

## GFIA comments on IAIS consultation of the review of the IIM assessment methodology

GFIA welcomes the opportunity to provide comments on the Individual Insurer Monitoring (IIM) assessment methodology. In the past, the IAIS has conducted reviews of low-priority items. However, GFIA has concerns about further increases in the data reporting burden in the next round of data collection, including the expansion of liquidity risk-related data and the addition of climate change risk-related data.

In reviewing the IIM methodology, GFIA requests that the IAIS carefully selects data that is truly necessary to identify systemic or macroprudential risks, and to consider using publicly available data to the maximum extent possible, taking into account the overall increase in the burden on insurers. Some data is burdensome to compile on a group basis, or difficult to obtain at the appropriate time.

In this context, GFIA highlights the following key points:

- **Stability/streamlining of the data collection is paramount.** New data fields and qualitative components have been added every year with little notice before the changes were implemented. Many of the new data field are not available from the financial statement and must be produced specifically for the IIM.
- **The overall principle of IIM data collection should be for it to be required on a best-effort basis and that proportionality should be ensured.**
- **The need to significantly expand data collection on reinsurance businesses is questionable.** The combination of the IIM quantitative template, the IIM qualitative questionnaire, and the reinsurance component of the Sector Wide Monitoring (SWM) provides a lot of information on reinsurance exposures and cross-border reinsurance activities. GFIA has proposed a proportionate and pragmatic approach below which should provide sufficient data for the IAIS without burdening the industry.
- **More time should be given to participants to complete the IIM.** The timeline should also be provided well in advance, along with the data template and technical specifications.

### IIM scoring indicators

*Which (underlying) data rows would be necessary to monitor the different types of level 3 assets? If possible, also provide the technical specifications for these rows.*

N/A

*Which (underlying) data rows would be necessary to monitor illiquid/difficult to value assets held at historical cost or valued using other non-fair value methods? If possible, also provide the technical specifications for these rows*

N/A

*Which other refinements could be made to the level 3 assets indicator?*

N/A

*Which (underlying) data rows would be necessary to better capture (1) cross-border reinsurance exposures (ceded and assumed) and (2) the concentration risk of cross-border reinsurance in certain insurers or jurisdictions? If possible, also provide the technical specifications for these rows*

- Reinsurance is a cross-border business at its core, and this feature is a specific characteristic of the reinsurance business model, not a risk per se. Professionally managed and well-capitalised reinsurance companies that are subject to solvency requirements should be able to operate in open markets worldwide to allow for an effective diversification of risks.
- Global reinsurers' business models are based on the widest possible distribution of risks (economies of scale) and the utilisation of diversification effects (economies of scope). They benefit from these economies by writing a large number of diversified risks in as many markets as possible. It is, therefore, crucial for firms with adequate expertise, appropriate risk-management tools and capital commensurate with the risks they assume to enjoy unrestricted worldwide access to markets, freedom of contract and complete fungibility of capital, whether they operate outside their home country via branches or through subsidiaries.
- In light of this, GFIA understands the need to refine the existing indicator to better capture cross-border reinsurance exposures (ceded and assumed) and to better understand the potential concentration risk of cross-border reinsurance in certain insurers or jurisdictions.
- To this end, one potentially pragmatic approach to enhance the data collection exercise in these areas could include the inclusion of the following underlying data rows to rows 27 and 27.1.B of the Data Template:
  - Domestic Gross Technical Provisions (retro)ceded / assumed as reinsurance business – includes all technical provisions ceded / assumed where the counterparty reinsurance entity is domiciled in the jurisdiction of the reporting entity.
  - Non-domestic Gross Technical Provisions (retro)ceded / assumed as reinsurance business - includes all technical provisions ceded / assumed where the counterparty reinsurance entity is domiciled in a different jurisdiction from that of the reporting entity.
  - As the IAIS may wish to understand the top jurisdictions to which reinsurance business is ceded, as well as the nature of such arrangements — ie whether it's affiliated or third-party reinsurance — a “drop-down” window could be provided within the Data Template against each of the underlying data rows above to: 1) select the domicile jurisdiction of the counterparty with the highest volume of reinsurance (retro)ceded to / assumed from and 2) report on the proportion of gross technical provisions which shall be characterised as “Affiliated”.

- An alternative approach could be:
  - Include in the IIM template after row 27.1.C: Question 3 of the Qualitative Component (with an additional column for ceded premiums) or, alternatively rows R17 to R20.1 of the reinsurance component of the SWM collect (adjusted to also work for direct insurers' ceded premiums); and
  - Include in the IIM template after row 27.1.C: the Question 13 of the Qualitative Component into the IIM template after row 27.1.C.
  - Those new rows would allow to monitor the flows of ceded premiums (i.e. "premium origin" and "premium destination") as well as the dispersion of reinsurers assuming those flows.

***Which potential reinsurance ancillary indicator could be developed? If possible, also provide the data rows and technical specifications***

- GFIA does not see it as proportionate to invest yet more time and resources in defining further ancillary indicators.
- Reinsurance enables insurers to strengthen their own solvency and expand their capacity to absorb different types of business and customer risk, both catastrophic and non-catastrophic. In addition, reinsurance helps insurers to reduce the volatility of their earnings, accompanied by the positive effects on capital costs, which insurers can pass on to policyholders: for example, in the form of lower prices. Reinsurance has also driven the advances in catastrophe risk modelling capabilities, which are now so critical to adapting to climate-related physical risk.

***Which other refinements could be made to better capture reinsurance exposures under the intra-financial assets and liabilities indicators? If possible, also provide the technical specifications for these rows***

- None, as per GFIA's general comments below, stability of the data field is paramount and should be the foremost priority of the IAIS whenever possible.

***Which (underlying) data rows would be necessary to monitor the different types of derivatives? If possible, also provide the technical specifications for these rows***

- Potentially, a split into centrally cleared derivatives and not centrally cleared derivatives could be made at gross notional amount level, although it should be noted that not all derivatives can be centrally cleared.
- GFIA understands that different types of derivatives present different types of risks and it is, therefore, important to understand these differences in order to assess the potential "outward" risk (ie the risk derivatives holdings of insurers pose to the broader financial system and real economy).
- Focusing on counterparty risk and liquidity risk in particular, it is important to understand that these may materialise differently across centrally cleared and privately settled derivatives, with pros and cons to both.

- To this end, a pragmatic way to differentiate between different types of derivatives within the Data Template could be to split the gross notional amount of over the counter (OTC) derivative contracts reported within the template into two underlying data rows to show:
  - Gross notional amount of OTC derivative contracts centrally cleared; and
  - Gross notional amount of OTC derivative contracts privately settled.

*Which other variables could be looked at to monitor derivatives exposures and their potential 'outward' risk, in addition to gross notional amounts?*

N/A

*What is your assessment of the difference in systemic risk between the risk from OTC derivatives that are centrally cleared vs derivatives that are bilaterally settled?*

- In the US (CFTC rule on uncleared swaps), the EU (EMIR), and potentially other jurisdictions, new rules for margin requirements on uncleared OTC derivative contracts are likely to reduce the systemic risk footprint of such derivatives. At present, the IIM scoring includes all OTC derivatives contracts (Row 40.A.1.a). This row should be redefined to exclude derivatives which are subject to these new margin requirements.

*Should the hedging leverage in derivatives and repo exposures be monitored? If yes, how?*

- No. Life insurers use derivatives to hedge as part of a prudent asset liability management (ALM) strategy. These are not speculative investments: they are one part of a holistic enterprise risk framework that are often used to hedge against interest rate risks.

*Which (underlying) data rows would be necessary to monitor the potential outward risk of short-term funding? If possible, also provide the technical specifications for these rows*

N/A

*Which other refinements could be made to the short-term funding indicator?*

N/A

*Do you have any feedback on the removal of financial guarantees as an indicator?*

- The weight for "financial guarantees" which was 9,4% is now considered to be 0%. The IAIS justifies this with changes in business models and certain insurers' activities, which led to the fact that the financial guarantees indicator has become immaterial from year-end 2016 to year-end 2021.
- However, GFIA considers that the classification and weighting of systemically important activities in the scoring should not depend on the current business model and activities of the insurance companies but on the assessment of systemic relevance and systemic risks.

- If "financial guarantees" are seen as a systemically important activity, it is inadequate to disregard it for insurers, simply because it is deliberately avoided by them.
- As a negative result, the weights of the other categories have been adjusted accordingly. Thus, one shifts the weight from a category that is underrepresented to one that is overrepresented. Consequently, the overall score will probably increase although the systemic relevance may have remained unchanged.
- What would IAIS do if insurers will not use derivatives or other systemically important activities? Would they also set this category to zero and adjust the rest of the weights?

*Do you have any other feedback on any of the indicators?*

N/A

*What is your view of the overall granularity of the IIM data template (Annex 1)?*

- Technical specifications are, in many cases, unclear or not precise enough (referencing), and participating insurers have to make their own interpretations. As an example, rows 65.1 and 65.2, it is unclear that securitisations should be included (already included in 65.Z) or not.
- While GFIA supports the IIM and annual data collection, there is a need to carefully weigh the addition of any new fields to avoid burdening respondents. For instance, it is not clear to GFIA that the proposed new data rows for OTC derivatives will yield meaningful information about distinct systemic risk profiles of different derivative types. If new data points are needed, GFIA encourages the IAIS to consider whether any data fields are unnecessary and can be deleted. For example, the IAIS should reduce the number of liquidity metrics from five to one.

### Indicator weighting

*Do you have any feedback on the updated indicator weighting?*

N/A

### Insurer Pool selection criteria

*Do you have any feedback on the Insurer Pool selection criteria?*

N/A

### Reporting to participating insurers and the public

*Do you have any feedback on the Participating Insurer Reports?*

- The reports are factual and to the point. However, the IAIS could add as a conclusion that it would draw in comparison with the previous period and in comparison, with the average benchmark.

- GFIA welcomes the opportunity provided by the IAIS to participating individual insurers to review the results of their individual assessments via the Participating Insurer Reports (PIRs) to understand their relative position among the wider pool of participating insurers. Additionally, the Global Insurance Market Report (GIMAR) provides a useful overview of risks and trends in the global insurance sector, clarifying which drivers may underline the build-up of systemic risk over time.

*Do you have any feedback on the Global Insurance Market Report (GIMAR)?*

- GFIA also encourages the IAIS to continue providing a clear rationale for the collection of any non-public data.

### Contacts

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### About GFIA

The Global Federation of Insurance Associations (GFIA), established in October 2012, represents through its 40 member associations and 1 observer associations the interests of insurers and reinsurers in 67 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.