The next generation of insurance supervision – resourcing the future[1]

Executive summary

Insurance supervisory resources are fundamental to enable supervisors to fulfil their mandates effectively and to respond to a changing supervisory and insurance market landscape. Yet adequate resourcing of insurance authorities and cost efficiency are becoming more challenging given regulatory reforms underway, technological advancements and broader macroeconomic, geopolitical and demographic trends. Furthermore, as budgetary discipline faces greater scrutiny and expectations for accountability rise, pressures to promote competitiveness and reduce compliance costs further challenge insurance supervisors to balance resource constraints with effective oversight, making the efficient management of supervisory resources increasingly critical.

The Insurance Core Principles (ICPs) call for supervisors to be adequately resourced, encompassing human, financial and technological resources, to effectively deliver on their mandates. Supervisors should have adequately skilled personnel as well as enough financial and technological resources to perform their functions effectively. As these resources are interconnected, they need to be managed holistically, tailored to each jurisdictional circumstances, considering factors such as institutional arrangements, supervisory mandates, the size of the insurance industry, market development levels and stages of supervisory development.

Based on a survey of 23 insurance supervisors covering different geographies and economies, supervisors face challenges commonly encountered by public sector entities. Factors such as less competitive remuneration vis-à-vis the private sector, linkage of pay scales to public sector rules, rigid hiring processes and budget constraints limit supervisory authorities' ability to attract and retain skilled personnel. The link to public sector rules can be a challenge for both authorities that are fully funded independently and those reliant on public funding. In certain jurisdictions, the resource challenge is further exacerbated by high turnover rates, difficulties in recruiting younger replacements for an ageing workforce and the diversion of already stretched resources from core activities to address new or expanding mandates as well as unexpected surges in resource needs in times of crises or unexpected disruptions.

Supervisors also face challenges in securing adequate and stable funding. This can significantly hinder their ability to fulfil their core responsibilities. Budgetary constraints may limit supervisors' capacity to invest in information technology (IT), build capacity or address emerging risks. Constrained financial resources can also limit authorities' ability to address the aforementioned human resource challenges, including the potential need to source additional expertise to deal with unexpected disruptions in insurers or the insurance market.

A sound resource management approach, involving clear identification of resource needs and effective allocation across supervisory activities, is essential to address these challenges. Most surveyed authorities identify financial resource needs through their annual budgeting process, guided by institutional priorities, with some adopting multi-year budget planning. Supervisory resource needs may additionally be informed by insurers' risk ratings or scenario analysis as well as by gaps between supervisory and industry skills. Furthermore, market development and regulatory reforms – such as the

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transition to risk-based supervision or International Financial Reporting Standard (IFRS) 17 implementation – require careful identification of both human and financial resources, including for investments in training, data systems and supervisory technology (suptech) tools.

The sources of funding for insurance supervisors vary across jurisdictions. Most rely primarily on industry fees and levies as their main funding sources. Authorities that are part of central banks are typically funded by them, while a small number of surveyed authorities rely on investment income from excess funds. Budgets are often approved by the government and, in some jurisdictions, include consultations with industry representatives and supervisory boards, as well as reporting on discharge of duties.

Stability and predictability of income, as well as flexibility to scale resources or access supplementary funding, are essential to enable authorities to conduct forward-looking, multi-year planning of core activities and respond to unexpected challenges. Certain authorities adopting a full cost recovery funding approach, aiming to recoup their operational expenses from the industry, may reduce their reliance on government funding. Such an approach may support supervisory independence in some jurisdictions, depending on each jurisdictions' legal structure or market conditions. In addition, by aligning funding mechanisms with a risk-based supervisory approach, authorities can allocate resources proportionately to the level of risk and complexity posed by supervised entities.

Reliance on external expertise needs to be carefully considered, given the trade-offs. While external experts can plug the skills gaps of insurance authorities or meet unexpected resource needs, especially in emerging markets and developing economies (EMDEs), overreliance on such experts may result in loss of institutional knowledge. To mitigate this risk, arrangements to transfer knowledge to internal staff are critical, for example, placing external consultants under the direct supervision of a supervisory staff.

Given potential competing priorities and limited resources, a clear mandate is essential for guiding resource allocation. Over the next three years, most surveyed authorities anticipate an increased need for both human and financial resources, requiring them to prioritise resource allocation based on the cost-benefit analysis of supervisory activities. Like any public sector entity, aligning resource allocation with core mandates is critical for accountability and transparency, enabling stakeholders to understand how resources are being utilised. At the same time, there is an increasing expectation to avoid overburdening the industry or stifling innovation. In this context, aligning resource allocation with core mandates becomes even more critical to ensure that supervisory activities remain focused on their primary objectives, such as maintaining the safety and soundness of insurers and the insurance market, safeguarding financial stability and protecting policyholders.

As technology and market dynamics continue to reshape the insurance sector, proactive investment in both human and technological capabilities will be essential to keep pace with these changes. Regularly assessing and anticipating evolving supervisory resource needs will enable authorities to stay ahead of emerging challenges and opportunities. Central to this forward-looking approach is a strong emphasis on maintaining cost efficiency and securing adequate financial resources to transform supervisory frameworks for the future. Without sufficient and well-managed funding, skilled personnel and advanced tools, even the most robust regulatory frameworks risk falling short in practice. By embracing innovation and prioritising resource optimisation, insurance supervisors can ensure they are well equipped to safeguard financial stability, protect policyholders and support a resilient and competitive insurance sector in the years to come.