Press Release

International Association of Insurance Supervisors

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IAIS Releases Global Systemically Important Insurers Assessment Methodology and Policy Measures, Macroprudential Policy and Surveillance Framework

Basel – The International Association of Insurance Supervisors (IAIS) today released its assessment methodology and policy measures for global systemically important insurers, or G-SIIs, as well as an overall framework for macroprudential policy and surveillance. The assessment methodology and policy measures were endorsed by the Financial Stability Board (FSB), which is coordinating global efforts to reduce the moral hazard posed by global systemically important financial institutions, or G-SIFIs.

"Since the financial crisis, supervisors across the sector have worked diligently to address risks to the global financial system from systemically important financial institutions or SIFIs and macroprudential shocks," said Peter Braumüller, Chair of the IAIS Executive Committee. "The measures and framework put forth by the IAIS today complete a major piece of this reform in a manner specifically designed for the insurance sector."

G-SIIs: Initial Assessment Methodology

The IAIS has developed an initial assessment methodology to assess the systemic importance of insurers and applied that methodology using year-end 2011 data collected from selected insurers in 2012. The initial assessment methodology involves three steps: the collection of data, a methodical assessment of that data and a supervisory judgment and validation process.

The indicator-based assessment approach is related to the approach developed by the Basel Committee for global systemically important banks, or G-SIBs. However, the specific nature of the insurance sector, as described in the seminal IAIS report *Insurance and Financial Stability*[1], has influenced the selection, grouping and weights assigned to certain indicators. The IAIS' assessment methodology identifies five categories to measure relative systemic importance: non-traditional insurance and non-insurance (NTNI) activities, interconnectedness, substitutability, size and global activity. Within these five categories are 20 indicators, including: intra-financial assets and liabilities, gross notional amount of derivatives, Level 3 assets, non-policyholder liabilities and non-insurance revenues, derivatives trading, short term funding and variable insurance products with minimum guarantees.

[1] See IAIS (2011) http://www.iaisweb.org/Other-papers-and-reports-46

About the IAIS: The IAIS is a global standard setting body whose objectives are to promote effective and globally consistent 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 to contribute to global financial stability. Its membership includes insurance regulators and supervisors from more than 200 jurisdictions in nearly 140 countries. More than 130 organisations and individuals representing professional associations, insurance and reinsurance companies, international financial institutions, consultants and other professionals are Observers. For more information, please visit www.iaisweb.org.

As discussed in *Insurance and Financial Stability*, the two most important categories for assessing the systemic importance of insurers are the NTNI category and the interconnectedness category. Accordingly, following the review of various scenarios, the IAIS has assigned weightings as follows: 45% to NTNI; 40% to interconnectedness; 5% to substitutability; 5% to size; and 5% to global activity. Within all five categories, equal weight is given to each indicator.

The decision on possible G-SII designation of major reinsurers has been deferred until July 2014 to provide more time to evaluate the circumstances of the individual reinsurance companies in question. While the IAIS believes that traditional insurance is unlikely to cause, or amplify, systemic risk, reinsurers could create systemic risk through non-insurance activities (e.g., writing CDS). Whereas, the G-SII methodology focuses on non-traditional or non-insurance (NTNI) activities, for reinsurers the issues relating to substitutability and interconnectedness are more complex than for insurers and require further study and analysis. Additional time is also needed to identify policy measures that are targeted to mitigating financial stability risks associated with the major reinsurers' business models.

G-SIIs: Policy Measures

The IAIS has developed a framework of policy measures for G-SIIs based upon the general framework published by the FSB with adjustments that, as with the proposed assessment methodology, reflect the factors that make insurers different from other financial institutions. The proposal consists of three main types of measures:

1. **Enhanced Supervision**. These measures build on the IAIS Insurance Core Principles and the FSB's *Supervisory Intensity and Effectiveness* recommendations and include the development of a Systemic Risk Management Plan and enhanced liquidity planning and management. They also require the group-wide supervisor to have direct powers over holding companies to ensure that a direct approach to consolidated and group-wide supervision can be applied.

2. **Effective Resolution**. Based on the FSB's *Key Attributes of Effective Resolution Regimes for Financial Institutions*, these measures include the establishment of Crisis Management Groups, the elaboration of recovery and resolution plans, the conduct of resolvability assessments, and the adoption of institution-specific cross-border cooperation agreements. The IAIS proposals take account of the specificities of insurance through the inclusion of plans for separating NTNI activities from traditional insurance activities, the potential use of portfolio transfers and run-off arrangements, and the recognition of existing policyholder protection and guarantee schemes.

3. **Higher Loss Absorption (HLA) Capacity**. As a foundation for HLA requirements for G-SIIs, the IAIS will as a first step develop straightforward, backstop capital requirements to apply to all group activities, including non-insurance subsidiaries, to be finalised by the end of 2014.

   As for the specifics of HLA, the IAIS believes that G-SIIs should have higher loss absorption capacity. In applying HLA capacity, the IAIS proposes that a distinction may be made based upon whether or not the firm's non-traditional insurance and non-insurance financial activities have been effectively separated from the traditional insurance business. The IAIS also proposes that, when possible, HLA may be targeted at the entities where the systemically important actives are located.

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After public consultation, the IAIS will develop by the end of 2015 the implementation details for HLA that will apply to designated G-SIIs starting from 2019. The IAIS will also consult on related issues such as the scope of the G-SII group on which HLA will be assessed.

Apart from these specific measures, the IAIS also considers a sound capital and supervisory framework for the insurance sector more broadly to be essential for supporting financial stability. Accordingly, it will prepare a workplan by October 2013 to develop a comprehensive, group-wide supervisory and regulatory framework for internationally active insurance groups, including a quantitative capital standard.

Macroprudential Policy and Surveillance (MPS) in Insurance

In addition to the measures to identify and address G-SIIs, the IAIS has also released its framework for implementing macroprudential policy and surveillance (MPS) in the insurance sector. In contrast to microprudential supervision, which is concerned with the viability of individual institutions, MPS takes a market-wide perspective with a view to maintaining financial stability. Its focus is on enhancing the supervisory capacity to identify, assess and mitigate macro-financial vulnerabilities that could lead to severe and wide-spread financial risk.

The financial crisis has demonstrated the critical absence of effective mechanisms to monitor the growing complexity and opacity of financial institutions and assess the extent of cross-border exposures. Accordingly, the IAIS is encouraging the development and enhancement of supervisory capacity to identify, assess and mitigate macro-financial vulnerabilities in areas of economic significance to the global insurance sector. The macroprudential framework will support the goal of maintaining financial stability and minimising the incidence and impact of disruptions in the provision of key financial products and services.

Going forward, the IAIS plans to further refine the MPS framework by issuing guidance on the practical application of related IAIS Insurance Core Principles and by developing a toolkit and data template of early warning risk measures to be leveraged for stress testing.

The following documents released today are available at www.iaisweb.org, or by clicking here:

- *Global Systemically Important Insurers: Initial Assessment Methodology*
- *Global Systemically Important Insurers: Policy Measures*
- *Macroprudential Policy and Surveillance (MPS) in Insurance*
- G-SIIs and MPS: Frequently Asked Questions

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