



IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

Trends in Solvency Supervision An International Perspective

John Maroney

Head of Capital & Solvency, IAIS

IAA / ASHK, Life Insurance Colloquium

Hong Kong, 26 April 2016



IAIS: A global forum for insurance supervisors

- Founded in 1994
- Members: Insurance regulators and supervisors from more than 200 jurisdictions in 140 countries
- Hosted by the Bank for International Settlements (BIS) in Basel

IAIS Mission:

- *promote effective and globally consistent regulation and supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders; and*
- *contribute to global financial stability.*



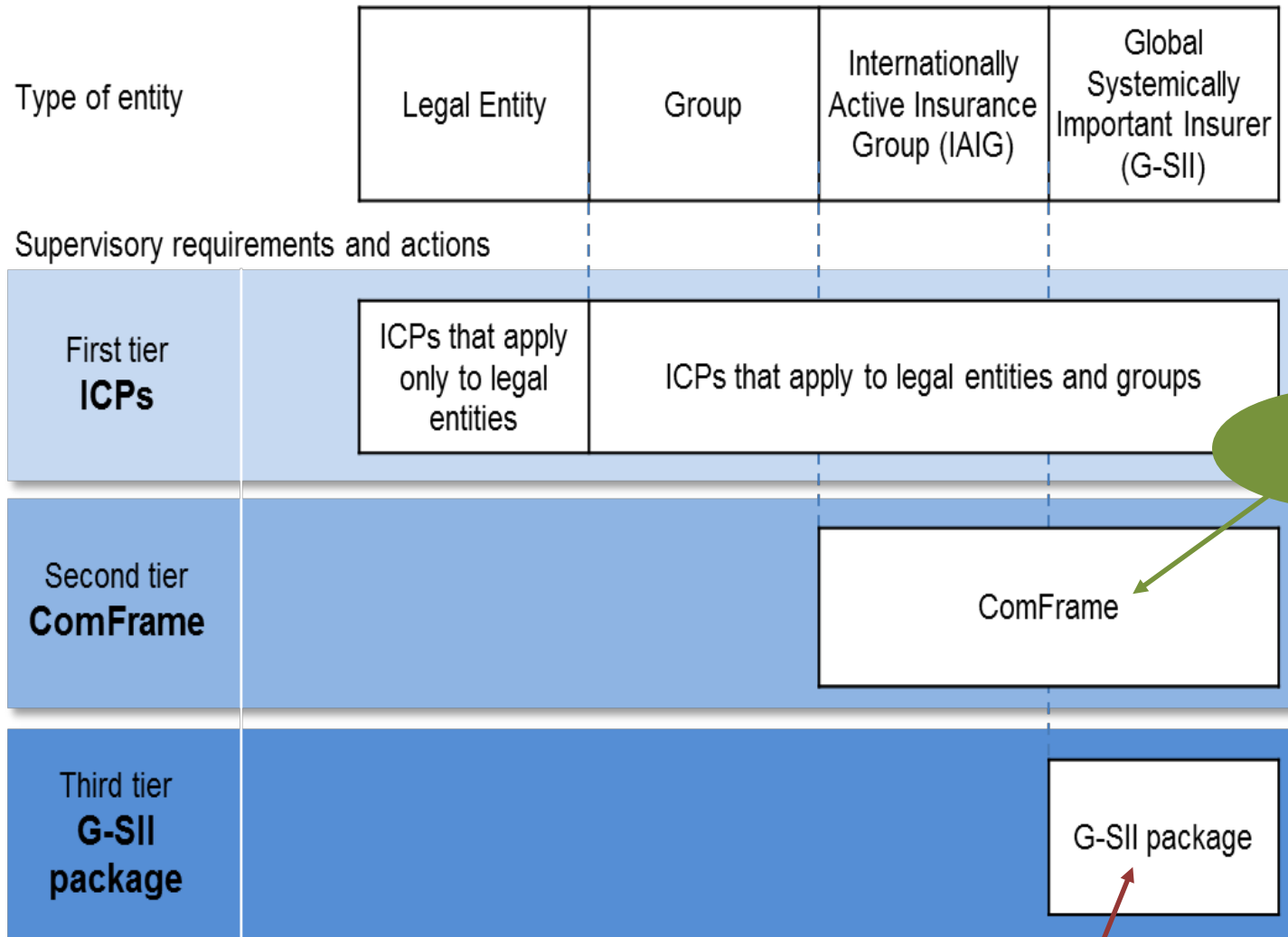
Topics for discussion

1. Origins of global solvency & capital standards
2. ComFrame: qualitative & quantitative requirements
3. Supporting financial stability
4. Making sense of all the different standards
5. Prospects for worldwide convergence
6. Concluding remarks

1. Origins of global solvency & capital standards

- Crucial stages of development of global insurance regulation
 1. Insurance core principles (**ICPs**) – 2003 / 2011 / 2019
 2. ComFrame – the Common framework for the supervision of internationally active insurance groups (**IAIGs**) – 2010 to 2019
 3. Global Systemically Important Insurers (**G-SII**) policy measures – 2013 to 2019 (Basic Capital Requirements (**BCR**) and Higher Loss Absorbency (**HLA**))
- By 2020
 - Enhanced standards of global insurance supervision and cooperation
 - Greater policyholder protection
 - More confidence in the safety and soundness of insurers and reinsurers
 - Meaningful global approach to insurance resolution
 - Greater supervisory cooperation and coordination in standards
 - Quantitative capital standards & qualitative standards for IAIGs

Architecture of IAIS international supervisory requirements

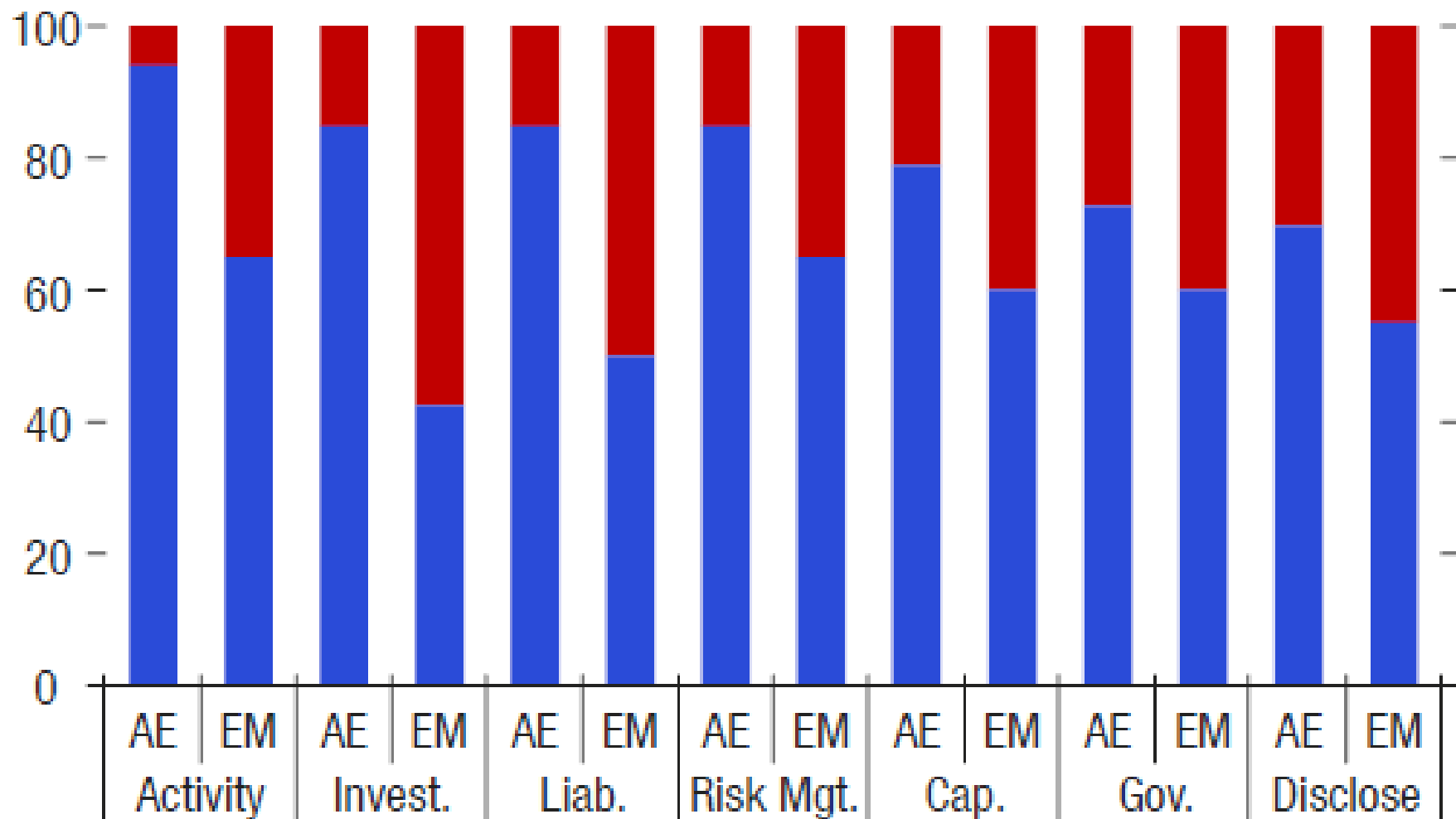


Includes ICS

Includes BCR & HLA

Selected IAIS Core Principles on Business Strategies

■ Observed ■ Unobserved



Sources: IMF 2016, Financial Sector Assessment Programs (FSAP); and IMF staff calculations. AE = advanced economy; EM = emerging market economy

IAIS Capital Standards

FSB & “IAIS considers a sound capital and supervisory framework for the insurance sector essential for supporting financial stability and protecting policyholders”

July 2013

BCR

- 2014 for G-SIIs only
- Confidential reporting started

HLA

- 2015 for G-SIIs only
- Applies from 2019

ICS

- Mid-2017 (consultation mid-2016)
- Version 2.0 applies from 2020

“Most fundamentally, an international capital standard for insurance companies is needed to counteract their increased contribution to systemic risk and protect against cross-sectoral and regional spillovers.” (IMF April 2016)

2. ComFrame: qualitative and quantitative requirements

- **Rationale:**

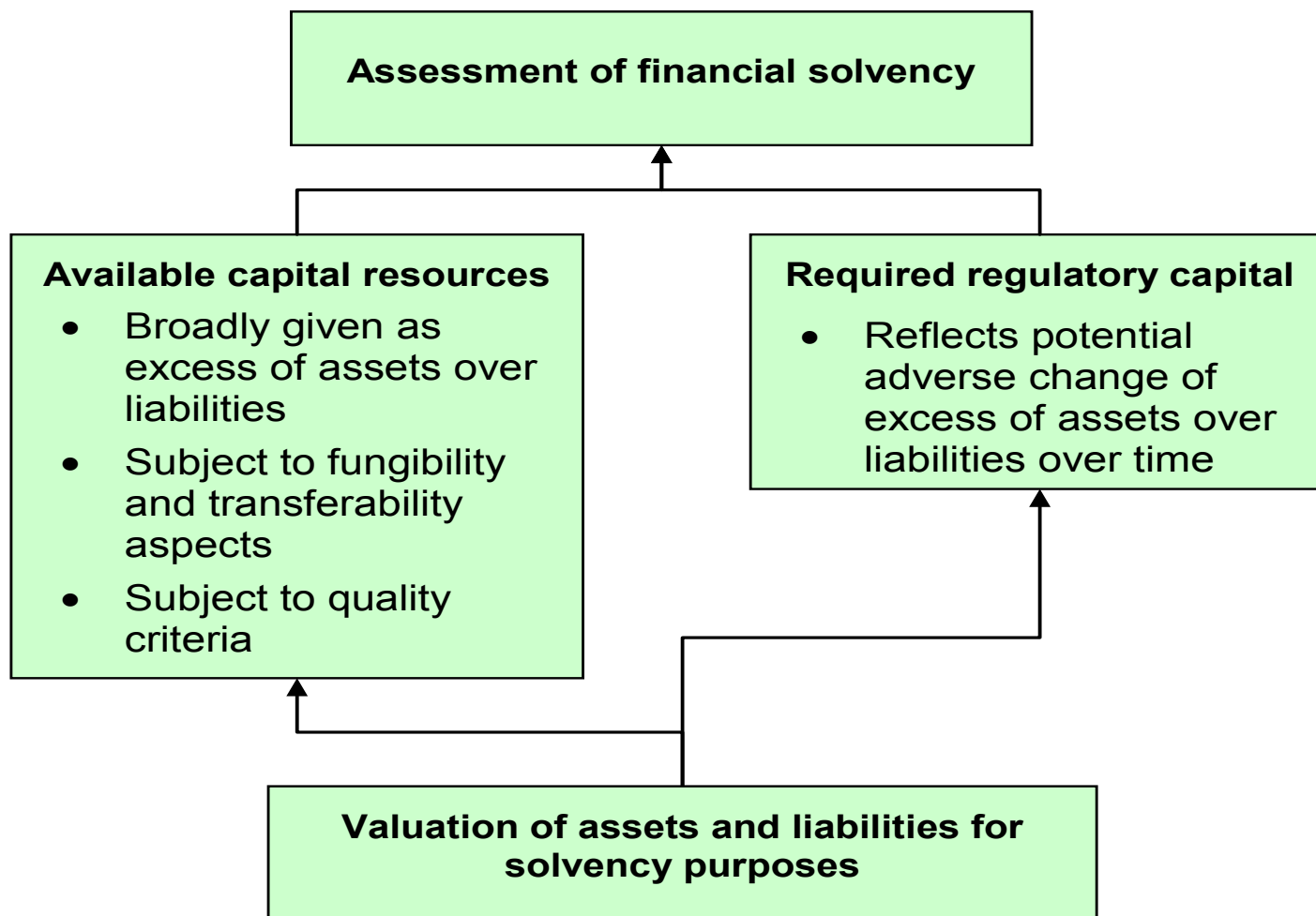
- Increasing globalisation of insurance markets drives the need for a global approach to supervision

- **Objectives of ComFrame:**

- Establish a **comprehensive** framework for group-wide supervision that builds upon ICPs
 - Capital requirements for IAIGs (global Insurance Capital Standard – ICS)
 - Qualitative requirements for IAIGs (governance, risk management, etc)
 - Scope of group-wide supervision
 - Requirements for supervisors
 - Crisis Management and Resolution
- Foster global convergence of regulatory and supervisory requirements for insurance groups

Valuation & capital adequacy (ICP 14 & 17) - summary

Total balance sheet approach to solvency assessment



Field Testing 2015 – some brief highlights

- 1.0 trillion USD of equity (GAAP)
- 1.3 trillion USD of premiums (36% non-life / 64% life)
- 10.8 trillion USD of insurance assets
- 8.3 trillion (USD) of insurance liabilities
 - *Underlying liabilities expressed in ~ 70 different currencies*



ComFrame – Scope of application

ComFrame (including ICS) will apply to all IAIGs including G-SIIs ('Global Systemically Important Insurers')

IAIGs to be identified by supervisory colleges based on two criteria:

1. International activity

- Premiums written in three or more jurisdictions, and
- Percentage of gross premiums written outside the home jurisdiction is at least 10% of the group's total gross written premium

2. Size (average on 3 years)

- Total assets of at least USD 50 billion or
- Gross written premiums of at least USD 10 billion

Supervisors have discretion in applying the criteria

Overview of ComFrame & ICS

Module 1 - Scope

Identification of IAIGs

Process of identifying IAIGs

Scope of supervision

Identification of GWS (group-wide supervisor)

Module 2 – the IAIG

IAIG's legal and management structures

Governance

ERM

ERM Policies

**Capital adequacy assessment:
development of Insurance Capital Standard (ICS)**

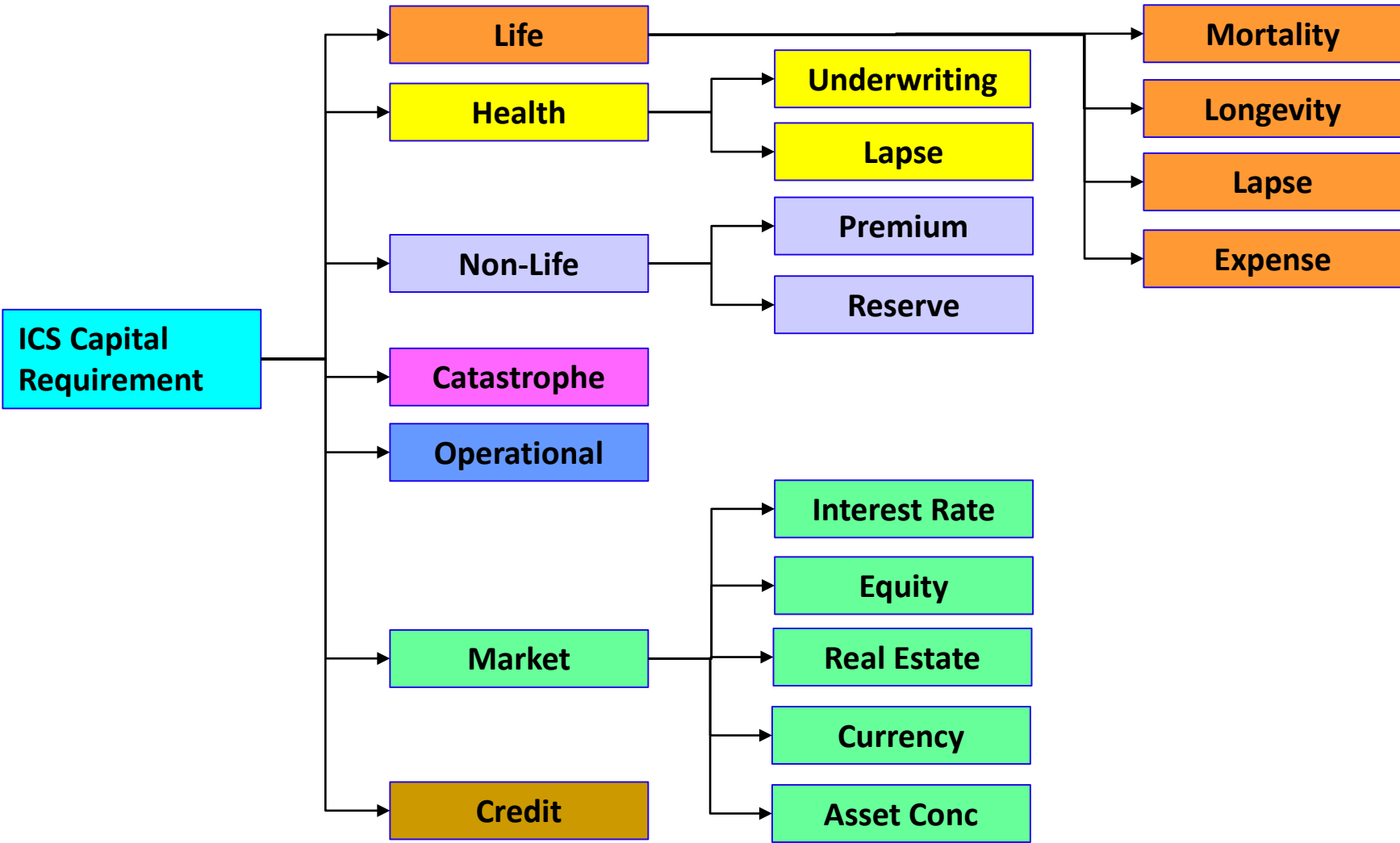
Module 3 – The Supervisor

Group-wide supervisory process

Supervisory colleges, cooperation and coordination

Crisis management and resolution measures among supervisors

ICS standard method: Risks (MAV & GAAP+)



Goals for the ICS – Ultimate Goal

The ICS Ultimate Goal (no final date attached):

- A single ICS that includes a common methodology by which one ICS achieves comparable, i.e. substantially the same, outcomes across jurisdictions.
- Ongoing work is intended to lead to improved convergence over time on the key elements of the ICS towards the ultimate goal.
- Not prejudging the substance, the key elements include valuation, capital resources and capital requirements.

Timeframe for ICS and ComFrame development

DATE	MILESTONE
May 2016	<ul style="list-style-type: none">• Launch of 2016 Quantitative Field Testing
July 2016	<ul style="list-style-type: none">• Publication of 2nd ICS Consultation Document
October 2016	<ul style="list-style-type: none">• Comments due on second ICS consultation document
May/June 2017	<ul style="list-style-type: none">• Adoption of ICS Version 1.0 for confidential reporting• Launch of 2017 confidential reporting process
May/June 2018	<ul style="list-style-type: none">• Launch of 2018 confidential reporting process• Publication of ICS Version 2.0 and ComFrame consultation
September/October 2018	<ul style="list-style-type: none">• Data due for 2018 confidential reporting process• Comments due on ICS Version 2.0 and ComFrame consultation
April/May 2019	<ul style="list-style-type: none">• Launch of 2019 confidential reporting process
IAIS 2019 General Meeting	<ul style="list-style-type: none">• Adoption of ComFrame, including ICS Version 2.0

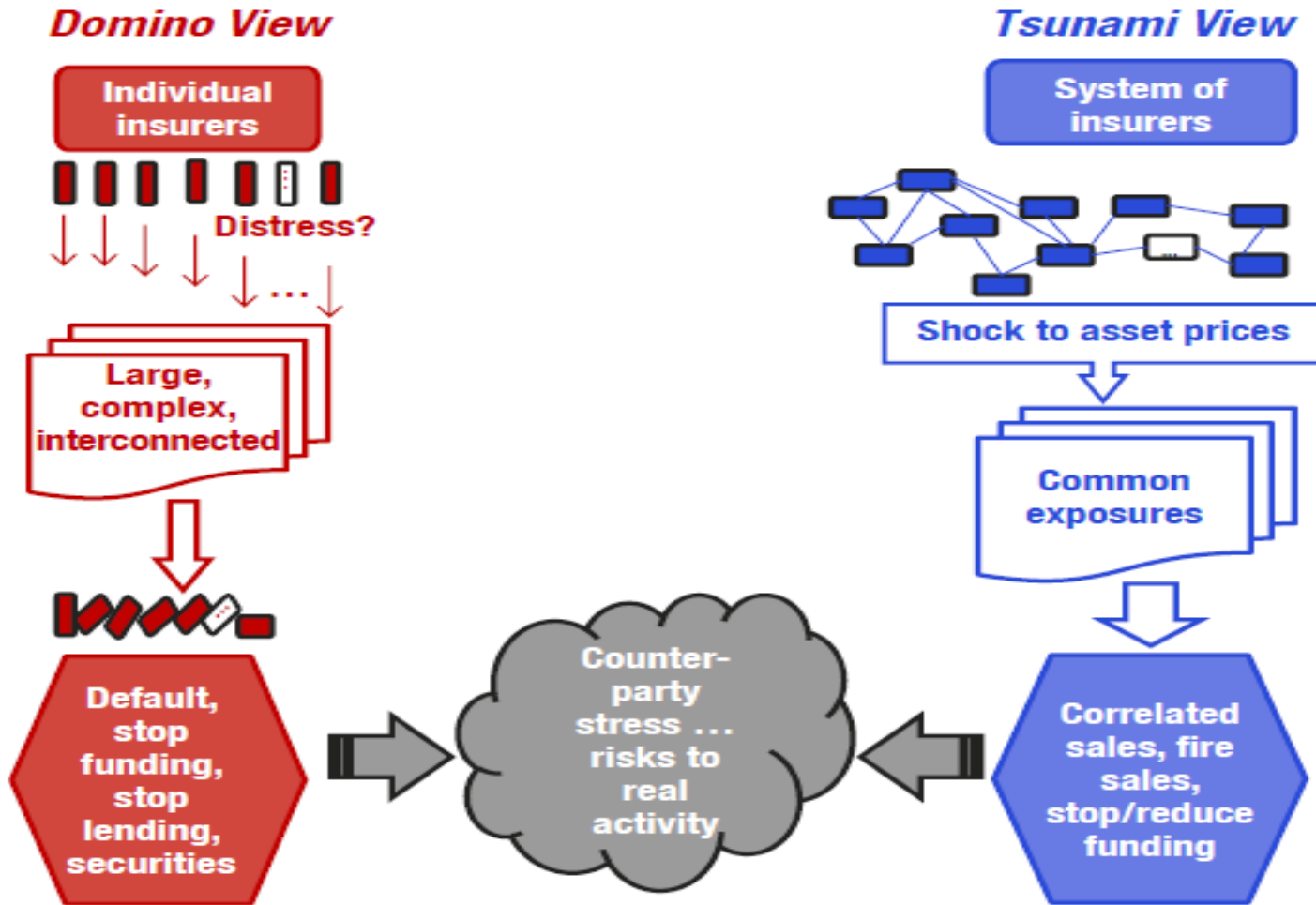
Market-Adjusted Valuation (MAV) & GAAP Plus

- Major differences in valuation of assets and liabilities exist, despite efforts by financial reporting standard setters to agree comparable standards
- The IAIS accepts this reality, while developing ICS versions 1.0 and 2.0
- Convergence over time is the desired goal
- Discount rates for the market-adjusted valuation (MAV) approach are a key difference with discount rates under GAAP Plus (eg based on adjusted current portfolio yields)
- Field testing aims to identify the materiality of differences and enable options for improved convergence to be developed

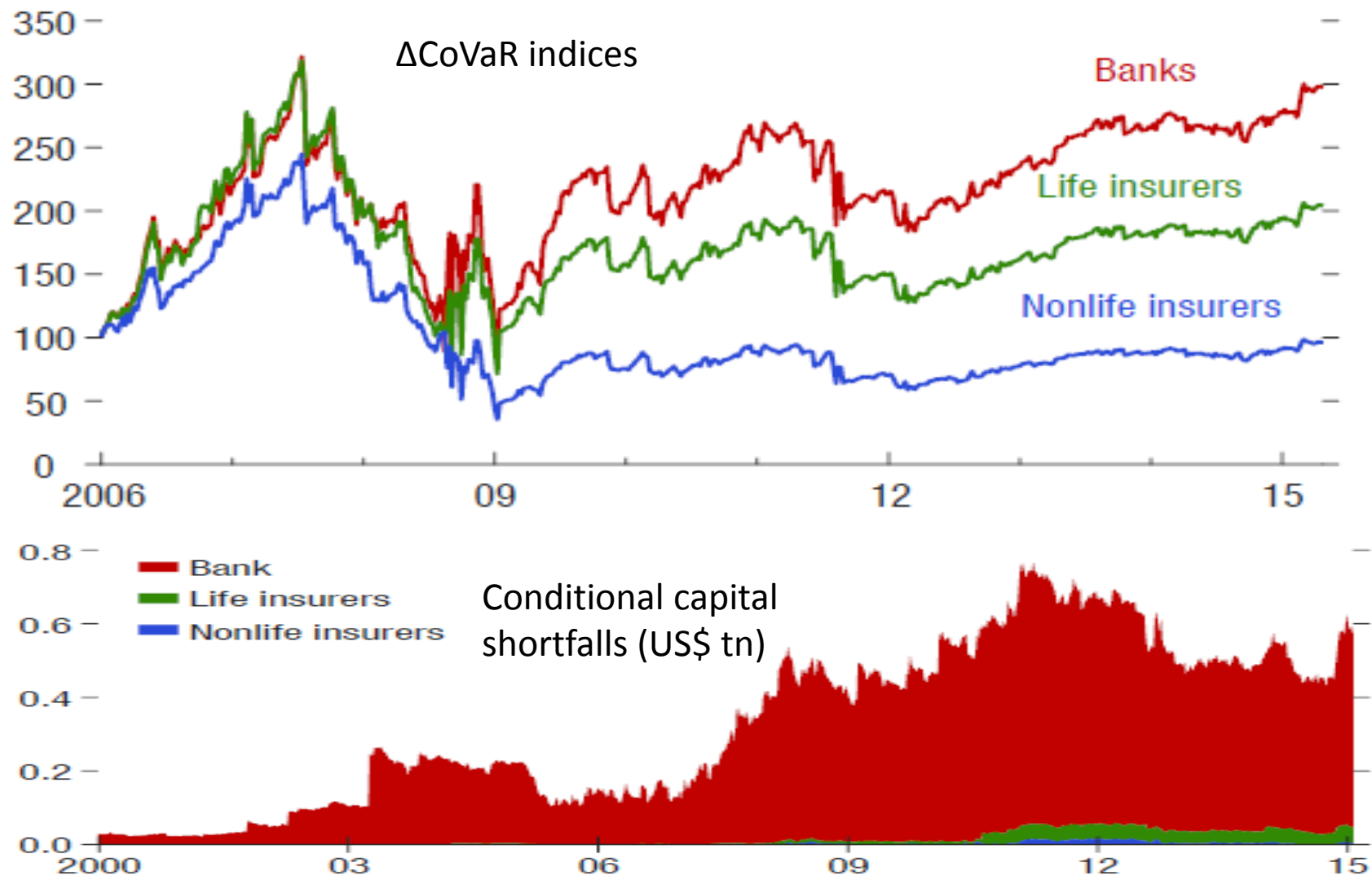
3. Supporting financial stability

- FSB: Framework to reduce moral hazard and risk to global financial system from systemically important institutions (G-SIFIs)
- IAIS: Framework of policy measures for G-SIFIs consistent with FSB approach
 - Enhanced supervision
 - Effective resolution
 - Higher loss absorbency (HLA) capacity
- Integrated set of policy objectives
- Macroprudential policy & surveillance

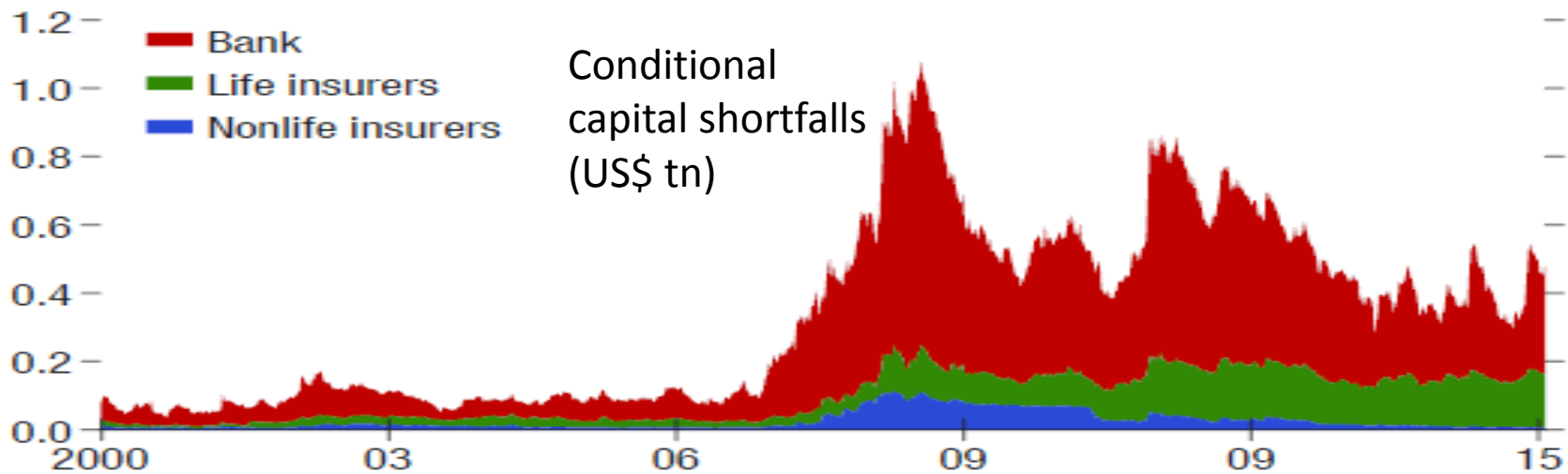
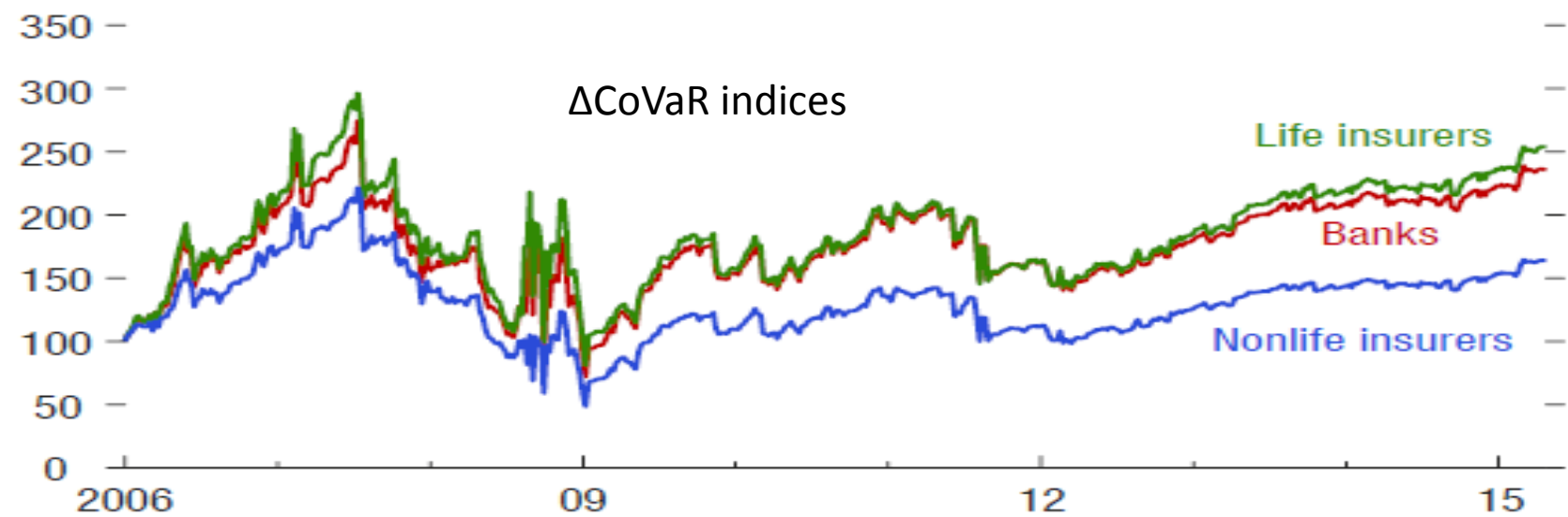
Systemic risks in insurance (IMF April 2016)



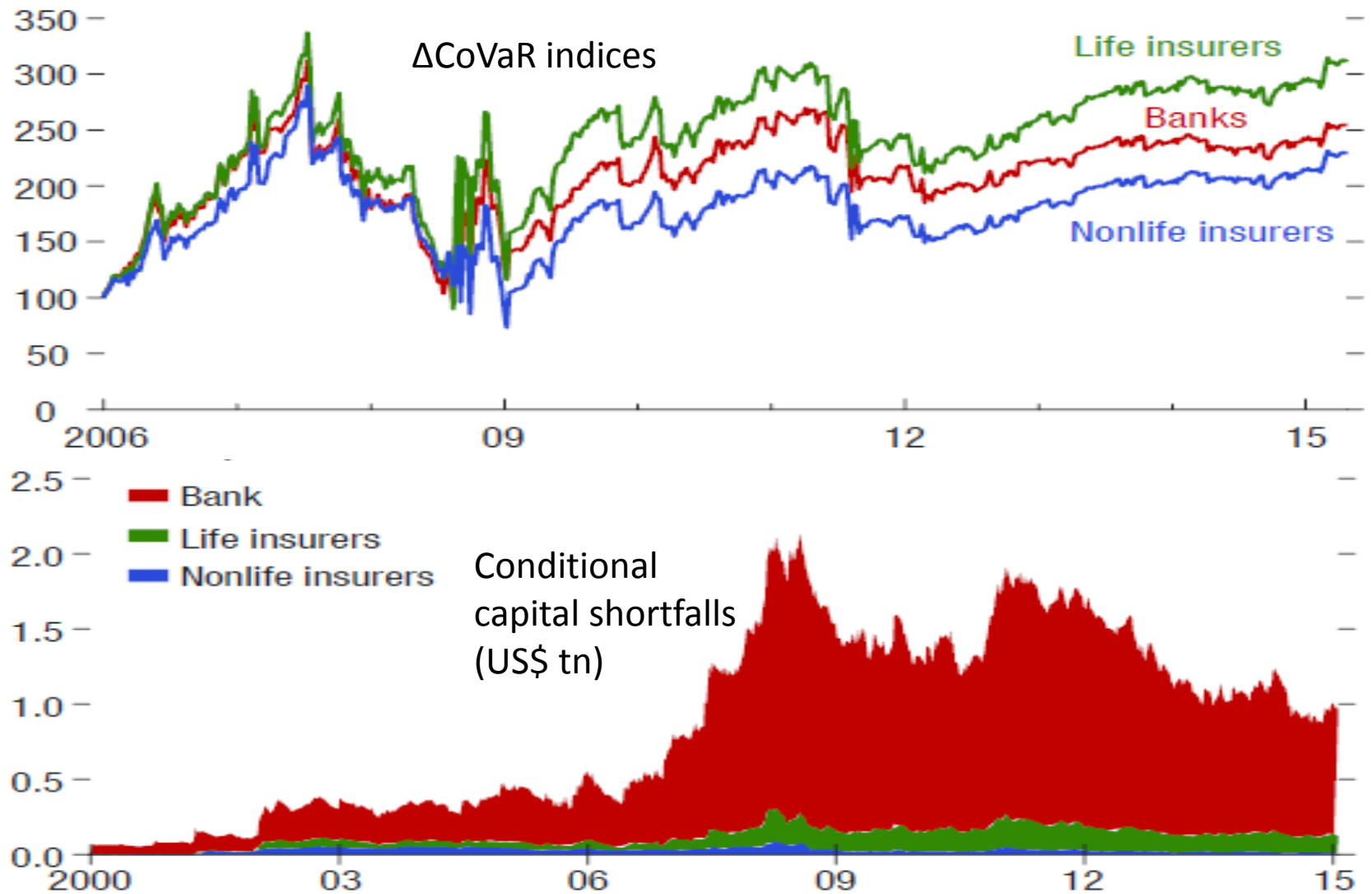
Systemic risk of banks & insurers – advanced Asia



Systemic risk of banks & insurers – North America



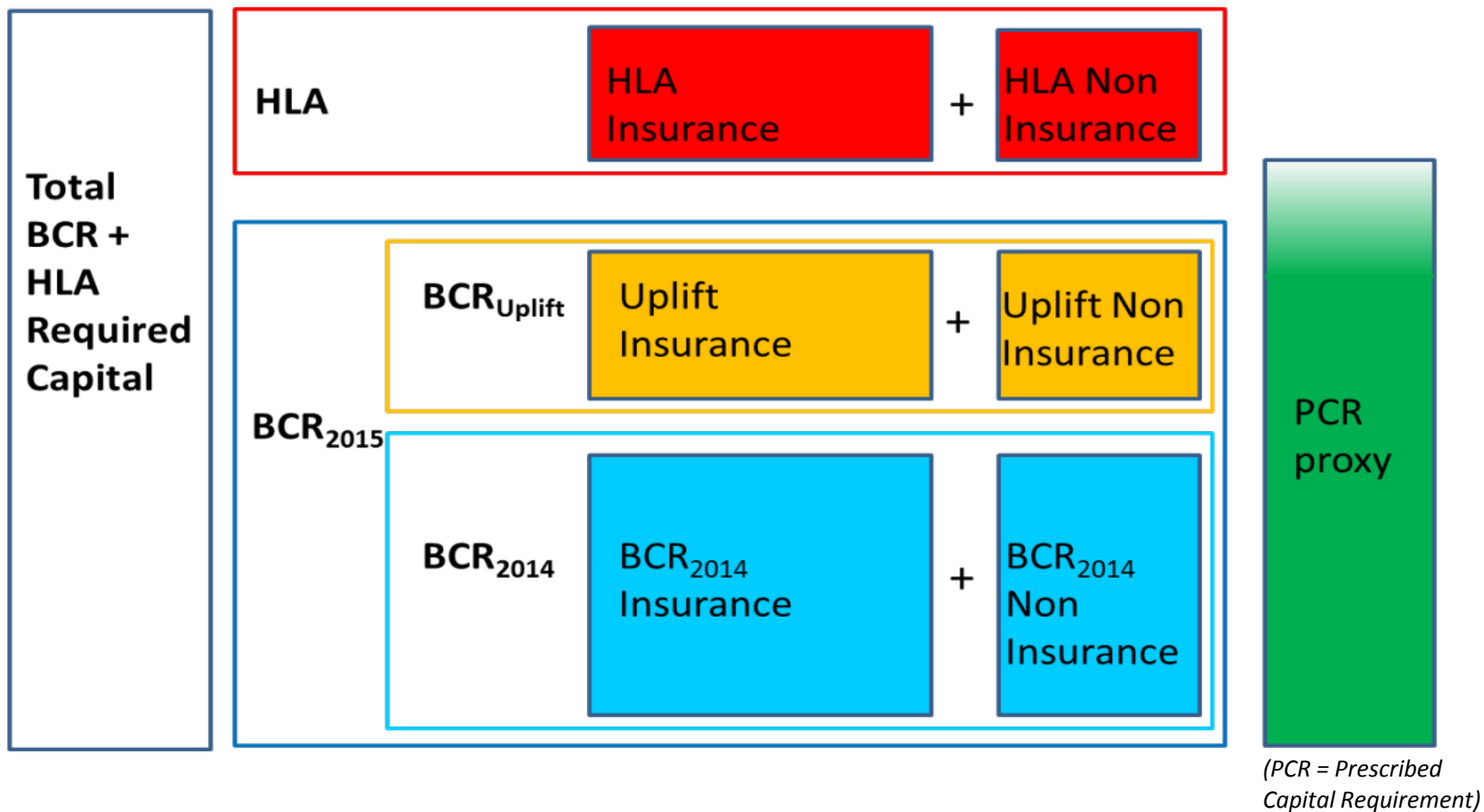
Systemic risk of banks & insurers – Europe



HLA policy objectives

- Higher loss absorbency (HLA) capacity reflects greater risks G-SIFIs pose to global financial system
 - G-SII more resilient to low probability but high impact events
 - Supervisors intervene earlier than for non G-SIIs (time to address emerging risks)
 - Internalise some of the costs to the financial system and overall economy
 - Any implicit or explicit funding subsidy linked to G-SII status is offset

Total BCR + HLA required capital for G-SIIs



Required HLA capital formula factors

BCR required capital exposure	HLA Factors		
	Low Bucket	Mid Bucket	High Bucket
Traditional Life insurance	6%	9%	13.5%
Traditional Non-Life insurance			
Assets			
Non-Traditional insurance	12%	18%	27%
Non-Insurance – Assets Under Management			
Non-Insurance – Other			
Non-Insurance – Regulated Banking	8.5%	12.5%	18.75%
Non-Insurance – Unregulated Banking	12.5%	18.75%	25%

Average impacts on G-SIIs designated in 2013

	G-SIIs	All Volunteers
BCR_{2014} / BCR_{2015}	75%	n/a
HLA / $BCR_{2015}^{(*)}$	10%	n/a
$BCR_{2015} / PCR^{(**)}$	100%	90%
$(BCR_{2015} + HLA) / PCR^{(**)}$	110%	100%
$(BCR + HLA)$ coverage Ratio $(^{**})$	260%	305%

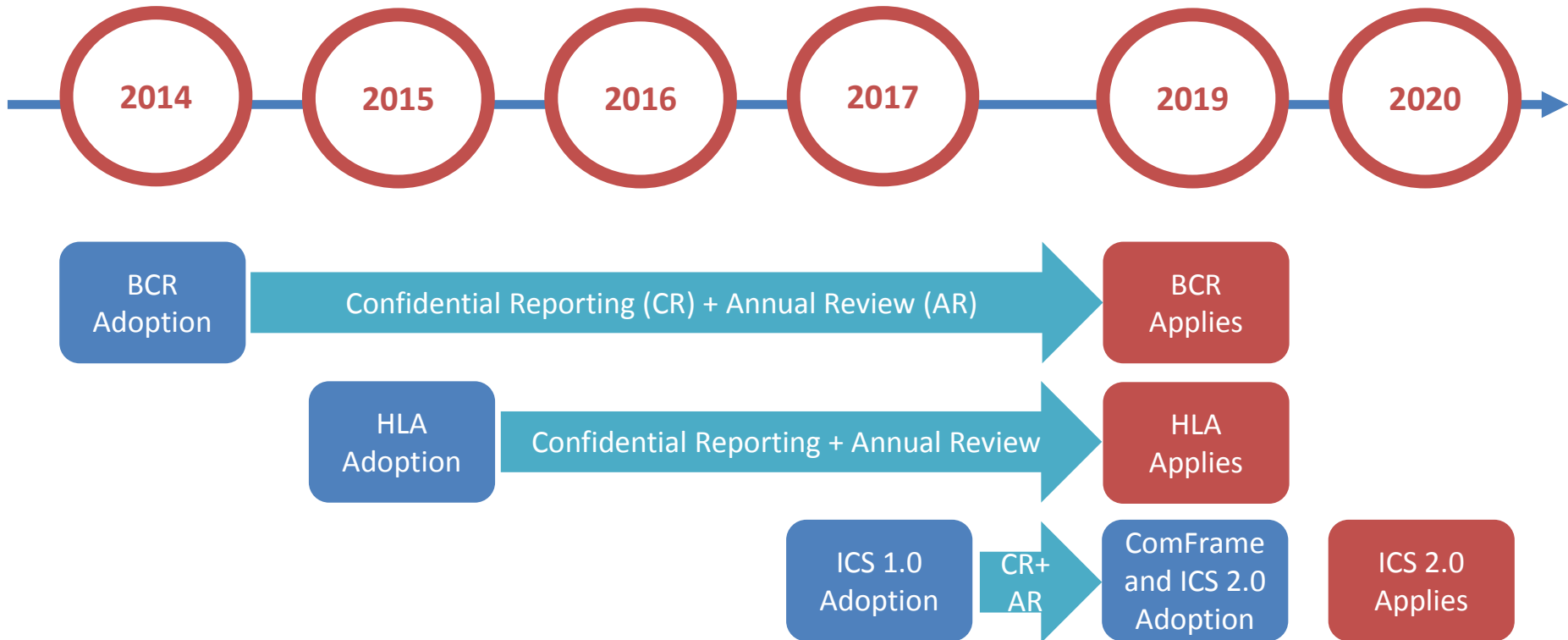
Notes

- Results averaged over 2014 and 2015 field testing
- Results rounded to 1% (*) or 5% (**)
- Non-G-SII Volunteers assumed in lowest HLA bucket only for illustrative purposes

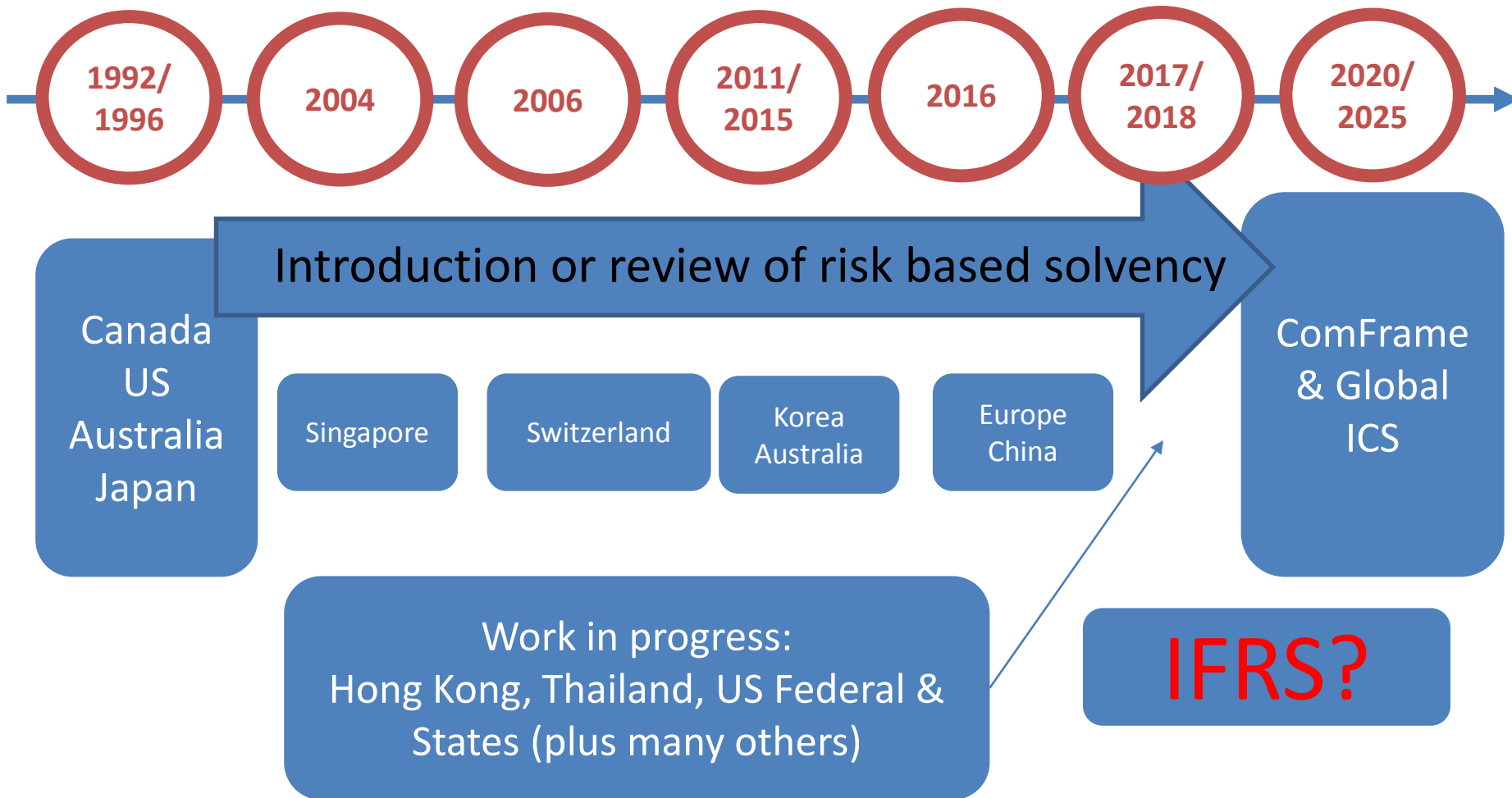
Ongoing work

- The G-SII Assessment Methodology and NTNI definition are currently under review
- See IAIS website for recent Public Consultations on ‘G-SII Methodology’ and ‘Non-traditional Non-insurance Activities and Products’
- It is expected that ICS will replace the BCR as a foundation for the HLA, after the ICS version 2.0 is adopted in 2019
 - HLA will be revised accordingly

4. Making sense of all the different standards



5. Prospects for worldwide convergence



6. Concluding remarks

- 2016/17 is a unique opportunity to help shape the future **global** insurance supervisory framework
- Important for insurers & other stakeholders to understand recent developments and provide input during the development of the ICS through:
 - Ongoing engagement with the IAIS (esp. **all** IAIGs)
 - Responses to consultations
 - Research on ICS related issues
 - Participation in Stakeholder sessions

Input from experts/insurers from a wide range of jurisdictions and business profiles is necessary for the successful development of globally relevant and meaningful capital standards.

Technical input on calibration of risks is crucial



IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

Questions?

John.Maroney@bis.org

www.iaisweb.org

