



IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

Financial Stability Committee

Elise Liebers, Vice Chair Financial Stability Committee



Outline

1- Financial stability work: structure and workflow

2- Assessment methodology

3- G-SII Policy Measures

4- Macroprudential surveillance

Financial Stability Committee Workflow

Coordinates Global financial stability policies across all financial sectors

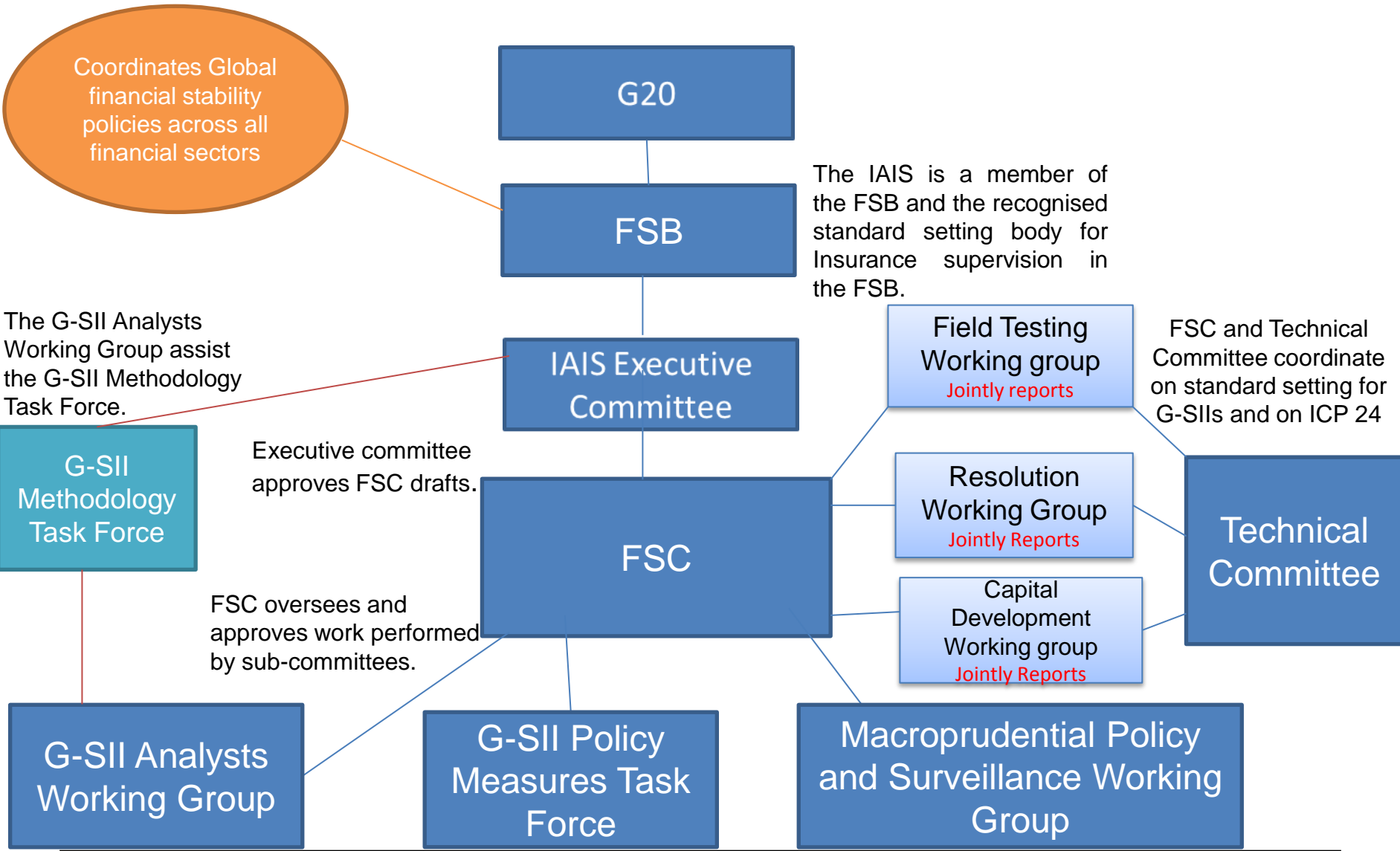
The IAIS is a member of the FSB and the recognised standard setting body for Insurance supervision in the FSB.

FSC and Technical Committee coordinate on standard setting for G-SIIs and on ICP 24

The G-SII Analysts Working Group assist the G-SII Methodology Task Force.

Executive committee approves FSC drafts.

FSC oversees and approves work performed by sub-committees.



Outline

1- Financial stability structure and workflow

2- **Assessment methodology**

3- G-SII Policy Measures

4- Macroprudential surveillance

Assessment Methodology

2011 IAIS report on Insurance and Financial Stability

Differences exist between traditional insurance and banking business

Non-traditional insurance and non-insurance activities within insurance groups may generate or amplify systemic risk

2013 Assessment methodology

- 20 indicators in 5 categories: size, global activity, interconnectedness, non-traditional insurance and non-insurance (NTNI) activities and substitutability
- Higher weighting for NTNI and interconnectedness (together 80-90%)
- Supervisory judgment plays an important role
- Review of methodology planned every three years

Assessment Methodology

Continued work to build upon the methodology for identifying G-SIIs:

G-SII Analysts Working Group (G-AWG)- is responsible for coordination of the annual review of potential G-SIIs in accordance with the framework approved by the FSC. The list of G-SIIs is announced by the financial stability board (FSB). G-AWG is receiving 2015 data, will analyse over following months and produce ranking of firms.

G-SII Methodology Task Force (G-MTF) - set up to review assessment methodology by November 2015, for application from 2016

G-AWG assists the G-MTF with methodology improvements as part of triannual review of methodology, based on the 2015 data analysis. Improvements considered include normalisation, potential establishment of a cut-off line for G-SII designations, clear rules for entering and exiting from the list of G-SIIs, ensure methodology appropriately addresses all types of insurance and reinsurance, and other financial activities of global insurers

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G-SIIs: Aims of Policy Measures Framework

- Reduce negative externalities and moral hazard
- Reduce the probability and impact of failure of G-SIIs
- Incentivise G-SIIs to become less systemically important

G-SIIs: 2013 IAIS Policy Measures Framework

Developed by G-SII Policy Measures Task Force –responsible for policy measures for systemically important insurers (SIIs).

Three categories:

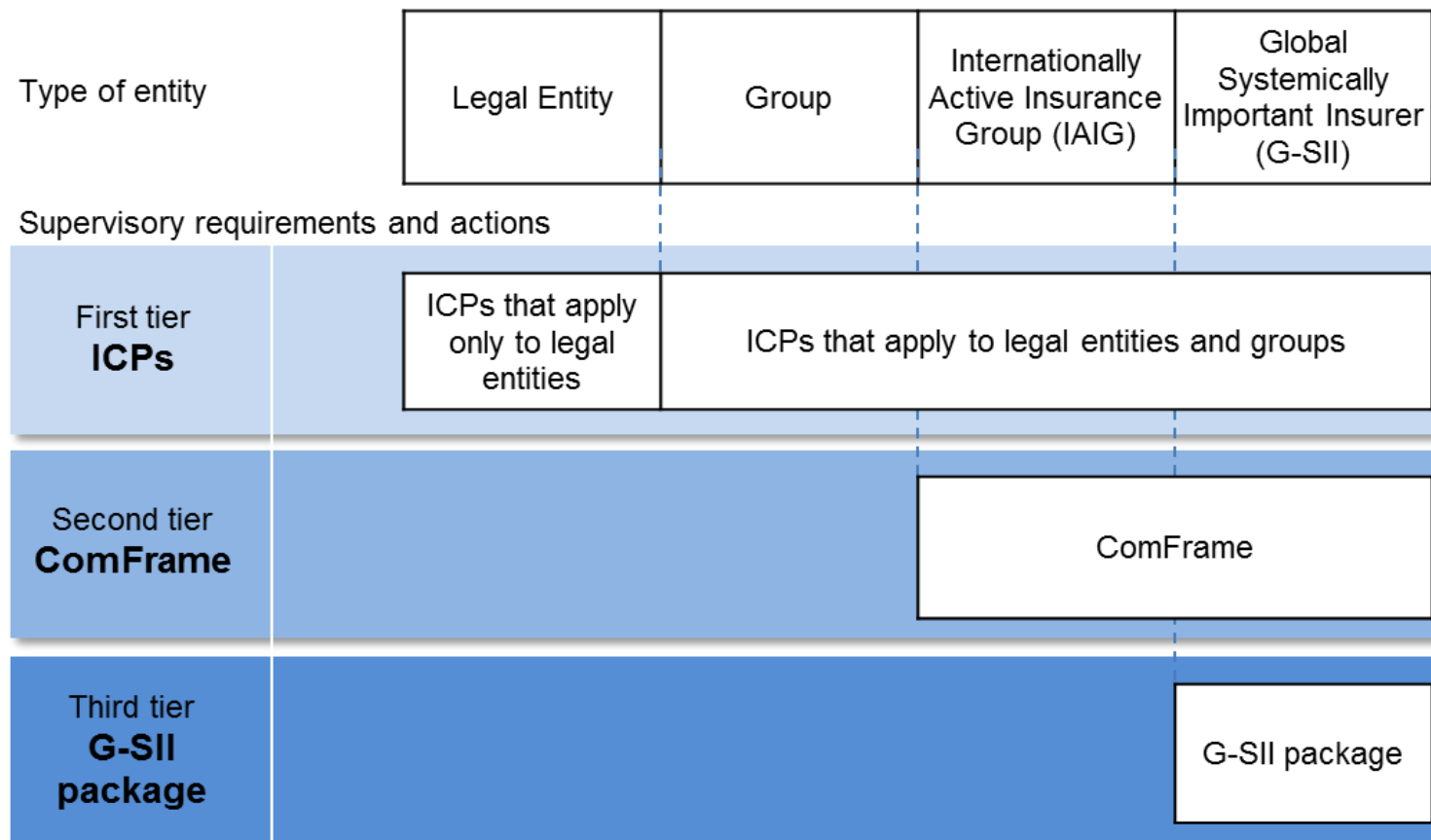
- **Enhanced supervision**
- **Effective resolution**
- **Higher loss absorbency**

Consistent with FSB G-SIFI framework

Take into account insurance specifics

Hierarchy of IAIS Supervisory Requirements

Architecture of IAIS international supervisory requirements



G-SIIs Policy Measures

- G-SIIs included in scope of ComFrame
- G-SII Policy Measures are built and expand upon ICPs & ComFrame
- Supervisory requirements that are specific to G-SIIs: in G-SII Policy Measures, not in ComFrame

G-SIIs: Policy Framework

Enhanced supervision

- Systemic risk management plan (SRMP)
 - SRMP may include separation, restriction and/or prohibition of NTNI activities
 - Supervisors oversee development and implementation of SRMP

- Group-wide supervision
 - Power over holding company

- Liquidity management

G-SIIs: Policy Framework

Effective resolution

- Crisis management groups (CMGs)
- Recovery and resolution Plans
- Institution specific cross-border cooperation agreements

Under scope of Resolution Working Group reporting jointly to FSC and TC

G-SIIs: Policy Framework

Higher loss absorbency: BCR and HLA

1. As a foundation for higher loss absorbency (**HLA**) requirements for G-SIIs, developed straightforward, basic capital requirements (**BCR**) for G-SIIs in 2014
2. Develop Higher Loss Absorption (**HLA**) capacity requirements for G-SIIs by the end of 2015 to be implemented by 1 January 2019

G-SIIs should be required by their group-wide supervisors to hold higher levels of regulatory capital (BCR+HLA) than would be the case if they were not designated as G-SIIs.

G-SIIs: Policy Framework

Higher loss absorbency: link with ICS

1- IAIS considers sound capital and supervisory framework essential for supporting financial stability, so decided in 2013 development of Insurance Capital Standard within ComFrame.

2- ICS ultimate goal: single ICS, achieving substantially the same outcomes across jurisdictions, improved convergence over time on the key elements (valuation, capital resources and capital requirements...)

3- Once ICS is developed, ICS will replace BCR as foundation for HLA

Work on capital standards under scope of Capital Development Working Group & Field Testing Working Group reporting jointly to FSC and TC

G-SIIs: Policy Framework

G-SII Policy Measures Task Force working on clarifying the definition of NTNI business

Paper on this guidance is due to be finalised later in the year from consultation.

Outline

1- Financial stability structure and workflow

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3- G-SII Policy Measures

4- Macroprudential surveillance

Macroprudential Surveillance

Macroprudential Policy and Surveillance Working Group (MPSWG) - includes the development of a global macroprudential surveillance framework and assessment of tools to identify, assess, monitor and mitigate the adverse consequences of any systemic risk to be used by supervisors, adapted, as required, for their jurisdictions.

Macroprudential Surveillance

Strategic Plan and Financial Outlook for 2015-2019- High Level Goal #1- assessing and responding to insurance sector vulnerabilities.

Macroprudential Projects:

- a) Global Insurance Market Report (GIMAR) published on the IAIS website: <http://iaisweb.org/index.cfm?event=getPage&nodeId=25308>
- b) Key Insurance Risk Trends (KIRT) survey
- c) Enhancement of the Macroprudential Surveillance toolkit for supervisors current MPS toolkit.



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Macroprudential Policy & Surveillance

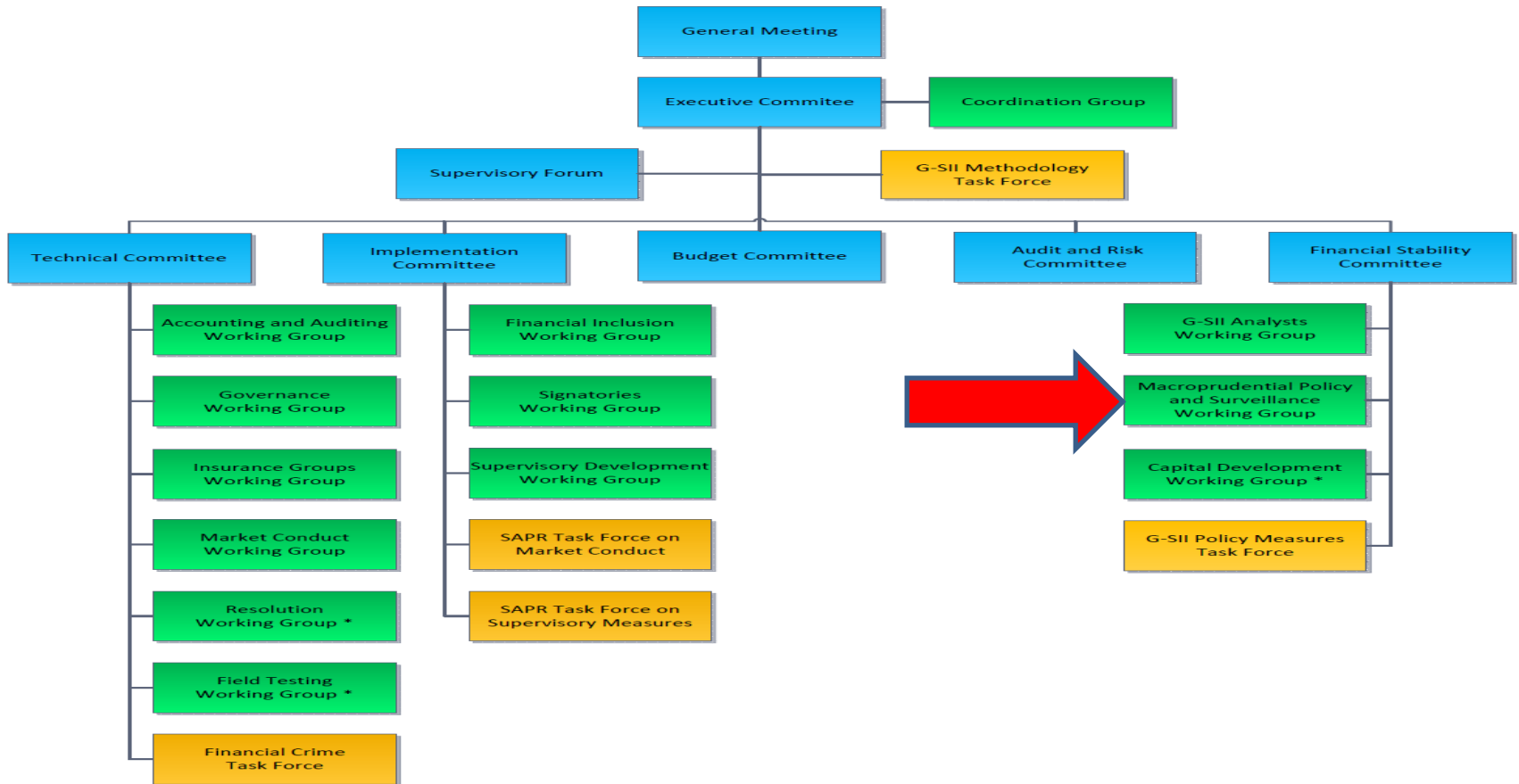
Christian Schmidt, MPSWG Vice Chair, FMA Liechtenstein
Macau, 19. June 2015



Outline

1. Macroprudential Surveillance (MPS) Tools
2. Global Insurance Market Report (GIMAR)
3. Key Insurance Risk and Trends Survey (KIRT)

MPSWG in the IAIS Org Chart

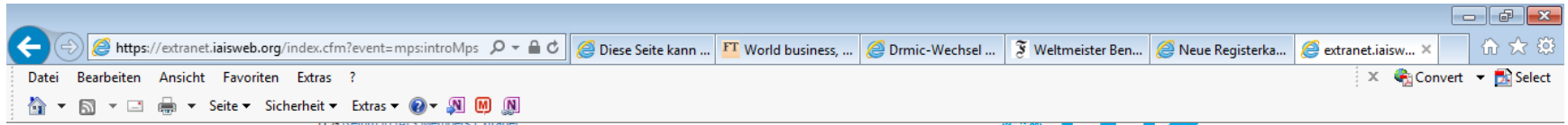


MPS portal

The IAIS Macroprudential Surveillance (MPS) Tools Portal was developed to assist members worldwide with the integration of ICP 24 into their supervisory regimes.

The MPS portal provides users with a foundation that can be used to develop a process to identify risks and developments in the general economy, financial sector and insurance market, as per the principals of ICP 24.

MPS portal – Introduction page



Macroprudential Surveillance (MPS) Tools

Introduction

Welcome to the IAIS macroprudential surveillance portal!

Link to [Macroprudential Surveillance Modules](#)

The portal offers a range of macroprudential indicators and tools which can be used by IAIS Members from around the world.

You will find

Ready to use macroprudential indicators and tools specifically selected for insurance supervisors; This with the aim to assist IAIS members in meeting the requirements of ICP 24. Therefore, the macroprudential surveillance portal:

- Offers interactive elements to support individual jurisdictions
- Applies a modular approach to integrate various macroprudential factors.

Specific relevance for IAIS Members

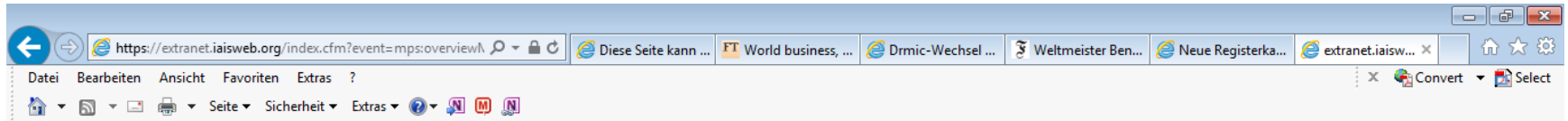
This macroprudential surveillance portal is: Geared toward assisting supervisors in identifying risks and developments within the general economy, financial sector and insurance market, with a particular focus on the interconnectedness of insurers and concentrations of risks. The portal was developed in light of ICP 24 on Macroprudential Surveillance and Insurance Supervision. ICP 24 requests supervisors to identify, monitor and analyse market and financial developments and other environmental factors that may impact insurers and insurance markets.

Link to [ICP 24](#)

Feed-back loop



MPS portal – Overview page



Macroprudential Surveillance: Indicators and Tools

(last overall update 15.06.2015)

[Back to Introduction](#)

Basic Macroprudential Indicators (last update 11.09.2015)

Basic Macroprudential Indicators are established to assist jurisdictions in identifying potential vulnerabilities which may exist in the insurance sector. The module contains a set of indicators which are applicable across all jurisdictions. The selection of indicators reflects key components used to identify and assess macroprudential issues while taking the availability and comparability of data into account. The value of each indicator from a macroprudential perspective is formulated considering the definition of systemic risk from the Financial Stability Board (FSB). Supervisors should be cognisant that no single indicator provides conclusive evidence. The indicators should be considered in totality, as they may be interrelated.

Advanced Macroprudential Indicators and Illustrations (last update 12.06.2015)

Interactive Datasets and Advanced Indicators

Module 2 consists of two parts.

The first part provides an interactive platform in which a Member can input data from its own jurisdictions on selected indicators. The data then automatically gets benchmarked against regional and worldwide data. The second part provides additional information on basic indicators as well as more advanced indicators for a Member considering to expand its own macroprudential toolkit.

International Perspectives (last update 12.06.2015)

Regional Best Practice offers the perspectives of a local or regional Member on macroprudential surveillance. The module offers examples of local or regional analysis on macroprudential surveillance. As a first step, taking data availability and market size into account, readings are provided solely by the NAIC on the US insurance industry and its risk exposures.

Other local and regional supervisors are invited to participate and provide relevant information. If you want to contribute, please use the feedback loop on the first page.

Macroprudential Tools Library (last update 09.06.2015)

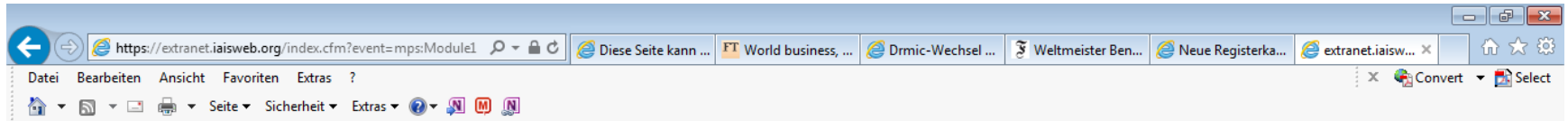
Macroprudential Tools Library contains documents that aim to give a better understanding of key debates on macroprudential surveillance. The module contains documents that cover the main challenges faced by Members engaged in macroprudential issues.

The selected readings are arranged under four headings: (i) Concepts and Policy; (ii) Practice and Tools; (iii) Regional Perspectives; and (iv) Additional Readings. A list of keywords included for each heading helps the user to identify relevant papers. Each document includes a brief description of the paper and what makes the paper of particular value to Members.



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18.06.2015

MPS portal – Basic indicators



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Basic Macroprudential Indicators

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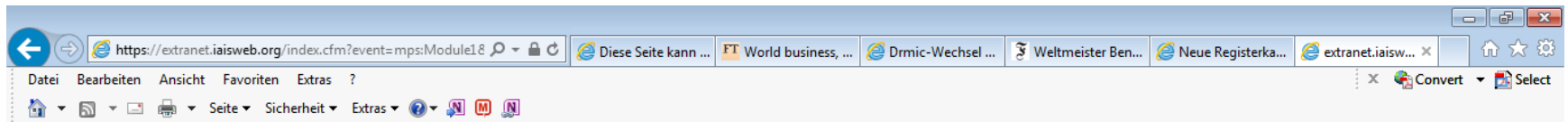
Please select from the list of indicators below

The Macroprudential Surveillance Working Group (MPSWG) chose the Basic Macroprudential Indicators as displayed below while also taking the 2013 IAIS publication on "Macroprudential Policy and Surveillance in Insurance" into account. They are the result of intense discussions within and beyond the MPSWG and are intended to offer a benchmark for jurisdictions. At the same time, the MPSWG is open to receive suggestions on their further advancement. Suggestions should be submitted through the feed-back loop as specified on the introduction page (compare: mps@bis.org).

1. Insurance Penetration
2. Insurance Density
3. Relative Capital
4. Capital to Premium
5. Reinsurance Retention (Cession) Rate
6. Combined Ratio
7. Insurer Concentration
8. Equity Share
9. Debt Share



MPS portal – Basic indicators



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Basic Macroprudential Indicators

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6. Combined Ratio

Formula:

The Combined Ratio is calculated as the sum of the "Loss ratio" and the "Expense ratio", i.e. $\text{Combined Ratio} = \text{Loss Ratio} + \text{Expense Ratio}$.

- Loss ratio: $(\text{claims paid} + \text{changes in outstanding claims provision}) / \text{gross earned premiums}$ (if latter not available, gross written premiums may be used as a proxy)
- Expense ratio: $(\text{operating expenses} + \text{commissions}) / \text{gross written premiums}$

Value from a macroprudential perspective:

This ratio measures the underwriting profitability of the insurance sector. If the industry combined ratio is above 100% the sector is on aggregate producing a loss resulting from the insurance business. High or deteriorating combined ratios are flags for supervisors to look into the reasons underpinning these developments which may include loose underwriting standards, escalating claims cost, natural disasters, corporate governance deficiencies.

Other considerations:

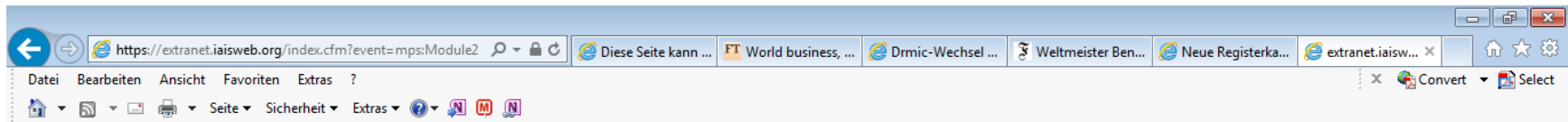
- The claims ratio and expense ratio may furthermore be considered separately, in order to contextualise the combined ratio. It will then be clear whether the level of the combined ratio and the trends are attributable to expense increases or due to claims experience.
- This indicator is usually constructed for the non-life insurance sector only.
- The data required for constructing this indicator are usually readily available for many jurisdictions.

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MPS portal – Advanced indicators



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Advanced Macprudential Indicators and Illustrations

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Please select from the list of indicators and illustrations below

Interactive Comparison for your country

Insurance Penetration

- Total
- Life
- Non-Life

Insurance Density

- Total
- Life
- Non-Life

Additional material:

CDS bought and sold by reinsurers

Combined ratio

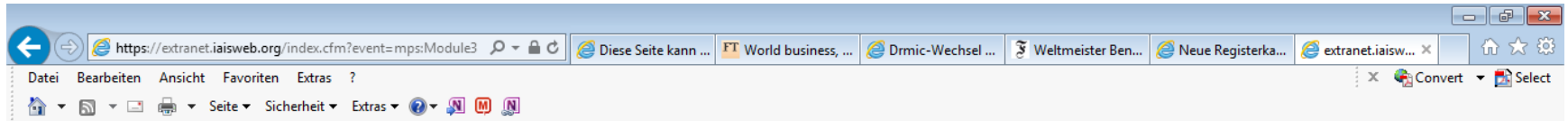
Relative Capital

Price to book ratio



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MPS portal – International persp.



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International Perspectives

[Back to Overview](#)

Regional Best Practice

1. Insurance Industry Snapshots
2. Exposures
3. Reinsurance and Capital Market Alternatives


[Key Risks and Trends Report \(KIRT\)](#)



MPS portal – Tools Library

The screenshot shows a web browser window with the URL <https://extranet.iaisweb.org/index.cfm?event=mps:Module4>. The browser's address bar and menu bar are visible. The page content includes a link to "Return to IAIS Members Extranet", the IAIS logo (International Association of Insurance Supervisors), and the title "Macroprudential Tools Library". A "Back to Overview" link is located to the right of the title. A blue-bordered box contains the text "Please select from the list of topics below" followed by a numbered list of four topics: 1. Concepts and policy, 2. Practice and tools, 3. Regional perspectives, and 4. Additional readings. The Windows taskbar at the bottom shows the system tray with the date and time (01:07, 18.06.2015) and several application icons.

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Macroprudential Tools Library

[Back to Overview](#)

Please select from the list of topics below

1. Concepts and policy
2. Practice and tools
3. Regional perspectives
4. Additional readings

MPS portal – Next steps

As new developments or demand for specific tools of macroprudential surveillance arise, the portal will be developed to accommodate member's needs.

Current MPSWG focus is on monitoring and quantifying the use of the portal, on working to improve members' interest in the portal, and on ensuring regular updates of information.

MPSWG members are discussing an option to add a fifth module on the portal that would be dedicated to reinsurance issues.

GIMAR

Global Insurance Market Report (GIMAR) is an annual study on issues and developments in the global insurance industry.

Most recent GIMAR was published in December 2014.

Key parts of GIMAR build on the work of the Reinsurance Transparency Group which since 2004 published studies on developments in the reinsurance sector.

GIMAR is produced by IAIS secretariat under the lead of the Economic Counsellor as a joint effort together with members, the vice chair and the chair of the IAIS MPSWG.

GIMAR is neither an official policy paper nor an application paper, and it is not intended to reflect the views of the Members of the IAIS.

GIMAR 2014 – Table of contents

1. Executive Summary
2. Background
3. Macroeconomic and financial environment
4. Global insurance market development
5. Interest rate challenges for (re)insurers
6. Macroprudential surveillance and tools

GIMAR 2015 – Next steps

MPSWG members are in the process of making recommendations for topics for the GIMAR 2015.

Topics and outline of upcoming GIMAR will be discussed and determined at the next MPSWG meeting in Basel in September.

Publication of GIMAR 2015 report is planned for December 2015.

KIRT

The IAIS Key Insurance Risks and Trends (KIRT) Survey is an annual survey among IAIS members on macroeconomic, financial and insurance risks and trends.

The KIRT is now handled as a part of the MPS portal, i.e. Members have the opportunity to download the questions and to fill out the survey electronically.

KIRT- Status

Based on an in-depth review, including thorough considerations with external experts, the MPSWG has determined a list of 21 key risks.

Some of the already existing questions were clarified to better ensure consistency among the various respondents.

Survey questions were sent out to IAIS Members in February 2015.

Members were asked to complete survey by 15 May 2015. Deadline was subsequently extended to end of May 2015.

KIRT- Next steps

KIRT survey results will be aggregated and analyzed by IAIS secretariat.

They will be made available to IAIS Members within a protected section of the KIRT portal.

Selected results will be presented at IAIS Committee meetings.

Annual circle for the KIRT survey.

MPSWGs ongoing priorities

Continue to work on analyzing key vulnerabilities and risks of the insurance sector.

Further develop macroeconomic, financial and insurance indicators to help better understand the potential impact of materializing risks on insurers.

Continue work to refine and supplement the MPS portal.

Furthermore, the MPSWG plans to refine MPS by issuing guidance on the practical application of ICP 24.