

Explanatory note on Holistic Framework for the assessment and mitigation of systemic risk in the insurance sector

Introduction

The Holistic Framework for the assessment and mitigation of systemic risk in the global insurance sector (“Holistic Framework”) was adopted by the International Association of Insurance Supervisors (IAIS) on 14 November 2019, for implementation from the beginning of 2020.

The Holistic Framework is an integrated set of supervisory policy measures, a global monitoring exercise, and implementation assessment activities aimed at assessing and mitigating the potential build-up of systemic risk in the global insurance sector.

Objective and key elements of the Holistic Framework

The Holistic Framework supports the IAIS mission of promoting effective and globally consistent supervision to protect policyholders and contribute to global financial stability.

The Holistic Framework recognises that systemic risk may arise not only from the distress or disorderly failure of an individual insurer, but also from the collective exposures and activities of insurers at a sector-wide level.

The key elements of the Holistic Framework are:

- **Supervisory material:** An enhanced 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. When a potential systemic risk is detected, supervisory powers of intervention enable a prompt and appropriate response.
- **Global monitoring exercise:** An IAIS global monitoring exercise is designed to assess global insurance market trends and developments and detect the possible 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 on the assessment of potential systemic risks and appropriate supervisory responses and reporting to the Financial Stability Board (FSB) on the outcomes of the global monitoring exercise.
- **Implementation assessment:** An IAIS assessment of the consistent implementation of enhanced supervisory policy measures and powers of intervention.

Supervisory material

The IAIS supervisory material (Insurance Core Principles (ICPs) and Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame)) aims to protect policyholders and contribute to global financial stability through the maintenance of consistently high supervisory standards in IAIS Member jurisdictions. The ICPs apply to

insurance supervision of all insurers, whereas ComFrame applies to Internationally Active Insurance Groups (IAIGs) only. As part of the Holistic Framework, the IAIS revised certain ICPs and ComFrame materials by enhancing or adding supervisory policy measures specifically designed to assess and mitigate potential systemic risk building up in the insurance sector.

The Holistic Framework moves away from the previous binary approach, in which a set of pre-determined policy measures applied only to a small group of identified global systemically important insurers (G-SIIs). Instead, it promotes a proportionate application of an enhanced set of supervisory policy measures and powers of intervention for macroprudential purposes to a broader portion of the insurance sector through the ICPs and ComFrame.¹

The policy measures include, but are not limited to:

- on-going supervisory requirements applied to insurers, targeted at key potential systemic exposures: liquidity risk, macroeconomic exposure and counterparty exposure;
- macroprudential supervision, aimed at identifying vulnerabilities and addressing the build-up of systemic risk at the individual insurer and sector-wide levels; and
- crisis management and planning, which includes requirements on recovery and resolution planning, as well as the establishment of crisis management groups.

In terms of powers of intervention, supervisors are required to have a sufficiently broad set of preventive and corrective measures in place to enable a prompt and appropriate response when a potential systemic risk is detected.

Global Monitoring Exercise

The IAIS will undertake an annual global monitoring exercise to assess insurance market trends and developments, and determine any potential build-up of systemic risk in the global insurance sector. This will include an assessment of potential systemic risk arising from sector-wide trends with regard to specific activities and exposures, but also the possible concentration of systemic risks at an individual insurer level (using an updated assessment methodology) arising from these activities and exposures.

The global monitoring exercise will also see a collective discussion by the IAIS of the assessment of potential systemic risk in the global insurance sector, at both a sector-wide and individual insurer level, and appropriate supervisory responses to systemic risk if it arises. The discussion of appropriate supervisory responses will include the consideration of enhanced supervisory policy measures and/or powers of intervention, taking into account the IAIS' assessment of those supervisory policy measures and/or powers of intervention that have already been implemented.

The IAIS will share the outcomes of the global monitoring exercise each year with participants in the global monitoring exercise (participating insurers as well as participating IAIS Members), other IAIS Members, the FSB and the general public.

¹ For a full overview of the measures and their expected scope of application, see table 1 in the Holistic Framework overarching document.

Implementation Assessment

A final key element of the holistic framework is the IAIS's assessment of the consistent implementation of the Holistic Framework supervisory material. It aims to promote globally consistent and effective implementation of the relevant supervisory material among its Members. This is critical for supporting financial stability – as the potential build-up of systemic risk may be global in nature, so should there be a globally consistent and effective application of policy measures aimed at assessing and mitigating these risks.

The IAIS's implementation assessment approach builds on existing methodology for assessing implementation of ICPs and ComFrame, while taking into account the specific nature of the Holistic Framework as a subset of ICP and ComFrame material that is relevant to the assessment and mitigation of systemic risk. Assessments will proceed in phases, beginning with a baseline assessment in 2020 and moving towards more intensive jurisdictional assessments in 2021, which will include targeted in-depth verification of supervisory practices.

The IAIS will share the outcomes of the Holistic Framework implementation assessments with the FSB and the general public.

Suspension of G-SII Identification

The Holistic Framework, appropriately implemented, is expected to provide an enhanced basis for assessing and mitigating systemic risk in the insurance sector.

In light of the finalised Holistic Framework, the FSB, in consultation with the IAIS and national authorities, has decided to suspend G-SII identification as from the beginning of 2020. In November 2022, the FSB will, based on the initial years of implementation of the holistic framework, review the need to either discontinue or re-establish an annual identification of G-SIIs by the FSB in consultation with the IAIS and national authorities.

The IAIS will share with the FSB an annual update of the outcomes of the global monitoring exercise, including the IAIS assessment of systemic risk in the global insurance sector and the supervisory response to identified risks, if any.

Background

Following the 2007-08 global financial crisis, the G20 launched a comprehensive programme of financial reforms to increase the resilience of the global financial system. The IAIS has contributed to these post-crisis reforms by participating in a global initiative to address systemic risk in the financial sector, under the purview of the FSB and G20. Part of this initiative is the identification of, and setting supervisory policy measures for, global systemically important financial institutions: institutions whose distress or disorderly failure would cause significant disruption to the global financial system and economic activity. In 2013, the IAIS adopted an assessment methodology to support recommendations on the identification of G-SIIs and policy measures to apply to these.

Since 2013, the IAIS approach to assessing and mitigating systemic risk in the insurance sector has evolved, recognising that systemic risk may arise not only from the distress or disorderly failure of individual insurers but also from the collective exposures of insurers at a sector-wide level. The Holistic Framework is an integrated set of key elements aimed at

assessing and mitigating both of these potential sources of systemic risk. The IAIS adopted the Holistic Framework for systemic risk in November 2019 and it takes effect from 2020.

Relevant materials

All documents related to the Holistic Framework are available on the IAIS website:

- Overarching document, setting out the Holistic Framework and its key elements;
- ICPs and ComFrame, setting out the supervisory policy measures and powers of intervention; and
- Global monitoring exercise, describing in more detail its objectives and process.

In addition, on 19 November 2019, the IAIS will publish an Application Paper on Liquidity Risk Management for public consultation.