INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

PUBLIC

IAIS Annual Conference 2021

Public Q&A Summary

This note covers questions we received from stakeholders in advance of the IAIS' 2021 Town Hall virtual session on 16 November, but which we were not able to answer fully. In the interests of transparency, we publish both the questions and answers on our website.

Geneva Association

Data

1. A key driving factor of innovation is the ability to use (personal) data. There is a lot going on in this field, not least regarding legislation on data/privacy. Various jurisdictions have different rules on the ability to use data, in some cases restricting the transfer of (personal) data to other jurisdictions. This can possibly hinder innovation and decrease the competitiveness of global insurers that are active in jurisdictions with specific local requirements.

   What is the view of the IAIS on the position of large global insurers and the consequences of an unequal data playing field? What role could the IAIS play in terms of supervisory convergence in this field?

   - We set out initial observations on risks and opportunities for insurers, consumers and supervisors in our *Issues Paper on the Use of Big Data Analytics (BDA) in Insurance* (published in March 2020), which also made explicit reference to work by the Geneva Association. We recognised that the use of customer data and BDA raises important issues around privacy, data protection and ownership of data in the insurance sector.

   - We noted that this may pose challenges for insurance supervisors because in many jurisdictions the insurance supervisor is not responsible for regulatory oversight of privacy and data protection issues.

   - It would also be useful for insurance supervisors to collaborate with relevant data protection agencies and industry bodies in their respective jurisdictions to determine appropriate ways to mitigate potential risks arising from the use of BDA for insurance purposes. Developments relating to data protection frameworks globally may also provide helpful insights in this regard.

   - The IAIS is in a good position to facilitate global dialogue on these important considerations stemming from the impact of increasing digitalisation on broader financial market structures, market competition and financial stability. This will continue to be an area of heightened focus for us, particularly through the deep-dive on Artificial Intelligence, Machine Learning and Big Data currently being led by our FinTech Forum. One of the dimensions being considered by the Forum is the possibility of the IAIS developing standardised guidance on the safe, fair and ethical use of data by insurers in future – which may well contribute to reducing market fragmentation.

Internal models - ICS

2. We understand that work on internal models is still ongoing –including data collection from local supervisors. Could the ExCo please elaborate on the process of internal model data collecting also in relation to the work of the IAIS internal model working group.

    - The work on the possible inclusion of internal models as part of other methods of calculation of the Insurance Capital Standard (ICS) capital requirement is still ongoing. As noted in 2019, a decision on the inclusion of internal models, similar to the GAAP with Adjustments valuation approach, will be made by the end of the monitoring period.
    - Through the monitoring period, the information currently collected is:
        - internal model results following the structure currently used by the particular Internationally Active Insurance Groups (IAIGs); and
        - internal model results mapped to the ICS standard method.
    - In addition, qualitative information is being collected, including explanations on the differences between internal model and standard method results
    - The public consultation on ICS as a prescribed capital requirement (PCR), scheduled for 2023, will also cover internal models and the question of their inclusion.

3. It has been indicated that the decision to include Internal Models in the ICS will be made at the end of the monitoring period. We understand that a public consultation (on the inclusion of internal models, among others) is foreseen for 2023. Considering the timeline of the ICS, this is rather late in the process; could you elaborate on the rationale behind this timeline?

    - The timeline was agreed in 2017 as part of the Kuala Lumpur agreement. Additional reporting, which includes the GAAP Plus valuation method and other methods of calculation of the ICS capital requirement (eg internal models) are viable options that will be considered for inclusion in the ICS by the end of the monitoring period.
    - Data was collected on these items even before the start of the monitoring period.

4. It was noted earlier by the IAIS that internal models are not limited to Solvency II related internal models only, but could potentially be any internal model. Does the IAIS already have any experiences with other internal models being reported as part of the ICS?

    - The IAIS is considering internal models more broadly than just Solvency II Internal Models, as the ICS will apply to IAIGs globally.
    - To this end, the IAIS is collecting information from IAIGs from all jurisdictions that currently have or plan to have internal models in their regulatory regime, across various regions. This information will inform the ICS consultation in 2023.

5. In which way can the (re)insurance industry support the IAIS regarding the recognition of internal models (other than reporting internal model data since that is already being done by a number of insurance groups)?

- For internal models, where the outcomes are meant to be better tailored to the risk profile of the individual IAIG, the greater the diversity and size of the sample reporting data, the better the information and insights the IAIS gains from this methodology of calculation of capital requirements.

Implementation assessment of the ICS

6. To ensure consistency and comparability among different regulatory capital regimes across the jurisdictions, it is important to adopt and implement the ICS at each jurisdictional level in an appropriate and timely manner. We understand that from 2025 the IAIS will assess the implementation of the ICS in each jurisdiction. We would like to know the currently planned schedule and processes of the implementation assessment.

    - As with any of the IAIS standards, there will of course be a structured and robust approach to monitoring the assessment of implementation of the ICS across jurisdictions.
    - The exact timing of implementation assessment has not been determined, since transitional periods for implementation are common where requisite laws and/or regulations are necessary to be adopted by relevant jurisdictions.
    - During the monitoring period, the IAIS will consider transitional arrangements (eg with respect to qualifying capital resources) that may help jurisdictions with implementation of the ICS as a PCR following the end of the monitoring period. For example, it is not uncommon to allow for gradual phase-in of new requirements depending on the extent of system changes that may be expected of impacted insurance groups.
    - While the details have not been discussed yet, the IAIS will leverage on its other implementation assessment work to develop a process appropriate for the ICS.

Processes toward finalisation of the ICS Technical Specifications

7. Given that the consultation on the final draft of Technical Specifications for the standard method is scheduled for 2023, the specifications will be finalised in a relatively limited timeframe. However, there are still concerns about the current specifications, such as that risk and stress factors, correlations, etc. are set in an excessively conservative manner. As the basis for setting them has not been publicised, it is difficult to confirm whether they are appropriate or have any problems.

    - The IAIS has been collecting data on different ICS design and calibration options since 2013. In Abu Dhabi the IAIS agreed on a stable version of the ICS which aims to assess its performance over the five-year monitoring period.
    - Stability of the specifications is important, but in parallel, in discussions with Volunteer Groups, the IAIS is also collecting supplementary information on targeted areas of the ICS. This supplementary information aims to assess the impact of alternative targeted improvements to the specifications and will inform the final specifications which will be consulted on in 2023.
    - The monitoring period includes an important change in the annual process: supervisory colleges will discuss and assess the reference ICS and additional reporting. The IAIS collects annual feedback from supervisory colleges, which includes their view on the appropriateness of the ICS. This provides an important supervisory perspective and will also feed into the finalisation of the design of ICS.

- All of this input will be brought together in the consultation paper that will be published in 2023.

8. In order to ensure a highly transparent process to examine the specifications, it is important to publish and disclose, at an appropriate time before the consultation on the final draft specifications, a calibration paper to explain how risk and stress factors, correlations, etc. are set as well as details about the data used, to allow for constructive discussions toward development of the final draft.

    - The IAIS intends to prepare calibration papers for the ICS risk charges by the end of the monitoring period.

Individual Insurer Monitoring (IIM)

9. We understand that the liquidity metrics, once finalised, will be included in the IIM as an additional item. However, the number of data items for the IIM is increasing every year, imposing a greater burden on participating insurers. We would like to call on the IAIS to consider deleting a group of low priority items, in tandem with development of the liquidity metrics.

    - The IAIS is very mindful of the reporting burden associated with any data we collect. As part of the GME framework, an annual review of the GME data collections is foreseen, whereby the data templates are updated to take account of new or emerging risks, and importantly consideration is given to whether there is room to delete any datapoints which are no longer insightful from a global financial stability perspective.
    - Keeping in mind the burden for insurers and supervisors, as well as for the IAIS to validate and analyse the data, any new datapoint requires strong motivation and rationale before being added. This is why, for instance, for cyber risk we have decided to first undertake exploratory work next year as part of the Global Insurance Market Report (GIMAR) special topic, before adding datapoints to the regular GME. For the special topic we will first assess which datapoints are most needed to monitor the impact of cyber on the financial stability of the global insurance sector.
    - The liquidity metrics will serve as an ancillary indicator to monitor the potential build-up of systemic risk in the global insurance sector. Some recent trends and changes in business models, such as increased shift to alternative investments that may be less liquid in nature, as well as changes in insurers' product offerings, warrant monitoring of changes in liquidity risk profiles.

Climate-related risks

10. The IAIS has thus far released three papers on climate-related risks. We would like to know what further steps the IAIS is planning to take, what further work is being planned, and what roles it is aiming to fulfil, in light of various initiatives such as the Network of Central Banks and Supervisors for Greening the Financial System (NGFS), Climate Training Alliance.

    - We have established a Climate Risk Steering Group (CRSG) which will lead the IAIS' efforts to embed work to address climate risk across our work. In the immediate term, the group will take forward work in three areas:

- A gap analysis of our global standards for insurance supervision to consider whether changes are needed to take account of growing climate risk, or whether further supervisory guidance is needed;
- Work to share examples of effective practices for developing climate scenario analysis in the insurance sector; and
- Consideration of how to integrate climate-related financial risks in the regular annual data we collect as part of our GME.

- ExCo will discuss the CRSG's work at it meeting in late February and at that stage will agree the next steps in this work.
- The IAIS was one of the founding partners of the Climate Training Alliance, together with BIS-FSI, NGFS and the Sustainable Insurance Forum (SIF). It was launched in November and provides e-learning resources on climate risk for central banks and supervisors. It is a really important initiative that we are very proud to support, as it increases access to such training materials across the globe.

11. The EU taxonomy for sustainable activities might work for European insurers but not necessarily for those in other jurisdictions that either use different criteria or have a different system in place. A globally consistent approach is needed. What is the IAIS' view on this topic? What are ExCo's views on the IAIS' role in coordinating regulatory initiatives around sustainability?

- One of the main goals of the IAIS work on climate change is precisely related to supporting initiatives to assess and address climate risk and thereby promoting a globally consistent approach. We are doing this in part by developing guidance on supervisory practices, reviewing existing IAIS standards to assess whether further work is needed, as well as by supporting cross-sectoral initiatives.
- Related to strengthening internationally aligned public disclosures, the IAIS has contributed through the publication of both an Issues and an Application Paper, developed jointly with the SIF. These Papers showcase supervisory practices in promoting public disclosures on climate risk, and include concrete examples and recommendations on strengthening public disclosures by insurers.
- Additionally, we have also experienced first-hand the difficulties associated with the lack of a comparable, global taxonomy or classification of assets in relation to climate and/or sustainability factors, as noted in our recent GIMAR special topic publication on climate change risks and insurance investment portfolios.
- Therefore, and as noted in previous publications and statements, the IAIS welcomes the establishment of an International Sustainability Standards Board. The lack of a globally accepted framework for sustainability standards is one of the obstacles to disclosures that are comparable, reliable and of sufficiently high quality. The creation of the International Sustainability Standards Board under the IFRS Foundation is an important step towards such a globally accepted framework. The IAIS stands ready to assist in the development of standards by providing insurance supervisory expertise, as needed.

Global Federation of Insurance Associations

Holistic Framework

12. The industry wishes to once again highlight that the conventional insurance business contributes very little to systemic risk. Proportionality should therefore always be given due consideration when applying the guidelines prepared by IAIS in each jurisdiction, as not all insurers have the same exposure to systemic risk nor represent the same potential threat to financial stability. How will the IAIS ensure that proportionality will be duly taken account (other than by providing supporting materials)?

    - The GME is a risk-based framework and therefore inherently proportionate. Any need for supervisory actions at the individual insurer and sector-wide level are discussed based on the nature, scale and complexity of the risks which are put into the broader financial systemic context.
    - The systemic risk scoring methodology takes into account insurer exposures to certain types of potentially systemic activities, such as complex derivatives transactions. Insurers with low exposure to risky activities will not have high systemic risk scores and will hence be less likely to be subject to any appropriate supervisory actions.
    - An important component of the GME analysis is the cross-sectoral analysis, whereby the systemic risk scores are put into perspective to the broader financial sector, notably the banking industry.
    - As described in the Introduction to the ICPs and ComFrame, the principle of proportionality underlies all ICPs and ComFrame material, including those related to the holistic framework.
    - It is important to stress that proportionality goes into two directions as it allows the supervisor to either *increase,* or *decrease,* the intensity of supervision according to the risks inherent to insurers, and the risks posed by insurers to policyholders, the insurance sector or the financial system as a whole.
    - As such, for instance, ComFrame itself is an exercise of proportionality in the sense that ComFrame standards are tailored to reflect the nature, scale and complexity of IAIGs. In some cases, this results in IAIGs needing to meet higher standards than other insurers, where the supervision of those insurers is subject only to the ICPs.
    - The exact scope of the holistic framework related material is also proportionate to the potential systemic risk – with various holistic framework related requirements being tailored based on the nature, scale and complexity of an insurer’s activities that may lead to increased systemic risk exposure.
    - Application Papers are indeed developed to give more guidance for supervisors in the application of the IAIS supervisory material, including on practical examples on the proportionality principle, as appropriate. This is for instance the case in recent papers published on recovery and resolution planning.
    - The IAIS’ Targeted Jurisdictional Assessments (TJAs) are deliberately focused on those jurisdictions that supervise the largest insurance groups and that may potentially lead to systemic risk. Within these assessments, attention is given to supervisory practices including the application of the proportionality principle.

GME – IIM data collection exercise

13. The number of data items for the IIM is increasing every year, imposing a greater burden on participating insurers. Once the ancillary liquidity metrics are finalised and included in the IIM, it can further increase the burden. How does the IAIS assess the burden on participating insurers?

    - Please see response to Q9.

14. It would help avoiding increasing burdens on participating insurers if, for example, a group of low priority items are removed when introducing the ancillary liquidity metrics. How does the IAIS plan to improve the efficiency of the data collection exercise?

    - Please see response to Q9.

15. The IAIS noted the possibility to resume Covid-19 data collection for instance in the case of significant financial market downturns. Given the strong resilience as confirmed in last year's GIMAR Covid-19 edition, another Covid-19 data collection should be justified only when wide-ranging and serious anomalies are identified, and the decision should be made with due consideration.

    - This is the approach taken by our Executive Committee. In May, the IAIS decided to suspend the Covid-19 data collections. Hence the Covid-19 reporting is no longer requested for now, with the possibility to resume reporting if necessary, for instance in case of a significant financial markets downturn. Developments in financial markets will continue to be monitored through the IAIS risk dashboard.

16. The IAIS has indicated at this stage only a planned consultation for 2023. However, it will be important to consult both on the need for any improvements and on details of such improvements before the ICS can be finalised. Has the IAIS already identified improvements that may be needed from the information gathered during the monitoring period so far?

    - During the monitoring period, the IAIS has been collecting supplementary information on targeted areas of the ICS. This supplementary information aims to assess the impact of alternative targeted improvements to the specifications and will inform the final specifications which will be consulted on in 2023.

17. The current lack of detailed background on how the current calibrations were made makes it difficult to fully assess proposals on the table and there are concerns that the current specifications are determined in an excessively conservative manner. Enhanced transparency, for example, by publishing a calibration paper that explains how risk and stress factors, correlations, etc. are set as well as details about the data used can help having constructive discussion. What are the IAIS' views in this regard?

    - See response to Q8.

18. The events that took place during 2020/21 can provide some data points for stress event but the market volatility during this period was actually small compared to other times such as the financial crisis from 2007 to 2013. How will the IAIS ensure that there is clear understanding of how the ICS will work under a broader range of market scenarios?

    - The purpose of the five-year monitoring period is to monitor the performance of the ICS over a period of time. The events of the last 20 months have already provided an opportunity to assess the performance of the ICS during a stress event.
    - In addition, the annual ICS data collection includes an alternative balance sheet that Volunteer Groups are requested to submit using alternative economic

conditions. This helps by providing information on a broader range of market scenarios.

- The market events of early 2020 were more extreme in the short term than those witnessed in the 2008 global financial crisis, although not as persistent. Equally the coordinated economic impact of the pandemic has also been severe. That said, the IAIS note that the significant interventions by central banks and governments shielded insurers from a more significant impact that should not necessarily be expected in future crises.

ICS – internal models

19. The IAIS noted that there is a work stream of the Capital, Solvency and Field Testing Working Group (CSFWG) that is considering the internal models question. Further information on the current and planned activities (including data collection via additional reporting) of this work stream will be helpful.

    - Please see request to Q3.

20. How can the (re)insurance industry support the IAIS regarding the recognition of internal models (other than additional reporting on internal model data since that is already being done by a number of insurance groups)?

    - Please see response to Q5.

21. The public consultation scheduled for Q3 2023 will cover internal models and the question of their inclusion. If the IAIS decides not to include internal models at all (or only partially) following the consultation, it may be too late to solve any deficiencies before the introduction of ICS as a PCR which may lead to competitive disadvantages. What is the rationale behind the timeline?

    - Please see response to Q3.

22. The IAIS noted in June that it considers internal models more broadly than just Solvency II Internal Models. Does the IAIS already have any experiences with other internal models being reported as part of the ICS?

    - Please see response to Q3.

ICS – economic impact assessment

23. Economic impact assessment is scheduled to commence in two years (ie Q3 2023). How does the IAIS make sure the assessment will help dispel various concerns raised on the ICS? How does the IAIS plan to develop methodology for such assessment and collect data? There seems to be no public consultation planned in this regard. How does the IAIS plan to ensure transparency of the process?

    - Work has not yet begun on the design of the methodology for the economic impact assessment.

    - These comments will be considered when the work on this process commences.

ICS – implementation assessment

24. To ensure consistency and comparability among different regulatory capital regimes across the jurisdictions, it is important to adopt and implement the ICS at each jurisdictional level in an appropriate and timely manner. We understand that from 2025 the IAIS will

assess the implementation of the ICS in each jurisdiction. What is the planned timeline and process for the implementation assessment?

- Please see response to Q6

Climate risk

25. The IAIS previously noted that climate risk impacts insurers on both sides of the balance sheet, and that over the course of 2021, the IAIS climate risk assessment will focus on the impact on the asset side of insurers. What can the IAIS report back in terms of its learnings?

    - In September we published the GIMAR special report which assesses how insurance sector investments are exposed to climate change. It represents the first global, quantitative analysis on insurers' investment exposures and supervisors' views on climate-related risks. The report benefitted from data collected from 32 IAIS Members covering 75% of the global insurance market.

    - Compared to an orderly transition towards internationally agreed climate targets, a disorderly transition, or a scenario whereby climate targets are not met at all, would have a two to six times greater adverse effect on sector-wide solvency. For example, under a "disorderly transition" scenario, results show an absolute drop in insurers' solvency ratio of more than 14%, increasing to almost 50% under a "too little, too late" scenario. Nevertheless, considering the solid overall solvency position of the global insurance sector, the sector as a whole appears to be able to absorb investment losses from all scenarios tested.

    - As part of this work we published the "learnings" which highlight the fact that there is not yet a globally consistent framework for measuring climate risk-related financial information, the difficulties with translating climate change risks into financial risks and the long-term horizon of manifestation of some of the risks.

    - The report also highlighted possible areas of future work. Learning from that experience, one of the projects being undertaken by the CRSG will work to consider how to include climate-related risks in the GME data gathering on a more regular, structured basis. This work stream will not only focus on investment risks, but also consider insurer underwriting risks. Another work stream will do follow-up work on supervisory practices related to scenario analysis.

26. The IAIS noted in the 2021-2022 public roadmap to: take stock of existing workstreams and initiatives related to climate risk and sustainability, both within the IAIS and by other international organisations; consider options for embedding this work into the IAIS governance; and identify areas for future work to support supervisors in addressing climate-related risks. What roles does the IAIS aim to fulfil in various initiatives (eg NGFS, Climate Training Alliance)? And how does the IAIS plan to take further steps in this area?

    - See response to Q10.

27. The IAIS ExCo noted at the June Global Seminar that it will work on a gap analysis of IAIS supervisory material, to determine whether climate risk warrants further standard setting work or enhanced supervisory practices or supervisory capacity building. How does the IAIS work on this gap analysis project (eg timeline, initial findings, stakeholder engagement opportunities)?

- The CRSG was established in September and has already held two meetings. One of the projects indeed is a gap analysis of our global standards for insurance supervision to consider whether changes are needed to take account of growing climate risk, or whether further supervisory guidance is needed.
- We are at the early stages of this work and the CRSG will provide an update to ExCo and parent committees in late Feb/early March.
- If the IAIS identifies any gaps and decides further work needs to be undertaken to address these gaps, then we will engage with stakeholders in line with our normal procedures. For instance, if a decision is made to develop an additional Application Paper, then there will be a public consultation and stakeholders will be informed via stakeholder webinars, in line with our guidelines on effective stakeholder engagement.

Technological innovation

28. The IAIS broached an important discussion around new normal, in particular SupTech. Does the IAIS plan to further look into possibilities and limitations of SupTech? And if yes, how does the IAIS plan to work on that?

    - The IAIS is working on a short note exploring how the supervisory challenges experienced during the Covid-19 pandemic have accelerated an interest in, and a demand for, SupTech deployment in various markets. While SupTech is now a strategic priority in an increasing number of jurisdictions, supervisors are at different stages of maturity and face a number of challenges in the adoption of technology solutions that are appropriate to their respective frameworks and circumstances.
    - This Secretariat-authored note will examine enablers and barriers to the deployment of SupTech by insurance supervisors, and highlight the benefits and risks of certain technologies available to supervisors.
    - The note will be based on insights from a number of sources including an IAIS Member Survey on regulatory and supervisory responses to FinTech developments, planned to be launched in early 2022.
    - Additionally, one of the workstreams under our FinTech Forum is currently exploring active use cases relating to DLT platforms for a variety of applications, including SupTech. We are also considering how to incorporate the outcomes of this work into the SupTech note.

Cyber resilience

29. What is the IAIS planning in terms of follow-up to the December 2020 report on Cyber Risk Underwriting, in particular its identification of measurement (including a lack of historical data) and clarity (including the treatment of ransoms) as challenges to market growth?

    - Cyber risk and cyber underwriting remain high priority topics for many of our Members. Next year, the IAIS will be performing a deep-dive analysis on cyber risk and cyber underwriting in the insurance sector, as part of the 2022 GIMAR Special topic.
    - The perspective of the analysis will be mainly to make an assessment on how cyber risk may impact financial stability at the global level, how cyber insurance

can mitigate or amplify this risk and how the GME, our risk assessment framework, could contribute to monitoring of these issues at the global level.

- We will explore the scope of data collection that may be necessary to better monitor cyber risk and cyber underwriting at the global level through the GME. This will likely be based on (1) an exchange of best practices among supervisors; and (2) what indicators insurers look at in order to monitor the risk.

- The project may also seek to add a forward-looking perspective on the outlook for cyber underwriting and cyber risk issues, and provide a supervisory perspective. This may touch upon the points you have mentioned, ie. how to deal with the lack of historical data, as well as challenges associated with a growing cyber underwriting market.

30. The industry understands that an Operational Resilience Task Force (ORTF) has started gathering information about insurers' cyber resilience issues and the supervision of cyber risks, including third-party outsourcing. Will this work involve the industry?

    - The ORTF has undertaken a review of the ICPs to consider which principles are relevant to operational resilience, and has also considered work being undertaken by other standard-setting bodies on op-risk issues including IT third party outsourcing, cyber resilience and business continuity planning. The ORTF will undertake stakeholder engagement, including with industry, on these activities in early 2022.

Market conduct

31. A public consultation is planned in 2022 on a draft application paper on the use of key indicators to assess conduct-related performance of insurance products. How does the IAIS define "performance"? What are the initial findings in developing it, and how can the stakeholders contribute to the discussion (eg timing and duration of the public consultation)?

    - In November, the Executive Committee agreed some revisions to this project both in terms of scope as well as timing.

    - The objective of the project now is to develop guidance on the use of quantitative and qualitative indicators and advanced data gathering techniques to help supervisors proactively monitor conduct risks. The intention is to identify metrics that can assist supervisors in their oversight of insurers in respect of the appropriateness of products, fair value and more generally the delivery of fair customer outcomes (as understood within the framework of ICP 19).

    - The project deliverable, planned for early 2023, is likely to be an implementation guide or repository of good practices for supervisors, rather than an Application Paper. The project team is still in early stages of scoping the project, which has been informed by an IAIS Member survey on supervisory approaches to the use of conduct indicators undertaken in the first half of 2021.

32. The IAIS noted in the aggregate report of PRP (Peer Review Process) on ICP 19, "In most jurisdictions, internet sales of insurance products or distribution through other digital channels are subject to the same requirements applicable to non-digital channels (ie there is no differentiation in requirements between digital and nondigital channels)." Is the IAIS aware which jurisdictions are imposing disclosures (i) on paper as unique or default option, (ii) in a digital way as unique or default option, or (iii) in other forms (and if so which ones)?

Can the IAIS specify whether any of the requirements that are similar for both on- and off-line distribution constitute an obstacle to distribution via digital means? Is the IAIS aware of jurisdictions with specific disclosure format(s) for digital distribution, and if so which ones?

- This is an issue that was covered in the 2018 Issues Paper on Increasing Digitalisation in Insurance and its Potential Impact on Consumer Outcomes.

33. In the same PRP on ICP 19, the IAIS refers to Standard 19.7 "The supervisor requires insurers and intermediaries to provide timely, clear and adequate pre-contractual and contractual information to customers." Can the IAIS provide details on how supervisory authorities ensure that information to customers is clear and adequate? For example, is the information, when developed by regulatory and supervisory authorities, tested on consumers - for instance to ensure that the information is appropriate, understandable and contributes to the customer decision making - and if so how?

    - Jurisdictions have different approaches depending on their supervisory toolkits. The ICPs are sufficiently flexible to allow for this.

    - More details on types of supervisory approaches are found in the 2014 Application Paper on Approaches to Conduct of Business Supervision.

34. What are the IAIS other focus areas and next steps in the field of conduct?

    - Issues around culture and conduct continue to be an important strategic priority for the IAIS.

    - Last month the Executive Committee approved our Issues Paper on Insurer Culture. The paper demonstrates how certain aspects of an insurer's culture are influential in helping it deliver on critical outcomes related to the interests of policyholders and the fair treatment of customers.

    - We are now looking ahead to potential follow up work to advance some of the key issues identified in the paper. To this end, future work on culture and conduct will be closely aligned with work on the impact of Diversity, Equity and Inclusion (DE&I) on customer outcomes. The IAIS recognises that embedding diversity within insurers, reinforced by a culture of equity and inclusiveness, should support better decision-making across the sector. DE&I built into insurer's business models may lead to positive consumer outcomes since designing, distribution and servicing of products can be better tailored to actual consumer needs, leading to more accessible markets. An exploratory report on these issues is planned for publication late next year.

    - We are also looking to identify greater synergies between other IAIS strategic focus areas and our work on conduct.

    - For example, on digitalisation and FinTech, the focus is on specific risks and opportunities introduced by the increasing adoption of artificial intelligence, machine learning (AI/ML) and big data by insurers. Work is currently underway to develop supervisory guidance on the fair, safe and ethical adoption of AI/ML. This would include addressing legal, consumer and other risks associated with insurers' use of expanded datasets and data sources, including expectations for appropriate model risk management and governance, particularly given the potential for increasingly complex model deployments in future, and risks arising from barriers to explainability (both within insurers and when attempting to explain decisions to customers and supervisors). We are also looking at potential exclusionary risks created by inherent biases and unfair discrimination in automated decision-making processes, which will link broadly to both our work on culture as well as DE&I.

- On climate change, in September the IAIS set up a CRSG to ensure a more integrated and targeted focus on climate-related risks going forward. Part of the work under this group will be the gap analysis of our supervisory material, which will include considerations relating to the impact of climate change on conduct outcomes and fair customer treatment.

35. The IAIS is planning exploratory work on remuneration issues in the insurance sector. Can the IAIS provide further details on the scope, objectives and timeline of this upcoming work? Is stakeholder consultation planned and, if so, when?

    - The purpose of the project, which started in mid-2021, is to identify outstanding issues for supervisors and/or insurers with respect to remuneration, which could be beneficial for the IAIS to address. For this purpose, we will review materials and inputs from IAIS Members as well as the relevant work of other standard-setting bodies, for example the Financial Stability Board (FSB).

    - Given that this is an internal exploratory work, stakeholder consultation is not planned as part of this stage of the project.

    - The outcome of the analysis will be presented to the Policy Development Committee in June 2022, in the form of a Member only report, with a recommendation for next steps. Agreed next steps will be communicated to stakeholders. Should this include the development of supporting material, then there will be stakeholder consultation, in line with our guidelines on effective stakeholder engagement.

    - When analysing remuneration-related issues and determining the need for further work in this area, the IAIS will also consider interlinkages with other areas of the IAIS work, in particular insurer culture as well as DE&I.

Diversity, Equity and Inclusion (DE&I)

36. The IAIS noted that it will make a decision in September on what specific work should be in scope. It would be helpful to know how the IAIS plans to work on D&I issues.

    - Next year we will undertake exploratory work on the insurance sector's and supervisors' activities aimed at support of DE&I objectives.

    - The IAIS will focus on supporting insurance supervisors' and the insurance sector's efforts in embedding DE&I into insurers' internal governance.

    - It will be important for us not to consider DE&I issues in isolation from other topics, but to address related issues in a comprehensive manner, including corporate governance, culture and conduct. We will also be looking at possible synergies in organising our work on these topics, for example by incorporating relevant DE&I aspects into other relevant IAIS projects and activities.

    - In November the IAIS issued a statement on the importance of DE&I considerations to the objectives of insurance supervision and consequently to the IAIS' mission. There is growing acknowledgment that advancing DE&I within insurers' organisations and business models supports sound prudential and consumer outcomes and sustainability objectives.

International Actuarial Association

37. Given the urgent need for a wide variety of (and potentially complex) climate risk scenarios to inform strategic and supervisory decisions, what is the appropriate role for supervisory guidance? For example, is it to help make the results comparable for different insurers? Is it to foster global development of improved scenario capabilities to better inform decision-making? How will supervisors seek to discourage mere "compliance" with supervisory requirements and also avoid the tendency for such requirements to foster a sense of "collective group think"?

    - These are all important questions. As set out in the Town Hall, we are at the early stages of our work on scenario analysis. We will start with a stocktake with recommendations on further work due to be delivered to ExCo for its meeting in late February. In our Application Paper published in May, we noted that climate-related risks should be considered for inclusion in insurers' own risk and solvency assessments (ORSAs), including through scenario analysis or stress testing exercises. Also, we noted that insurers should assess the impact from physical and transition risks on their investment portfolio, as well as on their asset-liability management. A forward-looking view, including the use of scenarios, may help insurers gain a better understanding of the risks.
    - Various IAIS Members have also started their own scenario analysis exercises, for macroprudential purposes, often as part of pilot exercises with a subset of the insurance (and banking) sectors.
    - With this new project, we will first take stock of the work already done by our Members as well as by other bodies like the NGFS, and based on that we will identify areas where we can add the most value from an insurance supervisory perspective. This may be in the area of developing guidance on supervisory climate scenario analysis good practices with a focus on encouraging harmonisation of international practices, as well as the insurance industry.
    - We plan on undertaking roundtables with stakeholders in Q2 as we seek input to this work. As we take our work forward, we will of course also look to the work that has been untaken by the IAA.
    - Any work to develop an Issues or Application Paper will include public consultation.

More issues related to climate risk scenario analysis were covered in the panel session.

Institute of International Finance

ICS

38. What updates can you provide on progress on the ICS and the comparability assessment of the US Aggregation Method? Has the monitoring period or the feedback from supervisory college discussions indicated a need for material changes to the ICS and, if so, what types of changes are under consideration? What is the current state of deliberation regarding the treatment of infrastructure and strategic equity investments in the ICS?

    - Work continues on developing the criteria that will be used to assess whether the Aggregation Method (AM) provides comparable outcomes to the ICS. More detailed criteria will be developed for each high-level principle to ensure that the AM is neither precluded at the outset as an outcome equivalent approach to the ICS for measuring group capital, nor given a free pass. The IAIS Executive Committee agreed in November that the planned public consultation on the draft comparability criteria will now be launched in the first half of 2022. Overall timelines remain on track, with the project concluding in 2024 as planned.

- Stability of the ICS specifications is important during the monitoring period, but in parallel, in discussions with Volunteer Groups, the IAIS is also collecting supplementary information on targeted areas of the ICS. This supplementary information aims to assess the impact of alternative targeted improvements to the specifications and will inform the final specifications which will be consulted on in 2023.

- The Infrastructure Task Force is currently working on its recommendation whether a differentiated capital treatment should be pursued within the ICS for investments in infrastructure and/or strategic equity. This recommendation, including considerations on definitions and eligibility criteria where relevant, should be finalised in February 2022 for endorsement by PDC and ExCo. If the decision is then made to pursue a differentiated treatment, a calibration phase will follow in order to finalise a fully fleshed out capital treatment (eligibility criteria and calibration) ahead of the mid-2023 ICS public consultation.

GME

39. Can you share some high-level findings from this year's Global Monitoring Exercise ahead of the publication of the report later this year and discuss current IAIS interactions with the Financial Stability Board in the run-up to the November 2022 FSB review of the Holistic Framework?

    - This year we completed the first regular GME, using both year-end 2019 and 2020 data, designed to monitor key risks and trends and to detect the potential build-up of systemic risk in the global insurance sector. The IAIS held collective discussions on the outcome of the GME, based on a defined scope of individual insurers and three sector-wide macroprudential themes, which are (1) low yield environment and private equity ownership, (2) credit risk and (3) cyber risk.

    - The outcome of the supervisory assessment and discussion on supervisory responses with respect to individual insurers is not publicly disclosed for confidentiality reasons.

        - The key points from the collective discussion on the three macroprudential themes include: Low interest rates have both direct effects on insurers (eg profitability strains) and potential indirect effects, eg from associated management actions such as a reach for yield or changing business models by altering life insurance product offerings, putting life portfolios in run-off, or transferring (parts of) the (re)insurance business.

        - Examples of supervisory response consist of intensified supervisory dialogue, updating supervisory reporting, onsite reviews, quarterly monitoring exercises, stress testing and sensitivity analysis. Regulatory measures relate to requirements for additional interest rate reserving, capping the maximum guaranteed interest rate, installing policyholder surrender and/or tax penalties and changes to profit sharing regulation, among others.

- Regarding private equity (PE) ownership, supervisors are continuing to fully evaluate the implications. Some acknowledge PE-owned insurers may pose unique risks such as increased exposures to private placements. Others note that PE-ownership may also bring synergies, such as the investment expertise PE firms provide.
  - Most insurers are assessed to not be taking excessive credit risks, with high average credit quality of assets. However, in the search for yield, some changes in insurers' asset allocations can be observed, leading to increases in credit risk.
  - Key supervisory areas of focus are intensified monitoring of investment portfolios and reinsurance positions, intensified onsite reviews and/or supervisory dialogues and reviews of risk management structures and processes. Some supervisors limited/halted dividends payments during the Covid-19 crisis, linked to uncertainty around credit risk.
  - Finally, regarding cyber risk, supervisors are mindful of the increased frequency and severity of cyber attacks during the Covid-19 pandemic.
  - Supervisors are strengthening their own governance and building up expertise on cyber issues, for example by establishing cyber-resilience committees, and stress the need for insurers to maintain their cyber capabilities. Some supervisors have for instance established requirements to embed cyber defence policies within insurers' risk management and governance.

- More detailed findings on each of the three key themes were discussed at the Annual Conference Global Monitoring Exercise panel.

- In October we provided an update to the Financial Stability Board Standing Committee on Supervisory and Regulatory Cooperation, which welcomed the good progress on implementation of the framework.

- In November 2022, the FSB will, based on the initial three 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. The IAIS will be providing the FSB with a comprehensive report on the review of the first three years of implementation of the Holistic Framework, as an input to its decision.

40. What is the current thinking around the effectiveness of the regulatory and supervisory response to the Covid-19 crisis? Do IAIS members see a need for additional or different regulatory and supervisory tools to address pandemic risks? What are members' views on the discussion and the regulatory and supervisory options set forth in FSI Brief No. 15 of the Financial Stability Institute, Vaccinating insurers against pandemics?

    - There are a number of different elements here: (i) what we can learn about our tools for assessing risk; (ii) how Members responded to the pandemic and (iii) what it means for the future. Taking each of these in turn:

    - First of all, the pandemic highlighted the real benefit of the package of reforms we agreed in 2019 and helps IAIS Member had an excellent understanding of the risks to the sector. For example, our risk assessment framework, the GME, showed to be an invaluable tool for the global supervisory community, providing invaluable insight into the impact of the pandemic on the financial stability of the global insurer sector. The IAIS ExCo has identified areas for enhanced global monitoring and recommended that deep-dive analysis should be performed on certain topics such as cyber risk, as the trend of digitalisation was accelerated by the pandemic. The pandemic also deepened interest rates in certain jurisdictions and increased credit risk, which are macroprudential areas of focus the IAIS will be continuing to monitor going forward. First and foremost, the pandemic highlighted the value of our global risk assessment toolkit, and the IAIS will continue improving and refining it for instance on the key risks highlighted by the pandemic.

- Pandemic response – from a practical perspective IAIS members were able to quickly come together sharing their experience and learning from each other as the pandemic unfolded. In a crisis, this sharing of information was very helpful. The IAIS collated an on-line repository of supervisory responses to the impact of the Covid-19 pandemic, which allowed our Members to learn from the actions of peers and to adapt the measures to their own specific circumstances.
- What we learnt – at a high level, the pandemic highlighted the extent to insurers and supervisors need to be alert to the chance of tail risks crystalising. As we consider issues such as climate change it will be important for supervisors to be aware of such tail risks and understand what it means for developing supervisory responses.
- Specifically, the FSI Brief noted that the pandemic provides an opportunity to review existing regulatory requirements and to sharpen them so that they remain appropriate for future pandemics. Within the IAIS, the experience from the pandemic will be considered as part of work on refinements to the ICS prior to its adoption as a PCR in 2024.
- As we have already highlighted, we are also looking at issues around the protection gap for pandemic risk, specifically how supervisors can support efforts to address this gap.
- Since unfortunately the pandemic is not over, it is too early to reach final conclusions, but we will continue to assess what lessons can be learnt.
- The pandemic highlighted the extent to insurers and supervisors need to be alert to the chance of tail risks crystalising. As we consider issues such as climate change it will be important for supervisors to be aware of such tail risks and understand what it means for developing supervisory responses.

41. We note the considerable work of the IAIS with respect to cyber resilience as part of broader operational resilience. Following the publication of its report on cyber insurance underwriting in December 2020, does the IAIS have further work planned on this issue and, if so, what is expected to be the focus of that work and what is the anticipated timeframe?

    - Cyber remains a top-of mind issue for the IAIS, both to the extent it poses direct operational risks for insurers and also from a liabilities perspective for those insurers underwriting cyber risk. The ORTF is considering risks associated with cyber resilience.
    - Next year the IAIS will be perform a deep-dive analysis on cyber underwriting and cyber risk in the global insurance sector, as part of our 2022 GIMAR Special topic.

- The perspective of the analysis will be mainly to assess how cyber risk can impact financial stability, how cyber insurance can mitigate or amplify this risk and how the GME, our risk assessment framework, could contribute to monitoring of these issues at the global level.
- The thinking on what data items should be captured to better monitor cyber risk and cyber underwriting in the GME may be based on (1) exchange of best practices among supervisors as well as (2) what insurers look at to monitor the risk.
- The topic may also look ahead, and provide an outlook of cyber underwriting and cyber risk, and provide a supervisory perspective.
- Importantly, any data collection to support this deep-dive analysis may be streamlined into next year's GME, in order to avoid sending a separate data call, keeping in mind the burden for insurers and supervisors to report the data.
- In terms of timeline, the data collection request as part of the GME is expected to be sent out in March next year. The GIMAR Special topic on cyber will the published in the fourth quarter of next year.

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