November 27, 2018

IAIS—Holistic Framework for Systemic Risk in the Insurance Sector

IAIS Issues Public Consultation Document Proposing Holistic Framework to Assess Systemic Risk in the Insurance Sector; FSB Will Not Engage in Identification of GSIIs in 2018.

SUMMARY

On November 14, 2018, the International Association of Insurance Supervisors (the "IAIS") issued a public consultation document (the "CD") proposing an holistic framework for assessing and mitigating systemic risk in the insurance sector (the "Framework"), to be implemented in 2020.[1] The CD would evolve the IAIS' approach to systemic risk by (1) recognizing that systemic risk may arise from both the collective activities and exposures of insurers at a sector-wide level as well as from the distress or failure of individual insurers; (2) addressing cross-sectoral aspects of systemic risk by comparing potential systemic risk in the insurance sector with other parts of the financial system; and (3) moving from a binary approach where additional policy measures are applied only to a small group of insurers to an approach with a proportionate application of an enhanced set of policy measures targeted at exposures and activities in the insurance sector as a whole that can lead to systemic risks.

The key components of the proposed Framework are as follows:

- ***An enhanced set of supervisory policy measures:*** The Framework proposes a set of pre-emptive measures designed to prevent insurance sector vulnerabilities from developing into systemic risk through on-going supervisory requirements, enhanced macroprudential surveillance and crisis management and planning; most of these policy measures address the same potential sources of systemic risk as the IAIS policy measures that currently only apply to global systemically important insurers ("G-SIIs").
- ***A global monitoring exercise by the IAIS:*** The Framework proposes an on-going, annual global monitoring exercise performed by the IAIS at both the individual insurer level (using an

updated assessment methodology) and at the sector-wide level with regard to specific activities and exposures.

- ***Supervisory powers of intervention:*** The Framework proposes a toolbox of preventive and corrective measures that would enable a prompt and appropriate response where a potential systemic risk is detected; the CD recommends measures similar to certain of the G-SII policy measures promulgated by the IAIS, namely the power to require a report on the management of systemic risk and the reinforcement of an insurer's financial position.
- ***Mechanisms that help ensure the global consistent application of the framework:*** The Framework proposes a collective assessment of potential global systemic risk which would involve a collective discussion at the IAIS level and reports to the Financial Stability Board ("FSB") on the outcome of the IAIS assessments.
- ***An assessment by the IAIS of consistent implementation:*** The Framework proposes an on-going assessment by the IAIS of the consistency with which the enhanced supervisory policy measures and powers of intervention are implemented.

Notably, the IAIS believes the implementation of the Framework should remove the need for an annual identification of G-SIIs by the FSB and national authorities. However, according to the CD, a final decision on the need for an annual G-SII identification should depend on an assessment of the consistent application of the Framework and the effectiveness of the IAIS global monitoring exercise. The IAIS recommends that, based on the initial years of implementation of the Framework, the FSB review in November 2022 the need to either discontinue or reestablish the annual identification of G-SIIs— with the annual identification of G-SIIs to be suspended between 2020, when the Framework is implemented, and 2022.

On November 14, 2018, the FSB[2] released a statement expressing support for the Framework along with an announcement that it has decided not to engage in an identification of G-SIIs in 2018.[3] The FSB announced that it will assess the IAIS' recommendation to suspend G-SII identification from 2020 once the Framework is finalized in November 2019.

Feedback on the CD is due by January 25, 2019, and the Framework is scheduled to be adopted in November 2019.

BACKGROUND

The IAIS

The IAIS, established in 1994, is a voluntary membership organization of insurance supervisors and regulators from more than 200 jurisdictions in nearly 140 countries. U.S. members of the IAIS include the Federal Insurance Office, the National Association of Insurance Commissioners (NAIC), state insurance regulators and the Board of Governors of the Federal Reserve System. Although the policy measures and financial reforms promulgated by the IAIS 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 the IAIS, taking into account specific market circumstances, and to undergo periodic self-assessments and peer reviews with respect to their implementation.

The IAIS has developed three tiers of supervisory requirements and actions applicable to the insurance industry:

- Insurance Core Principles ("ICPs") that are intended to apply to the supervision of all insurers and insurance groups, regardless of size, complexity or systemic importance.
- Common Framework for the Supervision of Internationally Active Insurance Groups ("ComFrame"), which is intended to apply to the cross-border supervision of internationally active insurance groups ("IAIGs"). An IAIG is a large, internationally active group that includes at least one sizeable insurance entity. The IAIS does not intend to publish a definitive list of IAIGs, but ComFrame provides criteria for supervisors to assess, on a regular basis, whether ComFrame should be applied to a particular insurance group. A key part of the ComFrame project is the development of a risk-based, global insurance capital standard (ICS) for IAIGs.
- G-SII Policy Measures, which are intended to apply only to those insurance groups designated as G-SIIs. G-SIIs are defined by the FSB and IAIS 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.

The IAIS has issued proposed revisions to various ICPs, ComFrame and the ICS over the past year, and has integrated ComFrame material into the overall ICP framework. The revised ICPs, ComFrame and ICS Version 2.0 are all scheduled to be finalized and adopted by November 2019. In the event the identification of G-SIIs is discontinued in accordance with the recommendations in the Framework, the G-SII Policy Measures would presumably disappear. The Framework proposes, however, that certain elements of the G-SII policy measures be integrated into the revised ICPs and ComFrame material and potentially applied, subject to the "proportionality principle" described in the CD, to a much larger set of insurers than those insurers that have been identified as G-SIIs in the past.

The Systemic Risk Assessment and Policy Workplan

The FSB, G20 nations, and the IAIS have been participating in a global initiative to address systemic risk in the financial sector, part of which includes the identification of global systemically important financial institutions ("G-SIFIs"). As part of the G-SIFI initiative, the IAIS adopted in 2013 an assessment methodology to support recommendations on the identification of, and targeted policy measures for, G-SIIs. In 2016, the IAIS published an updated G-SII Assessment Methodology as part of its three-year review process, which was followed by a February 2017 announcement of a "workplan to develop a comprehensive framework for assessing and mitigating systemic risk in the insurance sector." This workplan included the following three workstreams:[4]

- Development of an Activities-Based Approach ("ABA") to mitigate systemic risk in insurance;
- Addressing cross-sectoral aspects in systemic risk assessment; and
- Revising the Entity-Based Approach ("EBA") that had formed the basis of the IAIS' G-SII assessment methodology and annual identification of G-SIIs.[5]

The IAIS released an interim consultation paper on the systemic workplan in December 2017, but the paper only addressed the first work stream. The current CD is intended to address all three work streams together, and the IAIS proposes to move away from the ABA versus EBA terminology. The Framework is intended to implement a feedback loop between global monitoring by the IAIS and an enhanced scope of surveillance by individual supervisors.[6]

SOURCES OF SYSTEMIC RISK

The Framework identifies several areas of systemic risk as "key exposures" in the insurance sector that may lead to a systemic impact. Generally, the sources of systemic risk can be related to either an individual financial institution or multiple institutions. Further, the assessment of risk is likely to be time-varying depending on different factors such as the economic environment at the time, and will require a cross-sectoral analysis since all insurers operate as part of the broader financial system. By taking an holistic approach, the IAIS aims to take into account both the time-varying nature and the cross-sectoral aspects of systemic risk.

Sources of systemic risk identified by IAIS include:

- ***Liquidity Risk:*** The IAIS defines liquidity risk as the "uncertainty, emanating from business, investment or (re-)financing activities, over whether the insurer will have the ability to meet expected and unexpected payment obligations or collateral needs in time and in full as they fall due in both current and stressed environments." This is referred to as both a microprudential and macroprudential concern since it arises out of an imbalance between liquidity sources—an issue which can lead to wide-spread reactions. Examples include:
    - Derivatives
    - Securities lending
    - Backing liquid liabilities with illiquid assets

- ***Interconnectedness:*** This is a reference to "interlinkages of an insurer or the insurance sector as a whole with other parts of the financial system and real economy." IAIS identifies two types:
    - Macroeconomic exposure – meaning systemic risk that can arise through common exposures to macroeconomic risk factors across institutions. In these cases, the exposures are highly correlated with each other and with the market, which limits diversification through the pooling of idiosyncratic risks. Exposures that are correlated with each other increase the probability of correlated behavior in insurers when reacting to certain events. The IAIS identifies the following examples:
        - Savings-oriented products that offer a guaranteed return on policyholders' premium payments
        - Insurers with significant unmatched guarantees
        - Products embedding features such as automatic asset sales triggered by asset value decreases (*e.g.*, variable annuities with minimum guarantees)
        - Derivatives contracts such as financial guarantee products, including credit default swaps that are not used to hedge risk

  - Counterparty exposure – meaning the direct exposures between an insurer and other financial institutions, which can lead to both institutions being vulnerable to distress or failure of the other.

- ***Lack of substitutability:*** This may be a key concern where a product or service is critical to the functioning of the real economy. Where the failure of a dominant insurer can create temporary distortions in the marketplace, a lack of substitutability can become a source of systemic risk.
- ***Other sources of systemic risk:*** This category reflects potential systemic risks that cannot be classified into the other categories or may deserve further attention. The IAIS identifies the following examples: cyber risk (potential adverse consequences stemming from cybersecurity incidents or cyber risk insurance coverage; the risk of wide-spread under-reserving without the possibility to re-price the risk; and climate risk, which includes physical risks (e.g., climate change or natural catastrophes) and transition risks (e.g., disruptions in asset prices associated with a transition to a low-carbon economy).

The IAIS further identifies three transmission channels whereby these sources of systemic risk may be transmitted to the broader economy:

- Asset liquidation channel – a reference to the sudden sale of assets on a large scale that could trigger a decrease in asset prices and significantly disrupt trading in key financial markets or funding problems for other, similar firms.
- Exposure channel – including both indirect exposure stemming from macroeconomic exposures and direct exposure in the case of direct interlinkage between institutions.
- Critical functions channel – defined as an interruption of services of an individual insurer which has a systemic impact because the insurer provides important services to the financial sector and there are few readily available substitutes.

SUPERVISORY POLICY MEASURES

Sections 3.2 to 3.5 of the CD introduce a proposed set of supervisory policy measures which encompass on-going supervisory policy measures, as well as powers of intervention for supervisors. The on-going supervisory policy measures are further broken down into: macroprudential surveillance by supervisors; policy measures applicable to insurers; and crisis management and planning.

Macroprudential Surveillance by Supervisors

The Framework first points to Insurance Core Principles ("ICPs") 9 (Supervisory Review and Reporting) and 24 (Macroprudential Surveillance and Insurance Supervision), which provide a "solid foundation for the macroprudential monitoring and assessment by supervisors."[7] However, the Framework proposes to enhance ICP 9 by:

- Explicitly incorporating the objective to assess any sources of systemic risk related to both the failure or distress of an individual insurer and the collective risk exposures of insurers at a sector-wide level;
- Enhancing the guidance material to refer not only to the impact of an insurer's failure, but also to the collective risk exposures of insurers at a sector-wide level; and
- Enhancing the guidance material to explicitly require the supervisor to calibrate the depth and level of supervision.

The Framework states that ICP 24 provides only a high level description of the necessary macroprudential analysis, and proposes more explicit guidance for supervisors to take an active role in collecting and analyzing data regarding sources of systemic risk, including the analysis of data regarding the insurance market's vulnerability as well as the concentration of an insurer's assets and liabilities with regard to specific counterparties and geographical areas. Notably, the IAIS highlights the importance of stress test exercises to measure both individual and sector-wide exposure to systemic risk. In particular, the IAIS notes two types of stress tests: (i) those that are undertaken by insurers to support their enterprise risk management (ERM), and (ii) supervisory stress tests that may have both a micro-and macro-prudential objective. Accordingly, the IAIS proposes to add guidance to ICP 24 for supervisors to have a framework in place to conduct proper stress tests to assess individual and sector-wide systemic risk.

On-going Supervisory Policy Measures

In the context of liquidity risk, the IAIS notes that ICP 16 (Enterprise Risk Management for Solvency Purposes)[8] and the ComFrame material contained therein address liquidity risk management, but only in conjunction with other risks which insurers are expected to manage. Given the importance of liquidity risk, the IAIS suggests addressing liquidity more prominently within ICP 16 by requiring indications of an insurer's:

- Governance of liquidity risk management;
- Consideration of assets and liabilities with respect of the assessment of liquidity;
- Use of metrics in liquidity assessments;
- Consideration of stressed scenarios;
- Safeguards in place to address any liquidity shortfalls; and
- Reports to its supervisor.

As further guidance, Annex 2 of the CD includes draft guidance on liquidity risk management, focusing on liquidity stress testing, liquid asset buffers, contingency funding plans, governance and reports to the group-wide supervisor.

The IAIS also suggests enhancing ICP 20 (Public Disclosure)[9] to require quantitative and qualitative disclosures sufficient to make a meaningful assessment of the insurer's material liquidity risk exposure by users of financial statements.

Macroeconomic exposure is another area that the IAIS considers to be only partially covered by the existing ICPs. Here, stress-testing is the main focus, as the Framework enhances ICP 16 by strengthening Own Risk and Solvency Assessment ("ORSA") requirements by highlighting the importance of the insurer's effect on macroeconomic exposures. The Framework also requires insurers to carry out stress testing exercises to assess the resilience of the total balance sheet against macroeconomic shocks, along with additional guidance that insurers should take into account macroeconomic shocks when designing adverse scenarios and sensitivity analyses. With respect to counterparty and concentration risk, the Framework proposes only that ICPs 15 (Investments) and 16 (Enterprise Risk Management for Solvency Purposes) be enhanced by requiring insurers to define counterparty credit risk appetite and that corresponding guidance should make it more explicit that insurers should consider asset concentration by type of investment product, geographical dispersion, and credit rating and sector.

These policy measures will be integrated into the IAIS supervisory material (ICPs and ComFrame) as standards or guidance, as applicable. The CD states that such requirements are expected to be implemented and applied in a proportionate manner, in accordance with the "proportionality principle" set forth in the ICPs and ComFrame.[10]

Crisis Management and Planning

In the context of crisis management and planning, the IAIS considers the ICP and ComFrame material in ICP 12 (Exit from the Market and Resolution), 16 (Enterprise Risk Management for Solvency Purposes), 13 (Reinsurance and Other Forms of Risk Transfer) and 25 (Supervisory Cooperation and Coordination) on recovery, resolution and crisis management to be sufficient. However, the Framework highlights several key areas to ensure proper crisis management:

- ***Supervisory coordination:*** Effective crisis management requires coordinated, timely and consistent preparations that minimize disruption to the efficient operation of the insurance sector across jurisdictions, along with the distribution of information across the industry.
- ***Recovery Planning:*** Governed by ICP 16 and the ComFrame material integrated therein, recovery plans should be developed in advance of any stress occurring and insurers should be held responsible for the development of such a plan. Insurers should thus assess what events would be sufficient to cause distress and provide a roadmap for how the insurer could re-establish its financial position. The IAIS is currently developing an Application Paper on recovery planning that will provide more detail on the different elements of proper recovery planning.[11]
- ***Resolution Planning:*** This requires an assessment of the steps to take to resolve a failing insurer that is no longer viable. These plans should also highlight potential impediments in the group's structure that could complicate resolvability or threaten the security of policyholder claims. Resolution plans should encourage supervisors and authorities to consider where amendments may be needed.

Powers of Intervention for Supervisors

The Framework emphasizes the supervisor's ability to have at its disposal a sufficiently broad set of powers to enable prompt action in order to respond to the build-up of systemic risk, either sector-wide or at an individual insurer level. Although ICP 10 (Preventive Measures, Corrective Measures and Sanctions) already provides for supervisory measures that should be applied on microprudential grounds, it does not allow for application of these measures based solely on macroprudential grounds. The Framework thus proposes multiple changes to ICP 10[12] in order to empower supervisors to be able to intervene solely on macroprudential grounds since it can be difficult for individual insurers to internalize the potential accumulation of risks across the insurance industry. The proposed empowerments to supervisors outlined in ICP 10 include the following:

- ***A report on the management of systemic risk:*** The insurer would be asked to describe the measures it intends to undertake in order to address specific, systemically risky activities as identified by the supervisor.
- ***Restrictions on business activities:*** The supervisor would be able to prohibit the insurer from issuing new products or altering its sales practices when doing so has the potential to pose systemic risk.
- ***Directions to reinforce financial position:*** This includes measures that reduce or mitigate risks, require an increase in capital, restrict dividend payments and restrict purchases of the insurer's own shares. The Framework notes that the supervisor should clearly document the rationale for any required capital increase or add-on, including the specific risk it is intended to mitigate or protect against.
- ***Large exposure limits:*** The Framework states that large exposure limits can come in the form of hard limits, such as a fixed percentage of assets or capital, or soft limits, such as increased supervisory scrutiny or reporting—the rationale being that these limits would allow supervisors to mitigate some of the risks posed by counterparty exposure.
- ***Temporary freeze of assets/regulatory stays on surrenders:*** The Framework suggests empowering the supervisor to limit or temporarily forbid the performance of certain activities when the capital adequacy or liquidity of an insurer is threatened or when policyholders' interests are compromised, including temporary freezes of assets or regulatory stays on policyholder surrenders or withdrawals. Other potential examples include temporarily restricting the acceptance of premiums, temporarily limiting the payment of redemption values or the option of arbitrage or payment of advances on a contract, and temporarily restricting the distribution of shareholder dividends.
- ***Lowering the maximum rate of guarantees for new business or introducing an additional reserving requirement:*** Supervisors may consider responding to potentially threatening developments in the marketplace by introducing additional reserving requirements to build up a buffer in their balance sheets, or lowering the maximum interest rate that insurers are allowed to guarantee.
- ***System-wide lending facilities for market-wide liquidity issues extended to insurers:*** This is included as a potential fix for short-term liquidity shortages with the specific caveat that it may not be legally permitted depending on the jurisdiction.

Existing Commitments

According to the CD, relevant "group-wide supervisors" ("GWS") that are members of the IAIS (*i.e.*, at a minimum, the GWS of the G-SIIs identified in 2016) have made the following commitments regarding the application of these enhanced supervisory policy measures:

- The continued application of existing policy measures relating to liquidity management and planning, supervisory colleges and crisis management groups, and recovery planning.
- The application of policy measures on systemic risk management plans at their discretion.
- The application of policy measures on resolution planning as necessary, taking into account the activities, lines of business and number of jurisdictions in which the insurer operates, the complexity of the group structure, and the potential impact of failure of the insurer on the financial system and the real economy.

GLOBAL MONITORING EXERCISE

Due to the IAIS's involvement in more than 200 jurisdictions, it is well-placed to contribute to macroprudential surveillance and monitoring efforts. As a result, the Framework proposes an annual monitoring exercise by which the IAIS will determine any potential buildup of systemic risk at a global level as a supplement to the enhanced supervision proposed in the Framework. Accordingly, the global monitoring exercise is to include the following elements:

- Annual data collection from individual insurers, building on the current G-SII data collection template and using indicators from an updated systemic risk assessment specifically for monitoring purposes.
- Data collection from supervisors that supports the annual assessment of sector-wide trends with regard to specific activities.
- Data analysis by the IAIS to assess any potential systemic risk, whether sector-wide or at the individual insurer level, taking into account general financial market developments.
- Collective discussion of the results of the assessment within the IAIS, including the assessment of trends and observed systemic risks; consideration of an insurer that is demonstrating a significant level of systemic impact in case of its distress or failure; and consideration of the appropriate supervisory response, taking into account the on-going supervisory policy measures described in the Framework.
- Reports to insurers on the analysis of their benchmarks, reports to the FSB on the outcomes of the IAIS assessment, and reports to the wider public on sector-wide trends.

Global Monitoring of Individual Insurers

The Framework refers to the 2016 G-SII Assessment Methodology as the foundation for monitoring systemic risk stemming from individual insurer distress or default. The CD describes several proposed changes to the 2016 G-SII Assessment Methodology, particularly in light of the Framework's proposal to remove the need for an annual G-SII identification.

The focus of the improvements to the 2016 Assessment Methodology is creating consistency between the G-SIB and G-SII assessment methodologies in part by creating a set of common indicators between the two. Accordingly, the Basel Committee on Banking Supervision ("BCBS") joint task force with the IAIS has created a set of six indicators that can be considered as common between the G-SII and G-SIB assessments.[13]

Sector-wide Global Monitoring

The IAIS expresses concern in the CD that the current annual data collection is aimed at capturing systemic risks stemming from individual insurers, thereby providing insufficient insight on systemic risk from sector-wide exposures. The Framework therefore proposes an additional level of data collection in order to assess sector-wide trends with regard to specific activities. To do so, the Framework highlights three types of necessary data: (i) capital markets data; (ii) exposure data collected from insurers/supervisors; and (iii) other non-insurer related information that is publicly available.

Usage and Transparency

In contrast to the 2016 G-SII Assessment Methodology, which states that the IAIS recommends a list of identified G-SIIs to the FSB, the Framework provides that the IAIS will have a collective discussion on the assessment of potential systemic risks in order to provide the appropriate supervisory response. The IAIS also proposes that a summary of this discussion, including supporting background information, would continue to be reported to the FSB. The IAIS provides the following rationale as support for the removal of the annual G-SII identification:

- The global monitoring exercise proposed by the Framework will continue to be overseen by the IAIS and reported to the FSB
- An enhanced set of policy measures and supervisory powers of intervention will be applied in a proportionate manner to a broader set of insurers through the Framework
- The collective discussion and coordination among the IAIS and FSB will ensure a more consistent response in terms of potential global systemic risk

Implementation assessment

The assessment of the efficacy and consistency with which the Framework is applied is a key part of the IAIS's role. In particular, the IAIS intends to assess the observance of the supervisory policy measures that are embedded in the IAIS standards (ICPs and ComFrame), including whether the supervisor has the legal authority to perform its tasks with respect to the enhanced supervisory policy measures, and whether the measures are embedded in the relevant supervisory frameworks and are being applied in practice. The assessment would also encompass the decision-making process by which supervisors decide if a certain policy measure is necessary for a particular insurer.

NEXT STEPS

The broad timetable for current expectations on the development of the Framework is set forth below.

Date	Milestone
November 14, 2018	Publication of CD
January 25, 2019	Feedback due on CD
June 2019	• Publication of resolution of comments on Section 3 of the November 2018 consultation; and • Publication of consultation document on further revised ICPs/ComFrame
November 2019	Publication of resolution of comments on the complete November 2018 consultation Adoption by the Annual General Meeting of: • The Framework; and

	• Revised ICPs and ComFrame
2020	• Revised systemic risk assessment methodology to be applied; and • Implementation of revised ICPs and ComFrame
November 2022	Review of the Framework

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ENDNOTES

1 IAIS, *Holistic Framework for Systemic Risk in the Insurance Sector* (November 14, 2018), *available at* https://www.iaisweb.org/page/consultations/current-consultations/holistic-framework-for-systemic-risk-in-the-insurance-sector/file/77862/holistic-framework-for-systemic-risk-consultation-document. See also IAIS Press Release, *IAIS Publishes Public Consultation Document on a Holistic Framework for Systemic Risk in the Insurance Sector* (November 14, 2018), *available at* https://www.iaisweb.org/page/news/press-releases/file/77877/iais-publishes-public-consultation-document-on-holistic-framework-for-systemic-risk.

2 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, 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 economic risk, corporate governance, effective resolution regimes, and related issues associated with responses to the financial crisis. One of the core FSB financial reforms agreed by G20 leaders is the identification of, and development of policy measures for, global systemically important financial institutions, including G-SIIs and global systemically important banks (G-SIBs).

3 FSB, *FSB welcomes IAIS proposed insurance systemic risk framework and decides not to engage in an identification of G-SIIs in 2018* (November 14, 2018), *available at* http://www.fsb.org/2018/11/fsb-welcomes-iais-proposed-insurance-systemic-risk-framework-and-decides-not-to-engage-in-an-identification-of-g-siis-in-2018/.

4 IAIS Press Release, *IAIS Announces Systemic Risk Assessment and Policy Work Plan*, *available at* https://www.iaisweb.org/file/65229/iais-press-release-systemic-risk-assessment-workplan.

5 The FSB published an annual list of G-SIIs based on the G-SII Assessment Methodology from July 2013 through November 2016, each year of which included nine global insurance groups. In November 2017, the FSB announced that it would not be proceeding with the publication of a G-SII list for 2017 in light of the IAIS' development of the ABA.

6 In a related development, the U.S. Department of the Treasury recently recommended that the Financial Stability Oversight Council (the "Council") "prioritize its efforts to address risks to financial stability through a process that emphasizes an activities-based or industry-wide approach" to better identify the underlying sources of risks to financial stability as opposed to an entity-based approach. See Report to the President of the United States, *Financial Stability Oversight Council Designations* (November 17, 2017), *available at* https://www.treasury.gov/press-center/press-releases/Documents/PM-FSOC-Designations-Memo-11-17.pdf. For further information, see our Client Memorandum, *U.S. Treasury Report on FSOC Designations; FSB Decides Not to Publish List of Global Systemically Important Insurers for 2017*, *available at* https://www.sullcrom.com/siteFiles/Publications/SC_Publication_US_Treasury_Report_on_FSOC_Designations_FSB_Decides_Not_to_Publish_List_of_Global_Systemically_Important_Insurers_for_2017.pdf.

Although the Council designated four non-bank financial institutions as "systemically important financial institutions" (SIFIs) under the Dodd-Frank Wall Street Reform and Consumer Protection Act, in October 2018, the Council rescinded the designation of the last remaining SIFI. See Press Release, *Notice and Explanation of the Basis for the Financial Stability Oversight Council's Rescission of Its Determination Regarding Prudential Financial, Inc.* (October 16, 2018), *available at* https://home.treasury.gov/system/files/261/Prudential-Financial-Inc-Rescission.pdf.

7 See Draft Revised ICP 9, Supervisory Review and Reporting, *available at* https://www.iaisweb.org/page/supervisory-material/insurance-core-principles//file/69887/draft-

revised-icp-9 and ICP 24, Macroprudential Surveillance and Insurance Supervision, *available at* https://www.iaisweb.org/page/consultations/closed-consultations/2017/revision-icp-24.

8 Draft Revised ICP 16, Enterprise Risk Management for Solvency Purposes, *available at* https://www.iaisweb.org/page/supervisory-material/insurance-core-principles//file/77753/draft-revised-icp-16.

9 Draft Revised ICP 20, Public Disclosure, *available at* https://www.iaisweb.org/page/supervisory-material/insurance-core-principles//file/77750/draft-revised-icp-20.

10 Under the "proportionality principle": "Proportionality allows the ICPs and ComFrame to be translated into a jurisdiction's supervisory framework in a manner appropriate to its legal structure, market conditions and consumers. It also allows the supervisor to increase or decrease the intensity of supervision according to the risks inherent to insurers, and the risks posed by insurers to policyholders, the insurance sector or the financial system as a whole. Proportionate application involves using a variety of supervisory techniques and practices which are tailored to the insurer to achieve the outcomes of the ICPs. Such techniques and practices should not go beyond what is necessary in order to achieve their purpose."

11 The Draft Application Paper is available at https://www.iaisweb.org/page/consultations/currentconsultations.

12 Draft Revised ICP 10, Preventive Measures, Corrective Measures and Sanctions, *available at* https://www.iaisweb.org/page/supervisory-material/insurance-core-principles//file/69885/draft-revised-icp-10.

13 The BCBS-IAIS joint task force considers the following six indicators to be common between the G-SIB and G-SII assessments: intrafinancial assets; intrafinancial liabilities; derivatives; Level 3 assets; non-policyholder liabilities; short-term funding and liability liquidity; and turnover.

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