



# **Identification & Supervision of Global Systemically Important Insurers (G-SIIs)**

**John Maroney  
Head of Financial Stability  
International Association of Insurance  
Supervisors (IAIS)**

**15 August 2013**



# Topics

- **G-SIIs – Headlines**
- Background – IAIS & FSB
- Identification of potential Global Systemically Important Insurers (G-SIIs)
- Proposed policy measures for G-SIIs
- Systemic Risk Management Plan (SRMP) & implementation timeframe
- Macroprudential Policy and Surveillance (MPS)



## G-SIIs in alphabetical order as of July 2013

- Allianz SE
- American International Group, Inc.
- Assicurazioni Generali S.p.A.
- Aviva plc
- Axa S.A.
- MetLife, Inc.
- Ping An Insurance (Group) Company of China, Ltd.
- Prudential Financial, Inc.
- Prudential plc



Communiqué  
Meeting of Finance Ministers and Central Bank Governors  
Moscow, 19-20 July 2013

23. We support the work done by the International Association of Insurance Supervisors (IAIS) and the FSB to finalize the Global Systemically Important Insurers (G-SII) package. We welcome the publication of the initial list of G-SIIs to which resolution planning and group-wide supervision will initially apply. We welcome the IAIS plans to develop a simple, group-wide capital requirement to be finalized by the time of the G20 Summit in 2014 and that will serve as a foundation for higher loss absorbency requirements for G-SIIs.



# FSB has endorsed the IAIS methodology & policy measures

iv) As a foundation for higher loss absorbency 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 time of the G20 Summit in 2014.

v) Building on the above capital requirements, and following public consultation, the IAIS will develop by end-2015 implementation details for higher loss absorbency requirements. These will apply starting from January 2019 to those G-SIIs identified in November 2017, using the IAIS methodology.



# A capital and supervisory framework for the insurance sector

“A sound capital and supervisory framework for the insurance sector more broadly is essential for supporting financial stability. The IAIS will develop, and the FSB will review, a work plan to develop a comprehensive, group-wide supervisory and regulatory framework for Internationally Active Insurance Groups (IAIGs), including a quantitative capital standard. The timeline for the finalisation of the framework will be agreed by the FSB by end 2013.”

*FSB 18 July 2013*

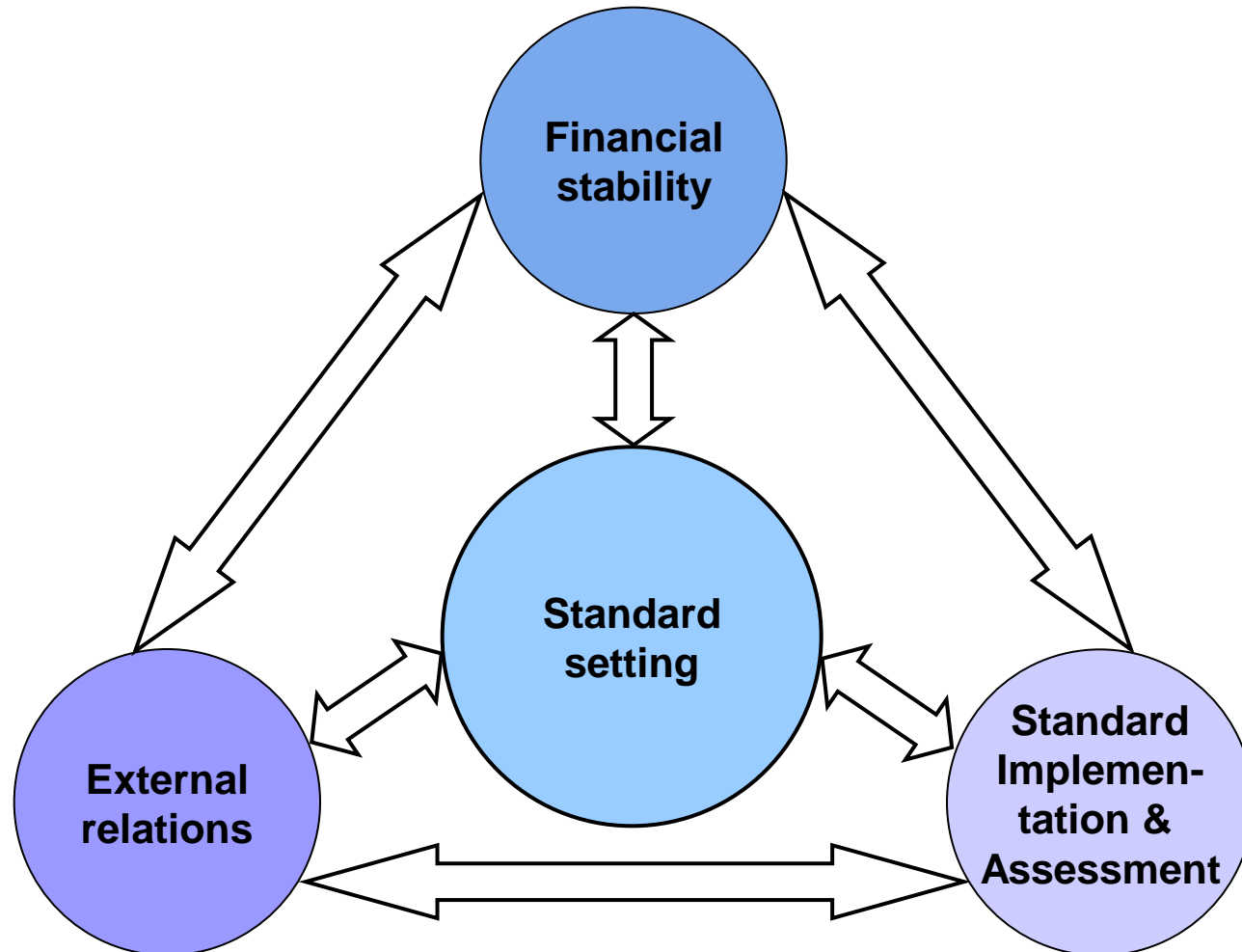


# Topics

- G-SIIs – Headlines
- **Background – IAIS & FSB**
- Identification of potential Global Systemically Important Insurers (G-SIIs)
- Proposed policy measures for G-SIIs
- Systemic Risk Management Plan (SRMP) & implementation timeframe
- Macroprudential Policy and Surveillance (MPS)



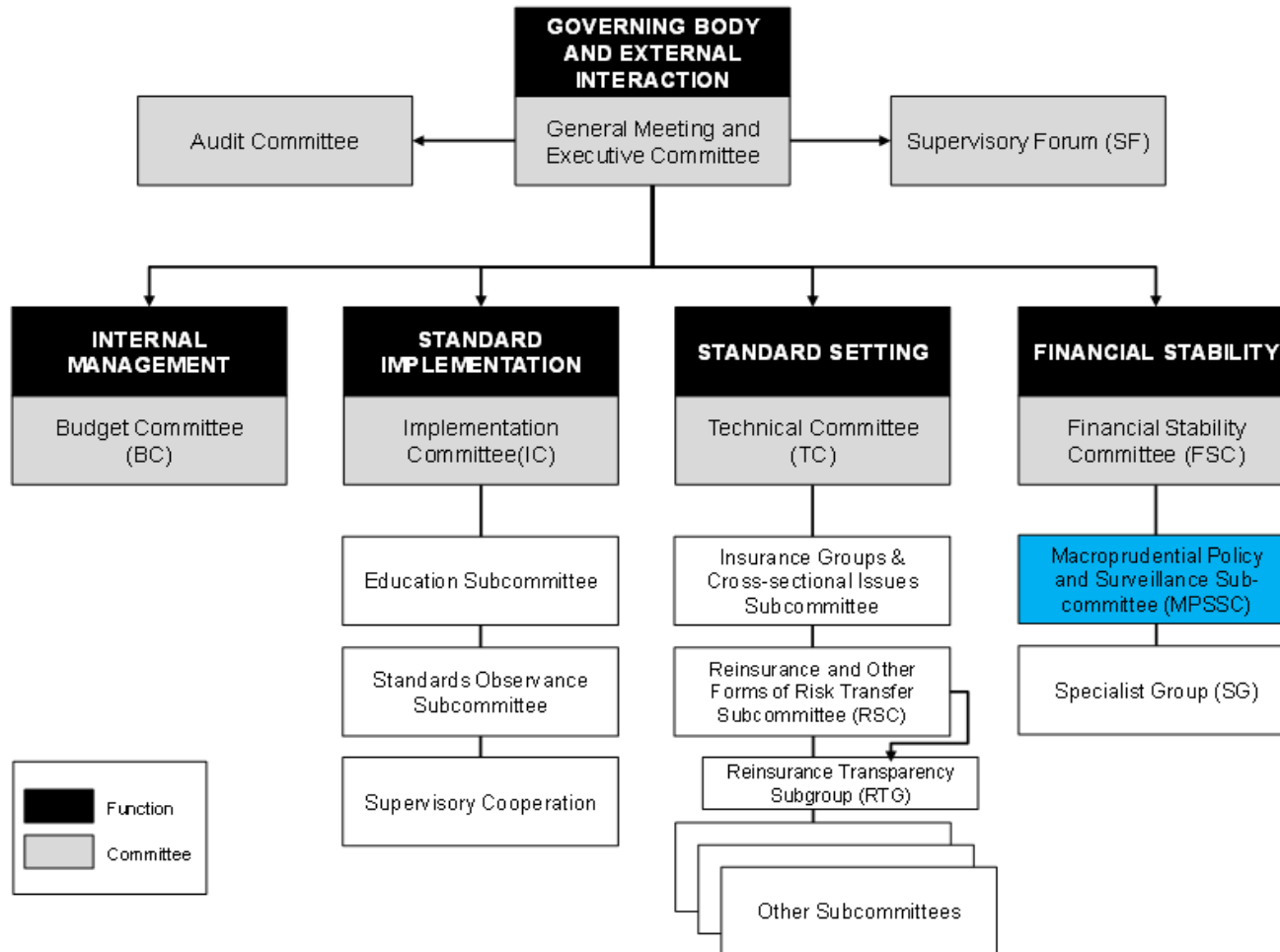
# IAIS activities





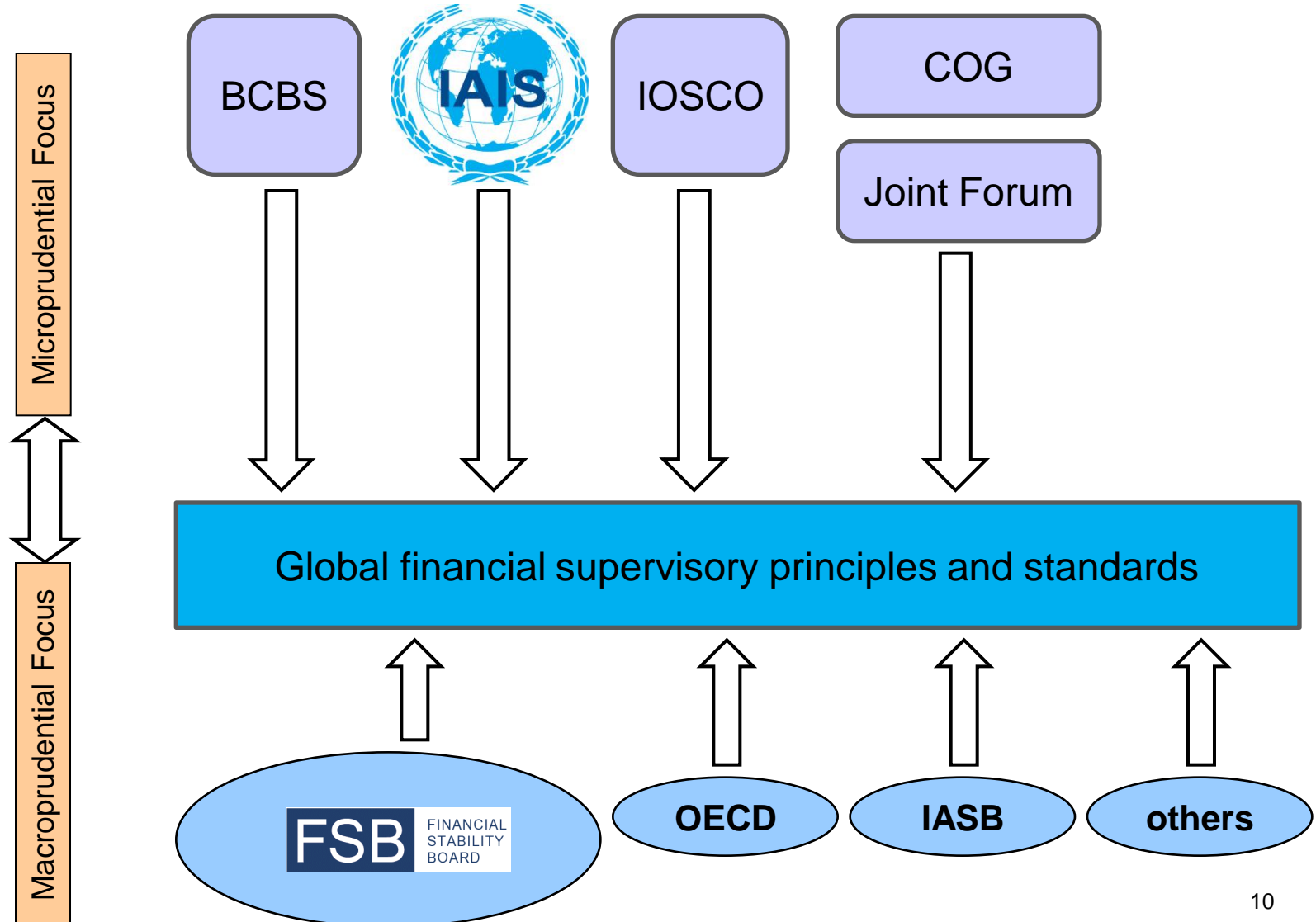


# IAIS Organisation Chart





# Standard setting – global structure





# What is the FSB?



- International body established to address financial system vulnerabilities and to coordinate the development and implementation of strong regulatory, supervisory and other policies in the interest of financial stability
- FSF initiated in 1999 by G7 following Asian crisis. FSB re-launched by G20 in April 2009 with expanded membership, broader mandate and enhanced operating structure
- Role of FSB to give impetus, co-ordinate and oversee implementation
- Chaired by Mark Carney (Governor, Bank of England) with Secretariat in Basel hosted by BIS



# FSB Membership

Representation at senior level of:

- National financial authorities (24 jurisdictions)
  - ✓ Ministries of finance
  - ✓ Central banks
  - ✓ Supervisory and regulatory authorities
- International regulatory and supervisory groups (BCBS, IAIS, IOSCO, IASB, CPSS)
- Committees of central banks (e.g. CGFS)
- International financial institutions (IMF, World Bank, BIS, OECD, ECB, EC)



# What is the FSB for?

- To address financial system vulnerabilities
- To coordinate the development and implementation of strong regulatory and supervisory policies
- Goal: to strengthen financial stability.
- Broad-based agenda for strengthening national financial systems and the stability of international financial system
  - ✓ Joint diagnosis of problems
  - ✓ Policy development and coordination
  - ✓ Monitoring and follow up on implementation



# FSB Project - Ending Too-Big-To-Fail

## Credible resolution regime

- Key Attributes of Effective Resolution
- Recovery and resolution plans
- Cross-border cooperation agreements
- Resolvability assessments

## Higher loss absorbency (HLA)

- Capital surcharge for global banks (G-SIBs)
- HLA principles for domestic banks (D-SIBs)
- HLA framework for global insurers under discussion (G-SIIs)

## More intense supervision

- More intense and effective supervision for all SIFIs
- Greater focus on SIFI risk management and governance
- Supervisors to be better resourced with stronger mandates



# FSB Project – Ending Too-Big-to-Fail

- Resolution strategies for 28 G-SIBs to be in place by July 2013
- FSB issued in July guidance on resolution planning, and KA Annexes on FMIs, Insurers and Client Assets
- G-SIB Resolvability Assessment Process begins end-2013
- FSB, with IAIS, identified first cohort of Globally Systemic Insurers and relevant policy measures by July 2013
- Assessment of extent to which TBTF has been ended by Summit, and identification of additional measures needed
- FSB with IOSCO to propose methodologies for non-bank G-SIFI identification by October 2013



# FSB's Overarching priorities

- Building resilient financial institutions
- Ending Too-Big-To-Fail
- Creating continuous OTC derivatives markets
- Strengthening shadow banking
- Achieving timely and consistent implementation
- FSB resources, capacity and governance





# IAIS position on systemic risk

- Differences between the traditional insurance business model and the banking business model need to be considered when assessing systemic importance of insurance
- Time dimension is important in insurance (both in respect of business model and regulatory action) as runs on insurers are uncommon
- Little evidence of traditional insurance either generating or amplifying systemic risk

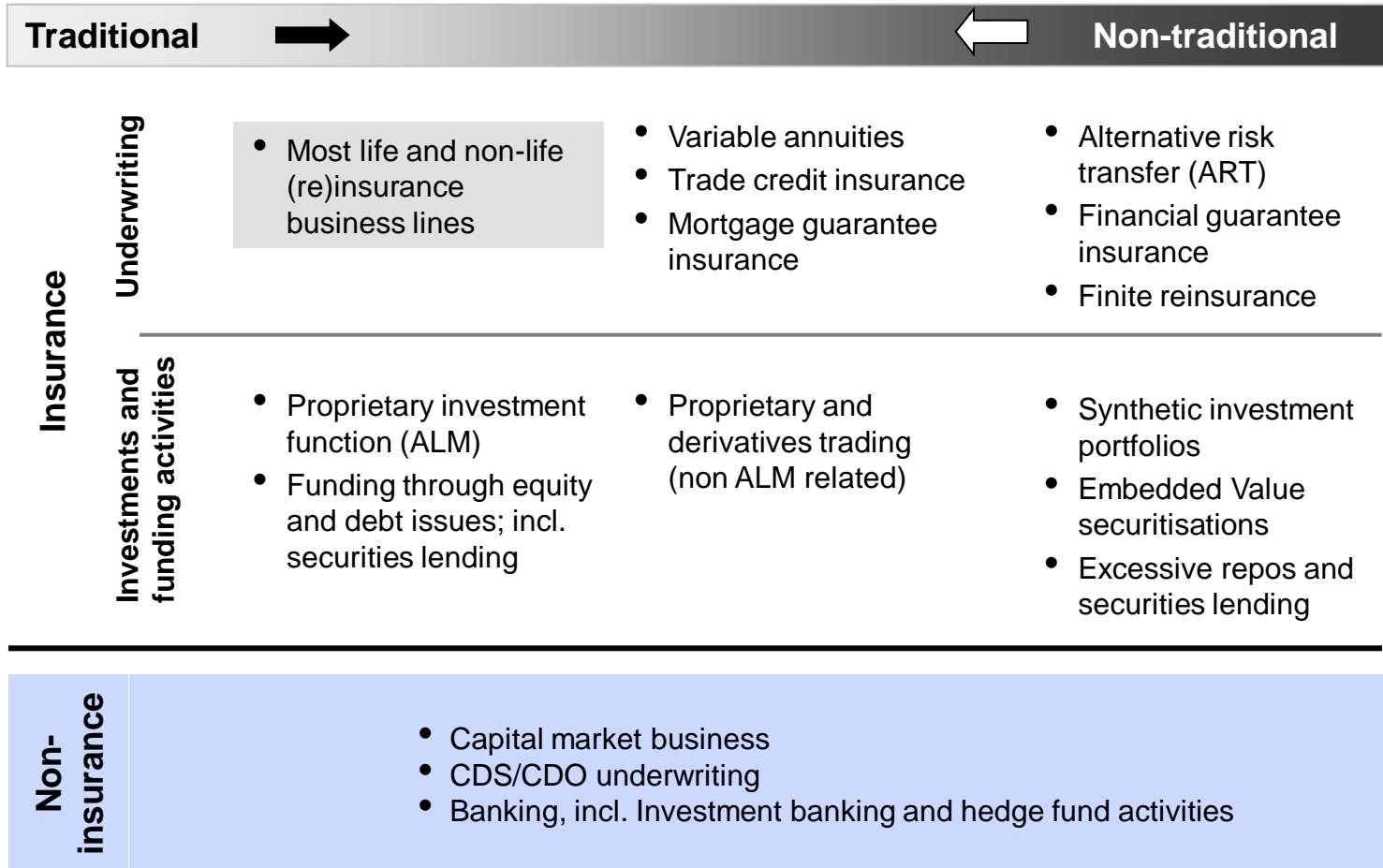


## IAIS position on systemic risk (cont)

- Insurance sector is susceptible to systemic risk generated in other parts of the financial sector
- Insurers may amplify risk under specific circumstances e.g. through reacting to downturns in capital markets or through unexpected withdrawal of capacity
- Non-traditional insurance and non-insurance activities within insurance firms or groups may generate or amplify systemic risk



# Insurance and Financial Stability (IFS) Report, Nov 2011





# Topics

- G-SIIs – Headlines
- Background – IAIS & FSB
- **Identification of potential Global Systemically Important Insurers (G-SIIs)**
- Proposed policy measures for G-SIIs
- Systemic Risk Management Plan (SRMP) & implementation timeframe
- Macroprudential Policy and Surveillance (MPS)



# IAIS indicator-based assessment approach

- IAIS proposed an indicator-based assessment approach similar to the BCBS methodology but with differences to reflect the particularities of the insurance business model
  - Instead of the BCBS ‘complexity category’, a specific ‘non-traditional and non-insurance (NT-NI) category’, and redefinition of interconnectedness category
  - Higher weighting for NT-NI and interconnectedness to better catch potentially systemic important activities of insurance groups

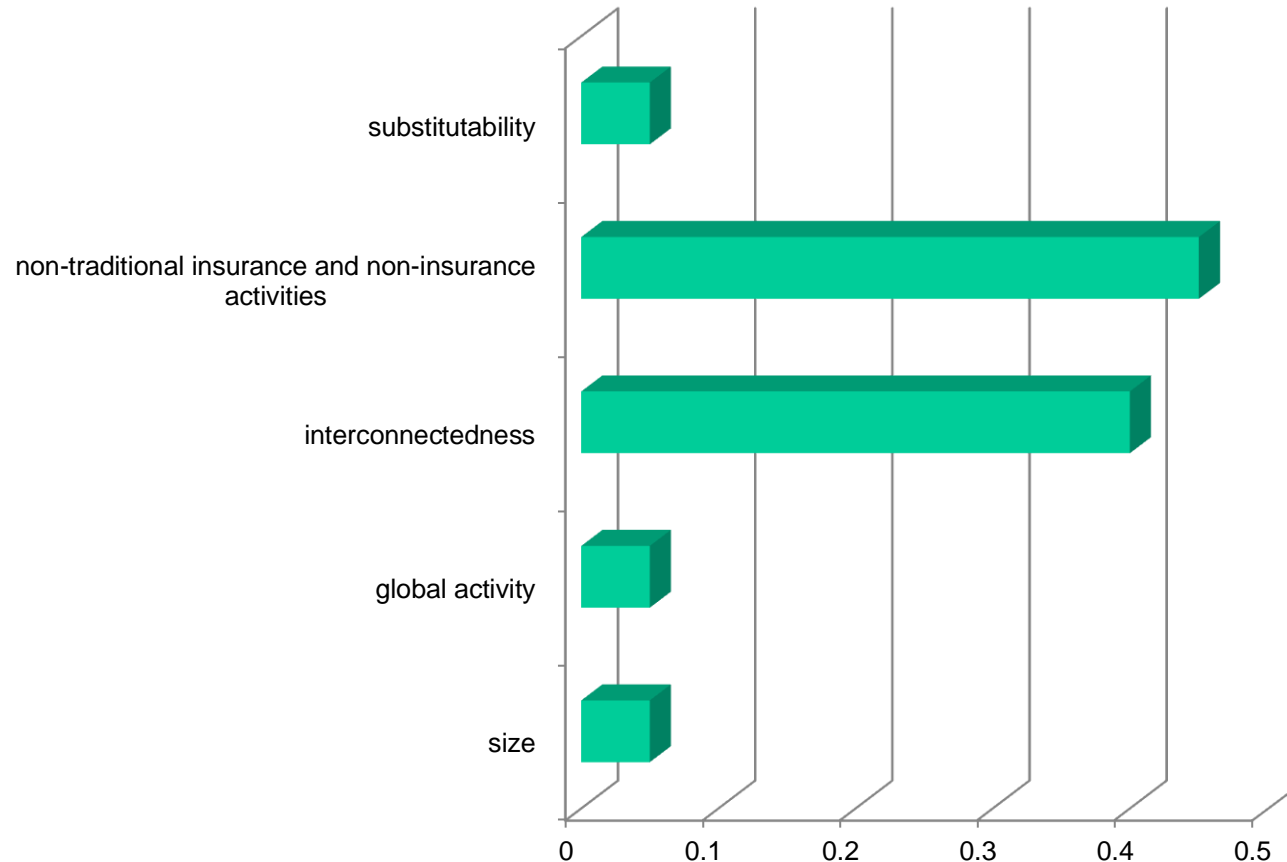


## Scope of data call

- ① **Either total assets** of more than **US\$ 60 billion** plus share of **premiums outside** the home jurisdiction **larger than 5%**
  - ② **Or total assets** of more than **US\$ 200 billion** plus share of **premiums outside** the home jurisdiction **smaller than 5%**
  - ③ **Plus** certain firms added by **supervisory judgment**
- In total 50 firms from 13 jurisdictions participated in the 31 December 2011 data call



# Categories of indicators



- Within each category, indicators are given equal weight



# 19 indicators under 5 categories (2013)

Size	1	Total assets
	2	Total revenues
Global Activities	3	Revenues outside of home country
	4	Number of countries
Non Traditional Non Insurance (NTNI) Activities	5	Non policyholder liabilities & Non insurance revenue
	6	Derivatives trading (CDS)
	7	Short term funding
	8	Financial guarantees
	9	Variable annuities
	10	Intra-group commitments, reinsurance
	11	Liquidity of insurance liability
Interconnected ness	12	Intra-financial assets
	13	Intra-financial liabilities
	14	Reinsurance
	15	Derivatives
	16	Large exposures
	17	Turn over
	18	Level 3 assets
Substitutability	19	Premiums for specific business lines

Possible indicator to be added into the NTNI category.

- Derivatives trading without hedging purposes





## G-SII assessment methodology – 3 steps

1. Collection of confidential data
2. Application of the indicator based assessment methodology (showing relative degree of systemic importance) and
3. Supervisory judgment and validation process (SJVP) – more important as potential G-SIIs are not homogeneous



## Main challenges in data collection & analysis

- Confidentiality issues
- Insurers' management information systems do not necessarily provide all consolidated data
- Accounting differences exist, eg differences in valuation of some assets, derivatives, insurance contracts and technical provisions
- Jurisdictional differences exist in the interpretation of some insurance business terms



# Supervisory Judgment & Validation Process (SJVP)

- Indicator-based assessment provides initial ranking of the **relative** systemic importance of G-SII candidates
- Analysis Team **may** conduct discussions with Supervisors & G-SII Candidates to clarify:
  - factual matters &
  - proposed requests for Additional Data
- Consider resolvability of G-SII candidates & risk management analyses



# SJVP - General Principles

- High bar for judgmental adjustment to the output of the initial quantitative analyses
- Process should focus on **impact** to the global financial system of an insurer's failure
- Not on the **probability** of failure or distress
- Judgmental overlay should comprise well-documented and verifiable information

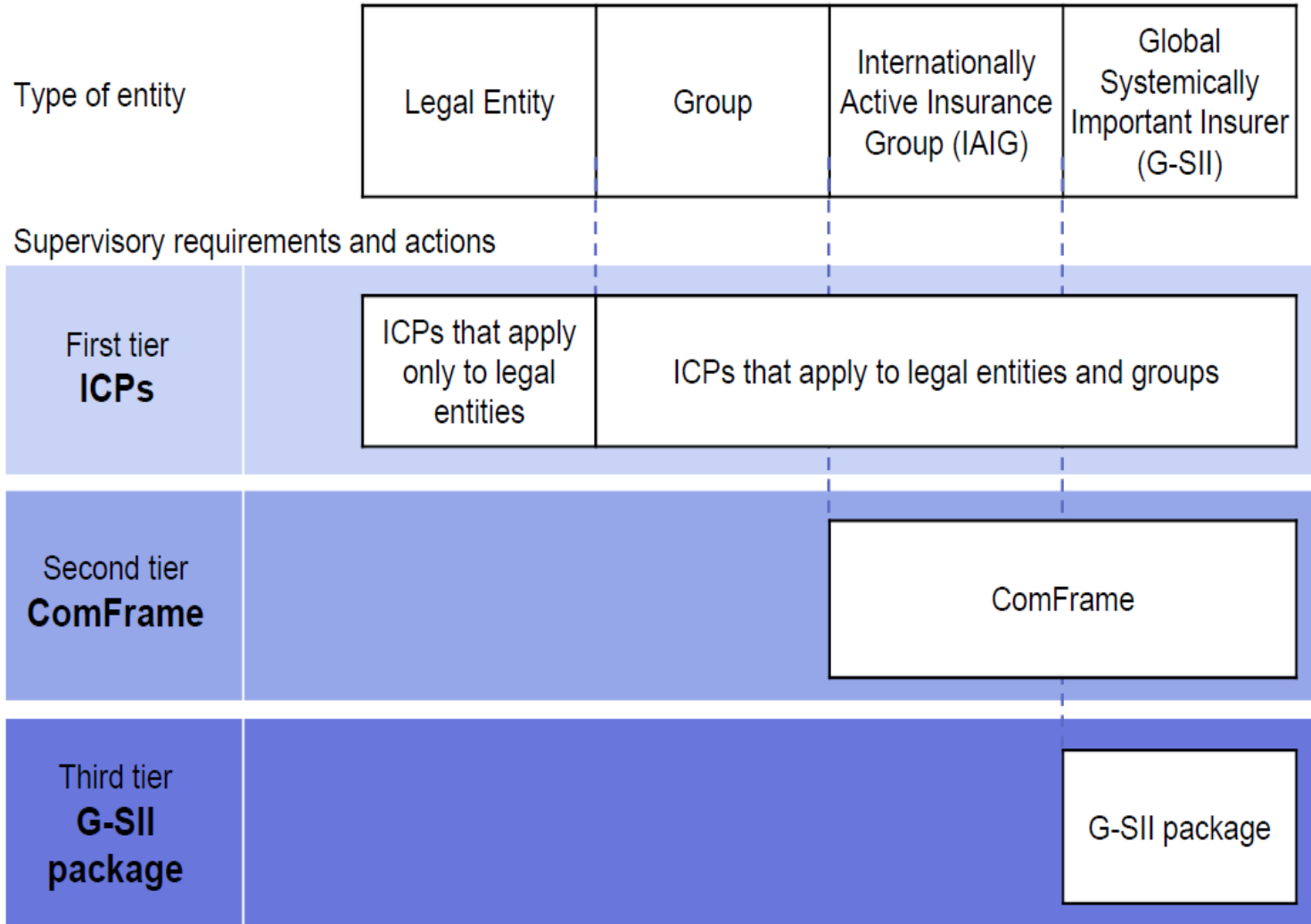


# Topics

- G-SIIs – Headlines
- Background – IAIS & FSB
- Identification of potential Global Systemically Important Insurers (G-SIIs)
- **Proposed policy measures for G-SIIs**
- Systemic Risk Management Plan (SRMP) & implementation timeframe
- Macroprudential Policy and Surveillance (MPS)



# Architecture of IAIS standard setting activities





# Objectives of G-SII policy measures

G-SII policy measures should:

1. Reduce moral hazard and the negative externalities stemming from the disorderly failure of a G-SII,
2. Reduce the probability and impact of default of G-SIIs and thus the expected systemic impacts,
3. Incentivise G-SIIs to become less systemically important, and
4. Be linked to the drivers of the G-SII status of each G-SII.



# Proposed G-SII policy framework

- The proposed G-SII policy measures incorporate all three mandatory elements which the FSB set out for G-SIFIs policy measures (i.e. enhanced supervision, effective resolution and higher loss absorbency).
- G-SII activities can vary greatly so policy responses are needed to address the specific nature and source of systemic importance and the different drivers of possible negative externalities.
- Measures will often require strong cooperation among authorities, including authorities with responsibility for non-insurance entities.





## Enhanced supervision

- IAIS Insurance Core Principles (ICPs)
- FSB's SIE recommendations  
(supervisory intensity & effectiveness)
- IAIS ComFrame project
- Direct consolidated group-wide supervision & direct powers over holding companies
- Enhanced liquidity planning & management



# FSB's SIE recommendations

- Unambiguous mandates, independence and appropriate resources
- Full suite of supervisory powers
- Improved standards and methods
- Stricter assessment regime
- Group-wide and consolidated supervision
- Risk aggregation



## Higher loss absorption (HLA) capacity

The HLA uplift will depend on:

- straightforward, backstop capital requirements to apply to all group activities, including non-insurance subsidiaries, to be finalised by Nov 2014
- Basel III rules expected to apply for most NI activities
- Whether a G-SII's NTNI activities are effectively separated from traditional activities (then a lower HLA uplift may apply)

**Impact assessments will be undertaken before the backstop capital requirements & HLA rules are finalised**



# Topics

- G-SIIs – Headlines
- Background – IAIS & FSB
- Identification of potential Global Systemically Important Insurers (G-SIIs)
- Proposed policy measures for G-SIIs
- **Systemic Risk Management Plan (SRMP) & implementation timeframe**
- Macroprudential Policy and Surveillance (MPS)



# Systemic Risk Management Plan (SRMP)

- Supervisors will oversee development of SRMPs by G-SIIs to reduce G-SIIs systemic importance from NTNI & Interconnectedness
- Supervisors will monitor implementation of SRMPs
- SRMPs may include separation, restriction and/or prohibition of NTNI activities



# G-SII Implementation time frame

Key Implementation Dates	Action required
July 2013	First G-SIIs designated (with annual designations thereafter each November)
From 2013	For designated G-SIIs, implementation commences of resolution planning and resolvability assessment requirements of the FSB Key Attributes of Effective Resolution Regimes and enhanced supervision, including group-wide supervision
October 2013	IAIS to prepare a workplan to develop a comprehensive, group-wide supervisory and regulatory framework for internationally active insurance groups (IAIGs), including a quantitative capital standard
July 2014	Systemic Risk Management Plan (SRMP) to be completed & Crisis Management Groups (CMGs) to be established.  IAIS to provide the FSB with a recommendation on the G-SII status of, and appropriate risk mitigating measures for, major reinsurers
September 2014	IAIS to finalise straightforward, backstop capital requirements to apply to all group activities, including non-insurance subsidiaries
November 2014 & annually thereafter	G-SIIs designated annually (with HLA not applicable until 2019)
January 2019	HLA capacity requirements apply (based on rules set by end 2015)



# Recovery plans for insurers

“**10.4** Recovery plans should be developed on the basis of severe stress scenarios that combine adverse systemic and idiosyncratic conditions. They need to take into account insurance specificities such as the longer pay-out duration and the liquidity profile of insurers.”

*Application of the Key Attributes of Effective Resolution Regimes to Non-Bank Financial Institutions – Consultative Document – FSB 12 August 2013*



# Resolution plans for insurers (1)

... should include, as appropriate to the type of the insurer, the following:

- (i) identification of policyholders that protected by a policyholder protection scheme and policyholders that are not eligible for benefits from such schemes;
- (ii) the actuarial assumptions used for calculating insurance liabilities ***and an independent exit value actuarial valuation of the technical provisions (policyholder liabilities)***;
- (iii) review of asset quality and concentration issues;
- (iv) preparation of insurance portfolio transfers, including a determination of the acceptability of assets to be transferred to any insurer assuming liabilities in a portfolio transfer;





## Resolution plans for insurers (2)

- (v) sources of funding, including those from a policyholder protection scheme;
- (vi) provision for continuity or an orderly winding down of any derivatives portfolio;
- (vii) details on the allocation of ceded reinsurance among the various legal entities and impact on the recovery levels;
- (viii) an estimate of the outcome for each class of policyholder upon winding up (the counter-factual to the resolution plan and the basis for ‘no creditor worse off’ considerations); and***
- (ix) practical arrangements for ensuring continuity of coverage and payment under certain types of insurance policies.



# Topics

- G-SIIs – Headlines
- Background – IAIS & FSB
- Identification of potential Global Systemically Important Insurers (G-SIIs)
- Proposed policy measures for G-SIIs
- Systemic Risk Management Plan (SRMP) & implementation timeframe
- **Macroprudential Policy and Surveillance (MPS)**



# Three-Step Process of Macroprudential Policy and Surveillance (MPS)

## Phase 1: Review General Market Conditions & Risk Factor Analysis

- comprehensively detecting and monitoring sources of macro-financial shocks based on established and routine processes that inform on-going assessment of systemic risks (“surveillance of risks”)
- limiting the build-up of systemic risk (“conjunctural element”) with an acceptable level of accuracy/forecasting power

## Phase 2: Financial Stability Assessment

- understanding markets, transactions, and instruments that contain/amplify risks—over time and across institutions (via common exposures, risk concentrations, and interdependencies)—and assessing their impact (“vulnerability assessment”)

## Phase 3: Policy Considerations and Enforcement

- prioritising policy/supervisory responses and the formulation of contingency plans
- increasing system-wide resilience by establishing suitable defenses to macro-financial shocks
- review of existing supervisory action(s)



# Greater focus on MPS and systemic risk in insurance has led to ...

- creation of **Macroprudential Policy and Surveillance Subcommittee (MPSSC)** within the **IAIS** in 2011, which produced the July 2013 report on a MPS framework for insurers
- complements Financial Stability Committee (FSC) work on the assessment of systemic risk and the **designation of potential SIFIs in the insurance sector**
  - **initial assessment of systemic risk posed by insurers** subsequent industry consultation led the IAIS's Financial Stability Committee (FSC) to conduct a thorough review of the implications of insurance activities for financial stability
  - **development of separate methodology** to identify global systemically important insurance firms ("G-SIIs")



## ... and has already resulted in new ICP 24 (Macroprudential Surveillance and Insurance Supervision)

“The supervisor **identifies, monitors and analyses market and financial developments and other environmental factors that may impact insurers and insurance markets** and uses this information in the supervision of individual insurers. Such tasks should, where appropriate, utilize information from, and insights gained by, other national authorities. [...] The supervisor has an established **process to assess the potential systemic importance of insurers**, including policies they underwrite and instruments they issue in traditional and non-traditional lines of business. [...] It also develops and applies tools appropriately (taking into account the nature, scale and complexity of relevant insurers) to **limit any systemic risk** that may arise as a result of, or be increased by, activities in the insurance sector.”

- **off-site surveillance** of system-wide developments/trends
- **identification of SIFIs**
- **supervisory cooperation**
- also charges supervisors with the **design of a MPS framework aimed at monitoring of vulnerabilities in the financial system**, complex capital market transactions within countries and across national boundaries, etc.)

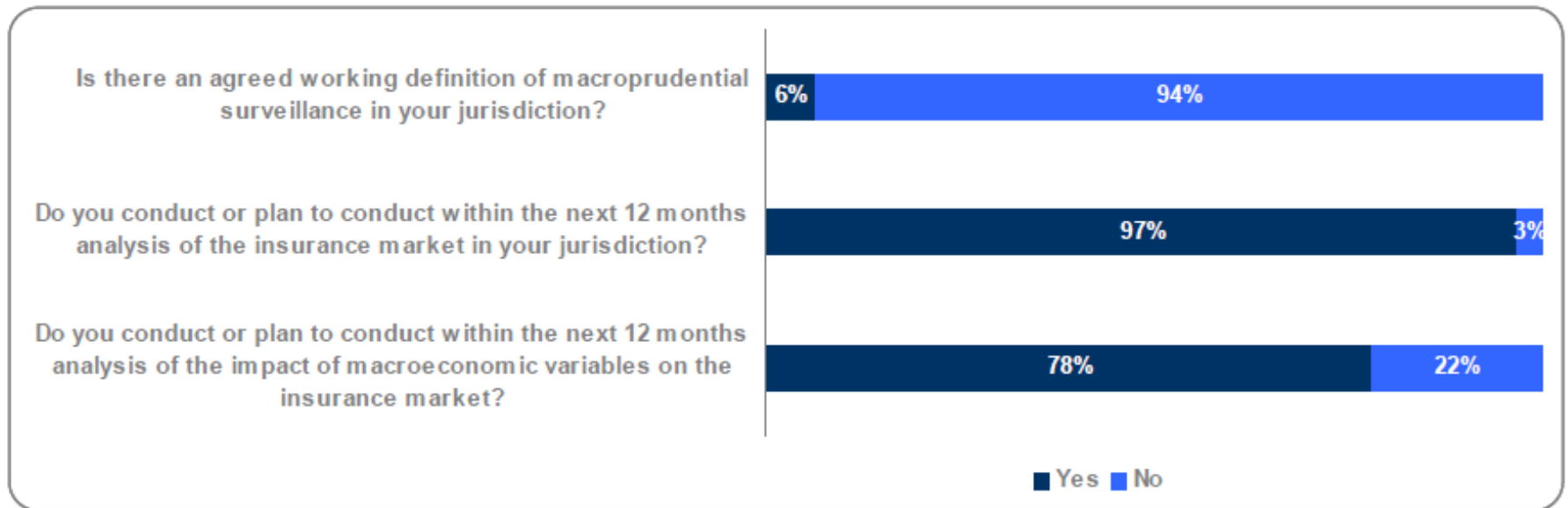


## IAIS conducted a survey on macroprudential surveillance among members ...

- IAIS survey of macroprudential surveillance practices at the national level during first half of 2010 as part of *Global Reinsurance Market Report*
- focus on analytical tools (including data acquisition and analysis, early warning systems and market-wide stress testing)
- responses from 37 IAIS member jurisdictions representing about 85% of global premium income



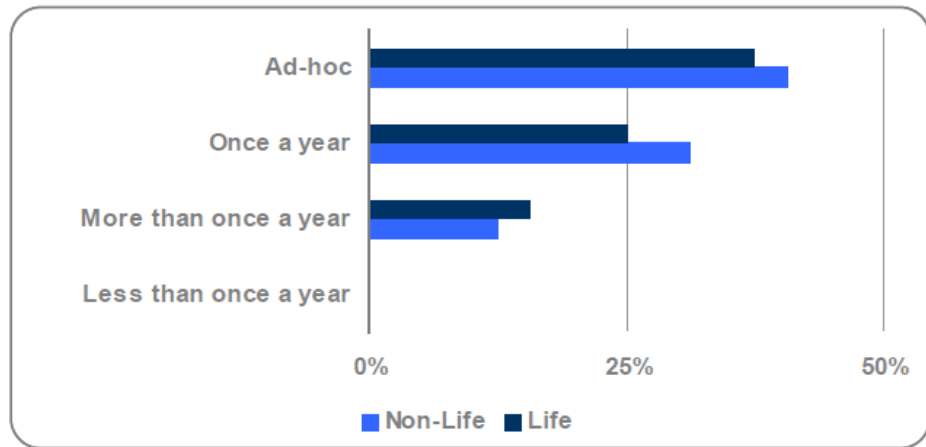
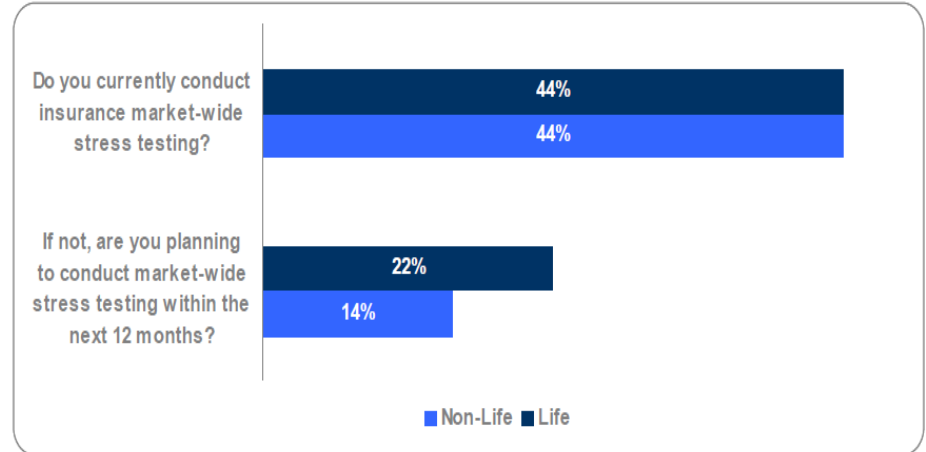
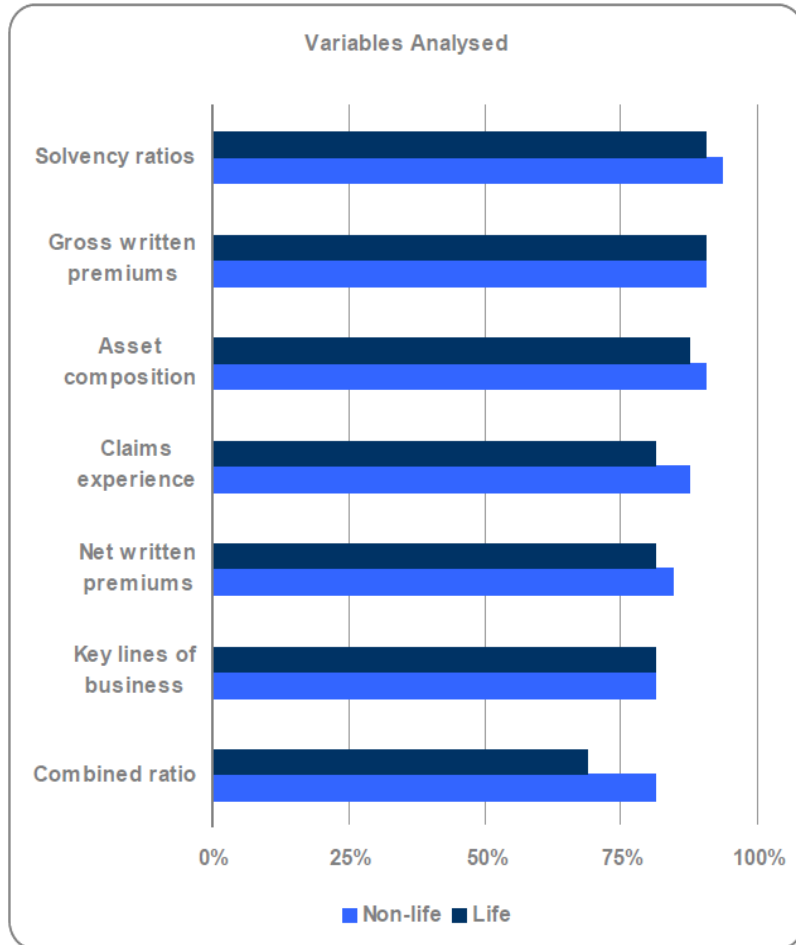
## Many jurisdictions have not formally defined the term “macroprudential surveillance” ...



- nearly all are committed to the continuation of undertaking ongoing market analysis
- majority also plan to consider how macro-economic conditions will affect their insurance markets



# ... but have already made progress in system-wide monitoring and stress testing ...







# Policy implications within MPS ...

- surveillance and monitoring activities under MPS need to be **complemented by suitable policy and supervisory instruments**
- macroprudential policy comprises existing microprudential instruments (“first-layer instruments”) and instruments designed specifically to mitigate systemic risk (“second-layer instruments”)
  - policy instruments can be **readily adapted from microprudential supervision**: (i) enhancing the scope of supervisory measures (ii) applying traditional administrative orders not only to one insurer but also to the whole insurance sector, and (iii) advancing regulations, such as limitations on double gearing, dividend pay-outs and large exposures
  - **requires also new instruments** to mitigate systemic risk
- integrated framework that relies on the need for cooperation and effective coordination within the financial supervisory framework



# Further readings ...

## **International Association of Insurance Supervisors (IAIS),**

- i) Global Systemically Important Insurers: Initial Assessment Methodology, IAIS, July 2013. [http://www.iaisweb.org/view/element\\_href.cfm?src=1/19151.pdf](http://www.iaisweb.org/view/element_href.cfm?src=1/19151.pdf)
- ii) Global Systemically Important Insurers: Policy Measures, IAIS, July 2013. [http://www.iaisweb.org/view/element\\_href.cfm?src=1/19150.pdf](http://www.iaisweb.org/view/element_href.cfm?src=1/19150.pdf)
- iii) Macroprudential Policy and Surveillance in Insurance, IAIS, July 2013. [http://www.iaisweb.org/view/element\\_href.cfm?src=1/19149.pdf](http://www.iaisweb.org/view/element_href.cfm?src=1/19149.pdf)

## **Financial Stability Board (FSB),**

- iv) Key Attributes of Effective Resolution Regimes for Financial Institutions, FSB, October 2011. An annex to the Key Attributes on the resolution of systemic insurance groups will be issued for consultation in summer 2013. [http://www.financialstabilityboard.org/publications/r\\_111104cc.htm](http://www.financialstabilityboard.org/publications/r_111104cc.htm)
- v) Intensity and Effectiveness of SIFI Supervision, FSB, November 2010, November 2011, November 2012. [http://www.financialstabilityboard.org/publications/r\\_121031ab.htm](http://www.financialstabilityboard.org/publications/r_121031ab.htm)



# **Identification & Supervision of Global Systemically Important Insurers (G-SIIs)**

**John Maroney  
Head of Financial Stability  
International Association of Insurance  
Supervisors (IAIS)**

**15 August 2013**

**[john.maroney@bis.org](mailto:john.maroney@bis.org)**

**[www.iaisweb.org](http://www.iaisweb.org)**