

# Break-Out Session: Macro Supervision & Holistic Framework

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## The Holistic Framework – The History

- 2008** • Global financial crisis – G20/FSB initiative to end “too big to fail”
- 2013** • IAIS adopts initial G-SII identification methodology and targeted policy measures  
• IAIS develops a draft structure for ComFrame\* – consisting of supervisory standards and guidance
- 2016** • IAIS publishes updated G-SII assessment methodology as part of its three-year review process
- 2017** • IAIS announces workplan to develop a comprehensive framework for assessing and mitigating systemic risk in the insurance sector

\* (Common Framework for the Supervision of Internationally Active Insurance Groups (IAIGs))

## The Holistic Framework – The History

2019

- IAIS adopts Holistic Framework, welcomed by FSB; implementation beginning 2020
- G-SII identification suspended, with a review in November 2022
- IAIS adopts ComFrame

2020

- First year of implementation of the Holistic Framework

2022

- [Endorsement by the FSB of the IAIS Holistic Framework](#), based on initial years of implementation. Discontinuation of annual G-SII identification, replaced by Holistic Framework as basis for FSB's consideration of systemic risk in the insurance sector

2023

- Finalisation of the GME Methodology review
- Use of liquidity metrics as ancillary indicator

# The Holistic Framework – 3 Pillars

## Pillar 1: The Global Monitoring Exercise

- The GME assesses global insurance market trends and developments and detects the measures any build-up of systemic risk in the global insurance sector. This includes, at an individual insurer and sector-wide level, a collective discussion at the IAIS ExCo on the assessment of potential systemic risks and appropriate supervisory responses and reporting to the FSB/public on the outcomes
- IAIS publishes GME outcomes in its [Global Insurance Market Report](#)

## Pillar 2: Supervisory policy measures

- A set of supervisory policy measures for macroprudential purposes, designed to increase the overall resilience of the insurance sector and help prevent insurance sector vulnerabilities and exposures from developing into systemic risk
- The Holistic Framework related supervisory material is integrated into the [Insurance Core Principles and ComFrame](#)

## Pillar 3: Implementation assessment

- A final key element of the Holistic Framework is the IAIS' assessment of the consistent [implementation](#) of the Holistic Framework supervisory material; the enhanced supervisory policy measures and powers of intervention

# The Holistic Framework – The Global Monitoring Exercise (GME)

## Basis: two confidential data collections

- 1. Individual insurer monitoring (IIM)** of groups included in the Insurer Pool according to predetermined criteria: **61 groups from 18 jurisdictions** (for IIM 2022)
- 2. Sector-wide monitoring (SWM)** of aggregate insurance market data collected from 27 IAIS members meeting the criteria set out in the [GME document](#) plus voluntary members. 45 jurisdictions participated in at least one of the components of the SWM 2022 data collection, representing **> 90% of global gross written premiums** (highlighted in blue for SWM 2022)



# The Holistic Framework – The Global Monitoring Exercise (GME)

## An annual cycle

- Frequency increased to quarterly during the Covid-19 crisis (year-end 2019 baseline, Q1 2020, Q2 2020 – see IAIS [GIMAR 2020](#), Covid-19 edition)
- Recently updated the Individual Insurer Monitoring (IIM) systemic risk assessment methodology (following a review)

March	<ul style="list-style-type: none"> <li>• Launch of the data collection packages</li> <li>• Workshop with participating insurers and supervisors</li> </ul>
May-June	<ul style="list-style-type: none"> <li>• Data submissions. Cleaning and analysis</li> <li>• Identification of scope of collective discussion:               <ul style="list-style-type: none"> <li>• Individual insurers with potential build-up of systemic risk</li> <li>• Sector-wide, macroprudential risks and trends</li> </ul> </li> <li>• Launch of targeted feedback-loop with group-wide supervisors (supervisory responses in place / planned)</li> </ul>
Sept.	<ul style="list-style-type: none"> <li>• IAIS collective discussion on key identified risks and trends</li> <li>• Coordination of supervisory measures at the global level</li> <li>• Input to IAIS two-year draft roadmap</li> </ul>
Nov.-Dec.	<ul style="list-style-type: none"> <li>• Reporting to the public (<a href="#">Global Insurance Market Report – GIMAR</a>)</li> <li>• Reporting to participating insurers and supervisors</li> <li>• Reporting to the <a href="#">FSB SRC</a>, FSB Plenary</li> </ul>

# The Holistic Framework – Sector-Wide Monitoring (SWM) & Collective Discussion

## Sector-Wide Monitoring:

- **IAIS Member assessment** of key risks and trends and identification of macroprudential themes for deep dives
- Focus on specific **activities and exposures**
- Consists of both a **qualitative and quantitative** elements
- Outcomes **feed into** the IAIS' assessment of systemic risk as well as in the **IAIS collective discussion**

## Collective Discussion (on systemic risk):

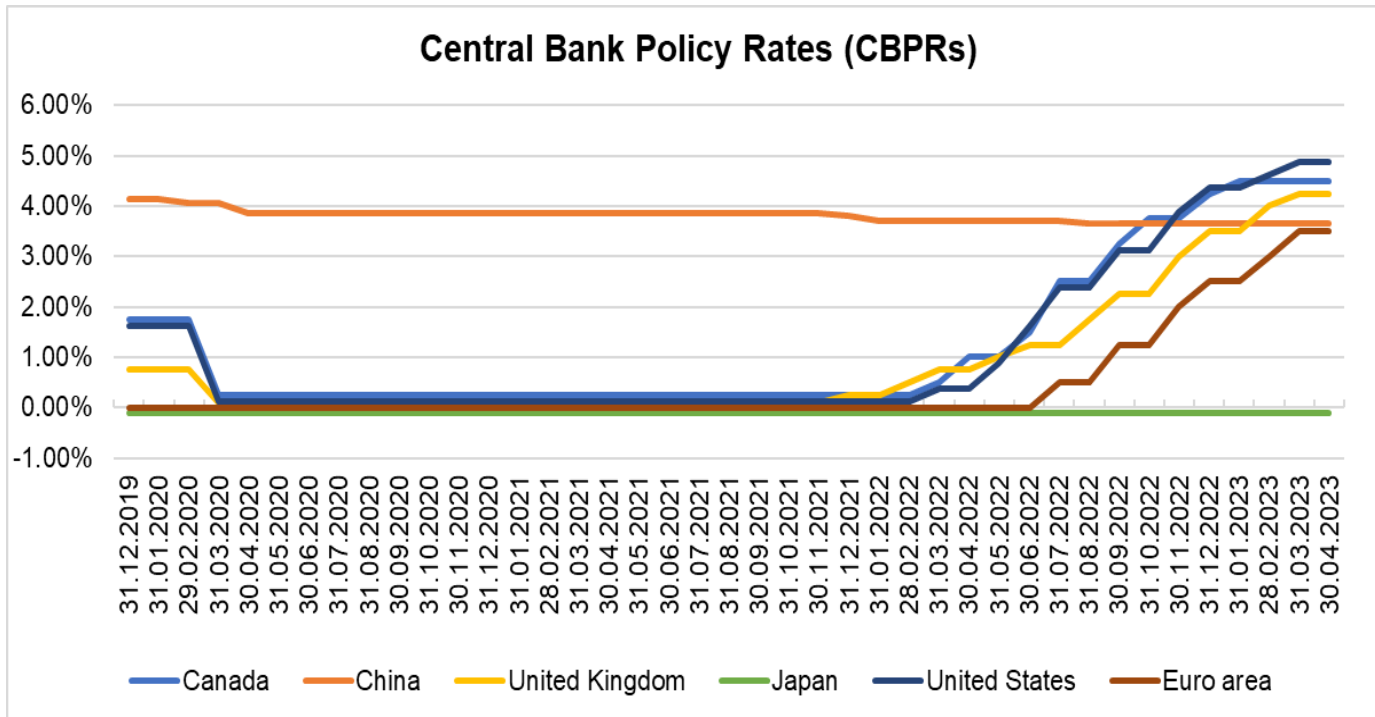
- Recommendations for further **analysis** at the level of the IAIS
- Recommendations for developing targeted **supervisory or supporting material to** help supervisors address specific activities or exposures
- Considerations on the **application of certain enhanced policy measures or powers of intervention**



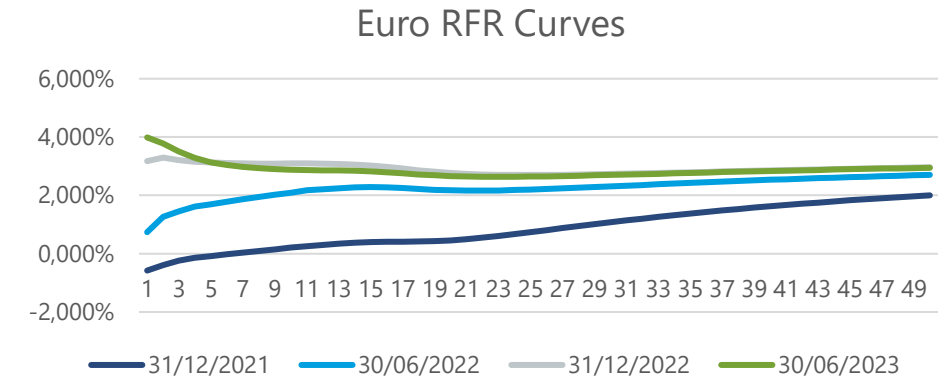


# Macprudential risk priorities in uncertain times

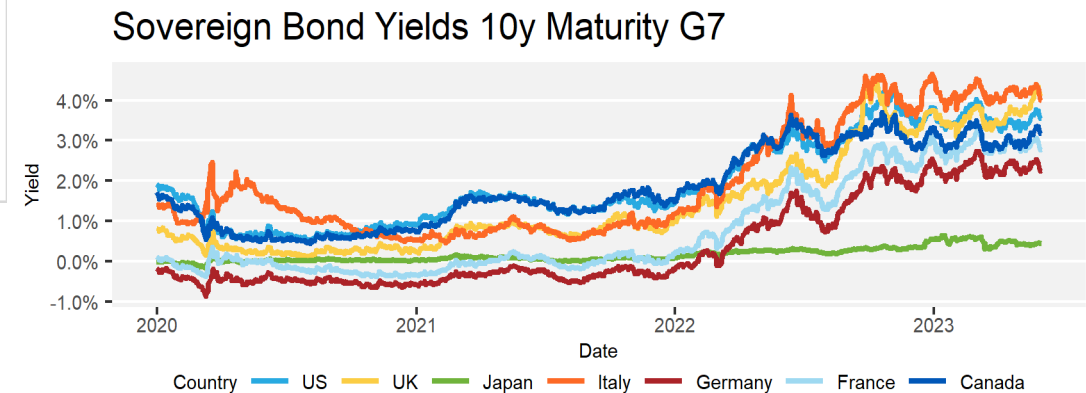
- Tightening monetary policy → **interest rate increases** incl. inverted yield curves



Source: <https://www.bis.org/statistics/cbpol.htm>



Source: [Risk-free interest rate term structures \(europa.eu\)](https://www.europa.eu)



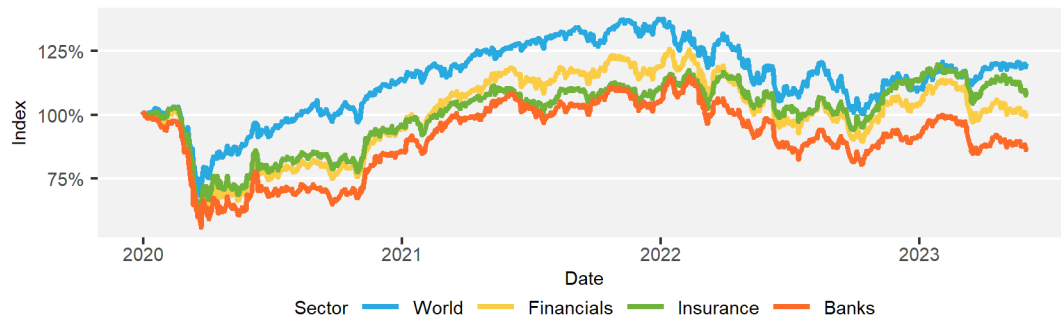
Source: Bloomberg, IAIS staff calculations



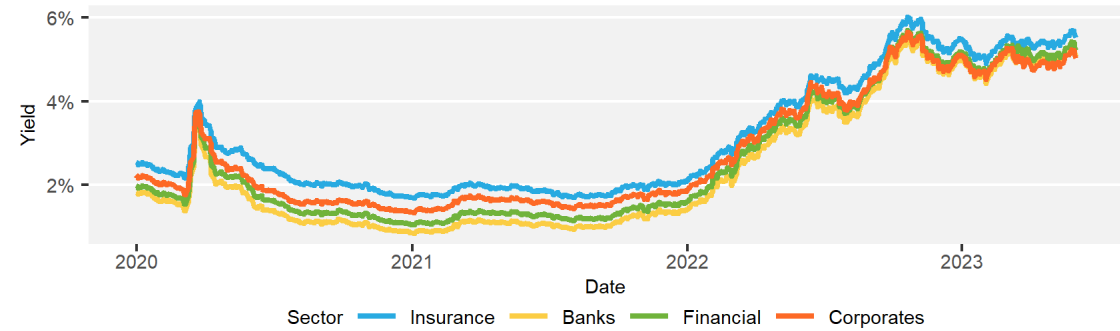
# Macroprudential risk priorities in uncertain times

- **Market uncertainty and high volatility** e.g. equity markets, interest rate movements, ...

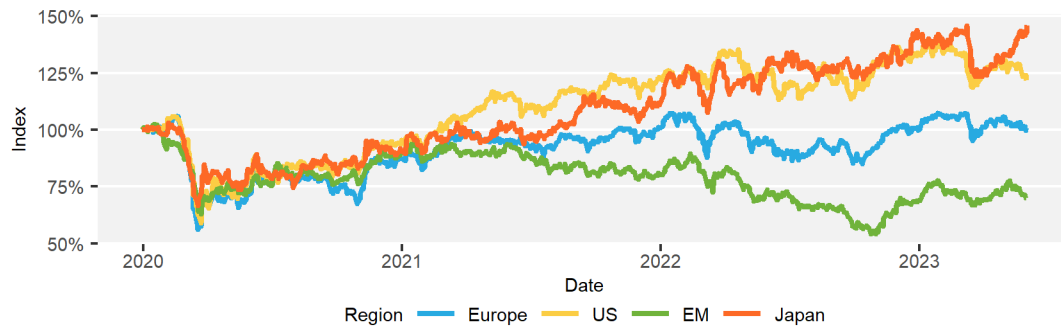
MSCI Sectoral Indices



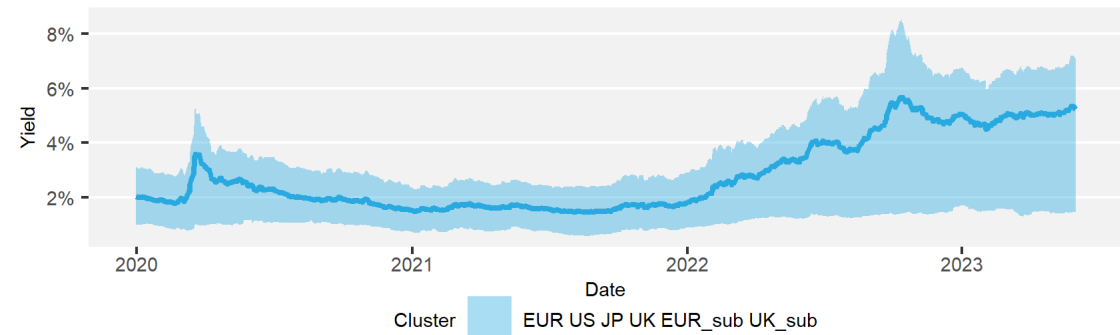
Effective Yield



Regional Insurance Equity Indices



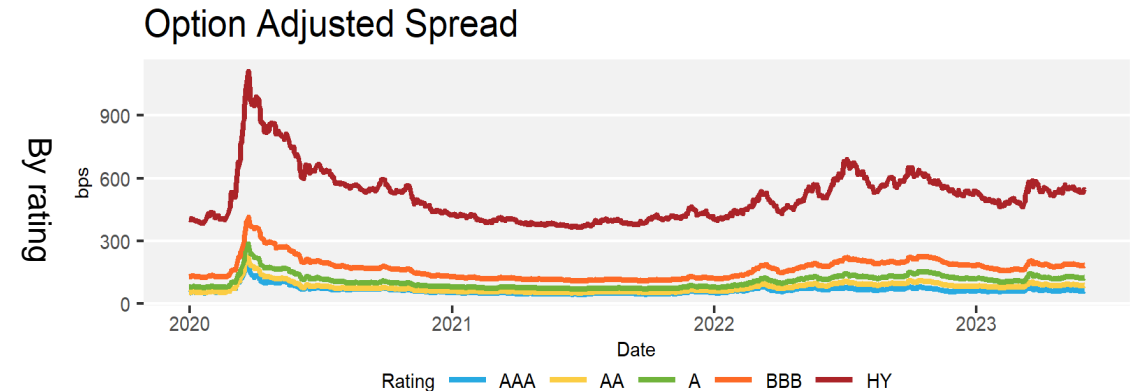
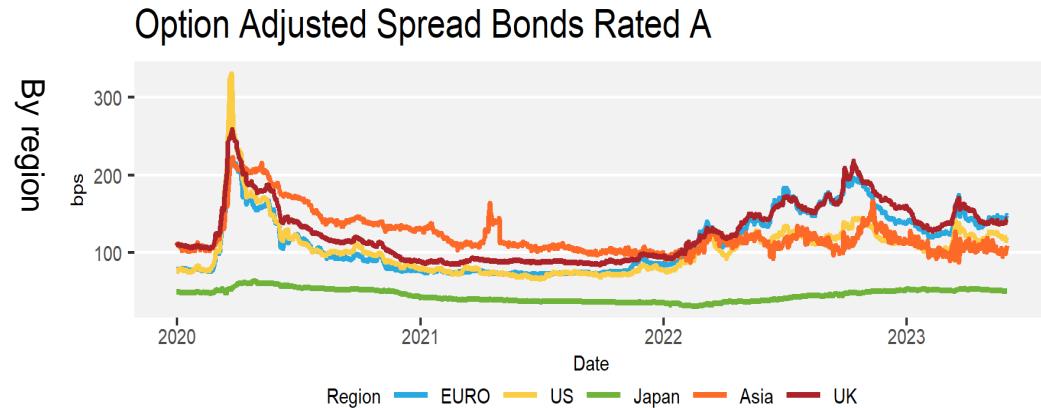
Effective Yield Insurance Bonds



Source: Bloomberg, IAIS staff calculations

# Macroprudential risk priorities in uncertain times

- Worries around **credit risk** and related **defaults** (consumers/corporates/sovereigns)



Source: Bloomberg, IAIS staff calculations

- Uncertainty related to the **valuation of assets** i.e. commercial real estate (e.g. office buildings), structured products (CLOs), ...
- Worries around **financial soundness of banks** e.g. regional US banks, Credit Suisse

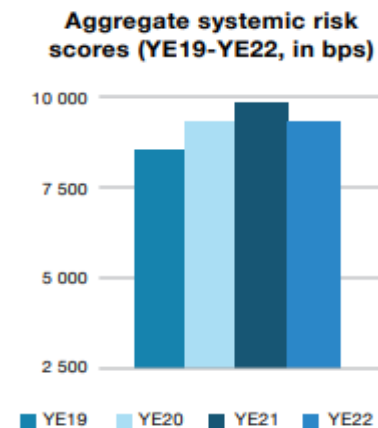
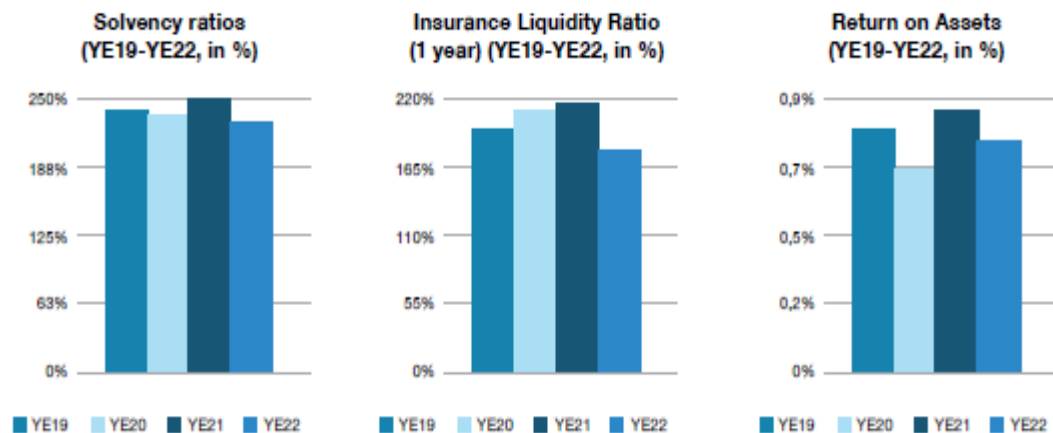
# Macprudential risk priorities in uncertain times

Some **good news** as well?

- **Solvency ratios** of the global insurance sector remain **robust**
- After years of increase, the **aggregate systemic risk scores** for the largest global insurers declined slightly in 2022

... but **no** room for **complacency**

- The **liquidity position** of global insurers weakened and the **return on assets** remains challenging



Source: IAIS IIM 2023 – Interim results

## Let's perform a macroprudential risk analysis\* ...

### **Polling Question 1 - What is the most material short-term risk for the (global) insurance sector according to you?**

1. Commercial Real Estate risk
2. Corporate debt risk
3. Inflation Risk
4. Interest rate risk
5. Liquidity risk
6. Sovereign risk
7. Spillover from banking risks
8. Other

\* Focus on sector-wide activities and exposures



## Let's perform a macroprudential risk analysis...

### Roundtable Discussion

**Focus:** impact of the current macroeconomic environment - high market volatility, high inflation, increasing interest rates, weak economic outlook, challenging credit & liquidity risk - on the global insurance sector.

**Key question:** What are the top 3 short-term risks for the global insurance sector?

- What impact are geopolitical risks having on insurance business?
- Which 1st and 2nd order impacts need to be considered for insurer balance sheets from the continuing inflationary pressures in some large economies?
- Are there any spillover effects from the turbulence in the banking sector? What lessons can be learnt?
- Should we be concerned about warning signs in the real estate market, in particular the commercial real estate market?
- How can insurer's risk management reconcile the generally long-term investment nature with the high volatility observed in different financial markets?



## Macroprudential risk priorities in uncertain times – IAIS focus

### 1. Interest Rate, Liquidity & Credit Risk in a challenging environment

- **Increased surrender risk:** due to increase in interest rates and inflation → changing policyholder behaviour? → potential need for additional liquidity
- **Distribution channel:** type of channel may impact customer behaviour (lapse risk) + speed of action in a digitalised world (e.g. US banking turmoil)
- **Funding costs:** Rising rates → additional liquidity pressures → refinancing pressure on short-term funding/debt
- **Derivatives and margin calls:** volatile markets, increasing interest rates → (cash) collateral calls on (centrally cleared) derivatives (e.g. protection against low interest rates) → increasing liquidity needs e.g. UK LDI crisis
- **Ownership structure:** shareholder disengagement → impact reputation & trust → potentially amplifying market and policyholder behaviour
- **Increasing interest rates:** good for reinvestment and solvency (but: inverted yield curve); challenging in terms of unrealised losses (accounting) that may need to be realised (P&L impact) in case of liquidity needs





# Macroprudential risk priorities in uncertain times – IAIS focus

## 1. Interest Rate, Liquidity & Credit Risk in a challenging environment

- **Debt sustainability:** rising funding costs fixed-income securities / increase of corporate defaults and downgrades (e.g. 2022) / sovereign risk has risen over past few years e.g. high sovereign debt to GDP ratios (bank-insurance-sovereign nexus)
- **Real estate:** office real estate is under particular stress due to remote working trend → impact real estate valuations (directly) & increasing pressure on related securitisations (indirectly)
- **Leverage:** leverage through investing in structured products/derivatives/debt funding adversely impacting capacity to withstand financial market volatility



## Macroprudential risk priorities in uncertain times – IAIS focus

### 2. Structural shifts in the life Insurance Sector → 2 key trends

- Cross-border **asset-intensive reinsurance**
  - Growing trend in life insurance to reinsurance both assets (investment risk) & liabilities (underwriting risks)
  - Driven by differences in regulatory regimes
  - Brings cost efficiencies, tax advantages and capital management efficiencies
  - ... but: concentration risk, herding behaviour and recapture risk
- Increase allocation to **alternative assets**
  - Started as 'search-for-yield' behaviour during low interest rate environment, but seems to continue ...
  - Increasing exposure towards illiquid, less transparent investments
  - More liquidity & valuation risks

## Macroprudential risk priorities in uncertain times – IAIS focus

### 3. Follow-up emerging risks: climate and cyber risks

- **Climate**

- Cf. [IAIS Global Insurance Market Report \(GIMAR\) Special Topic 2021](#)
- Ongoing work in Climate Risk Steering Group
  - Monitoring vulnerabilities (part of the GME)
  - Climate scenario analysis
  - Newly established workstream on climate disclosures
- Protection Gaps Task Force work (report at IAIS Annual conference and G7 meetings in Japan)

- **Cyber**

- Cf. [IAIS Global Insurance Market Report \(GIMAR\) Special Topic 2023](#) → cyber underwriting & operational resilience
- Ongoing work in Operational Resilience Task Force
- Monitoring vulnerabilities in the GME

## Let's have a "collective discussion"...

### **Polling Question 2 – What can (global) supervisors do to further improve the outcome of the collective discussion?**

1. Be more transparent on the outcome/results of the analyses which are performed
2. Further alignment of supervisory monitoring and reporting frameworks
3. Better coordination of supervisory responses/reactions
4. Give more opportunities for stakeholders to be involved in the discussions
5. Nothing at all, supervisors are doing a perfect job



## Let's have a "collective discussion"...

### Roundtable Discussion

**Focus:** given the (short-term) risks identified in the previous steps, how would you react or what do you think could be improved?

#### Key Questions:

1. What are insurers already doing to manage the risks that were highlighted? How can supervisors take this (better) into account?
2. Are there any risks for which a (more) coordinated supervisory response may be warranted/interesting/helpful?

## What will the future bring?

**Direct exposures and impact** on global insurance sector have, on aggregate, been **manageable** so far, but **2<sup>nd</sup> round effects** are lurking behind the corner ... **Way-Forward?**

- 1. Continued close monitoring** of trends at global level (IAIS: Global Monitoring Exercise - GME) → effective vehicle for enhanced surveillance
  - Need for comprehensive data and metrics e.g. development liquidity metrics, ancillary indicators on credit risk, ...
- 2. Stress the importance of basic principles of sound risk management**
  - Avoid excessive risk taking through leverage (e.g. hedge funds, securitisations, derivatives)
  - Importance of sound ALM & liquidity risk management e.g. adequate stress testing
  - “Know” your insurance portfolio e.g. silent cyber, business interruption during pandemic, surrender penalties, ...
- 3. Need for (further) supervisory responses?**
  - Do we have the necessary supervisory tools available: Now? In the future (SII review)?
  - Importance of alignment and coordination at EU and global level

## What will the future bring?

### **Polling Question 3 - What is the key trend/challenge insurers and supervisors will be facing in the long run?**

1. Cyber risk and related threats
2. Climate risk
3. Viability/profitability of the insurance business model
4. New market entrants (Insurtech) in a ever more digitalised world
5. Continued consolidation through M&A activity
6. Other

# What will the future bring?

## Roundtable Discussion

**Focus:** medium & long-term risks/challenges for the (global) insurance sector incl. low-probability high-impact risks and medium & long-term trends that are relevant for (i) life and/or (ii) P&C businesses.

### Key Questions:

1. **What are the top 3 medium & long-term risks/challenges for insurers?**
  - What low-probability high-impact risk poses the greatest risk for insurers?
2. **Do you expect any changes in the business models and products offered in the longer term?**
  - Is there a difference for (i) property & casualty and (ii) life insurance?
  - How do you see insurers' balance sheets changing in the longer run? On the asset side? On the liability side? Through use of reinsurance?



## What will the future bring?

No matter what happens, **key questions** for all insurers, together with supervisors, to solve are:

- How do I **stay relevant** in a ever more rapidly changing and challenging environment? How do I follow the new trends?
- How should my **business model evolve**? **Which products** should I focus on? Do I need to change their **design**?
- Where do I bring **most added value**?