

December 15, 2022

FSB Discontinues Annual Identification of G-SIIs

FSB Endorses the IAIS Holistic Framework and Discontinues Annual Identification of Global Systemically Important Insurers

SUMMARY

On December 9, 2022, the Financial Stability Board (FSB)¹ announced its decision, in consultation with the International Association of Insurance Supervisors (IAIS),² to discontinue the annual identification of global systemically important insurers (G-SIIs) in favor of using the IAIS's Holistic Framework for the assessment and mitigation of systemic risk in the insurance sector.³ The FSB will continue to receive an annual update on outcomes of the IAIS's Global Monitoring Exercise, including the IAIS's assessment of systemic risk at the global insurance sector-wide level, possible concentration of systemic risks at an individual insurer level, and supervisory responses to any identified risks.

According to the FSB announcement, the FSB may nevertheless, based on assessments from the Holistic Framework, "publicly express its views on whether any individual insurer is systemically important in the global context and the appropriate application of the Holistic Framework supervisory policy measures that it considers necessary to address such systemic importance." Moreover, the FSB will, starting in 2023, publish every year on the FSB's website a list of insurers that are subject to resolution planning and resolvability assessments consistent with the FSB's *Key Attributes of Effective Resolution Regimes for Financial Institutions* (Key Attributes). The FSB may publicly express its views on the "appropriateness and sufficiency of the scope of insurers" that are subject to the Key Attributes, "based on whether an insurer could be systemically significant or critical if it fails."

In November 2025, the FSB will review the process of assessing and mitigating systemic risk based on the Holistic Framework and may, in consultation with the IAIS, "decide to adjust its process, including amongst other alternatives the possibility to reinstate an updated G-SII identification process if deemed necessary."

BACKGROUND

G-SII Designations and Policy Measures

The FSB, in consultation with the IAIS and national authorities, initially identified and published a list of nine G-SIIs in 2013, using an assessment methodology developed by the IAIS. The FSB and IAIS defined G-SIIs as insurers whose distress or disorderly failure, because of their size, complexity, and interconnectedness, would cause significant disruption to the global financial system and economic activity. Also in 2013, the IAIS adopted a set of “G-SII Policy Measures,” which included enhanced group-wide supervision, enhanced capital standards, and requirements regarding systemic risk management plans, enhanced liquidity planning and risk management, and effective crisis management and resolution regimes. Through 2016, the FSB published an updated list of G-SIIs on an annual basis, based on recommendations from the IAIS. In 2017, in connection with the initial development of its Holistic Framework (discussed below), the IAIS announced a shift from an entity-based designation approach to an activities-based approach to mitigate systemic risk in insurance, and since then the FSB has not engaged in an identification of G-SIIs. Following the 2019 adoption of the Holistic Framework by the IAIS, the FSB indicated that it would review the need to either discontinue or re-establish an annual identification of G-SIIs in November 2022, based on the initial years of implementation of the Holistic Framework, leading to the decision discussed herein.

Holistic Framework

The IAIS adopted at its 2019 Annual Meeting both (1) the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame), which is a set of reforms intended to establish supervisory standards and guidance, including a group-wide capital standard (the International Capital Standard or ICS), for the effective group-wide supervision of Internationally Active Insurance Groups (IAIGs), and (2) a framework for the assessment and mitigation of systemic risk in the insurance sector, *i.e.*, the Holistic Framework.⁴ ComFrame builds and expands on the standards and guidance set forth in the IAIS’s Insurance Core Principles (ICPs), which generally apply to insurance legal entity and groups, whether or not they are IAIGs.

The Holistic Framework consists of: (1) an enhanced set of supervisory policy measures and powers of intervention (including supervisory requirements targeting liquidity risk, macroeconomic exposure and counterparty exposure; macroprudential supervision aimed at identifying and addressing potential systemic risk at both the individual insurer and sector-wide levels; and crisis management and planning, including recovery and resolution planning and crisis management groups); (2) an annual global monitoring exercise (GME)⁵; and (3) implementation assessment activities with respect to enhanced supervisory policy measures and the mitigation of the potential build-up of systemic risk in the global insurance sector.⁶

The Holistic Framework “promotes a proportionate application of an enhanced set of supervisory policy measures and powers of intervention for macroprudential purposes to a broader portion of the insurance

sector,” rather than the application of policy measures to G-SIIs only. Under the Holistic Framework, however, the IAIS continues to assess potential systemic risk at individual insurers as part of the GME, and many of the enhanced supervisory measures reflected in the Holistic Framework are similar to and derived from the enhanced policy measures previously applicable to G-SIIs only.

Key Attributes

The FSB’s Key Attributes are intended to be “the umbrella standard for resolution regimes covering financial institutions of all types that could be systemic in failure.”⁷ The FSB’s *Key Attributes Assessment Methodology for the Insurance Sector* (KA Insurance Sector), published in 2020, sets out essential criteria to guide the assessment of the compliance of a jurisdiction’s insurance resolution framework with the Key Attributes, and have continued to apply to “any insurer that could be systemically significant or critical in failure” (regardless of the absence of G-SII designations); the FSB has stated that national authorities may decide to apply to certain insurers the requirements therein identified as specific to G-SIIs (crisis management group, institution-specific cross-border cooperation agreements, resolvability assessments, and recovery and resolution plans).⁸

DISCONTINUANCE OF G-SII DESIGNATIONS IN FAVOR OF IAIS HOLISTIC FRAMEWORK

The decision by the FSB to discontinue the annual identification of G-SIIs, which followed the FSB’s December Plenary Meeting held on December 6, 2022, is the culmination of the FSB’s review of the implementation of the Holistic Framework. According to a statement from Vicky Saporta, IAIS Executive Chair, “[r]eflecting on the three years since its adoption, FSB and IAIS members agree that the Holistic Framework provides a more effective basis for assessing and mitigating systemic risk in the insurance sector than G-SII identification.”⁹ One of the “demonstrated benefits” of the Holistic Framework relative to annual G-SII identification highlighted in the IAIS press release is that the Holistic Framework’s “enhanced supervisory measures for macroprudential purposes are applied to a much broader set of insurers than those formerly identified as G-SIIs.”

Going forward, the FSB will use the Holistic Framework assessments (including the GME) to inform its assessment of systemic risk in the insurance sector.¹⁰

In spite of the announced move away from the identification of G-SIIs, the FSB indicates that, if the “circumstances so warrant, the FSB may, in consultation with the IAIS and national authorities, using the assessments available through the Holistic Framework as reported by the IAIS to the FSB, publicly express its views on whether any individual insurer is systemically important in the global context” and the appropriate application of necessary Holistic Framework supervisory policies to address the systemic importance. Further, the FSB will, starting in 2023, begin to publish each year in its Annual Resolution Report and on the FSB’s website a list of insurers that, according to member authorities’ assessment and

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self-reporting, are subject to resolution planning and resolvability assessments consistent with the Key Attributes. It remains to be seen to what extent this list may differ from the register of IAIGs publicly disclosed by group-wide supervisors that is published by the IAIS, as IAIGs may be subject to resolution planning and resolvability assessments pursuant to ComFrame. The FSB may also publicly express its views on the scope of insurers that are subject to the Key Attributes, “based on whether an insurer could be systemically significant or critical if it fails.”¹¹ The FSB plans to develop further guidance regarding approaches by member jurisdictions to determine the scope of application of the Key Attributes.

The IAIS plans to continue to enhance the Holistic Framework, including through a triennial review of the risk assessment methodology and outcomes provided under the GME. In support of this effort, on December 9, 2022, the IAIS issued a public consultation seeking input on the GME individual insurer monitoring assessment methodology that is used to calculate individual insurers’ systemic risk scores under the GME.¹² In addition, in November 2022, the IAIS finalized liquidity metrics as an ancillary indicator for the GME and as a tool to facilitate monitoring of the global insurance sector’s liquidity risk and its assessment of individual insurers’ liquidity exposure from a macroprudential perspective.¹³

In November 2025, the FSB will review “its experiences with the process of assessing and mitigating systemic risk based on the Holistic Framework.” The FSB, in consultation with the IAIS, may in light of such review decide to adjust its process, which could include the possibility of reinstating an updated G-SII identification process “if deemed necessary.”

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ENDNOTES

- ¹ The FSB consists of representatives of national financial authorities and central banks of the G20 nations, various international standard-setting bodies (including the IAIS), as well as the International Monetary Fund and the World Bank. The U.S. members of the FSB include the Board of Governors of the Federal Reserve System (FRB), the Securities and Exchange Commission and the Department of the Treasury. Since its establishment in 2009, the FSB, in conjunction with the G20 and related governmental bodies, has developed various proposals to address issues such as financial group supervision, capital and solvency standards, systemic risk, corporate governance, effective resolution regimes, and related issues associated with responses to the 2008 financial crisis. The FSB consults with the IAIS with respect to insurance sector matters.
- ² The IAIS, established in 1994, is a voluntary membership organization of insurance supervisors and regulators from more than 200 jurisdictions, constituting 97% of the world's insurance premiums. U.S. members of the IAIS include the U.S. Department of the Treasury's Federal Insurance Office, the National Association of Insurance Commissioners (NAIC), state insurance regulators and the FRB. Although the policy measures and financial reforms promulgated by the IAIS and FSB have no legal force unless enacted at the relevant jurisdictional level, the regulatory authorities of members' jurisdictions have committed to implement policy measures promulgated by them, taking into account specific market circumstances, and to undergo periodic self-assessments and peer reviews with respect to their implementation.
- ³ FSB, *The FSB endorses an improved framework for the assessment and mitigation of systemic risk in the insurance sector and discontinues annual identification of global systemically important insurers (G-SIIs)*, December 9, 2022, available at: <https://www.fsb.org/2022/12/the-fsb-endorses-an-improved-framework-for-the-assessment-and-mitigation-of-systemic-risk-in-the-insurance-sector-and-discontinues-annual-identification-of-global-systemically-important-insurers/>. See also, IAIS, *FSB endorses the IAIS Holistic Framework and discontinues identification of Global Systemically Important Insurers (G-SIIs)*, December 9, 2022, available at: <https://www.iaisweb.org/2022/12/fsb-endorses-the-iais-holistic-framework-and-discontinues-identification-of-global-systemically-important-insurers-g-siis/>.
- ⁴ See, IAIS, *Media Release – IAIS adopts first global frameworks for supervision of internationally active insurance groups and mitigation of systemic risk in the insurance sector*, November 14, 2019, available at: <https://www.iaisweb.org/uploads/2022/01/191114-Media-Release-IAIS-adopts-first-global-frameworks-for-supervision-of-internationally-active-insurance-groups-and-mitigation-of-systemic-risk-in-the-insurance-sector.pdf>. For further information, see our Client Memorandum, *IAIS—International Capital Standard, ComFrame, Holistic Framework for Systemic Risk in the Insurance Sector*, dated December 18, 2019, <https://www.sullcrom.com/iais-adopts-global-frameworks-for-insurance-supervision>.
- ⁵ The GME, which is part of the Holistic Framework, is designed to assess global insurance market trends and detect the possible build-up of systemic risk, including at the individual insurer and sector-wide level. The IAIS shares the outcomes of the GME each year with participating insurers, IAIS members, and the FSB, as well as the general public by means of the IAIS's annual Global Insurance Market Report (available at: <https://www.iaisweb.org/activities-topics/financial-stability/gimar/>). The GME focuses on specified systemic risk categories that are applied in respect of both individual insurer monitoring and sector-wide monitoring.
- ⁶ The IAIS published three documents in connection with its adoption of the Holistic Framework: (1) *Explanatory Note on Holistic Framework for systemic risk*; (2) *Holistic Framework for Systemic Risk*; and (3) *Global Monitoring Exercise*, all of which are available at: <https://www.iaisweb.org/activities-topics/financial-stability/holistic-framework/>.
- ⁷ See, FSB, *Key Attributes of Effective Resolution Regimes for Financial Institutions*, October 15, 2014, available at: <https://www.fsb.org/2014/10/key-attributes-of-effective-resolution-regimes-for-financial-institutions-2/>.
- ⁸ FSB, *Key Attributes Assessment Methodology for the Insurance Sector*, August 25, 2020, available

ENDNOTES (CONTINUED)

- at: <https://www.fsb.org/2020/08/key-attributes-assessment-methodology-for-the-insurance-sector/>.
- ⁹ IAIS, *FSB endorses the IAIS Holistic Framework and discontinues identification of Global Systemically Important Insurers (G-SIIs)*, December 9, 2022.
- ¹⁰ The FSB will continue to receive annual updates from the IAIS of the outcomes of the GME, and the IAIS will continue its annual data collection from individual insurers, data collection from supervisors to support its assessment of sector-wide trends regarding specific activities and exposures, and its annual reporting to the public on the outcomes of its assessments and progress in implementation of the Holistic Framework supervisory policy measures.
- ¹¹ Although the Key Attributes provide specific standards applicable to G-SIIs, the Key Attributes also state that such standards apply to any financial institution that could be systemically significant or critical if it fails, which is consistent with IAIS standards relating to insurer resolution.
- ¹² IAIS, *Public consultation of the review of the IIM assessment methodology*, December 9, 2022, available at: <https://www.iaisweb.org/2022/12/public-consultation-of-the-review-of-the-iim-assessment-methodology/>.
- ¹³ IAIS, *IAIS finalises liquidity metrics as an ancillary indicator for its Global Monitoring Exercise*, November 18, 2022, available at: <https://www.iaisweb.org/2022/11/iais-finalises-liquidity-metrics-as-an-ancillary-indicator-for-its-global-monitoring-exercise/>.

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