GLOBAL FEDERATION OF INSURANCE ASSOCIATIONS

3 February 2025

Draft GFIA response to the IAIS consultation on ancillary risk indicators in the Global Monitoring Exercise

General comments

GFIA appreciates the opportunity to comment on the International Association of Insurance Supervisors (IAIS) consultation on ancillary risk indicators in the Global Monitoring Exercise (GME).

GFIA supported the adoption by the IAIS in 2019 of the Holistic Framework, which was an important achievement, and an appropriate way to identify, monitor and mitigate sector-wide developments, including potential systemic risks in the insurance sector. In GFIA's view, ensuring that the Holistic Framework remains a valid, useful and proportionate tool to assessing systemic risk in the insurance sector should be a priority.

GFIA notes the IAIS's intention to produce further ancillary risk indicators in support of its assessment of potential systemic risk in the global insurance sector in the context of Individual Insurer Monitoring (IIM) exercises. However, the development and potential reliance on the ancillary indicators should be balanced against their inherent limitations. The development and use of multiple indicators and time horizons may also prove to be counterproductive and provide conflicting signals regarding the build-up of systemic risk.

GFIA would support that the IAIS strictly limits further changes to the IIM templates and invites the IAIS to consider the outcome of the GME in relation to the reporting burden it imposes. The IAIS should aim to stabilise or even reduce the scope of the exercise.

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 from a systemic risk perspective. The size of the templates has grown considerably, without a commensurate build-up of systemic risk in the insurance sector. In GFIA's view, the annual data collection exercise is already 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, whereas the IAIS only uses a small part of the collected data for the calculation of individual systemic risk scores for participating entities.

Regarding the proposed indicators on derivatives and reinsurance, GFIA is concerned that the focus on proven risk mitigating techniques conveys a narrative that a company using risk mitigation techniques would be riskier than a similar company not using risk mitigating techniques. In GFIA's

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view, a more supportive approach to proven mechanisms which effectively contribute to financial stability through a more efficient diversification of risks should be adopted in the GME and associated documentation. In addition, the ratios proposed are descriptive of market developments but not indicative of systemic risk and this will need to be clearly highlighted in the Global Insurance Market Report (GIMAR) communication.

Further detailed comments are outlined below in the respective sections.

Q1. Do you have any views on the proposed definitions of the metrics on investments by credit rating (CRE.1.a and CRE.1.b)? If you would recommend changes, please provide revised definitions and technical specifications.

N/A

Q2. Do you have any views on the proposed definitions of the metrics on credit risk scenario analysis (CRE.2.a, CRE.2.b and CRE.2.c)? If you would recommend changes, please provide revised definitions and technical specifications.

N/A

Q3. Do you have any views on the proposed default and recovery rates in the credit risk scenario analysis (Table 3)? If you would recommend changes, please provide the data sources.

As the assumptions used in the calculation of the data produced by S&P are unclear, it is difficult to determine whether the proposal is appropriate or not. However, should the data be based on historical default and recovery rates, GFIA does not see any need to change the current proposal.

Q4. Is the current level of granularity of collected data in the IIM template (asset class, credit rating) adequate to monitor an insurers' credit risk exposure, taking into account the reporting burden of any potential increased granularity?

GFIA considers the current level of granularity to be accurate and should not be increased.

Q5. Do you have any other comments on the proposed ancillary indicator on credit risk?

N/A

Q6. Do you have any views on the proposed definitions of the metrics on relative usage of derivatives (DER.1.a, DER.1.b, DER.1.c, DER.1.d and DER.1.e)? If you would recommend changes, please provide revised definitions and technical specifications.

The metrics provided in the consultation seek to address "interconnectedness and counterparty risk transmission channels" by evaluating insurers rather than counterparties. GFIA expects that supervisors will have difficulty evaluating the holistic and systemic risks from looking at data insurers provide on derivatives use. Insurers primarily use derivatives to hedge risks, which should be encouraged.

On DER 1.e, collecting data on the gross notional amount of derivatives may be inflated due to the joint use of derivatives positions to achieve hedging results. The metrics should be tailored down to highlight the net use of derivatives and hedged derivatives.

In addition, GFIA notes out that the "Max 10-day VM Call" data used as the numerator on liquidity risk metrics is not as precise of an indicator on liquidity as compared to liquidity stress testing. Furthermore, these metrics are not indicative of systemic risk and GFIA is unsure how this information calculated in this way can provide insurance supervisors with useful information that insurers can use to intervene and minimise these risks.

Although these metrics may indicate trends across global financial markets, GFIA strongly cautions the IAIS to not endorse these metrics for company specific risk modelling for any supervising body at a national level. These metrics do not capture actual risk offsets between trades.

Q7. Do you have any views on the proposed definition of the metric on PFE of derivatives (DER.2.a)? If you would recommend changes, please provide a revised definition and technical specifications.

N/A

Q8. Do you have any views on the proposed definition of the metric on materiality of OTC derivatives (DER.3.a)? If you would recommend changes, please provide a revised definition and technical specifications.

Indicator DER.3.a requires the availability of data from the SWM.S41.G template, which is not available to participating companies as it is only produced by the supervisory authorities. The calculation of this indicator is therefore not feasible under the arrangements envisaged by the consultation document.

Q9. Do you have any views on the proposed definitions of the metrics on margin and collateral calls (DER.4.a, DER.4.b and DER.4.c)? If you would recommend changes, please provide revised definitions and technical specifications.

N/A

Q10. Do you have any views on the proposed definition of the metric on central clearing (DER.5.a)? If you would recommend changes, please provide a revised definition and technical specifications.

N/A

Q11. Do you have any views on the proposed definition of the metric on hedging (DER.6.a)? If you would recommend changes, please provide a revised definition and technical specifications.

N/A

Q12. Do you have any other comments on the proposed ancillary indicator on derivatives?

The vast majority of derivative usage in the insurance sector is for efficient portfolio management or hedging purposes. While the use of derivatives can create or amplify other risks, notably liquidity risks, their use in insurers' portfolios is much more likely to help mitigate systemic risks rather than create or amplify them.

Careful monitoring of derivative exposures and the risks that they can bring is justified and within the scope of the Holisitic Framework. However, supervisors should not systematically discourage the use of derivatives for portfolio management or hedging purposes.

While none of the proposed metrics give rise to significant concerns on an individual basis, the inclusion of 12 metrics does appear to be slightly excessive and could create challenges in interpretation of the data.

In addition, given some insurers do not produce the required data as standard, and as it would be unduly burdensome to calculate it for this purpose only, GFIA would welcome understanding from supervisors that not all insurers may be able to submit the requested data.

Q13. Do you have any views on the proposed definitions of the metrics on reliance on reinsurance (RE.1.a and RE.1.b)? If you would recommend changes, please provide revised definitions and technical specifications.

Regarding the reinsurance indicators in general, GFIA welcomes the IAIS text on the importance of reinsurance in managing risks and enabling global diversification of risks.

GFIA recommends that the IAIS changes the name of the indicator from "reliance" to "usage". These ratios provide high level indicators of the level of reinsurance usage, rather than dependence, and may be useful in this context. However, the results need to be cautiously interpreted as such indicators may not provide any meaningful insight into the level of systemic risk.

Regarding RE.1.b, an option could be to exclude cessions to reinsurance pools, which is mandated by jurisdictional regulations. However, whether providing the relevant data is feasible remains unclear.

Q14. Do you have any views on the proposed definition of the metric on cross-border life reinsurance (RE.2.a)? If you would recommend changes, please provide a revised definition and technical specifications.

GFIA welcomes the IAIS explanation of the necessity of reinsurance operating cross-border in order to achieve global diversification of risk and to help ceding companies effectively manage risks. However, GFIA would suggest removing the "to some extent" at the end of the first sentence of Paragraph 4.3 as there can never be too much geographical diversification in reinsurance.

GFIA would emphasise that the cross-border metrics need to be cautiously interpreted given the effectiveness of cross-border reinsurance in diversifying risks across risk types and geographies, which will generally increase the capacity of the local insurance sectors to withstand major shock events.

Q15. Do you have any views on the proposed definition of the metrics on (re)insurers' market share (RE.3.a and RE.3.b)? If you would recommend changes, please provide revised definitions and technical specifications.

N/A

Q16. Do you have any additional suggestions for metrics to capture the potential build-up of any systemic risk in the reinsurance sector?

Reinsuring liabilities is a risk mitigating activity and international regulators should encourage prudent risk management practices. GFIA would suggest metrics for available reinsurance capacity instead of reinsurance utilisation. The capacity of reinsurers should be evaluated on an aggregate level, not based on individual reinsurers.

The IAIS's proposed ratios use technical provisions and gross written premiums to assess "capacity." These ratios, which assess actual reinsurance utilisation do not appear to assess capacity, which would roughly be defined as the market's willingness and ability to meet desired reinsurance usage. Additionally, such utilisation ratios do not account for diversification benefits of life and annuity policies.

Q17. Do you have any other comments on the ancillary indicator on reinsurance?

N/A

Q18. Do you have any views on the proposed definitions of the metrics on mark-to-model assets (MTM.1.a, MTM.1.b and MTM.1.c)? If you would recommend changes, please provide revised definitions and technical specifications.

N/A

Q19. Would it be feasible to report data on the new proposed item on mortgages that are not included in Level 3 assets held at fair value or in assets which would be classified as Level 3 if they were held at fair value (eg mortgages held as Level 2 assets)? If not, please describe any challenges and how to potentially overcome these.

GFIA would request that supervisors show understanding that some insurers do not produce the required data on the new proposed item and would face an undue burden of calculating it for this purpose only. As a result, they may find it difficult to report and may not be able to submit it.

Q20. Do you have any other comments on the proposed ancillary indicator on mark-to-model assets?

GFIA appreciates that the IAIS recognises the challenges with level 3 assets and seeks greater consistency. However, the proposed mark-to-model indicator should consider the alignment of illiquid assets with illiquid liabilities. Additionally, incorporating an entity-level view of liquidity that accounts for both assets and liabilities would provide a more accurate and complete picture of insurers' financial positions.

GFIA would also like to point out that among different insurers, there can be different classifications of mark-to-model assets. This may lead to misleading data.

Q21. Do you have any views on the proposed methodology for the correlation adjustment for the ILR? If you propose any changes, please provide the revised methodology and technical specifications.

N/A

Q22. Do you have any views on amending the correlation factor for ILR liquidity needs between life stress and P&C stress? Please provide evidence to support your proposals.

N/A

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Q23. Do you have any views on amending any other correlation factors for ILR liquidity needs? If so, which correlation factor(s) do you suggest changing, and why? Please provide evidence to support your proposals.

N/A

Q24. Do you have any other comments on the correlation adjustment for the ILR?

With regards to the specific correlation factor between the six stress scenarios used for the correlation adjustment of Insurance Liquidity Ratio (ILR), Figure 15 could serve as a starting data point for estimating the impact of the correlation factors adjustment. However, further detailed data is not provided in the consultation document, and the specific calculation method of the correlation factors remains unclear.

GFIA would welcome another opportunity for stakeholders to comment once the specific calculation method is presented with clarification.

Q25. Do you have any other feedback on the development of ancillary risk indicators in the GME?

The use of ancillary risk indicators should take into account the fact that there are data items that are not reportable in the underlying IIM Data Collection or that are reported based on interpretation or hypothesis by insurers. GFIA would like to see the technical specifications improved by clarifying the definition of each item and providing more examples of assets covered to minimise interpretation errors by insurers in the IIM Data Collection and to make the reported figures more consistent.

In addition, GFIA would request that supervisors show understanding that some items (including those on which have not been specifically addressed here) may be difficult to provide as some insurers do not produce the relevant data, and it would be unduly burdensome to calculate it solely for this purpose.

Contacts

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About GFIA

The Global Federation of Insurance Associations (GFIA), established in October 2012, represents through its 42 member associations and 3 observer association the interests of insurers and reinsurers in 68 countries. These companies account for 89% of total insurance premiums worldwide, amounting to more than $4 trillion. GFIA is incorporated in Switzerland and its secretariat is based in Brussels.