IAIS Consultations

Print view of your comments on "Consultation on ICP 24: Macroprudential Surveillance and Insurance Supervision" - Date: 29.09.2017, Time: 09:55

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	Question
	Q1 Comment on ICP 24

Answer

Insurance Europe appreciates the opportunity to respond to the IAIS' consultation on revised ICP 24. Nevertheless, Insurance Europe believes that the revision of ICP 24 is ill-timed and premature, given that the IAIS is currently committed to developing an activities-based approach for systemic risk in insurance. In this context, the provisions of ICP 24 will need to be amended again, and Insurance Europe would therefore strongly urge the IAIS to postpone the review of ICP 24 until after the work on the activities-based approach has been concluded. In reference to the IAIS' intentions shared in the public background session, Insurance Europe would further expect the IAIS to consult stakeholders on further revisions to the revised ICP 24 (and potentially other ICPs) following the conclusion of the work of the Systemic Risk Assessment Task Force.

Having said this, Insurance Europe would like to make the following general comments on the proposed text of ICP 24:

• Against the background of the thematic approach, it should be clarified that there are significant overlaps in content between ICP 24 and other ICPs and related ComFrame material (notably, ICP 9 on Supervisory Review and Reporting). Insurance Europe has identified a number of such situations where better alignment is warranted or efficiencies should be exploited, but would generally refer to its comments provided on other revised ICPs which prevail for the purposes of this consultation.

• The revised ICP should make greater room for the application of the overarching concept of proportionality, as described in the ICP and ComFrame Introduction and Assessment Methodology. Reference should also be made to the need for supervisors to protect the confidentiality of the information that they receive.

• Several revised provisions, where the above-mentioned concern about the timing of the revision becomes particularly apparent (ie provisions that will certainly be affected by the conclusion of the work of the Systemic Risk Assessment Task Force), are overly prescriptive. Insurance Europe has provided comments to that extent, eg on ICPs 24.5, 24.6, and 24.7.

• The revised ICP expands its guidance to situations in which the insurance sector can be "the originator of systemic risk". While the insurance sector - as a whole - may be systemically relevant, not least due to its economic and social significance, this systemic relevance is predominantly the consequence of its vulnerability to external events rather than the result of the sector actively "originating" risks for financial stability. Insurance Europe emphasises that traditional insurance is not systemically risky. Systemic risk from individual insurers can only originate from a very limited number of activities undertaken on a large scale in the wrong conditions. Consequently, Insurance Europe proposes several suggestions where the ICP should be rephrased to better reflect this reality.

• It is crucial that stress testing exercises are not intended to be or interpreted as a pass-fail exercise linked to capital adequacy. Instead, their focus should be the assessment of potential vulnerabilities in the insurance sector.

• Insurance Europe strongly supports the development of plausible stress test scenarios. When testing extreme prospective scenarios, it is imperative that care is exercised when publicly communicating the results of the stress test to ensure these are correctly understood and interpreted.

• In the context of horizontal review, the IAIS proposes relative rankings to determine which insurers are outliers. Insurance Europe strongly doubts that this measure will be useful to achieve the objectives of macroprudential surveillance and urges the IAIS to remove it.

• While Insurance Europe appreciates that the development of an adequate stress testing regime is key in helping identify potential sources of systemic risk stemming from some activities undertaken by insurers in their jurisdiction, this should neither lead to an automatic assumption that an insurer is systemic nor to the application of disproportionate supervisory tools.

• A more concise distinction between macroprudential surveillance and (regular) micro supervisory tasks should be made. Both functions can be undertaken by the same authority, but serve different purposes which may not always be fully aligned. Furthermore, it should be transparent when tools are used for macroprudential purposes and when for microprudential purposes. Preferably, if both functions are undertaken by the same authority, an appropriate separation of functions should be established within this authority.

Q2 Comment on Introductory Guidance 24.0.1

Answer

Insurance Europe generally appreciates the added introductory guidance, however, would urge the IAIS that wherever definitions are made or specific terms are used, this is consistent with the overall ICPs and related ComFrame material.

Insurance Europe would propose the following re-wording of the second sentence:

“In that respect, macroprudential surveillance may help to identify vulnerabilities in the insurance sector that may be prone to amplify externalities originating from both internal dislocations and external shocks.”

Q3 Comment on Introductory Guidance 24.0.2

Answer

Q4 Comment on Introductory Guidance 24.0.3

Answer

Q5 Comment on Introductory Guidance 24.0.4

Answer

This new Guidance implicitly extends the scope of ICP 24. The ICP prescribes that supervisors should look at “market and financial developments and other environmental factors that may impact insurers” and put less emphasis on insurers as being themselves originators of systemic risk. Macroprudential surveillance should focus on the insurance sector as a whole and take into account that the insurance industry is far more likely to be affected by external factors instead of actively contributing to systemic risk. Moreover, Guidance 20.0.4 is one-sided in that it does not refer to insurance playing a role in mitigating the potential systemic impact of some risks.

Traditional insurance is not systemically risky from an activities-based perspective. Systemic risk in insurance can only originate from a very limited number of activities undertaken on a large scale in the wrong conditions.

Insurance Europe would point out that the systemic dimension of extreme events exists independently of the insurance activities. Insurance policyholders are reimbursed only when the insured event specified in the contract occurs. While premature terminations by the policyholder are possible in life insurance, these are usually associated with substantial financial disadvantages like contractual penalties. Therefore, insurers that appropriately manage their assets and liabilities will be able to honour these payouts and liquidity risk is thus very limited in insurance.

With respect to reinsurance in particular, Insurance Europe believes that no convincing case has yet been made for considering reinsurance as giving rise to systemic risk. Instead, the use of reinsurance should be incentivised as a stabilising factor to the financial system. The IAIS has looked at reinsurance in detail and concluded that “traditional reinsurance is unlikely to cause, or amplify, systemic risk."

The IAIS further specifies that insurers may be recipients of systemic risk. In later provisions (eg Guidance 24.1.1) insurers are referred to as channels of risk mitigation and other comparable functions. Consistent and clear language should be used throughout the ICP.

Insurance Europe would suggest that the wording of Guidance 24.0.4 be reconsidered to reflect the considerations above. This could be achieved by deleting the word "originators" or by rephrasing as follows: "Macroprudential surveillance relating to insurance is focused on the vulnerability of the sector to external developments, but also has regard to individual insurers engaging in some potentially systemic activities or being recipients of and possible amplifiers to systemic risk."

Q6 Comment on Introductory Guidance 24.0.5

Answer

Insurance Europe suggests that, as well as taking into account the risks that non-insurance entities may pose, supervisors should take into account the risks posed by non-insurance activities.

Q7 Comment on Introductory Guidance 24.0.6

Answer

This Guidance should make reference to ICP 25 on supervisory cooperation and coordination.

Insurance Europe believes that it would be helpful to distinguish between local, regional and worldwide shocks, as these can be very different and can link differently to entity and activity-based approaches. In the case of a local shock that affects local insurance entities, the protection of policyholders is probably a more important objective. Therefore, resolving an insurance entity (rather than focusing on other systemic considerations) may be more appropriate. But in the case of a regional or worldwide shock, the main focus should be more on (for example) interconnections with the financial system. Insurance Europe would therefore suggest that the last sentence of Guidance 24.0.6. be deleted.

Q8 Comment on Standard 24.1

Answer

Q9 Comment on Guidance 24.1.1

Answer

Insurance Europe appreciates the clear reference to the principle of proportionality in Guidance 24.1.1, however, the full intention of the first sentence is not entirely clear. The last part (ie "to limit systemic risk") should be deleted.

Insurance Europe believes that the Guidance should better recognise the different data and accounting systems across jurisdictions, and the issue this raises for data validity and comparability. These differences create a need for significant cooperation and coordination between supervisors. While this cooperation is mentioned in the first bullet point on microeconomic data, it is also going to be necessary for macro and cross-sectoral data as well. Where the need for cooperation and coordination is mentioned, Insurance Europe suggests that reference should be made to overlapping provisions, eg in ICP 25. ICP 3 on confidentiality should also be cross-referenced, as confidentiality issues will be raised by the sharing of data from local/group regulators to the macro-supervisory body.

Insurance Europe suggests the below redraft under the "microeconomic data" section to more clearly distinguish between products created by insurers and external trends and events for which insurers are not responsible.

"On the liability side, particular attention should be given to those products that address specific risks with potential systemic features."

Insurance Europe also suggests that this section of the Guidance should provide more information as to what data the IAIS expects to be requested; it is not clear what additional data will be requested on the liabilities side, and the sharing of this data could give rise to confidentiality concerns.

Finally, Insurance Europe suggests that, as well as significant concentrations of assets and liabilities to specific sectors, cross-sectoral data should include information on significant geographical concentration as well.

Q10 Comment on Guidance 24.1.2

Answer

Insurance Europe doubts that this Guidance provides any additional value to ICP 24 and therefore suggests that it is deleted.

Alternatively, the Guidance should encourage the supervisor to make use of data it has already collected as part of microprudential surveillance to minimise the collection of data, and the collection of the same data points multiple times.

Q11 Comment on Standard 24.2

Answer

Q12 Comment on Guidance 24.2.1

Answer

Insurance Europe would propose the use of the term “externalities” instead of “shocks” in this Guidance. Furthermore, it is not entirely clear whether this Guidance aims to cover macroprudential risks emanating from or affecting insurers.

Q13 Comment on Guidance 24.2.2

Answer

Insurance Europe appreciates the emphasis put on stakeholder consultations, however, it is unclear in the context of Guidance 24.2.2 what the IAIS means by “take into account all relevant factors when assessing that information”.

Q14 Comment on Guidance 24.2.3

Answer

Whereas Insurance Europe does not dispute that there is and should be an inherent link between macroprudential surveillance and microprudential supervision to ensure effectiveness, 24.2.3 merely states the obvious and does not provide enough guidance for supervisors and supervised entities. Reference should be made to other concrete supervisory measures in the ICP framework and local jurisdictions.

Insurance Europe would ask that the term “appropriate connection” in this Guidance be clarified.

Q15 Comment on Guidance 24.2.4

Answer

Insurance Europe notes that there is clear overlap with ICP 9 which should be addressed, or at least referenced.

Insurance Europe appreciates that the development of an adequate stress testing regime is key in helping identify financial institutions that may pose a systemic risk. Indeed Guidance 24.2.4 anticipates using the stress-testing to identify insurers’ potential individual vulnerabilities, However, it is crucial that stress tests are not intended to be or interpreted as a pass-fail exercise linked to capital adequacy. Instead, the focus should be to assess potential vulnerabilities (not already being tested at microprudential level) in the local/global insurance sector, for example the identification of potential vulnerabilities created by commonalities (as anticipated by Guidance 24.1.1).

Insurance Europe strongly supports the development of plausible forward-looking scenarios in which the institutional characteristics of the supervisory framework are a considered. Any stress testing exercise assessing systemic risk should not be intended to test the regulatory framework nor the liability valuation methodology implicit in the framework.

Q16 Comment on Guidance 24.2.5

Answer

Insurance Europe believes it is unclear what is meant by “paying special attention to unfavourable future scenarios” as opposed to “adverse future scenarios”. Insurance Europe proposes to delete this section of the sentence so that the Guidance reads:

“Prospective stress scenarios may be used to determine whether there are potential risks for the insurance sector and for individual insurers.”

Q17 Comment on Guidance 24.2.6

Answer

Insurance Europe strongly supports the notion that implausible scenarios do not provide useful information and should not be considered when assessing the requirement for additional supervisory oversight.

When testing extreme prospective scenarios, it is imperative that care is exercised when publicly communicating the results of the stress test exercise to ensure both the purpose and the results of the exercise are understood. In particular, supervisors should avoid creating unnecessary market reactions to individual companies or the overall sector.

Furthermore, Insurance Europe believes that any stress testing exercise should be limited to testing scenarios which are informative in respect of systemic risk. It proposes that the following sentence is added at the end of Guidance 24.2.6:

“Moreover, the supervisor should limit the number of scenarios in order to focus on relevant scenarios and analysis of results.”

Q18 Comment on Standard 24.3

Answer

There is clear overlap with other ICPs - horizontal (as well as thematic peer) reviews are microprudential instruments already addressed in ICP 9 and related ComFrame material. Therefore, these paragraphs should not be included under ICP 24.

Q19 Comment on Guidance 24.3.1

Answer

In considering macroprudential risk, it will be important to consider the context of any perceived risks. Therefore, in addition to identifying interconnectedness and/or risk concentrations of existing or newly identified sources of uncertainty, it is necessary to consider the materiality of the perceived risk in the context of the sector market size for such activity relative to its total market size and the manner in which such risks could be transmitted.

Therefore, the Guidance in 24.3.1 in relation to quantitative analysis should be qualified to include a reference to the relevant market size of activities under review to the system to determine whether they could be systemically relevant. The following revisions should be made:

“Quantitative analysis includes, but is not limited to, identifying trends, outliers, interconnectedness and/or risk concentrations in the context of the relevant market size of existing or newly identified sources of uncertainty that can amplify and facilitate the transmission of systemic risk when the insurance sector acts as receiver or transmitter of systemic risk through an identified transmission channel.”

While qualitative aspects should indeed find sufficient reflection in a supervisor’s macroprudential analysis, Insurance Europe strongly disagrees with the aspects of qualitative analysis listed in 24.3.2, ie subjective assessments based on judgment, etc. Qualitative aspects are not only factors that cannot be quantified with typical methods and are highly subjective but should include crucial aspects such as the jurisdiction the insurer is based in and regulations applicable as well as its individual risk management strategy. The current drafting of 24.3.1 clearly implies subjectivity and uncertainty and should be redrafted.

Q20 Comment on Guidance 24.3.2

Answer

Insurance Europe doubts that the last paragraph of this Guidance adds meaningful value. The assessment of high impact – low probability events with limited quantifiable data available, should nevertheless be based on an assessment that acknowledges qualitative as well as quantitative (eg modelled on predictions) elements. It is further unclear how the IAIS envisages that a purely subjective, qualitative assessment can directly feed into a quantitative assessment.

Q21 Comment on Guidance 24.3.3

Answer

While Insurance Europe generally agrees that horizontal reviews may provide useful information on the range of practices that are used across the sector, it does not believe that this should result in a "relative ranking to determine which insurers are outliers" that require adjustment. A relative ranking does not provide an assessment of the systemic relevance of those activities.

Therefore, rather than relative rankings, any assessment of systemic relevance should assess activities that have the potential to transmit systemic risk in the context of the market size for such activities to determine whether the scale is material.

This Guidance also suggests that supervisors must determine whether to bring outliers back in line with their peers. Different insurers may have legitimate reasons for using different practices to assess and manage specific risks, and the Guidance lacks recognition of this.

Furthermore, whether a specific insurer should be required to improve its practices depends on the suitability of these practices to meet the relevant requirements as set out by the regulatory framework and should therefore generally not result from an industry peer review process. Horizontal reviews provide useful benchmarking information to both supervisors and the industry, but should not replace the requirements set out in the regulation.

Q22 Comment on Guidance 24.3.4

Answer

Both the first and last bullet points of Guidance 24.3.4 refer to peer group analysis. This Guidance should state that peer group analysis is not an adequate basis for determining the systemic relevance of an activity. The Guidance should also remind supervisors of their confidentiality obligations when communicating information.

Q23 Comment on Guidance 24.3.5

Answer

Insurance Europe would propose the following amendment of 24.3.5 to clarify that the objective of gathering additional information is to enable an accurate supervisory assessment of systemic risks, rather than "more complex insurers", which is an undefined term:

"The supervisor should evaluate its data needs to identify and assess systemic or systemic-wide risks and its data processing capabilities."

As suggested by ICP 9.1.3, this Guidance should be clear that supervisors should not be collecting data if the supervisor does not have the data processing capability to process it adequately and/or in a timely manner.

Q24 Comment on Standard 24.4

Answer

If aggregate data are to be published, it needs to be done in such a manner that individual insurers are not identifiable. This Standard should make this clear. Furthermore, it is unclear from the details provided in Guidance 24.4.1 what "aggregated data" are envisaged by this Standard, and therefore it is not possible to evaluate the proposal from a usefulness or cost benefit perspective.

Q25 Comment on Guidance 24.4.1

Answer

The publication of data should always be on an aggregate basis only and Insurance Europe would like to stress the importance of confidentiality and data quality limitations (as per 24.4.3) here. While the publication of aggregated data in the context of macroprudential supervision may enhance the decision-making process of market participants with respect to potential systemic risks, it is unclear how this could help policyholders with their individual insurance decisions. In particular, it is not clear how the publication of data could facilitate comparisons of an individual insurer to the market as a whole. This should be clarified.

Q26 Comment on Guidance 24.4.2

Answer

This Guidance should refer to ICP 3 and the need for the supervisor to maintain the confidentiality of the data it receives.

Q28 Comment on Guidance 24.4.4

Answer

Q27 Comment on Guidance 24.4.3

Answer

As referenced in Q25, this paragraph is crucial from Insurance Europe's perspective.

Q29 Comment on Standard 24.5

Answer

Insurance Europe notes that this Standard will be affected by the conclusion of the work of the Systemic Risk Assessment Task Force. This Standard, and the associated Guidance, is expressed in much more prescriptive terms than the rest of the ICP. Insurance Europe believes that the language in the ICP should be consistent and that the Guidance should avoid being overly prescriptive, so that it can be applied across jurisdictions.

Q30 Comment on Guidance 24.5.1

Answer

Q31 Comment on Guidance 24.5.2

Answer

Q32 Comment on Guidance 24.5.3

Answer

Insurance Europe would suggest the following clarification:

"The supervisor should monitor the liquidity of an insurer's invested assets relative to its insurance liabilities and analyse potential events and potential impacts of a material sale of specific asset classes done by one or more insurers."

Q33 Comment on Guidance 24.5.4

Answer

Guidance 24.5.4 requires supervisors to communicate the findings of their assessment of financial stability risk in the insurance sector to either insurers or the industry, and require insurers to take any necessary action. Insurance Europe recommends that this Guidance acknowledges that vulnerabilities may be beyond insurers' or the supervisor's direct control (for example long term low interest rates) and that therefore the output of the supervisor's assessment may be relevant to other parties, such as finance ministries and central banks.

Q34 Comment on Guidance 24.5.5

Answer

Insurance Europe would encourage the IAIS to delete or at least limit the requirement of enhanced reporting and disclosure (bullet points 1 and 2). Such measures will not mitigate the risk to financial stability and existing reporting and disclosure frameworks are already detailed.

Insurance Europe further recommends deleting the third bullet point, as the reference to the “application of supervisory measures” is too indefinite. Moreover, it is unclear which insurers are supposed to be “relevant”.

Limitations on dividend pay-outs must be envisaged with restraint. While they could be necessary in a resolution situation, imposing restrictions on insurers which are still viable would constitute a severe intervention in shareholder’s rights.

Q35 Comment on Standard 24.6

Answer

This Standard, and the associated Guidance, is expressed in much more prescriptive terms than the rest of the ICP. Insurance Europe believes that the language in the ICP should be consistent and that the Guidance should avoid being overly prescriptive, so that it can be applied across jurisdictions.

Furthermore, Insurance Europe would suggest that the standard is amended to acknowledge that systemic risk may arise from certain activities undertaken by insurers, as follows:

“The supervisor has an established process, which may be used to assess the potential systemic importance of the activities of insurers.”

Q36 Comment on Guidance 24.6.1

Answer

Insurance Europe agrees that a holistic perspective of an insurer’s assets and liabilities is required to assess the potential systemic importance of the activities of insurers and recommends the following change:

“The supervisor should take a holistic perspective of an insurer’s assets and liabilities when considering the potential systemic importance of the activities of an insurer.”

Q37 Comment on Guidance 24.6.2

Answer

This standard mentions the degree of engagement in derivatives activity as a potential indicator of systemic importance. Insurance Europe understands that the IAIS may be concerned by the use of derivatives by insurers, however such concerns may only have merit for derivatives that are uncollateralised and have potential for counterparty risk. In most cases, insurers use derivatives for hedging purposes and this is part of the asset-liability-management of insurers intended to mitigate risks rather than amplify them.

Given the recent G-20 derivatives reform, any use of uncollaterallised derivatives should be an isolated case. And in addition to the important safeguards already embedded in the regulation of the derivatives market, in Europe the prudential framework for insurers (ie Solvency II) includes extra capital requirements meant to cover derivatives counterparty risk.

Against this background, Insurance Europe believes that in jurisdictions that have implemented the G-20 derivatives reform systemic and counterparty risk concerns have already been addressed by regulation and there is therefore no reason to automatically assume that derivatives are appropriate indicators of potential systemic importance.

Insurance Europe also suggests repeating some of the wording in Guidance 24.0.4 at the end of the sentence, as follows:

“In addition to the policies underwritten by the insurer, the supervisor could consider other activities the insurer is engaged in, such as the degree of reliance on short-term market activity, as well as overall interconnectedness with other financial institutions that could result in insurers being potential recipients of, and possible amplifiers to systemic risk.”

Q38 Comment on Guidance 24.6.3

Answer

The reference to "risk factors" is not entirely clear. Insurance Europe would propose using "risk profile" instead.

Q39 Comment on Standard 24.7

Answer

This Standard, and the associated Guidance, is expressed in much more prescriptive terms than the rest of the ICP. Insurance Europe believes that the language in the ICP should be consistent and that the Guidance should avoid being overly prescriptive, so that it can be applied across jurisdictions.

Furthermore, Insurance Europe recommends amending this Standard to emphasise identifying the activities of an insurer as systemically important, as follows:

'If the supervisor identifies some activities of an insurer as systemically important, it may develop an appropriate supervisory response commensurate with the nature and degree of the risk'.

While it is entirely legitimate for a supervisor to identify any potential sources of systemic risk stemming from some activities undertaken by insurers in its jurisdiction, this should neither lead to an automatic assumption that an insurer is systemic nor to the application of disproportionate supervision tools.

Q40 Comment on Guidance 24.7.1

Answer

As with the comments provided on Q39 above, Insurance Europe would recommend altering the wording to acknowledge that systemic risk may arise from certain activities undertaken by insurers, and to remove the focus on jurisdictions where insurers have been identified as systemically important, as per the below:

'Where the activities of one or several insurers have been identified as systemically important, the supervisor should have available a framework of policy measures concerning such activities to mitigate systemic risk.'

Q41 Comment on Guidance 24.7.2

Answer

In line with the response to Q39 and Q40, Insurance Europe would suggest amending Guidance 24.7.2 to acknowledge that systemic risk may arise from certain activities undertaken by insurers, and to reflect that the mitigating actions should be tailored to the nature and degree of such risk. Insurance Europe suggests the following changes:

"The framework for insurers undertaking systemically relevant activities could include tools such as:

• enhanced supervision - more intensive and coordinated supervision and supplementary prudential, as well as other requirements;

• effective resolution - measures for resolution in an orderly manner without destabilising the financial system and exposing the taxpayer to the risk of loss;

• regulatory requirements tailored to the nature and degree of systemic risk, to provide an appropriate mitigator reflecting the relevance of these activities for financial stability;

• liquidity management and planning'

With respect to enhanced supervision, Insurance Europe would like to emphasise again that, in this context, this refers to macroprudential surveillance and not to regular microprudential supervision. This section should clearly be revisited after the activities-based approach is finalised. Insurance Europe would suggest that the development of concrete tools would be more efficient once the approach to systemic risk is clear.

Q42 Comment on Guidance 24.7.3

Answer

In the context of macroprudential supervision, Insurance Europe agrees with the need for coordination and cooperation between supervisors in different jurisdictions. This Guidance should reference ICP 25 on supervisory cooperation and coordination.

	Q42 General Comment
Answer	