Finalisation of IAIS holistic framework for the assessment and mitigation of systemic risk in the insurance sector

1. The FSB welcomes the finalisation and publication today of the International Association of Insurance Supervisors (IAIS) Holistic Framework for Systemic Risk in the Insurance Sector, for implementation in 2020. The key elements of the framework are:

- 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, through ongoing supervisory requirements applied to insurers, enhanced macroprudential supervision and crisis management and planning; and where a potential systemic risk is detected, supervisory powers of intervention that enable a prompt and appropriate response. Supervisors are required to have at their disposal a sufficiently broad set of preventive and corrective measures to be able to respond appropriately based on the nature of the macroprudential concern.

- A global monitoring exercise by the IAIS 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 an annual assessment by the IAIS 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.

- Mechanisms to allow for a collective assessment of potential global systemic risk and a coordinated supervisory response when needed. This involves, at an individual insurer and sector-wide level: i) A collective discussion by the IAIS of the assessment of potential systemic risks and appropriate supervisory responses; and ii) Reporting to the FSB on the outcomes of the global monitoring exercise, including the IAIS assessment of global systemic risk and the supervisory response to identified risks (if any).

- An assessment by the IAIS of the consistent implementation of the enhanced supervisory policy measures and powers of intervention.

2. In light of the finalised holistic framework, the FSB, in consultation with the IAIS and national authorities, has decided to suspend Global Systemically Important Insurers (G-SII) identification as from the beginning of 2020.

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3. 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.

4. The FSB will receive from the IAIS 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). The IAIS will continue its annual data collection from individual insurers, complemented by data collection from supervisors to support its assessment of sector-wide trends with regard to specific activities and exposures.

Background

In 2011 the FSB published an integrated set of policy measures to address the systemic and moral hazard risks associated with systemically important financial institutions (SIFIs). In 2013, the FSB, in consultation with the IAIS and national authorities, identified an initial list of G-SIIs using an assessment methodology developed by the IAIS, and the policy measures that should apply to them. That report noted that the list of G-SIIs would be updated annually and published by the FSB each November based on new data. In November 2014, 2015 and 2016 the FSB published an updated list of G-SIIs, based on recommendations from the IAIS. In 2017 and 2018, the FSB, in consultation with the IAIS and national authorities, decided not to engage in an identification of G-SIIs, while the IAIS was developing the holistic framework for the assessment and mitigation of systemic risk in the insurance sector.

In November 2018, the FSB welcomed the publication of the IAIS consultation paper on a proposed holistic framework and noted that the holistic framework, appropriately implemented, would provide an enhanced basis for mitigating systemic risk in the insurance sector. The FSB said that it will assess the IAIS’s recommendation to suspend G-SII identification from 2020 once the holistic framework is finalised in November 2019.

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