insurance europe

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Summary of key Insurance Europe positions on the IAIS Holistic Framework and global Insurance Capital Standard (ICS)

IAIS Holistic Framework

Insurance Europe supports the Holistic Framework adopted by the International Association of Insurance Supervisors (IAIS) in 2019, as an alternative to the G-SII designation. The Holistic Framework which is an important achievement and appropriate way to identify, monitor and mitigate sector-wide developments, including potential systemic risks in the insurance sector. A comprehensive monitoring process and the integration of a macroprudential perspective into insurance supervision through extensive amendments to the IAIS's Insurance Core Principles ensure timely identification of potential systemic risks and appropriate action, if required.

Insurance Europe supports the discontinuation of the G-SIIs designation. The designation of global systemically important insurers (G-SIIs) wrongly assumed that a certain group of insurers, identified mainly on criteria directly or indirectly related to their size, are systemic. Insurers, for a number of reasons including their business model, substitutability and group structure, are not generally systemic. In the rare case that specific activities present actual systemic risk concerns, increased capital requirements are not usually the answer. Other actions (eg, recovery planning) would be more appropriate and effective. The Holistic Framework is the appropriate way to address concerns about the potential for systemic risk in the insurance sector.

The implementation of the Holistic Framework in Europe is progressing well. The insurance industry continues to engage with regulators and supervisors to address the outstanding elements, including a well-designed and proportionate recovery and resolution framework and appropriate information-gathering for climate and liquidity risks.

However, increased proportionality should be applied by the IAIS and national supervisors when developing and making individual data requests to companies. The annual data collection exercise is overly granular and its scope appears to go beyond what is necessary for the Holistic Framework, under which the focus should be assessing potential systemic risk in aggregate. Any changes and additions to individual company data requests should only be made after thorough analysis of existing data points and full justification of the need to request them.

The multiple metrics and corresponding data requirements proposed as part of the IAIS's recent work on ancillary indicators for assessing liquidity risk are neither appropriate nor proportionate given the focus of the exercise on identifying system-wide trends and the limited liquidity risks in the insurance sector. Insurance Europe considers the implementation of the Exposure Approach (EA) metric as the appropriate ancillary indicator in the context of the IAIS Global Monitoring Exercise on a macro-prudential level, but not as an assessment of an insurers' own liquidity position. The design of the EA liquidity metric should be fit for purpose and therefore align with this macroprudential objective by not being overengineered and remaining as simple as possible, while taking note of industry concerns, notably on the liability bucketing.

Insurance Capital Standard (ICS)

Insurance Europe supports the ICS project. For the project to be a success, it must lead to a high-quality and robust global insurance standard that promotes a sound, global regulatory level playing field and that incorporates internal models. This can be achieved if the ICS is based on a common methodology through which it achieves comparable (ie, substantially similar) outcomes across jurisdictions.

To be comparable in a robust and quantitative manner, **the ICS and its implementation, including the Aggregation Method (AM), should meet the ICS-targeted level of policyholder protection. This means having equivalent target criteria for regulatory capital requirements** (ie, 99.5% VaR over 1 year) and a comparable level of responsiveness to changing conditions for balance sheet valuation, capital resources and requirements. If these were achieved, jurisdictional implementation of the ICS, including the AM, would produce the same targeted level of policyholder protection and trigger similar supervisory actions over time by the group supervisor and at the same point in time under stressed conditions. Consequently, for the ICS to be "fit for implementation as a Prescribed Capital Requirement", it is vital that the comparability assessment exercise is sufficiently robust and quantitatively substantiated to ensure the same level of policyholder protection and not to undermine the key objective of a global standard for prudential supervision.

Inclusion of internal models is a necessary and important part of the ICS framework. Internal models are a key risk management and capital measurement tool and must be a permanent and integral part of the ICS framework. Such internal models are necessary for an appropriate and accurate calculation of capital requirements and are based on the same economic and risk-based principles and the same confidence level as the standard method. They are also subject to strong company and supervisor validation/ approval requirements and processes. .

The ICS should be considered for implementation in Europe only if all major jurisdictions commit to it. The ICS can only be considered global if all major jurisdictions commit to implementing it consistently, which is also why a robust and quantitative comparison between the ICS and AM is needed.

Insurance Europe is the European insurance and reinsurance federation. Through its 36 member bodies — the national insurance associations — it represents all types and sizes of insurance and reinsurance undertakings. Insurance Europe, which is based in Brussels, represents undertakings that account for around 95% of total European premium income. Insurance makes a major contribution to Europe's economic growth and development. European insurers pay out over €1 000bn annually — or €2.8bn a day — in claims, directly employ more than 920 000 people and invest over €10.6trn in the economy.