



"The Role of the IAIS in Times of Turbulence"

Address by

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Geneva Association, 34th Annual Progres Seminar
2 March 2018

1. Introduction

Good afternoon. Thank you for the invitation to speak at this superb annual event. It is good to see so many familiar faces.

Coming straight from 3 days of intensive IAIS Committee meetings, I am pleased to be able to take a step back and benefit from some thought-provoking exchanges between industry and regulatory leaders.

Engagements like this event – and more broadly engagement with our stakeholders – are of huge benefit to the IAIS. As a global standard setting body, there is a great challenge in developing principles and standards that can be universally applied. The principles and standards we develop, and the guidance we provide, must be firmly rooted in practical experience. They need to be capable of being applied proportionately to different types of businesses in different markets. Our Members know that when it comes to effective supervision “one size does not fit all”. Involvement of our stakeholders and forums such as this support these efforts, so I would like to start off by expressing our appreciation to the contributions so many of you have made - and continue to make - to the work of the IAIS, whether as an insurance supervisor, industry leader, consumer representative, or peer organisation.

This session is styled as an Introductory Address. ‘Introductory’ in the sense that this is my first time speaking to you as Secretary General of the IAIS and an opportunity to give you my perspectives on what the IAIS stands for and where it is heading.

‘Introductory’ also in the sense that it comes at the outset of an exciting agenda – one that is very much focused on emerging (and in some cases emerged) risks - with all the uncertainty it poses; hence the title the ‘Role of the IAIS in Times of Turbulence’.

Whilst many of us are asked to speak about our priorities and the wider environment, “turbulence” is an interesting choice of word to have been given for my speech today. It comes from a Latin word “turbulentus”, which means “full of commotion”¹ and means either “violent or unsteady movement of air or water” or, in this context, “a state of conflict or confusion”.

Having been involved in the work of the IAIS since the global financial crisis, I can vouch for the amount of commotion I have seen and confusion that I have occasionally felt, even if I have yet to see all out conflict!

Of course, we have all seen a great deal of turbulence or commotion in financial services and I will talk about the role of the IAIS in addressing three areas of turbulence:

1. The buffeting we received from Global Financial Crisis, which we as standard setters continue to work on;
2. Current changes in the environments of both insurers and regulators; and,
3. The future potential of turbulence and disruption from emerging risks.

2. The buffeting we received from Global Financial Crisis, which we as standard setters continue to work on

The Global Financial Crisis was an event unlike any other we have experienced in living memory and, unfortunately, the insurance sector did have a role to play. I cannot avoid mentioning AIG, whose problems stemmed from it being exposed to Mortgage-Backed Securities (MBS) - the common exposure which was central to the Global Financial Crisis.

Monoline insurers also experienced problems due to a common exposure to the default of the assets underlying the mortgage-backed securities and as they were significantly interconnected, whilst in the Netherlands, Government support was provided to bancassurance conglomerates because of concerns that exposure of the banks in the group to mortgage-backed securities could have a knock-on effect on the insurers of the group.

¹ <https://en.oxforddictionaries.com/definition/turbulence>

Our experience of the Crisis and the insights we gained led to domestic, regional and international regulatory reforms. Completing the IAIS' international framework is vital to help promote a more stable global financial system. This means we must deliver on our current commitments; covering our work on the mitigation of systemic risk in the insurance sector and the development of ComFrame, including an ICS that is implementable by the end of 2019 in the form of confidential reporting to supervisory colleges.

We remain very much on track, with our meetings this week taking us another few steps forward.

In particular, our work on an activities-based approach (ABA) to the mitigation of systemic risk is taking on increased importance globally. This past November, the FSB emphasised the development of an ABA in its public communiqué on systemic risk. The IAIS has always advocated that insurance poses a different set of systemic threats than, say, banking and that these are related to insurance activities that involve liquidity risks and macroeconomic exposure. This thinking naturally lends itself to an ABA to systemic risk. In early December, we published an interim consultation on the work to date. This is a very preliminary but important step. The public comment period closed two weeks ago and we are reviewing the feedback received.

We will continue to liaise with the FSB on the direction of this area of work. The interaction between an Entities Based Approach (EBA) and an ABA, specifically whether an ABA is a complement to, or substitute for, an EBA, is a key question the IAIS will discuss in the year ahead, with the benefit of this stakeholder input.

What is clear is that any approach will need to be able to articulate how the IAIS and its Members intend to mitigate potential systemic risk at the global level arising from the collective exposures of insurers and the potential for a systemic impact due to the failure of an individual insurer.

The IAIS plans to outline its thinking on a holistic approach in a consultation document for public consultation by year-end 2018.

3. Current changes in the environments of both insurers and regulators

Even if the global financial crisis is now behind us, some of the socioeconomic impact lives on. As we have seen in recent years through UK political developments and the wider environment in Europe, the US and elsewhere, we live in turbulent times that

have a real impact on insurers and their supervisors.

For me, such an environment has only served to reinforce the importance of the IAIS and to reflect its strengths:

International supervisory co-operation

We are an inclusive Association of more than 200 members, bringing together insurance supervisors from across the globe. Reflecting the purpose of the Association, we are maintaining our focus on increasing co-operation between our members. For example, our Multilateral Memorandum of Understanding (MMoU) continues to grow and now stands at 65 member organisations, representing more than 70% of the global insurance market, with 12 more in the validation process.

A strong dialogue between our members and industry stakeholders

Being inclusive extends to our stakeholders – an area in which we have made significant improvements in recent years. In 2017, we held substantially more stakeholder meetings on a broader range of issues than ever before. We are committed to strengthening our engagement activities, which was reflected in the launch of our stakeholder engagement strategy last year, with nearly two dozen new commitments to expand our dialogue with consumers, industry, and academic and professional organisations.

Global standards that our members have the capacity to implement and that work in practice

As our policy work advances, we must be mindful of the need to begin our pivot towards supporting implementation and assessing observance. We have adopted a new strategy to strengthen our approach to implementation. Key to our strategy are:

1. Our continuing efforts to build the strategic partnerships needed to support capacity building amongst supervisors. Most recently, we entered into a five year agreement with the International Actuarial Association and the Access to Insurance Initiative to support supervisory capacity building in the area of actuarial services;
2. Providing greater opportunities for supervisors to exchange views and share best practices on emerging / emerged risks and the on-going challenge of implementation;
3. Supporting cooperation and information exchange amongst supervisors through our MMoU and other platforms; and, lastly,

4. Strengthening our approach to assessment, building off the success of our self-assessment and peer review programme to better address the demands of our members for comprehensive and credible assessments of the IAIS standards.

4. The future potential of turbulence and disruption from emerging risks

Turning to the future, the IAIS has begun a process to set out its next Strategic Plan and Financial Outlook (SPFO). This next five-year plan will begin in 2020 and we aim to present it for approval at our 2018 AGM.

Given our commitment to engaging with our stakeholders, we sought comments from stakeholders by late February and we are reviewing the input provided. There will be further opportunities to discuss our plans as the year progresses, when we consult on our initial thoughts.

As part of its initial blue sky conversations to inform our strategic plan work, a specific and key theme emerging from IAIS Executive Committee members, and from the input received from Geneva Association Board members this morning, has been the importance of monitoring, evaluating and developing actions in response to emerging risks.

The IAIS is increasingly focused on responding to emerging risks and trends in the insurance marketplace and developing appropriate supervisory guidance relevant to all of our Members. We recognise that further discussion on our approach to emerging risks is needed and that coordination is a critical challenge.

There are some common implications of all of these emerging trends and risks:

1. They impact all of our Members, whether from developed or developing jurisdictions – hence the imperative to respond in a proactive and robust way.
2. They have cross-sectoral impacts – many beyond the broader financial sector. We will have to grapple with what this means for the traditional silo model of insurance supervision – and for the way that the IAIS goes about its work on these topics.
3. They are all areas in which there is a relatively high degree of alignment in the

objectives of both supervisors and industry stakeholders – promoting market development, while mitigating risks. For me, this means that as we look to our future agenda as the IAIS, we need to explore ways to move from consultation to collaboration.

Standard setting is constantly evolving and we will become stale if we are not alert to emerging risks and changes in our sector. We also need to find ways to be more nimble and agile going forward in responding to these changes; we will create ‘forums’ or networks of supervisors to interact on these issues. This also provides an opportunity to increasingly look to shifting from a ‘consultation approach’ to a ‘collaboration approach’.

The IAIS will continue to be forward-looking and help shape supervisory responses to the emerging insurance landscape on issues such as FinTech, cybersecurity, climate change, and sustainable finance. We have put processes in place to provide further guidance to supervisors on these topics. Let me share some examples of the work we are doing in this area:

FinTech

As we will hear during this seminar, FinTech is already having a noticeable impact on insurer business models and these innovations could benefit consumers but also expose them to new, or evolving, risks.

Our aim in the new environment is to keep protecting policyholders, while also being careful not to stifle socially useful innovation. Due to both the scope and pace of change, insurance supervisors must be alert to new developments and make necessary adjustments in their supervisory practices and skills.

Last year the IAIS published a foundational paper entitled “FinTech Developments in the Insurance Industry”. The report highlights several challenges for insurance supervisors, including:

- Balancing the risks and benefits of innovations and creating an environment that fosters innovation through approaches such as regulatory sandboxes or innovation hubs.
- Evaluating and, if needed, adjusting the prudential regulation framework.
- Considering the adequacy of current reporting requirements in monitoring trends and the potential build-up of risk connected to new technologies.
- Understanding how innovations work and are applied to ensure adequate assessments of new product and business models.

In response to this report, the IAIS is looking at the increasing use of digitalisation in the insurance business model, which particularly has conduct implications. The result of this work will be an IAIS paper that focuses on its impact on the fair treatment of customers as well as what this could mean for conduct supervision. This more general paper will build on the Application Paper on the Use of Digital Technology in Inclusive Insurance, on which we launched a public consultation two weeks ago.

Also in the coming months, we will launch a FinTech virtual forum for supervisors to exchange perspectives towards the potential development of supervisory guidance.

We will also begin identifying supervisory challenges in connection with algorithms and artificial intelligence used by insurance firms.

Given the cross-sectoral nature of these challenges, we also continue to participate in the FSB Financial Innovation Network and the *ad hoc* group on financial innovations.

Collectively, our work at the global level will help support supervisors to respond to FinTech developments, be alert to the impacts on insurer business models and consumers and formulate the necessary regulatory strategies.

Cyber Risk

Cyber risk is one of the more pernicious emerging risks. IAIS Members are taking this issue very seriously. We have been doing some work – but we need to do more.

In August 2016, the IAIS published an Issues Paper on Cyber Risk to the Insurance Sector to raise awareness of the challenges presented by cyber risk. The paper provides background, describes current practices, identifies examples, and explores related regulatory and supervisory issues and challenges.

The IAIS is digging deeper with its follow-up paper on Cybersecurity. This has an expected release date of late 2018. This Application Paper will provide further guidance to supervisors seeking to develop an approach to supervising the cybersecurity of insurers. Recognizing the benefits of regulatory harmonization, the paper will consider incorporating recommendations and guidance from other international bodies, including the G7 Fundamental Elements of Cyber Security for the Financial Sector and from the CPMI-IOSCO Guidance on Cyber Resilience for Financial Market Infrastructures.

The IAIS is actively contributing to the CPMI-IOSCO Working Group on Cyber Resilience work as an Observer Organization.

IAIS Members are now examining existing ICPs to determine which aspects should be strengthened to reflect cybersecurity considerations.

In sum, for now, the IAIS is focused on addressing cyber in its ICPs and providing guidance to Members in the development of effective supervisory approaches. We recognise however, that the market for cyber insurance is evolving rapidly. Our focus has primarily been on understanding cyber risks and the impact for supervisors, but we are also monitoring the market side to determine what, if any, further action will be necessary for the IAIS to help support the development of the nascent cyber market.

Climate change and sustainable insurance

Lastly, the IAIS is also alert to issues in sustainable insurance, particularly as it relates to climate change and climate-related risks such as those wrought by natural disasters.

We have worked to raise Member awareness through papers, panel discussions, and collaboration with other organisations such as the UN Environment Programme (UNEP) through its Sustainable Insurance Forum (SIF). We are currently working with the SIF to develop lessons for supervisory practices and climate-related financial disclosures to mitigate risk and support sustainability. IAIS ExCo Member Geoff Summerhayes from APRA recently took over as SIF Chair.

Our primary aim thus far has been to support our Members who are increasingly engaging in discussions on the importance of insurance in addressing climate-related risks.

5. Conclusion

In closing, the current global mix of political, economic, social and technological forces at work shaping and in some cases disrupting and transforming the environment in which we operate makes for exciting times not only for the IAIS, but also for the global insurance sector and international insurance regulation and supervision.

At times like this, the IAIS, with the involvement of our stakeholders, has been successful in achieving global consensus on critical issues affecting the insurance sector and moving it towards greater regulatory convergence. This is a role we will continue to play, regardless of the ever-changing global environment.

Thank You