

Macro-Prudential Approaches: Monitoring the Insurance Sector

Observations from Global Financial
Stability Reports and the NAIC toolbox

NAIC Financial Stability Task Force
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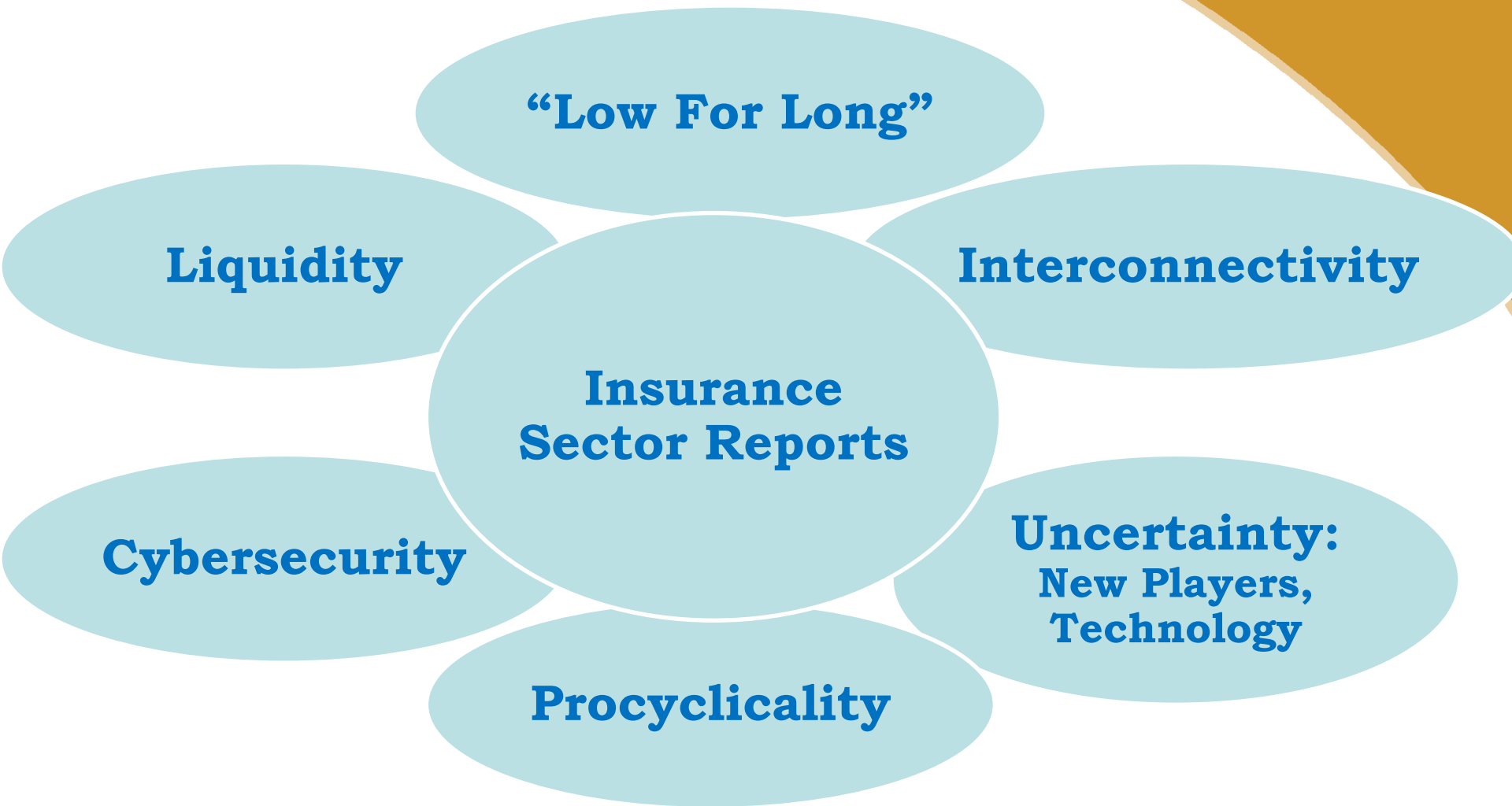
Context

- Review of reports of global supervisors that provide insights on macro-prudential surveillance efforts
 - Identify risks / themes and how they are being addressed
- While micro-prudential approach focuses on strength of individual firms; a macro-prudential approach focuses on stability of the financial system

Report Focus

- Integrated regulators, Central Banks, Financial Stability Regulators : Topics range from monetary policy to state of markets, to financial stability, to micro/macro prudential supervision.
 - How financial institutions impact leverage, liquidity transformation and other systemic risk
- Reference insurance sector potential impact on systemic risks, but focus on the banking sector

Broad Themes



Tools: Good Data

- Consistently reported, timely, automated
 - Insurance Data
 - YoY trends in investment and underwriting profitability, capital adequacy, leverage, concentrations
 - Investment allocation, business lines, guarantees, liability liquidity features, financial counterparties, NTNI activities
 - Economic and financial market data

Stress Testing

- Assess impact on the insurance industry of common exposures to financial market risks
- Assess impact on financial system of extreme events impacting a subset of the insurance sector
- Stresses
 - Regulator prescribed, others allow more firm specific flexibility.
 - Single, double and multiple hit scenarios being tested
 - Consider both direct and knock on impacts

Micro Tools, Macro Purposes

- Regulatory Capt'l
 - pro-cyclicality, market risks
- Reporting requirements
- Expanded Authorities
 - Limit or separate NTNI
 - Pro-cyclical Buffers
 - Limit dividends, intra group cash flows
- ORSA
 - horizontal view
- Information sharing
- Recovery, resolution and protection schemes

IAIS Role

- Annual Reports
 - Global Insurance Market Report (GIMAR) which discusses the global insurance sector from a supervisory perspective
 - Key Insurance Risks and Trends (KIRT) Survey
- ICS, G SII Exercise & Policy Measures
- Insurance Core Principle (ICP) #24: Macro prudential Surveillance and Insurance Supervision

US Approaches : Financial Stability and Macro Prudential Surveillance

Financial Stability

- Primary Goals of NAIC Solvency Framework
 - Reduce the Likelihood of Insurer Failure
 - Maximize Amount of Assets Available to Pay Policyholders in the Event of a Failure
- Refining/Improving Group Oversight
 - ORSA Filings, Form F, Group Capital Calculation
- Micro-prudential Regulation Greatly Contributes to Financial Stability (Helps Prevent Distress and Contagion, Both Within and Outside the Group)

Macroprudential Regulation

- Financial Crisis Prompted a Macroprudential Focus
 - Basel III Counter Cyclical Buffers and Tighter Capital Requirements and Leverage Caps
 - SIFI Designation for Nonbank Financial Entities
 - Monitoring of Areas of Risk (e.g., Securities Lending Data Calls)

US Financial Stability Reports

- FSOC Annual Report, OFR Fin. Stability Report
 - Low U.S. and Global Interest Rates
 - Reaching for Yield and Increased Leverage
 - Challenges to Life Insurers (Guaranteed products)
 - Cybersecurity
 - Asset Management Products/Activities
 - Central Counterparties
 - Data Gaps (including Captives issues)

NAIC Macroprudential Monitoring

- Still Focus on Primary Goals of Solvency
 - Peer Review Process of Financial Analysis WG
 - Industry Snapshots, Tool Results and Risk Alerts
 - Capital Markets Reports, Hot Spots, Newsletters
 - Chief Financial Regulator Forum
 - Ad Hoc Queries Responding to Events (e.g., Brexit)
 - Net Spread Over Guaranteed Interest Rate Study
- Results Used by Regulators for Individual Insurers/Groups, to Modify NAIC Guidance

Should NAIC Be Doing More?

- Traditional Argument Is No, Since State Insurance Regulators Have Historically Prioritized Policyholder Protection Over Broader Market Regulation
- Is There A Middle Ground Where NAIC Can Maintain That Priority But Add Tools To Address Macroprudential Regulatory Concerns, e.g. Through Enhanced Monitoring and Reporting?
- Should This Task Force Review and Provide Summary Reports On The Various NAIC Macroprudential Monitoring Activities, And Consider Potential Enhancements?