{O,L}$	$\rho_{O,P}$	$\rho_{O,R}$	$\rho_{O,F}$	$\rho_{O,D}$	100%

$$ILR_{adj} = \frac{Liquidity\ Sources}{(Liquidity\ Needs\ * Adjustment\ Factor)}$$

"Adjustment Factor" is a multiplier determined by a function of individual insurers' composition of liquidity needs and the fixed correlation factors illustrated in Table 8

7. Conclusion

- **Feedback** on the consultation document is invited **by Monday 3 February 2025**

- Input received through this consultation will be considered during the upcoming regular review of the GME assessment methodology, planned for 2025.

- The outcome of the review, including the decision on the inclusion of new ancillary indicators, will be reflected in the updated GME documentation, which will be published in 2025.

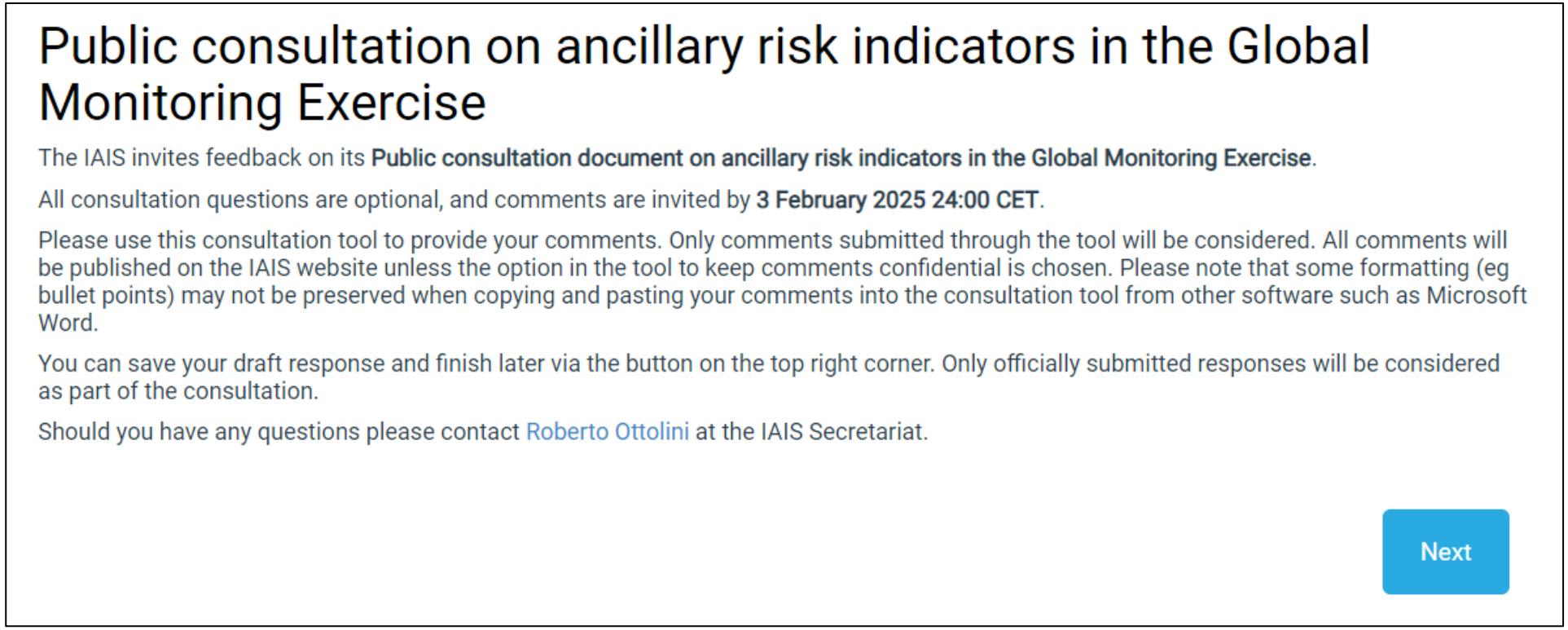
Consultation process

Questions for stakeholders

- Questions for stakeholders are included in light blue boxes at the end of each chapter of the public consultation document
- 25 questions in total seeking input on:
  - Definitions of the proposed metrics
  - Parameters for the calculation of the metrics
  - Feasibility of the reporting
  - General comments
- Questions for stakeholders are also summarised in a separate document

How to provide responses

- Please use the **consultation tool** available at this link to provide your responses to the consultation questions.



Next steps

- 27 November 2024: launch of public consultation on ancillary indicators
- 11 December 2024: public background session for stakeholders
- **3 February 2025: deadline for responses to public consultation**
- March 2025: launch of GME 2025 data collection
- Mid 2025: launch of public consultation on revised GME assessment methodology
- End 2025:
  - Publication of updated GME methodology
  - Resolution of comments on ancillary indicators
  - Publication of final ancillary indicators document

Q&A