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The Joint Forum—A Successful Example of Cross-Sectoral and Regulatory Cooperation

By Thomas Schmitz-Lippert[+]

Let me start by explaining the history of the Joint Forum and its structure. The Joint Forum was found in 1996 by the three global standard setters ("the parent committees"): the Basel Committee on Banking Supervision (BCBS), the International Organization of Securities Commissions (IOSCO) and the International Association of Insurance Supervisors (IAIS). However, since the Joint Forum can trace its origins from the Tripartite Group which was formed in early 1993 at the initiative of the Basel Committee to address a range of issues relating to the supervision of financial conglomerates, 2013 already marks its 20th anniversary.

The objective of the Joint Forum is to support banking, insurance and securities supervisors in meeting their regulatory and supervisory objectives and, more broadly, to contribute to the international regulatory agenda, in particular, where risks exist across or gaps between the three supervised sectors.

In order to achieve this objective, the Joint Forum

- addresses and promotes understanding of issues common to the banking, securities and insurance sectors, including the supervision of financial conglomerates;
- analyses cross-sectoral market and regulatory developments;
- examines cross-sectoral gaps and conflicts in regulation and supervision;
- develops guidance and principles and/or identifies best practices on cross-sectoral technical, regulatory and/or policy issues to encourage cross-sectoral consistency and alignment where appropriate, and reduce opportunities for regulatory arbitrage; and
- facilitates cooperation, coordination and information sharing among banking, insurance and securities supervisors (or representatives of the parent committees) and further supports the parent committees by identifying synergies or duplication in their work efforts.

The Joint Forum regularly publishes recommendations addressed to national authorities, policymakers, supervisors and financial firms. Over the years, the Joint Forum has published several reports and principles, including the "Principles for the Supervision of Financial Conglomerates" in 2012. All reports can be accessed on the Joint Forum's website.[1]

There are currently 15 countries represented in the Joint Forum: Australia, Belgium, Canada, China, France, Germany, India, Italy, Japan, the Netherlands, South Africa, South Korea, Spain, the United Kingdom and the United States. Observers to the Joint Forum are the International Monetary Fund (IMF) and the Financial Stability Institute (FSI).

The Plenary is the ultimate decision-making body of the Joint Forum. It is comprised of an equal number of senior financial sector supervisors out of each financial sector, meeting three times per year. Besides the Plenary, there are two standing committees, namely the Joint Forum Working Group on Risk Assessment and Capital and the Joint Forum Financial Conglomerates Committee, as well as several working groups which are established according to the different mandates of the Joint Forum.

[+] Chairman of the Joint Forum.

[1] http://www.bis.org/bcbs/jointforum.htm.

I am currently serving as the Chair of the Joint Forum. Initially being entrusted by the IAIS with the chairmanship of the Joint Forum, I am now nominated by the BCBS. The chairmanship changes every two years between the three standard setters.

Why do we need the Joint Forum?

Financial sectors are becoming more and more interconnected. This is a fact. I will provide a good example below when discussing the Joint Forum's report on longevity risk transfer markets. The Joint Forum, besides the Financial Stability Board (FSB), is the only international forum that looks at cross-sectoral issues arising from financial service regulatory developments. In my view, what is important is not only to consider the same issues *across* sectors, but rather to consider them on a *cross-sectoral* basis.

To fulfil this task, the Joint Forum regularly discusses emerging regulatory and supervisory risks. The discussion is intended to complement similar "early warning exercises" conducted on the sectoral level and by the parent committees through establishing a discussion of emerging risks from a cross-sectoral perspective. Joint Forum members discuss their national/sectoral experience regarding emerging risks with a view to the possible implications such risks or developments may have for other sectors. Such a discussion helps to understand more about the interconnectedness of sectors and, with its forward-looking perspective, detects issues that warrant further attention by the Joint Forum.

Furthermore, the Joint Forum is not a political forum. As mentioned above, its members are senior financial sector supervisors. It can therefore be assured that questions addressed in the Joint Forum are backed by evidence collected in day-to-day supervision and are not driven by some political agenda.

The work of the Joint Forum: What is in it for the insurers' community?

As just explained, the added value of the Joint Forum compared to other financial supervisory and regulatory forums lies in the strictly cross-sectoral perspective it applies to all its working mandates. Therefore, in general all financial sectors—insurance, banking and securities trading supervision—are examined within the work of the Joint Forum. Some issues identified might however be more pronounced in one sector, or might originate in one sector but are—or have the potential of—spilling over into others. Let me give you an example.

The Joint Forum is currently finalising its report on longevity risk transfer markets.[2] The report starts with the ageing population phenomenon that is being observed in many countries. What is definitely a good thing as such, poses serious social policy as well as regulatory and supervisory challenges. Longevity risk—the risk of paying out on pensions and annuities longer than anticipated—is significant when measured from a financial perspective.

Here are the numbers to illustrate the significance: Each additional year of life expectancy adds about 3–4 percent to the present value of the liabilities of a typical defined-benefit pension fund (IMF, 2012[3]). Estimates of the total global amount of annuity- and pension-related longevity risk exposure ranges from \$15tn to \$25tn (CRO Forum, 2010[4]; Biffis and Blake, 2012[5]). Hence, a one-year longevity underestimation will in aggregate cost risk holders from \$450bn to \$1tn.

The risk holders are in the first instance the pension funds, i.e. the insurance sector. However, to manage this risk, pension funds in some countries are increasingly looking to transfer their longevity risk. While the ageing population phenomenon and the risk to underestimate longevity has already been acknowledged by other forums, the added value of the Joint Forum report lies in its focus on the *transfer* of longevity risk and the resulting risk management challenges, systemic risks and stress scenarios.

Longevity risk is usually transferred by three types of transactions: buy-outs; buy-ins and longevity swaps or insurance. While, in most jurisdictions, banks are not allowed to issue or take on longevity risk in the form of annuities, buy-ins and buy-outs, they can take it indirectly via swap transactions. This means that a risk, which is originally, by its nature, confined to one of the financial sectors, is spreading into other financial sectors, thereby

2 https://www.bis.org/publ/joint31.htm.

3 International Monetary Fund (IMF) (2012). *Global financial stability report*: Restoring confidence and progressing on reforms. Washington: IMF.

4 CRO Forum (2010). Longevity. CRObriefing Emerging Risks Initiative position paper. Available at: http://www.thecroforum.org/longevity-risk/.

5 Biffis, E. and Blake, D. (2012) How to start a capital market in longevity risk transfers. Unpublished manuscript.

contributing to the interconnectedness of sectors. Identified risk management challenges include: opacity risk (i.e. the lack of clear, accurate, easily discernible and widely accepted practices governing the relationships among businesses, investors, and governments); counterparty default risk; basis risk; rollover risk and risk concentration.

Do not get me wrong here: The report is not saying that this is already a huge problem or will turn into the next financial crisis. However, it has the potential to have a significant impact on financial markets if not properly accounted for and managed! Therefore, several recommendations are proposed by the Joint Forum to supervisors and policymakers. These include, to name a few: to review as to where longevity risk should reside; to establish and maintain high qualitative and quantitative management and disclosure standards on longevity risk transfer; to closely monitor longevity risk transfer and the resulting interconnectedness between sectors; to ensure international and cross-sectoral communication and cooperation on longevity risk transfer between supervisors; and to ensure appropriate knowledge, skills, expertise and information of holders of longevity risk.

Another example concerns the Joint Forum's current work stream on asset encumbrance. In this work stream, the Joint Forum is studying possible effects on the banking, insurance and securities sectors by analysing primarily how increased requirements for collateral have impacted firm behaviour. Of course, the Joint Forum is not the only forum that has identified the increased demand for collateral security in transactions as a potential risk. However, existing studies might not have sufficiently considered the cross-sectoral magnitude of this issue, as they have focused on certain sectoral regulations or have been approaching this issue mainly from a banking perspective. Therefore, the Joint Forum will, in particular, examine the cross-sectoral effects of different new sectoral regulations, such as insurance regulatory frameworks, e.g. the EU's Solvency II, or regulations on over-the-counter (OTC) derivatives, central counterparties (CCPs) and trade on collateral requirements.

Supporting the Joint Forum in its work

Can you contribute to the work of the Joint Forum? Yes, you can. I even encourage you to do so. How can this be done? Input can be given in two ways.

First, before a Joint Forum report is finalised, it is published for public consultation. The reports are usually developed by the members of the Joint Forum, who are supervisors and regulators as described above. From time to time, private sector participants are already involved in compiling the report. For instance, the Joint Forum is currently also undertaking a post-crisis inventory of developments in credit risk management across sectors. The purpose of this mandate is to update previously published Joint Forum work from 2001 and 2006 on risk management practices.[6] It is focused on changes to credit risk management practices in the banking, securities and insurance sectors, with particular consideration given to cross-sectoral items. In order to get hands-on information from market participants regarding credit risk issues they are currently facing and how they are currently dealt with, the Joint Forum has sent a questionnaire to selected companies including insurance companies.

That being said, the Joint Forum attaches great attention to feedback from all kinds of stakeholders. The public consultation of the reports usually lasts around three months. After receiving the public comments, the Joint Forum Plenary considers them and, if appropriate and necessary, adapts the report. Only after this review the report is finalised and published.

At the moment, there are no Joint Forum reports open for consultation. The most recent consultations have been on the longevity risk report and the point-of-sale report, both of which closed on 18 October 2013. Reports open for consultation are published on the Joint Forum's website.

Second, if you consider that certain regulatory or supervisory developments in one financial sector have unwanted and unaccounted for percussions on other financial sectors, posing a risk for the financial community, you could contact your national supervisor, the IAIS or the Joint Forum itself to draw attention to those developments. The issue pointed out will be looked at and discussed in order to establish whether it warrants further attention by the Joint Forum.

6 See *Risk Management Practices and Regulatory Capital* http://www.iosco.org/library/pubdocs/pdf/IOSCOPD122.pdf and *Regulatory and Market Differences: Issues and Observations* http://www.iosco.org/library/pubdocs/pdf/IOSCOPD215.pdf.

Where does the Joint Forum go from here?

The Joint Forum has a high level of self-expectation since it considers itself as a centre of expertise for cross-sectoral issues. Trying to address the raising interconnectedness of financial sectors or even to keep up with taking stock of it remains a challenge. To fulfil the expectations, the Joint Forum pays utmost attention to produce high-quality expert work when drawing up its reports and applies a strictly forward-looking perspective when deciding on new mandates. The Joint Forum will continue to work as closely as possible with the IAIS and the other two sectoral standard setters, as well as other international and national stakeholders.

I am proud to serve this forum for two more years and I see it as a personal challenge to further strengthen its profile as a highly recognised and reliable hub for cross-sectoral issues in financial regulation and supervision.