



IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

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Thank you, Manuela, for your introduction and for inviting me to speak at the **5th Conference on Global Insurance Supervision on the future insurance landscape**.

Good morning Ladies and Gentlemen. It is an honor and a privilege to be here with you today to deliver this keynote speech where I will focus on the topic of regulation and supervision on an international level.

You heard yesterday about micro- and macro-prudential supervision and consumer protection, and today you will turn to sustainable insurance and climate change.

I intend to complement those discussions by outlining the Association's priorities and progress toward multilateral, international principles and standards. And the continuing importance of the engagement of everyone in this room in our work. Those of us here today are united in a spirit of cooperation and collaboration to achieve a shared mission—to promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders and to contribute to global financial stability- which is the IAIS mission statement: We all share similar objectives, even if we play different roles and have different perspectives.

Of course, the insurance sector is extremely dynamic, ever-changing and complex. It is also extremely diverse. Yet, while it has become more global with more large internationally active insurance groups, the business of insurance remains largely local. Because of this diversity, the IAIS must design standards in a way that can be applied proportionately to different types of firms within the sector, while adhering to the essential principles (notably where there is risk there should be appropriate risk management and capital). Our Members know that when it comes to effective supervision "one size does not fit all". In this respect, the IAIS has been working collaboratively with supervisors on how the Association's supervisory material can be applied in a proportionate and appropriate manner. We want to ensure that our standards are applied in a manner that takes account of market conditions as well as the nature, scale and complexity of the insurers and their business.

Despite this diversity, progress towards convergence is not only occurring but also is a vital necessity for the benefit and protection of consumers and to contribute to financial stability. Such progress towards convergence can be seen in the work we are doing to develop global qualitative and quantitative standards and contribute to global financial stability in markets throughout the world. This includes work on three tiers: the IAIS's Insurance Core Principles (ICPs); building onto ICPs, the specific IAIS's Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame), including an Insurance Capital Standard (ICS); and, building onto the ICPs and ComFrame, the specific standards to address systemic risk, including policy measures for Global Systemically Important Insurers (G-SIIs). Convergence on those three tiers will continue through consensus, cooperation and a recognition of shared interests.

As a global standard-setting body, the IAIS achieves its mission through our standard setting, insurance sector surveillance, financial stability and implementation activities. I will outline the Association's current priorities and cover our activities in the prudential area and in consumer protection, both in standard setting and standard implementation, as well as our work related to the emerging risks such as Fintech, cyber, or climate changes.

Based on my remarks, I am sure you will appreciate that the Association's workload is very heavy, with a wide range of workstreams under way, and involving a significant amount of consultation and engagement with members and stakeholders.

ICPs and ComFrame

Underpinning all standard setting activities are, for the supervision of all insurance firms, the high level requirements and guidance set out in the IAIS's Insurance Core Principles (ICPs).

The ICPs provide the globally accepted framework for the supervision of the insurance sector. Applied proportionally, the ICPs are the foundation of insurance supervision in all jurisdictions regardless of the level of development or sophistication of the insurance markets and the type of insurance products or services being supervised.

The framework must be maintained and improved to operate in a way that is responsive to risk, while being supportive of the vital economic role played by insurers. The IAIS reinforces the application and evolution of ICPs through periodic assessments and reviews. A comprehensive, multi-year review and revision of the Insurance Core Principles is currently underway at the IAIS.

Building on the ICPs, ComFrame—the Common Framework for the Supervision of Internationally Active Insurance Groups (IAIGs)—is a complex, multi-year IAIS project scheduled for completion in late 2019, as the revision of most related ICPs. It consists of both quantitative and qualitative supervisory requirements tailored to the complexity and international scope of IAIGs.

Earlier this year, we undertook a major public consultation that covered several key themes within ICPs and ComFrame: governance, the role of supervisors and supervisory measures, supervisory co-operation and co-ordination, as well as, importantly, resolution. In the summer, we issued a high-level summary of comments received during the consultation and announced plans for a public consultation of ComFrame in its entirety (to ensure overarching consistency) in mid-2018.

On group corporate governance, we also published an application paper for consultation earlier this year. It aims to provide good supervisory practices and examples to address challenges specific to the governance of insurance groups.

Safeguarding the solvency of internationally active insurance groups is a key IAIS priority. Enterprise risk management is a major part of the IAIS solvency framework and a main area of focus for the IAIS currently. We plan to issue related revised ICPs and ComFrame material for public consultation later this year.

ICS

Earlier in the summer, the IAIS took a significant step forward in the development of a risk-based global insurance capital standard (ICS) applying to IAIGs as part of ComFrame, when we published ICS Version 1.0 for extended field testing in July.

ICS version 1.0 has:

- narrowed the options in key components of the ICS (for example, reducing significantly the number of discounting options);
- extended participation in the field testing exercise to additional internationally active insurance groups (IAIGs) and interested volunteer groups, with over 50 of the largest insurance groups in the world now involved in the extended field testing process. This represents the vast majority of IAIGs. When we started field testing back in 2013 we had a only 34 participants;
- created a platform for achieving additional progress towards convergence in Version 2.0 by collecting more extensive data to inform a future direction, without limiting IAIS discretion to the current options.

Both IAIS members and industry participants have made significant contributions to the development of this work and we have worked hard to find areas of commonality. The support shown by industry, particularly through firms' participation in field testing exercises and stakeholder engagement events, has been invaluable.

The IAIS is now looking ahead to developing ICS Version 2.0 by 2019.

Now, there is no question that arriving at an ICS that achieves greater convergence than that of the different group capital standards adopted in different jurisdictions and regions is a challenging task. But it is also a necessary one if policyholders of international groups are to remain protected, whilst also enjoying the better and more inclusive offering that can result from the greater capital efficiencies of international diversification.

Group boards and risk managers, supervisors, investors and rating agencies will benefit from the establishment of a common language for measuring and assessing capital adequacy of international companies – the ICS is a key means to provide this.

We would welcome your feedback on ICS Version 1.0, with a view towards developing ICS Version 2.0. Continued and coordinated industry input has the potential to bring together the many different perspectives to achieve a more converged, global standard for determining the minimum amount of capital an IAIG should hold at the group level, and progress towards the ultimate goal of a single common ICS methodology achieving comparable, meaning substantially the same, outcomes across jurisdictions.

Although the development of the ICS is one of our most important and demanding projects, the vast majority of our work is not capital related. The ICS is, of course, part of the broader ComFrame framework that we, as regulators, naturally want to be able to mitigate the risks that crystallised in the Global Financial Crisis, as well as be robust enough to cope with the new and emerging challenges ahead of us.

Financial Stability

Since 2013, the IAIS has annually assessed a number of Internationally Active Insurance Groups to determine the systemic risk these firms may pose and to recommend potential Global Systemically Important Insurers (G-SIIs) to the Financial Stability Board (FSB).

The IAIS recognizes the role insurers play in the wider financial system and their contribution to financial stability as well as the potential risks that may arise. The global IAIS systemic risk framework for insurance companies reflects this.

Drawing from lessons learned during the financial crisis, the IAIS developed an initial G-SII assessment methodology in 2013. Its purpose was and remains to identify G-SIIs based on "impact upon failure" considerations. We also developed specific Policy Measures applying to G-SIIs, such as a Systemic Risk Management Plan, Liquidity Management guidance, and a Higher Loss Absorbency requirement building on a Basic Capital Requirement.

In 2016, the IAIS revised its methodology for assessing potential G-SIIs, as part of our commitment to review our approach every three years. This updated methodology includes a new five-phase assessment process with additional due process features and enhanced transparency commitments.

Earlier this year, we announced our work-plan to develop an activities-based approach to systemic risk assessment in the insurance sector, as part of the next three-year cycle of revisions to the systemic risk assessment methodology, which is scheduled to conclude in 2019. Our intention is to better capture potential systemically risky activities across the sector, rather than simply concentrate on the largest, international firms, and to take a holistic perspective on systemic risk. This would also account for common exposures and behaviors and probability of default, not only the impact upon failure of a firm. We will therefore also cover the possible implications of introducing an activities-based approach on the current G-SII Assessment Methodology and Policy Measures. We plan to consult on our initial findings later this year and this will be followed by a further consultation on systemic risk assessment by the end of 2018.

To address activities that may be assessed as systemically risky as a result of this approach, we will first identify the relevant policy measures already existing in the current IAIS standard setting framework (ICPs and ComFrame including ICS), taking into account the primary micro-prudential objectives of such material; then if needed, we will potentially strengthen those policy measures by 2019 to take into account the macro-prudential objectives of an activities-based approach. Also, as previously announced, we have decided to base the planned revisions to HLA requirements for G-SIIs on ICS Version 2.0 scheduled for adoption in late 2019, rather than on the predecessor Basic Capital Requirement. The HLA revisions will occur following the adoption of the revised 2019 systemic risk assessment methodology. HLA will be implemented beginning in 2022, once revised, for any G-SIIs that may be identified in 2020 based on the 2019 revised methodology.

Implementation, assessment and supervisory practice

At this point, having mentioned our standard setting activities at the three levels of ICPs, of ComFrame including ICS for IAIGs, and of Policy Measures to address systemic risk, let me highlight the increased focus the IAIS has placed on the implementation and assessment of standards and the enhancement of supervisory practice. The Association namely also supports supervisors through: providing guidance to on key issues and challenges; enabling supervisory cooperation and coordination; and working with a wide range of partners on capacity building and supervisory development.

Complementing standard-setting is indeed standard implementation, not only in legislation and regulation, but also fully embedded in supervisory practice. After all, we are not in the business of setting standards that no one implements.

The IAIS approach to implementation is broadly organised under four broad pillars.

Pillar 1: Assessment

Assessment is at the core of the IAIS' implementation programme. The self-assessment and peer review programme, or SAPR, is designed to support practical implementation by increasing understanding of our core standards. We have also begun a process for assessing the implementation of the Policy measures for Global Systemically Important Insurers by their home supervisors. Our initial focus will be on measures on Systemic Risk Management Plans and Liquidity Management Plans.

Pillar 2: Capacity building

Capacity building focuses on developing the capabilities of supervisors, from both the staff and systems and processes perspectives, to carry out their supervisory duties. Key tools in this area include the IAIS – World Bank Core Curriculum, which is currently being updated.

Pillar 3: Supervisory practices

While capacity building focuses on developing the core competencies of insurance supervisors and enhancing supervisory knowledge and understanding, supervisory practices focus on the application of that knowledge, as supervisors discharge their obligations. IAIS application papers and platforms for exchange between supervisors support enhancing supervisory practices.

Pillar 4: Cooperation and exchange

Cooperation and exchange between Members is a necessary precondition for effective implementation and the development of supervisor practices. The IAIS Multilateral Memorandum of Understanding (MMoU) provides a key tool for supporting cooperation and exchange.

Based on these four pillars, the IAIS supports its Members in understanding and increasing their observance of our supervisory material. The on-going policy work of the IAIS will make implementation a long term and on-going priority for the IAIS.

The IAIS has also established a small group of our senior members to develop a more comprehensive strategy to support emerging market members. The work of this group has included ways to leverage and enhance our existing assessment programme, as well as reviewing our co-ordinated implementation framework (CIF) to improve the support provided to our emerging market members when implementing standards. This work reflects how we catalyse and provide actual technical support for standard implementation.

However, the IAIS's attention is not limited to regulation and the development of new and improved standards, or their implementation. The Association also attempts to identify emerging risks and structural market developments and to address these issues through sharing intelligence, providing guidance, and working with a wide range of partners.

A key area where such developments have been observed is obviously Consumer Protection

Earlier in my presentation, I mentioned the IAIS mission statement. The stated beneficiary of having effective supervision is the policyholder... “*for the benefit and protection of policyholders*”. Policyholder protection requires both prudential and conduct supervision, both focusing on the financial soundness and protecting consumers from unfair or abusive business practices. The global financial crisis also demonstrated that systemic risks can arise not only through failings in individual institutions' and groups' financial and capital management, but also in poor conduct of business practices.

Insurance supervisors – and the IAIS – have increasingly been turning their attention to conduct of business supervision.

The IAIS published an Application Paper on *Approaches to Conduct of Business Supervision* as well as an *Issues Paper on Conduct of Business Risk and its Management*, seeking to contribute to a comprehensive understanding and assessment of a sound risk culture, and to raise awareness of conduct of business risk, with a primary focus on retail customers. Inadequate management of conduct of business issues may cause harm not only to policyholders, but also to insurers, intermediaries and the insurance sector as a whole:

conduct of business risks and risks to financial soundness (prudential risk) are interlinked. Importantly, in considering the potential risks posed by a business model or practice, care should be taken not to stifle potential positive effects of innovation and competition.

The IAIS intends to adopt by year end revisions to ICP 18 related to Intermediaries and ICP 19 (related to Conduct of Business). Key themes discussed during this review included the increasing use of technology; insurers' use of intermediaries other than in distribution; and the respective responsibilities of insurers and intermediaries in insurance distribution;

Digitalisation

Closely related to consumer protection is a current IAIS project that is looking at the increasing use of digitalisation in insurance business.

Changes are occurring throughout the insurance value chain, from the design and underwriting of products, their marketing and distribution, through to claims processing. The use of data from sources such as telematics and wearable devices enable insurers to design and price products with a more accurate picture of the risks they underwrite. Developments in artificial intelligence and machine learning enable the provision of automated advice and facilitate fraud detection. Comparison websites arm consumers with more information when selecting a product, and can facilitate their understanding of products. Technology is speeding up processes, such as claims handling, and can lead to efficiencies that drive down costs.

There is potential for these to produce significant benefits. However, in a number of areas they also raise new risks that could impact fair consumer outcomes. These include potential impacts from reduced face-to-face contact, insufficient consumer understanding of the product or service and its provider, risks in the security and potential misuse of increasing amounts of consumer data, and potential exclusion for some consumers.

The result of this work on increasing digitalisation will be an IAIS paper that focuses on its impact on the fair treatment of customers as well as what this could mean for conduct supervision. An Application Paper on the Use of Digital Technology specifically in Inclusive Insurance is also planned.

FinTech

More generally, Emerging Financial Technologies are a wide array of technical innovations that could have a material impact on financial markets and institutions through new business models, applications, processes, or products.

The innovations relevant to the insurance sector, "InsurTech", will have a significant impact on insurers' business models. Regulation, together with firm-level supervision, will need to evolve to ensure the right balance between maintaining policyholder protection without inadvertently stifling innovation, as I mentioned before.

In a recently published report, the IAIS highlights the profound effect FinTech may have on insurance sector competitiveness, consumer choice, interconnectedness, business model viability and regulatory oversight.

The IAIS report, entitled "FinTech Developments in the Insurance Industry", also examines the challenges and opportunities insurance supervisors face in this rapidly changing insurance environment. There are obviously many.

InsurTech innovations have the potential to deliver a wide range of benefits, such as: efficiency improvements, cost reductions, improved risk assessment, superior customer experience and greater financial inclusion.

However, some of these innovations could also pose negative implications to the consumer and the financial stability of insurance markets. For example, in our stocktake we identified the risk of a scenario where the insurance value chain becomes fragmented, insurance becomes more embedded within other services or products, and so there is less incentive to shop around and competition reduces. We also identified other scenarios, including where traditional insurers are squeezed from the market, which could lead to greater risk of misselling, issues with the use of data or even bioethics issues.

FinTech innovations clearly may fundamentally change the way the insurance sector serves policyholders. Because of both the scope and pace of change, insurance supervisors must be alert to new technological developments and make necessary adjustments in their supervisory practices and skills.

The report points to several challenges for insurance supervisors, including:

- Understanding how innovations work and are applied to ensure adequate assessment of new product and business models.
- Balancing the risks and benefits of innovations and creating an environment that fosters innovation through approaches such as regulatory sandboxes or innovation hubs.
- Supervisors and policymakers will need to evaluate and where appropriate adjust their regulatory framework from a prudential and conduct of business perspective to adequately address changed risks and business models.
- Supervisors need to arrange proper technical resources, knowledge and skills to be able to deal with FinTech in the future. The collaboration with other stakeholders needs to be stepped up to build up and maintain an adequate understanding of innovations. As these technological innovations progress, and the insurance market adapts or is disrupted, the need for an ongoing dialogue between the insurance industry and supervisors will become ever more important.

A related emerging risk is cyber risk and its insurance

The protection of personal information is fundamental to maintaining trust and confidence in the insurance sector. Concerns over cybersecurity have been growing across all sectors of the global economy, as cyber risks have grown and cyber criminals have become increasingly sophisticated. For insurers, cybersecurity incidents – amongst other things - risk compromise to the protection of customers' personal data.

The IAIS has been quite active in the cyber insurance arena. Under ICP 19, the supervisor requires insurers and intermediaries to have policies and procedures for the protection of private information on customers.

The IAIS has recognised the increasing risk to insurers and their customers from cyber incidents, and this led to IAIS publication of an Issues Paper on *Cyber Risk to the Insurance Sector* in 2016.

The paper built upon a 2015 survey of IAIS Members on their approaches to cyber risk, and provides background on current practices, identifies examples, and explores related regulatory and supervisory issues and challenges.

The IAIS expects to undertake further work in this area, as follow up to the Issues Paper.

Climate change

Another area of emerging risk to insurance is that of climate change.

The IAIS is mindful of addressing the increasing risk of climate change. Our *Global Insurance Market Report* for 2016 included a special topic on reinsurance and climate change and its implications for insurance regulation and supervision. In addition, the 2017 IAIS Global Seminar focused specifically on insurer reporting of climate change risk.

The IAIS has been supportive of the establishment of the Sustainable Insurance Forum under the UN Environmental Programme, which provides a platform for engaging supervisors on their role in addressing sustainability.

Some IAIS members are also involved in the UN Development Programme's Insurance Development Forum, which aims to optimise and extend the use of insurance and its related risk management capabilities to build greater resilience and protection to disasters and their associated economic shocks.

The application of proportionality in IAIS supervisory material is also key to supporting increased access to insurance products in order to address the protection gap

Reinsurance

I would like to take a moment to highlight reinsurance. We know that many supervisors are seeking practical guidance from the IAIS on regulatory issues, within the supervisory perimeter and outside, and on practical issues respecting the supervisory treatment of reinsurance.. Earlier this year we completed an assessment on ICP 13– the ICP that addresses reinsurance and other forms of risk transfer. The report from the team conducting this assessment identified a series of challenges related to supervision of reinsurance risks. We also heard concerns from industry stakeholders on reinsurance related to market issues. There has been an increasing trend toward international trade and tax protectionism and this is particularly relevant for reinsurers. We have moved swiftly to address these issues. Firstly, we have convened supervisors and experts to share perspectives on key supervisory issues. These forums are invaluable for supervisors to exchange views and to learn from each other. Secondly, and most notably, this summer, we launched our consultation on a revised draft of ICP 13. Our aim is to update the ICP to reflect the earlier peer review assessment of ICP 13, as well as take into consideration developments occurring in the market and changes in supervisory practices. In the revised ICP 13, the IAIS recognises that geographical diversification of reinsurance is critical, and proposes additional guidance highlighting the benefits that cross border reinsurance trade can bring to insurers, to assuming reinsurers and to countries of ceding insurers. The ICP also notes the risks posed from introducing constraints to cross-border reinsurance trade and we are seeking additional input on this point as part of the consultation exercise. However, these risks are evident throughout the ICPs – for example from concentration risks to financial stability risks. As such, ICP 13 aligns with, and supports, policy present in the other ICPs. Later this month, we will review the feedback we have received from industry and other stakeholders, before making final modifications to, and publishing, the ICP at the end of the year.

The IAIS's approach to transparency and engagement

One theme that has been consistent throughout my comments has been our commitment to engaging industry and our other stakeholders through consultation and other forms of engagement.

The IAIS aims to facilitate an "open and transparent" standard-setting process. In addition to the aforementioned consultations, we have developed a stakeholder engagement strategy, released earlier this year. The strategy includes a comprehensive set of new commitments to expand our engagement with consumers, industry, and academic and professional organisations. These build upon, and help complete, the first set of commitments adopted in

2015. The new plan is comprehensive in scope, and reflects both Member and stakeholder feedback. We are now working to implement the plan.

Transparency results in better products, better outcomes and instills confidence in our decision making. It is important to the IAIS and will remain a priority.

CONCLUSION

To conclude: Thanks to the IAIS, and to the strong commitment of its member organisations such as EIOPA, the NAIC, and others in this room from all around the world, greater regulatory convergence is occurring within a diverse insurance market. We can see this in the progress being made in our major workstreams such as: the ICPs; ComFrame including the ICS; the systemic risk assessment and policy work; the standard implementation initiatives; the work to address rapidly developing and emerging areas of risk, particularly in the areas of consumer protection, FinTech, cyber and climate change.

Supervisors will continue to play an instrumental role in cooperating closely within the IAIS to ensure that the institutions they supervise are resilient and reliable and, consequently, fully able to perform the economic and social functions they were meant to perform.

Again, thank you for the opportunity to speak to you today, and for the many contributions each of you has made to promote effective and globally consistent supervision and financial stability.