



# IAIS

INTERNATIONAL ASSOCIATION OF  
INSURANCE SUPERVISORS

## Application Paper on Macroprudential Supervision (Public Discussion Session)

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# Introduction

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## IAIS Application Papers

- As the global standard-setting body for insurance supervision, the IAIS develops supervisory material and supporting material
- **Supervisory material** consists of principles, standards and guidance that are developed for the supervision of the insurance sector:
  - **Insurance Core Principles** (ICPs), which apply to the supervision of insurance legal entities and insurance groups
  - **ComFrame**, which focuses on the group-wide supervision of Internationally Active Insurance Groups (IAIGs) only
- **Supporting material** helps with the practical application of supervisory material, provides background on particular topics or identifies related regulatory and supervisory issues (it does not create new standards):
  - Application Papers
  - Issues Papers
- Role of the proportionality principle

# Background

## Application Paper on Macroprudential Supervision

- **Scope of the project:**

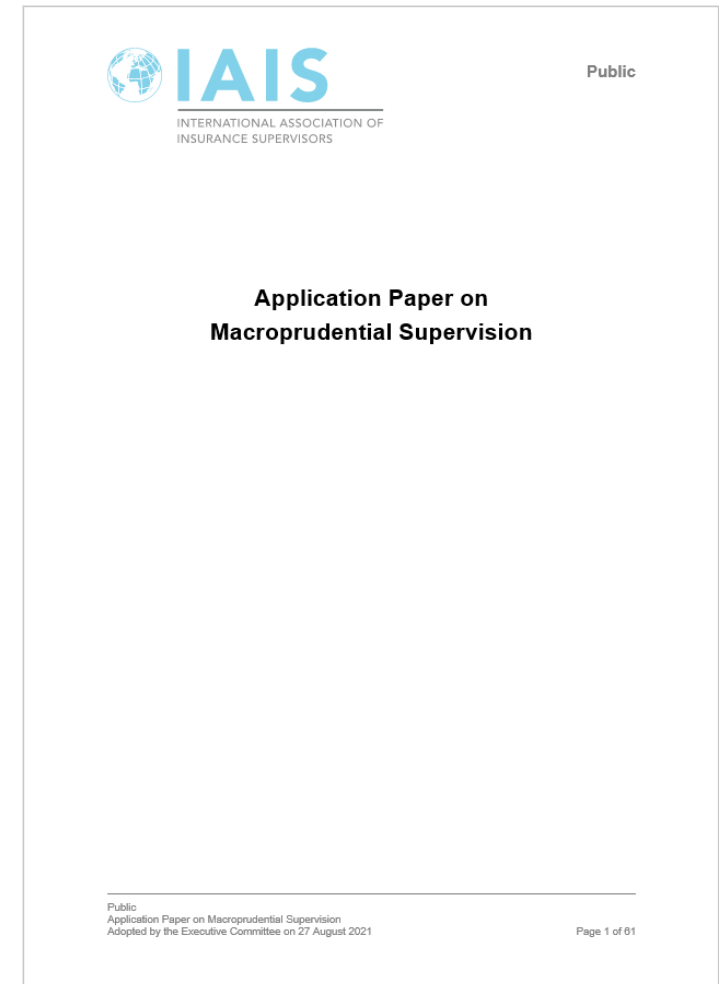
- As part of the Holistic Framework for the assessment and mitigation of systemic risk in the insurance sector, the IAIS revised Insurance Core Principle (ICP) 24 to more explicitly address, among other topics, the build-up and transmission of systemic risk at the individual insurer and sector-wide level.

- **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

- **Input to the paper:**

- Takes into consideration ICP 24 and jurisdictional supervisory expertise and experiences among IAIS Members
- Stakeholder feedback received on the draft Application Paper during public consultation



# Structure and content

## Application Paper on Macroprudential Supervision

Structure	Contents
<b>Introduction (Section 1)</b>	<ul style="list-style-type: none"><li>• General information on the Application Paper</li></ul>
<b>Data collection for macroprudential purposes (Section 2)</b>	<ul style="list-style-type: none"><li>• Guidance on aspects supervisors should consider in collection of data for macroprudential purposes</li><li>• Annex 1 provides examples of indicators and data elements that could be used</li><li>• Information on constructing and using a risk dashboard for monitoring key macroprudential indicators</li><li>• Annex 2 provides example risk dashboards from South Africa and EIOPA</li></ul>
<b>Insurance sector analysis (Section 3)</b>	<ul style="list-style-type: none"><li>• Examples of macroprudential analysis methods to support the implementation of ICP 24</li><li>• Annex 3 provides examples of certain risk exposures and activities that may be analysed</li><li>• Annex 4 provides an example of ORSA analysis</li></ul>
<b>Assessing systemic importance (Section 4)</b>	<ul style="list-style-type: none"><li>• Guidance and examples on how the assessment of systemic importance can be set up and used in practice, both from the individual insurer and sector-wide perspectives</li></ul>
<b>Supervisory response (Section 5)</b>	<ul style="list-style-type: none"><li>• Guidance and examples to support effective interaction between macroprudential analysis and supervisory responses</li></ul>
<b>Transparency (Section 6)</b>	<ul style="list-style-type: none"><li>• Information on the importance of transparency</li><li>• Guidance and examples on macroprudential reporting</li></ul>

# Outcome of the public consultation

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## Application Paper on Macroprudential Supervision

- Consultation period: 8 March to 7 May 2021
- > 300 comments received from a number of IAIS Members and stakeholders
- The Application Paper was adopted by the Executive Committee on 27 August 2021 and available on the [IAIS website](#)
- Public consultation comments with resolution is available on the [consultation page](#)

# Outcome of the public consultation

## Application Paper on Macroprudential Supervision

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- Confusion on the link between IAIS global initiatives (Global Monitoring Exercise (GME)) and supervisory material (ICP 24)
  - *Updates made to better explain the key elements of the Holistic Framework, the difference between what is expected for macroprudential supervision at the jurisdictional level as compared to the global level, and how the two link*
- Various technical comments and suggestions provided for clarification and to be less prescriptive in certain instances
  - *Updates made throughout the Paper to provide clarification and to soften language where appropriate*
- Comments were made to consider proportionality, interaction between supervisors and insurers, and perform cost and benefit analysis of obtaining additional data
  - *Section 1.3 of the Paper recognises the proportionality principle. Certain updates were also made to reinforce supervisory discretion.*
  - *Updates made for supervisors to consider the costs and benefits of obtaining additional data, consistent with ICP 24.1.1, and interaction where appropriate*

# Outcome of the public consultation

## Application Paper on Macroprudential Supervision

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- To include the concept of outlier indicators in performing trend analysis
  - *An update was made to discuss the use of outlier indicators as also employed by the IAIS as part of its GME*
- In performing stress testing, scenarios should be a reasonably probable event
  - *An update was made that the resilience of individual insurers or the insurance sector should be tested against severe but plausible scenarios based on an economically consistent set of events/shocks*
- Using uniform data sets or approaches can enhance comparability but may limit risk sensitivity insights
  - *An update was made for supervisor's to consider this point*
- In referring to how liquidity could be affected in times of stress it should be noted that there may be a different outcome for different sources of contingent financing
  - *An update was made to note that the stress scenarios that impact the insurer and the provider of contingent financing may be markedly different*

# Outcome of the public consultation

## Application Paper on Macroprudential Supervision

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- Concern with suggestion that supervisors could provide guidance on how to conduct stress tests to be included in ORSA
  - *The language is not prescriptive, it merely provides a suggestion and an example based on the experience in some countries*
- Concern with using reduced-form approaches, as an example, for assessing systemic risk
  - *An update was made to provide guidance that systemic risk should not be evaluated only with reduced-form models given their econometric-statistical nature which an insurer cannot necessarily influence with its decisions*
- Concern of overemphasis on the assessment of the potential systemic importance of individual insurers rather than the assessment of sector-wide vulnerabilities
  - *Both assessments are of equal importance and cannot be done in isolation. Updates were made to discuss the interplays between the individual insurer and sector-wide levels. Also, recognition that systemic risk assessments for individual insurers has been more established than that of sector-wide assessments. Most jurisdictions are still in the process of developing methods and techniques to assess sector-wide vulnerabilities.*



# QUESTIONS?

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Application Paper on Macroprudential Supervision