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The 31st Regulation and Supervision (PROGRES) Seminar on 19 February 2015 Focused on “Enhanced Supervision—First Experiences and Remaining Challenges”

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The Supervision of G-SIFIs: first experiences and remaining challenges

The first session addressed the experiences of home and host supervisors with the supervision of (global systemically important financial institutions (G-SIFIs). The panel was joined by a representative from a designated G-SII company to compare the impact the designation and its consequences had on both the supervisor and the supervised. The designated G-SII company was equally designated as a domestic SIFI. While the supervision resulting from the domestic systemically important financial institution (D-SIFI) status was immediate, the global designation and its consequences are currently not fully clear, as they are still being defined. The D-SIFI designation on both sides resulted in the employment of additional staff to comply with the related examinations. The host supervisor, responsible for supervising six of the designated nine G-SIIs, reported that the supervision as such does not differ from the supervision of domestically owned firms. However, special attention was required to the insurance risks ceded to their group-affiliated entities outside the host jurisdiction such as variable insurance products with a minimum guarantee option. Therefore, an examination of the management and soundness of those firms was necessary on a global and group-wide basis. He also highlighted that not only the group, but also the host supervisor, should be able to access group-level information to effectively supervise these firms. All supervisors stressed that new regulation was not—as often claimed—a simple read-across from banking. The industry remained sceptical as the development of higher loss absorbency (HLA) was still under way. The supervisors clarified that the policyholder was guaranteed by the underlying capital requirement, while HLA was meant to assure financial stability.

Crisis management and recovery and resolution plans

The Financial Stability Board’s (FSB) roadmap was laid out at the beginning of the discussion to set the scene. The FSB is currently analysing all the submissions which they received on the consultation on the Guidance paper on the identification of critical functions and shared services. The Guidance paper needs to be finalised by mid-2015. At the same time, the FSB is working on a Guidance paper on resolution strategies in insurance until the end of 2015. The paper on resolution strategies will, among others, discuss the choice between a single point of entry and a multiple point of entry. At the same time the IAIS is currently discussing how best to implement the FSB’s Key Attributes of Effective Resolution Regimes. The FSB’s Key Attributes have prompted voluntary local initiatives in many jurisdictions, among them, the Swiss Financial Market Supervisory Authority’s (FINMA) recovery and resolution pilot project. The company representatives who reported on the development of their recovery plan considered it a good exercise to understand how money moves within the company and where capital and liquidity reside in a group. The exercise allowed companies to analyse in detail how capital and liquidity can move within the group if under stress. One of the company representatives explained that their own analysis had shown that a

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subsidiary-based insurance group is generally resolvable in its current structure so that, in contrast to banking, a multiple point of entry is desirable.

The global insurance capital standard (ICS)—status quo and next steps

The IAIS reminded the audience that supervisors needed a tangible common language, which would allow supervisors to coordinate and cooperate effectively. It was pointed out that the ICS could increase transparency and decrease complexity, but a systematic cost-benefit analysis needed to be made. Furthermore, it was pointed out that new solvency regimes around the world needed a far longer time to be implemented, so that the panellists questioned whether the timeline for the development of ICS was reasonable. Panellists warned that a hastened development would bear the risk that products are withdrawn from the market, investments curtailed and excessive capital cushions be constituted. In addition, the different accounting basis resulted in differences in reported capital and its sensitivities. Panellists pointed out several areas which were crucial to get right: (1) discount rates, (2) the definition of capital resources, (3) the recognition of risk mitigation including diversification, (4) calibration and (5) operational feasibility. The objective of achieving comparability was discussed in detail. It was especially asked who would assess comparability, what will be compared and what level of comparability was intended.

Consumer protection and market conduct

The panel started the discussion by trying to define what consumer protection actually meant. The answers were financial soundness and consistent outcomes for consumers. Consumer protection consisted of three pillars of consumer protection: (1) financial soundness, (2) corporate governance and (3) market conduct. The panellists agreed that there were many recent developments in the area of market conduct, but, given the priority of financial stability measures, it did not receive the same attention. They noted that consumer protection increasingly drives also the insurance companies' thinking, as they needed to be responsive to a competitive environment and the new and increasing expectations of the policyholders. The panellists noted that the product development process was handled differently in various jurisdictions. While some supervisors were not involved in the product development process, others started an early dialogue with the companies as early as during the product development phase. The panellists were in favour of a conduct regulation which supported a good culture in the insurance firm, a well-functioning insurance market and which required as little intervention as possible. Also, the emerging twin peaks authorities were discussed in detail. The panellists explained that potential conflicts of interests were addressed by regular meetings on domestic supervisory colleges and regular exchange of information.