

The Holistic Framework – Executive Summary

The Holistic Framework (HF) was adopted by the International Association of Insurance Supervisors (IAIS) in November 2019 with immediate implementation in 2020. The objective is to provide an international framework for insurance supervisors to support global financial stability through the assessment and mitigation of systemic risk in the global insurance sector.

The three components of the HF are the supervisory material (SM), a global monitoring exercise (GME) and implementation assessment (IA) activities to address potential build-up of systemic risk. The HF is part of a package of reforms completed by the IAIS that will enable effective cross-border supervision of insurance groups and contribute to global financial stability.

Suspension of G-SII identification

The implementation of the HF builds on the previous IAIS approach to assess systemic risk in the insurance sector, where a set of predetermined policy measures was applied only to a small group of identified global systemically important insurers (G-SIIs). The HF provides an improved systemic risk assessment and mitigation resulting in suspension of the identification of G-SIIs, which will be revisited by the Financial Stability Board (FSB) in November 2022.

Systemic risk in insurance

Financial stability in the insurance sector may be compromised by the distress or disorderly failure of an individual insurer and the common activities or exposures of a group of insurers. According to the IAIS, the key exposures in the insurance sector that may lead to a systemic impact are:

- liquidity risk
- interconnectedness between insurers and with other participants in the financial system through both macroeconomic and counterparty exposure
- limited substitutability of insurance activities after the distress or failure of an insurer

These exposures may negatively impact other market participants or the real economy via asset liquidation, indirect or direct interlinkages with other institutions or the interruption of critical functions. The HF takes into account both systemic risk stemming from individual insurers and from collective exposures or insurer activities while considering cross-sectoral aspects.

The three components of the Holistic Framework

Component	Description	Application
Supervisory material (SM)	<p>The SM is an enhanced set of supervisory policy measures for macroprudential purposes through the proportionate application of the relevant IAIS standards.</p> <p>The SM is designed to increase the overall resilience of the insurance sector and help prevent insurance sector vulnerabilities and exposures from developing into systemic risk at the individual insurer and sector-wide levels.</p> <p>The supervisory policy measures include:</p> <ul style="list-style-type: none"> • ongoing supervisory requirements for the identified key potential systemic exposures • macroprudential supervision aimed at identifying and addressing vulnerabilities at an early stage • crisis management, including recovery and resolution planning and the establishment of crisis management groups <p>Supervisors need to have adequate supervisory powers for intervention to enable a prompt and appropriate response.</p>	<p>Parts of the IAIS Insurance Core Principles (ICPs) and Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) have been enhanced by supervisory policy measures specifically designed to assess and mitigate potential systemic risk build-up in the insurance sector.</p>
Global monitoring exercise (GME)	<p>The objective of the IAIS's GME is to gain a holistic view on systemic risk and trends in global insurance markets.</p> <p>The GME is designed to assess these trends and developments to help detect the possible build-up of systemic risk in the global insurance sector.</p> <p>This includes, at an individual insurer and sector-wide level, a collective discussion at the IAIS on the assessment of potential systemic risks and appropriate supervisory responses.</p> <p>The outcome of the GME will be published annually and shared with participating IAIS members, stakeholders and the FSB.</p>	<p>Annual sector-wide and individual insurer monitoring are conducted based on a qualitative and quantitative data collection performed by the IAIS.</p> <p>Collective discussion is undertaken within the IAIS on vulnerabilities arising from systemic activities and exposures, as well as discussion of appropriate supervisory responses.</p>
Implementation assessment (IA)	<p>The IA promotes globally consistent and effective implementation of the HF.</p> <p>The IA prioritises IAIS member jurisdictions with insurance markets, or broader financial markets, that have a significant role in the global financial system.</p> <p>The IA starts with a baseline assessment in 2020 followed by more intense jurisdictional assessments in 2021. This will include peer reviews of jurisdictional self-assessments and targeted in-depth verification of supervisory practices.</p>	<p>The IA is in line with the IAIS Assessment Methodology for ICPs and ComFrame.</p>

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