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Systemic risk holistic framework: key factors for success

In November 2018, the International Association of Insurance Supervisors (IAIS) published for consultation a holistic framework for the mitigation of systemic risk in the insurance sector. With this framework the IAIS proposes to evolve the approach to mitigating systemic risk, which is currently based on the application of a predefined set of policy measures to a cohort of insurers (G-SII) that are identified based on their systemic footprint. The new

framework considers both individual and collective sources of systemic threats and applies mitigating measures to a wider range of insurers, proportionate to the systemic relevance of those sources.

In summary the key elements of the framework are:

- a set of policy measures for macro-prudential purposes to help prevent risk exposures from developing into systemic threats;
- a monitoring exercise by the IAIS to detect the possible build-up of systemic risk in the insurance sector at a global level, capturing, as far as possible, cross-sectoral aspects;
- a set of supervisory powers of interventions that should enable a prompt response by national supervisors to possible systemic threats;
- a mechanism, based on a collective assessment of global systemic risk at the IAIS level, to help ensure a consistent application of the policy measures and any intervention at jurisdictional level;
- an assessment by the IAIS of the consistent implementation of the entire framework across jurisdictions.

The above elements also identify the main challenges for the proposed framework. Its success will depend on the following factors:

- how national supervisors will apply the measures to mitigate the sources of systemic risk and, in particular, how they will use the discretion left by the framework to identify the scope of application of these measures and to calibrate the intensity of their application, proportionate to the risk exposure;
- how capable the global monitoring exercise by the IAIS will be to promptly detect potential systemic threats, both at

individual-insurer and sector-wide level. This means, in particular, how effective and proportionate the data collection and analysis will be and how prompt, clear and coordinated the identification of supervisory responses will be;

- how national supervisors will make use of their own macro-prudential monitoring and the collective assessment at the IAIS when applying the policy measures and deciding if and which supervisory intervention should be taken;
- how effective and transparent the collective assessment at the IAIS will be in identifying global systemic threats and supporting appropriate and consistent responses by national supervisors.

"Its success depends on how supervisors will apply it and their ability to work together."

- ALBERTO CORINTI

Finally, with regard to all the above factors, it is paramount that the implementation assessment process of the IAIS will be effective in supporting an appropriate and consistent implementation of the holistic framework.

The finalization of the framework is a unique occasion to endow the insurance sector with a systemic risk mitigation regime that is consistent with the financial sector supervisory approach, but also tailored to the specificities of insurance. Its success, however, does not depend so much on the design of the regime, but, more importantly, on how supervisors will apply it and their ability to work together. ●

Dr. Frank Grund

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A common understanding of systemic risks in the insurance sector is a key priority

Subsequent to the financial crisis of 2007/08, the topic of systemic risk in the insurance sector has been discussed

extensively over the last ten years. In 2018, the International Association of Insurance Supervisors (IAIS) sought feedback on its latest development in this area, the "holistic framework", as part of a public consultation. One component of this framework, which I very much welcome, is an activities-based approach to systemic risk in the insurance sector. In addition to this, the framework includes an entity-based assessment of individual insurers. Alongside the potential threat to global financial stability posed by individual insurers the activities-based assessment seeks to identify those activities that insurers engage in that could potentially threaten global financial stability under specific circumstances. Overall, >>>

