

# Global standards in a multi-crisis world

## The IAIS responds to a changing insurance landscape

In a year characterised by economic uncertainties and evolving geopolitical and societal challenges, the International Association of Insurance Supervisors (IAIS) continued to play a crucial role in shaping the global supervisory response to a changing insurance landscape.

The role of insurance is critical in a multi-crisis world, both in terms of resilience and of recovery. Insurance supervisors seek to ensure that insurers fulfil this role in a sustainable way, in terms of insurers' financial soundness, fair market conduct, management of financial stability risks and tackling protection gaps. It is clear that insurance supervisors need to be part of an effective insurance-sector response to this volatile environment — doing so requires global cooperation and collective action to address what are increasingly global challenges.

I am pleased to say that the IAIS rose to the challenge over the past year, with multiple key projects either coming to fruition or entering the home stretch.

## FSB endorses IAIS Holistic Framework

A significant achievement was the endorsement of the Holistic Framework by the Financial Stability Board (FSB) as a more effective approach for assessing and mitigating systemic risk in the insurance sector compared to the previous method of annual identification of global systemically important insurers (G-SII).

The IAIS adopted the Holistic Framework in 2019 as part of a comprehensive set of reforms aimed at enhancing insurance group supervision and maintaining global financial stability. Since then, operationalising the Holistic Framework has involved comprehensive efforts by both insurers and supervisors. We were able to improve our global risk assessment thanks to the data collected through our annual Global Monitoring Exercise (GME), and supervisors have strengthened their practices related to macroprudential supervision. This was also confirmed by the report published in April with results of the assessment of implementation of the Holistic Framework supervisory material, showcasing good

levels of observance of standards across jurisdictions. Taken together, the effective implementation of these global standards will promote a more resilient insurance sector.



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## Ongoing risk assessment through the GME

Through the GME, the IAIS monitors global insurance market trends and developments, detects the possible build-up of systemic risk and facilitates a collective discussion on the appropriate supervisory response at the sectoral and individual insurer levels. This data collection yields multiple points of valuable analysis.

In our efforts to increase transparency for participating insurers and the general public, the IAIS published an inaugural mid-year update of the Global Insurance Market Report (GIMAR) in July 2023. Interim results showed slight declines in solvency, profitability and liquidity among participating insurers during 2022, mainly driven by lower asset valuations. In examining the insurance sector's interconnectedness with banks, the analysis found no immediate significant impact from recent banking sector issues, but the update emphasises the need for ongoing monitoring. Two major themes for collective discussion this year are:

- challenges faced by insurers in a demanding macroeconomic environment; and,
- structural changes in the life insurance sector.

The IAIS uses data from the GME to analyse the potential impact of emerging trends and risks to the insurance sector and financial stability, reported on in “special topic editions” of the GIMAR. Earlier this year, the IAIS published such a report focused on the risks and trends associated with cyber insurance coverage and its financial stability implications. The report shows an increased demand for cyber insurance products pushing written premiums to record levels and improving profitability for insurers. It also highlights that the cyber underwriting activities of insurers are not currently assessed as posing a threat to financial stability; however, significant data gaps exist.

The potential macroprudential risks from liquidity have been highlighted by recent events such as the “dash for cash” in March 2020 and the occurrence of government bond yield market turbulence such as the events around the liability-driven investment episode in the UK in October 2022. Against this backdrop and after two years of development, the IAIS published liquidity metrics as an ancillary indicator for its GME. The liquidity metrics will serve as a tool to facilitate the IAIS’s monitoring of the global insurance sector’s liquidity risk and for the IAIS to assess insurers’ liquidity exposure from a macroprudential perspective.



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## The journey to the ICS

After 10 years of development, three consultations, six field-testing exercises and three years of confidential reporting, the IAIS agreed in June 2023 on the candidate Insurance Capital Standard (ICS) as a prescribed capital requirement for a final public consultation. In addition to feedback on the standard itself, the IAIS is collecting input on the foreseeable economic impact of ICS implementation.

Once adopted at the IAIS Annual General Meeting at the end of 2024, the ICS will establish a consolidated global minimum solvency standard for internationally active insurance groups (IAIGs). It will also serve as a common language for discussions on insurance group solvency in a world where interconnected global risks prevail.

IAIS members are committed to the implementation of the ICS, and some members are already taking steps to embed the ICS in their regulatory regimes. After the final ICS is adopted, the IAIS will assess its implementation across jurisdictions in a structured and robust manner, considering transitional periods where necessary.

## Climate risk and widening protection gaps

As the global community of insurance supervisors, the IAIS has sharpened its focus in six key areas: climate risk; cyber risk and operational resilience; conduct and culture; digital innovation (see Petra Hielkema's article [here](#)); diversity, equity and inclusion (DEI); and financial inclusion. Over the past year, the IAIS has monitored trends and promoted proactive supervisory responses to developments in these areas through its Forums, published papers (issues paper on operational resilience, fintech and supotech reports, DEI stocktake report, climate chapter within the GIMAR), consultations and multiple papers in development.

In particular, the escalating risks of climate change desperately demand our attention. Extreme weather events, exemplified by record temperatures felt across much of the world, underscore the urgent need to address climate change — and to address the risks it presents to the insurance sector.

Through our Climate Risk Steering Group, we have completed the first of a package of consultations to ensure climate risks are effectively reflected in our supervisory and supporting material and thus effectively integrated into supervisory practices. Two further consultation papers will be published by the end of 2023. These will cover the topics of greenwashing and other market conduct issues related to natural catastrophe insurance, as well as climate risk scenario analysis, which is evolving as a key risk assessment tool to understand the financial impact of climate risks on insurers' balance sheets.

In November 2023, we will also publish a report that considers the role supervisors can play in helping to address natural catastrophe protection gaps, on which my colleague and vice chair of the IAIS executive committee, Shigeru Ariizumi, provides more detail [here](#).

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## Strengthening global supervision

Our collective efforts reflect the dedication and collaboration of our members, stakeholders and partners. Another recent priority initiative was the development of an enhanced IAIS Stakeholder Engagement and Consultation Policy, which we consulted on earlier this year. The policy affirms that stakeholder engagement is an integral part of the IAIS's operations and recognises that to reach a wider range of stakeholders, the IAIS must continue to innovate in the way it engages.

We look forward to publishing that final policy and deepening our collaboration with all stakeholders as we work towards a sustainable insurance sector that is at the forefront of responding to societal challenges.

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