IAIS statement on benchmark transition

The IAIS endorses the Financial Stability Board’s (FSB) statements and related reports regarding a smooth and timely transition away from LIBOR by the end of 2021 and encourages insurance supervisors to strengthen their efforts to facilitate insurers’ transition.

A distinct feature of benchmark transition risk in the insurance sector is that insurers may be exposed on both sides of their balance sheet – for instance on the asset side, through investments linked to LIBOR, or on the liability side, through valuation methodologies that reference benchmark rates.

As noted by the FSB, continued reliance of financial markets on LIBOR poses clear risks to global financial stability. Transition away from LIBOR by end-2021 requires significant commitment and sustained effort from both financial and non-financial institutions across many jurisdictions.

To facilitate an orderly benchmark transition by end-2021, the FSB has published the following statements and reports that set out recommendations for non-financial and financial sector firms, including the insurance sector:

- An updated global transition roadmap that, drawing on national working group recommendations, summarises the high-level steps firms will need to take now and over the course of 2021 to complete their transition.

- A paper reviewing overnight risk-free rates and term rates, building on the concept that the tools necessary to complete the transition are currently available. The FSB cautions market participants against waiting for the development of additional tools, in particular forward-looking term risk-free rates.

- A statement on the use of the ISDA spread adjustments in cash products to support the transition particularly in loan markets, which remain an area of concern due to significant new lending still linked to LIBOR.

- A statement encouraging authorities to set globally consistent expectations that regulated entities should cease the new use of USD LIBOR, in-line with the relevant timelines for that currency, regardless of where those trades are booked.

Given the limited time available until end-2021, the IAIS urges insurers to act now to complete the steps set out in the FSB’s global transition roadmap, summarised as follows:

- **Firms should already have at a minimum** (and if not, should promptly):
  - Identified and assessed all existing LIBOR exposures, including an understanding of:
    - Which LIBOR settings they have a continuing reliance on after end-2021, by currency and tenor.
- What fallback arrangements those contracts currently have in place.
  o Identified other dependencies on LIBOR outside of its use in financial contracts – for example, use in financial modelling, discounting and performance metrics, accounting practices, infrastructure, or non-financial contracts (eg. in late-payment clauses).

- **By mid-2021**: firms should, on the basis of a full assessment of their stock of legacy contracts, have determined which can be amended in advance of end-2021 and established formalised plans to do so in cases where counterparties agree.

- **By end-2021**: firms should be prepared for all GBP, EUR, CHF and JPY LIBOR settings, and the 1 Week and 2 Month USD LIBOR settings to cease and to cease entering into new contracts that use USD LIBOR.

- **By June 2023**: firms should be prepared for all remaining USD LIBOR settings to cease.

The IAIS and its members remain committed to supporting the FSB in ensuring a smooth and timely transition away from LIBOR by end-2021.

For more information about IAIS supervisory recommendations to address challenges of LIBOR transition in the insurance sector click here.

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 the maintenance of global financial stability. Its membership includes insurance supervisors from more than 200 jurisdictions. For more information, please visit www.iaisweb.org.