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Public background session

- Public consultation on the review of the Individual Insurer Monitoring (IIM) assessment methodology

- Publication of the liquidity metrics

Note: this webinar will be recorded

Public

Webinar, 10 January 2023, 13:00-15:00 CET

Agenda

1. **Public consultation on the review of the Individual Insurer Monitoring (IIM) assessment methodology**
   - Introduction and objective
   - IIM assessment methodology: indicators
   - Indicator weighting
   - Insurer Pool selection criteria
   - Reporting to insurers and public
   - Q&A

2. **Publication of the liquidity metrics**
   - Introduction
   - Linkage to the IIM assessment methodology
   - Planned usage of the ancillary indicator
   - List of liquidity metrics for 2023-2025
   - Exposure Approach (EA): Insurance Liquidity Ratio (ILR) 1 year time horizon outcomes
   - Areas for further work in 2023-2025
   - Q&A

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1. Public consultation on the review of the Individual Insurer Monitoring (IIM) assessment methodology

- Introduction and objective
- IIM assessment methodology: indicators
  - Level 3 assets
  - (Cross-border) reinsurance
  - Derivatives
  - Short-term funding
  - Financial guarantees
  - Any other feedback
- Indicator weighting
- Insurer Pool selection criteria
- Reporting to insurers and public
- Q&A

Introduction and objective

- IAIS will continue to enhance the [Holistic Framework](#) for the assessment and mitigation of systemic risk in the global insurance sector ("Holistic Framework")

  - Enhanced macroprudential supervision policy measures

  - Risk assessment through the [Global Monitoring Exercise](#) (GME)

    - Sector-Wide Monitoring ("SWM")

    - Individual Insurer Monitoring ("IIM"), using an **assessment methodology** as one of the inputs

- GME will continue to evolve, including through a review every three years

- The objective of this [public consultation](#) is to seek stakeholder input on the review of the IIM assessment methodology for the next three-year cycle of application

- The deadline for providing input is 6 February 2023, using the [consultation tool](#)

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IIM assessment methodology: indicators
Overview

- 5 systemic risk categories, 14 indicators

Category	Indicator
1. Size	1. Total assets
	2. Total revenues
2. Global activity	3. Revenues outside of home country
	4. Number of countries
3. Interconnectedness	5. Intra-financial assets
	6. Intra-financial liabilities
	7. Derivatives
	8. Derivatives Trading (CDS or similar derivatives instrument protection sold)
	9. Financial guarantees
	10. Minimum guarantees on variable products
4. Asset liquidation	11. Short term funding
	12. Level 3 assets
	13. Liability liquidity
5. Substitutability	14. Premiums for specific business lines

- See GIMAR 2022 – Annexes for formulae and more details

	Indicator	Formulae[55]
1	Total assets	$(9 - 9.3) / (\text{Denominator } 1)$
2	Total revenues	$\text{Max}(((15 - 15.3) / (\text{Denominator } 2)), 0)$
3	Revenues outside of home country	$16 / (\text{Denominator } 3)$
4	Number of countries	$17 / (\text{Denominator } 4)$
5	Intra-financial assets	$(20.2 + 21.2 + 22.1 - 22.1.P + 23.2 + 27.1.B + 27.1.C + 39.3.a.1 + 43.A + 40.B.1.a.1) / (\text{Denominator } 5)$
6	Intra-financial liabilities	$(24 - 24.3.b - 24.3.d - 24.4.b - 24.4.d + 24.D.c + 27 + 27.1.A + 39.4.a.1 + 40.B.2.a.1 + 43.B + 12.1.c) / (\text{Denominator } 6)$
7	Derivatives	$(40.A.1.a) / (\text{Denominator } 7)$
8	Derivatives trading	$41.1 / (\text{Denominator } 8)$
9	Financial guarantees	$(28.1.b) / (\text{Denominator } 9)$
10	Minimum guarantees on variable products	$\text{Max}(((31.1 + 31.2) / (\text{Denominator 10A}) - (40.A.H) / (\text{Denominator 10B})), 0)$
11	Short term funding	$((25 + 24.3 + (42.4 - 42.4.d) + (43.4 - 43.4.d) + (40.B.1 - 40.B.1.a + 40.B.2 - 40.B.2.a) * \sqrt{(252 / 10)}) / (\text{Denominator } 11)$
12	Level 3 assets	$30.3 / (\text{Denominator } 12)$
13	Liability liquidity	$(100\% * 33.A.1.1 + 50\% * (33.A.1.2 + 33.A.2.1) + 25\% * 33.A.2.2 + 2.5\% * (33.A.1.3 + 33.A.3.1)) / (\text{Denominator } 13)$
14	Premiums for specific lines of business	$25\% * (45.1 + 45.2) / (\text{Denominator 14A}) + 25\% * (47.1 + 47.2) / (\text{Denominator 14B}) + 25\% * (48.1 + 48.2) / (\text{Denominator 14C}) + 25\% * (49.1 + 49.2) / (\text{Denominator 14D})$

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IIM assessment methodology: indicators
Enhancing the monitoring of level 3 assets

- The (underlying) data rows and/or technical specifications for this indicator will be refined in order to (1) better capture the most material types of level 3 assets; (2) ensure that level 3 financial assets are reported consistently, irrespective of differences in accounting standards; and (3) identify illiquid/difficult to value assets valued using non-fair value methods.

Public consultation questions:

- Which (underlying) data rows would be necessary to monitor the different types of level 3 assets?

  o If possible, also provide the technical specifications for these rows

- Which (underlying) data rows would be necessary to monitor illiquid/difficult to value assets held at historical cost or valued using other non-fair value methods?

  o If possible, also provide the technical specifications for these rows

- Which other refinements could be made to the level 3 assets indicator?

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IIM assessment methodology: scoring indicators
Enhancing the monitoring of (cross-border) reinsurance

- In the 2019 IIM assessment methodology, the reinsurance exposures are captured under the intra-financial assets and liabilities indicators.

- The (underlying) data rows and/or technical specifications for this indicator will be refined in order to better capture (1) cross-border reinsurance exposures (ceded and assumed); and (2) the concentration risk of cross-border reinsurance in certain insurers or jurisdictions. In addition, the development of a reinsurance ancillary indicator will be considered.

Public consultation questions:

- Which (underlying) data rows would be necessary to better capture (1) cross-border reinsurance exposures (ceded and assumed) and (2) the concentration risk of cross-border reinsurance in certain insurers or jurisdictions?
  - If possible, also provide the technical specifications for these rows
- Which potential reinsurance ancillary indicator could be developed?
  - If possible, also provide the data rows and technical specifications
- Which other refinements could be made to better capture reinsurance exposures under the intra-financial assets and liabilities indicators?

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IIM assessment methodology: scoring indicators
Refining the derivatives indicator

- No substantial change in the indicator calculation is currently planned; however, the granularity of the data rows will be increased to enhance monitoring, mainly (1) to better capture different types of exposures underlying the derivatives indicator and (2) to assess the potential 'outward' risk, ie. the risk derivatives holdings of insurers pose to the broader financial system and real economy. In addition, the development of ancillary indicators to monitor derivatives activity will be considered.

Public consultation questions:

- Which (underlying) data rows would be necessary to monitor the different types of derivatives?
  - If possible, also provide the technical specifications for these rows
- Which other variables could be looked at to monitor derivatives exposures and their potential 'outward' risk, in addition to gross notional amounts?
- What is your assessment of the difference in systemic risk between the risk from OTC derivatives that are centrally cleared vs derivatives that are bilaterally settled?
- Should the hedging leverage in derivatives and repo exposures be monitored?
  - If yes, how?

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IIM assessment methodology: scoring indicators
Refining the short-term funding indicator

- No substantial change in the indicator calculation is currently planned; however stakeholder input is sought on how to better capture different types of exposures underlying the short-term funding indicator (eg. repos), in order to refine the monitoring for financial stability purposes and to assess the potential 'outward' risk, ie. the risk short-term funding of insurers poses to the broader financial system and real economy.

Public consultation questions:

- Which (underlying) data rows would be necessary to monitor the potential outward risk of short-term funding?
    - If possible, also provide the technical specifications for these rows
- Which other refinements could be made to the short-term funding indicator?

IIM assessment methodology: scoring indicators
Removal of the financial guarantees indicator

- Due to changes in business models and certain insurers' activities, the financial guarantees indicator has become immaterial from year-end 2016 to year-end 2021. It is therefore under consideration to remove the indicator from the assessment methodology, but keep the data row for financial stability monitoring in case the activity would become material again for certain insurers.

Public consultation questions:

- Do you have any feedback on the removal of financial guarantees as an indicator?

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IIM assessment methodology: scoring indicators

Any other feedback on any of the indicators and the IIM data template

- Currently no further changes are planned for the indicators: Total assets, Total revenues, Revenues outside of home country, Number of countries, Derivatives Trading, Minimum guarantees on variable products Liability liquidity, Premiums for specific business lines.

Public consultation questions:

- Do you have any other feedback on any of the indicators?
- What is your view of the overall granularity of the IIM data template (Annex 1)?

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Indicator weighting

- Due to the removal of the financial guarantees indicator, the indicators would need to be reweighted accordingly in order to sum back to 100%:

Category	Indicator	Weights IIM 2019 assessment methodology	Updated weights
Size	1. Total assets	2.50%	2.76%
	2. Total revenues	2.50%	2.76%
Global activity	3. Revenues outside of home country	2.50%	2.76%
	4. Number of countries	2.50%	2.76%
Interconnectedness	5. Intra-financial assets	9.40%	10.43%
	6. Intra-financial liabilities	9.40%	10.43%
	7. Derivatives	9.40%	10.43%
	8. Derivatives Trading	9.40%	10.43%
	9. Financial guarantees	9.40%	0.00%
	10. Minimum guarantees on variable products	9.40%	10.43%
Asset liquidation	11. Short term funding	9.40%	10.43%
	12. Level 3 assets	9.40%	10.43%
	13. Liability liquidity	9.40%	10.43%
Substitutability	14. Premiums for specific business lines	5.00%	5.52%
Sum of weights		100.00%	100.00%

Public consultation question:

- Do you have any feedback on the updated indicator weighting?

Insurer Pool selection criteria

- As outlined in the GME document, insurers that meet at least one of the following criteria are eligible for inclusion in the Insurer Pool, from which data will be collected – subject to the provisions in the next paragraph:

  - Total assets of more than USD 60 billion and a ratio of premiums from jurisdictions outside the home jurisdiction to total premiums of 5% or more; or

  - Total assets of more than USD 200 billion and a ratio of premiums from jurisdictions outside the home jurisdiction to total premiums greater than 0%. The above-mentioned criteria are tested on a group level, including all insurance and noninsurance subsidiaries.

- In exceptional circumstances that are analytically supported, the IAIS and relevant authorities may choose not to collect data from an insurer that otherwise meets the criteria, or to collect data from an insurer that does not meet the criteria, to allow a more representative Insurer Pool for systemic risk analysis.

Public consultation question:
- Do you have any feedback on the Insurer Pool selection criteria?

Reporting to participating insurers and the public
Reporting to participating insurers: Participating Insurer Reports (PIRs)

- As outlined the GME document, following the finalisation of each annual exercise, the IAIS prepares an insurer-specific report for each participating insurer in the IIM, including the following elements:

  - The insurer's score on each of the quantitative indicators; and

  - For each quantitative indicator, descriptive statistics including the median scores, standard deviation, and quartiles of the scores' distribution.

- In addition, the PIRs provide information on key data rows relating to assets composition, liabilities, revenues and global activity, borrowing, reinsurance, solvency, liquidity, profitability and other sections of the IIM data template.

Public consultation question:

- Do you have any feedback on the Participating Insurer Reports?

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Reporting to participating insurers and the public
Reporting to the public: Global Insurance Market Report (GIMAR)

- As outlined in the GME document, public reporting will contain both a general description of developments in the global insurance sector and the outcomes of the GME as a whole. The report will provide information on trends, outliers, activities and potential discussions on observations, but without any information on the identity of individual insurers.

- The GIMAR has sections on the outcomes of the IIM, on global insurance market developments, on sector-wide macroprudential themes and on the global reinsurance market.

- In addition to the annual GIMAR, the IAIS also publishes GIMAR "special topic" editions, which are deep-dive assessments of specific risks. The next GIMAR special topic will focus on cyber risk in the insurance sector, including insurers' cyber underwriting activities

Public consultation question:

- Do you have any feedback on the Global Insurance Market Report (GIMAR)?

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Questions on the Public consultation on the review of the Individual Insurer Monitoring (IIM) assessment methodology?

2. Publication of the liquidity metrics

- Introduction
- Linkage to the IIM assessment methodology
- Planned usage of the ancillary indicator
- List of liquidity metrics for 2023-2025
- EA: ILR 1Y time horizon outcomes
- Areas for further work in 2023-2025
- Q&A

Introduction

- On 18 November 2022, the IAIS published [liquidity metrics as an ancillary indicator](#) for its Global Monitoring Exercise (GME)

- The metrics were developed as part of a multi-year project, which has benefited from two public consultations (the interim in Phase 1 and the final in Phase 2) and intensive testing through the IIM data collections

- The liquidity metrics form one part of the IAIS' overall approach to the assessment and mitigation of liquidity risk in the insurance sector

- In addition to the document describing the liquidity metrics, the IAIS has published the [resolution of comments received in the public consultation on Liquidity Metrics – Phase 2](#).

Linkage to the IIM assessment methodology

- The liquidity metrics will serve as a tool to facilitate the IAIS' monitoring of the global insurance sector's liquidity risk and for the IAIS to assess insurers' liquidity exposure from a macroprudential perspective, which may be critical as insurers have been exposed to liquidity shortfalls in previous crises

- The new ancillary indicator will provide an additional perspective on liquidity risk within the GME but is not intended to replace any current main indicator of the IIM methodology in 2023-2025 (ie indicators Level 3 assets or Liability liquidity)

- As there have already been two public consultations on the liquidity metrics (in 2020 and 2021), the liquidity metrics are not part of the current public consultation on the review of the Individual Insurer Monitoring (IIM) assessment methodology

Planned usage of the ancillary indicator

- Ancillary indicator will be included in the annual assessment of systemic risk (according to paragraphs 43-44 of the GME document)

- Monitoring outcomes may be included in the annual feedback loop (according to paragraphs 75-77 of the GME document)

- Monitoring outcomes will be provided during annual collective discussions (according to paragraphs 80-81 of the GME document)

- Liquidity metrics results will be provided in annual Participating Insurers Reports (according to paragraph 98 of the GME document)

- Liquidity metrics results will be provided in annual Global Insurance Market Report (GIMAR) according to paragraph 107 of the GME document.

List of liquidity metrics for 2023-2025

- Exposure approach (EA)

  - 1Y time horizon (main)

  - 3M time horizon (supplementary)

- Company projection approach (CPA)

  - Baseline projections
    - 1Y time horizon
    - 3M time horizon
    - 1M time horizon

  - Stressed projections
    - 1Y time horizon
    - 3M time horizon
    - 1M time horizon

  - Historical cash-flows (implicitly 1Y)

EA: ILR 1Y time horizon outcomes

- The EA applies factors to balance sheet items and to off-balance sheet exposures to measure liquidity risk

- The Insurance Liquidity Ratio (ILR) was calibrated using the GME and G-SII data collected in last 5 years considering stakeholders' feedback received in two public consultations
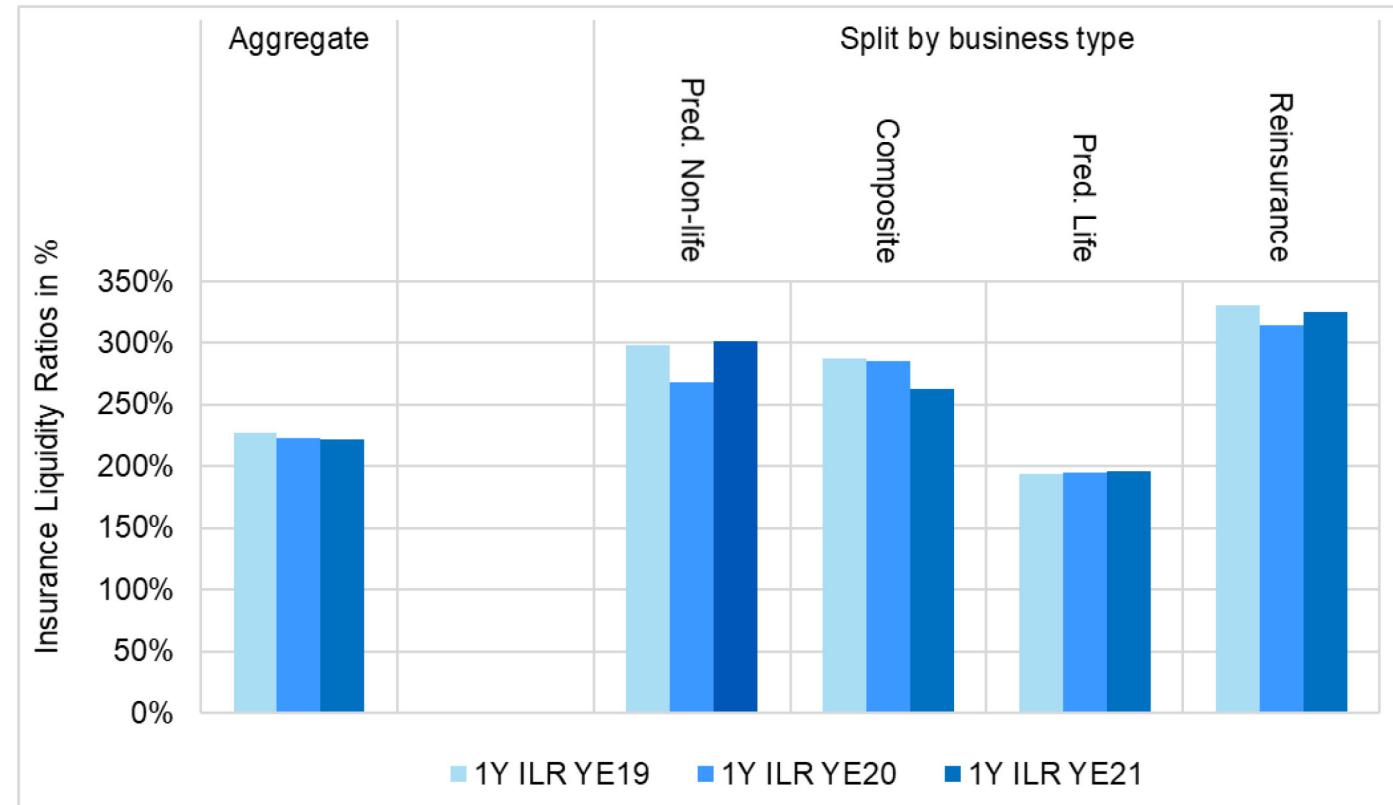
Areas for further work in 2023-2025

- Exposure approach (EA):

  - Refinements of factors for the 3M time horizon

- Company projection approach (CPA):

  - Ongoing data validation of baseline projections using the historical cash-flows reported in the IIM Template section 2.11
  - Calibration of the liquidity stress test used for the stressed CPA cash-flows

- Other areas of focus related to both EA and CPA:

  - Margin calls and derivatives
  - Sovereign bond market liquidity

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Questions on the published liquidity metrics documents?

Suggestions relating to areas of further work (eg margin calls, sovereign bond market liquidity)?