

Mary Frances Monroe
Senior Advisor and Insurance Lead, IIF



September 4, 2020

Dr. Victoria Saporta
Chairperson
Mr. Jonathan Dixon
Secretary General
International Association of Insurance Supervisors (IAIS)
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Re: IAIS Request for Feedback on the Impact of COVID-19

Dear Dr. Saporta and Mr. Dixon:

The Institute of International Finance (IIF) and its insurance members are pleased to respond to the IAIS' request for feedback on the impact of COVID-19 on the financial system and, specifically, the insurance sector. The impacts of COVID-19 on our economies, the financial system and the insurance sector continues to evolve, as do the various responses to the crisis from governments, the financial and insurance sectors, and individual companies. The trajectory of the virus and responses to the global and local economic and operational impacts of the outbreaks are uncertain, changing frequently and, thus, difficult to predict or model. Our response to the IAIS' request for feedback therefore represents our best information at this point in time.

Despite the challenges of a worldwide pandemic, in the first half of 2020, the insurance industry overall has shown operational resilience and has remained well capitalized, with adequate levels of liquidity, allowing insurers to continue to serve and support their policyholders and communities throughout this difficult time. This is in part due to good management but also to the integration of lessons learned from the 2008 financial crisis into robust forward planning that has allowed companies to remain resilient.

IIF insurance members entered this crisis with strong fundamentals and are committed to working with their supervisors to emerge from these challenging times in an equally robust and resilient manner.

We appreciate the support for the insurance industry that the IAIS has demonstrated since the onset of the crisis, including its calls for supervisory flexibility and public warnings of the significant risks to solvency and financial stability that would arise from retroactive coverage of risks that are outside of contract boundaries. We are pleased that the IAIS is committed to coordinating with the Financial Stability Board (FSB) and other standard setting bodies on cross-cutting financial system issues and with IAIS members to mitigate the impact of COVID-19 on the insurance sector. We appreciate the collaboration and

cooperation among the industry and supervisory community that is designed to provide for a stronger and more resilient insurance sector coming out of the crisis.

The IAIS has maintained good lines of communication with the industry through the crisis and, in particular, we welcomed the June 25 IAIS Executive Committee (ExCo) dialogue. We encourage the IAIS to continue to seek input from a broad range of stakeholder groups. As part of the ongoing collaborative process, it would be helpful if the IAIS communicated the insights it has gained from its engagement with the industry and the quantitative and qualitative data calls it has conducted. A two-way flow of information would help both companies and supervisors to better understand the impacts to date of COVID-19 on the industry and to plan more effectively for the future.

Further discussions with chief executive, financial and risk officers could provide the IAIS leadership with more contextual, nuanced and forward-looking information and more comprehensive input into insurance trends, risks and opportunities and the financial stability of the sector. In addition to being generally useful in supervision, this information could help in the implementation of the *Holistic Framework for Systemic Risk in the Insurance Sector* (Holistic Framework) and the assessment of how the Holistic Framework and the *Risk-Based Global Insurance Capital Standard* (ICS) work in practice, including in a stressed environment.

Further dialogue among industry leaders and supervisors can also provide feedback that can be more insightful than the results of point-in-time COVID-19 data calls, the results of which are likely to be rapidly outdated. We ask the IAIS to consider carefully the value of the information received in data calls before continuing these exercises, particularly those that would coincide with peak year-end activities. To the extent that future data calls are deemed necessary, we encourage the IAIS to prioritize the most relevant information. The perspectives of jurisdictional supervisors in the review of information received in data calls are valuable and the IAIS may wish to explore virtual participation in the IAIS data room, consistent with existing strict data security protocols.

Responses to Questions in the Request for Feedback

1. How will COVID-19 affect the financial system and the insurance sector specifically over the short, medium and longer term?

As noted in the introduction to this letter, the impacts of COVID-19 on the financial system and the insurance sector continues to evolve, as do the responses to the crisis from governments and individual companies. Insurers continue to monitor the evolving impacts and the implications of those developments for their current and future business activities.

We believe that the impacts of COVID-19 on the financial system and the insurance sector over the short-medium- and longer-term can be categorized broadly in the following manner: (i) financial impacts; (ii) operational and productivity impacts; and (iii) external impacts.

Financial impacts include the effects on the investment portfolio of market volatility, a lower for (even) longer rate environment, corporate and sovereign credit deterioration, and lower returns on investments. Insurers were well positioned going into the crisis to address these financial impacts and have maintained strong levels of capital and liquidity.

Operational and productivity impacts have been addressed successfully through the deployment of remote working options for employees and the digital delivery of insurance products and services to customers. However, supervisory impediments to digital delivery need to be addressed and we call upon the IAIS to emphasize this issue in its near-term workplan. Many supervisory impediments to digitalization (e.g. requirements for “wet” signatures and hardcopy record retention) fail to recognize consumer demand for and the benefits to consumers of new delivery mechanisms. The IAIS should encourage its members to refrain from imposing any impediments to innovation if those limitations are not firmly supported by a risk-based analysis.

External impacts include governmental actions, including governmental and central bank initiatives to alleviate short- to medium-term financial and economic strains and provide fiscal stimuli. The extent and timing of these actions and initiatives can be difficult for insurers to predict and vary across the jurisdictions in which global insurers operate.

Calls for retroactive coverage of claims outside of contract boundaries have created challenges for the industry. We encourage the IAIS to continue to uphold the rule of law and to voice its concerns about the risks to solvency and financial stability posed by demands for retroactive coverage. Management time and company resources that must be diverted to addressing these demands are time and resources that cannot be devoted to financial and operational resilience and improving customer outcomes.

2. What are the key trends, risks and opportunities for the insurance sector in light of COVID-19?

The pandemic has accelerated the digitalization of the insurance business and, in doing so, has highlighted a number of areas where supervisory action is needed to address outdated regulatory requirements that are impeding the industry’s ability to serve existing policyholders and help younger policyholders secure insurance coverage. The digitalization of insurance products and services provides an important opportunity to improve the customer experience, enhance delivery channels and create efficiencies in the provision of insurance products and services. In some cases, regulatory requirements, such as the requirement for “wet” signatures, hardcopy record retention and other requirements are inhibiting insurers’ ability to deploy new delivery and service mechanisms that would benefit existing and prospective policyholders. The IAIS should strongly discourage supervisory impediments to innovation that are not firmly supported by a risk-based analysis.

The crisis tested insurers’ operational resilience, which has proven to be robust. Insurers have continued to meet the needs of their customers since the onset of the pandemic. The crisis has also provided supervisors with an excellent opportunity to test their own contingency and crisis management plans to assess how well they can continue to perform their essential functions under duress and to explore alternative methods to perform their essential functions, including through the use of digital channels.

The financial resilience of insurers has also been tested. Insurers have demonstrated robustness from both a solvency and liquidity perspective and have remained financially resilient notwithstanding turbulent market conditions. Insurers continue to monitor, review and assess their financial strength and resilience as the pandemic continues to evolve. For some insurers, the crisis has provided opportunities to further enhance financial and operational resilience by adopting new product offerings and asset-liability management (ALM), pricing and hedging strategies that reflect the lower for (even) longer environment and challenging market volatility.

3. What does this mean for supervisors?

The crisis is an excellent opportunity for the IAIS to demonstrate the relevance of the Holistic Framework. It also provides an opportunity to reaffirm a commitment to a primarily activities-based approach as a means of preventing systemic risk and of recognizing that systemic issues may include risks and firms outside of the regulatory and supervisory perimeter. The unique nature of this crisis emphasizes the importance of the global monitoring exercise and support for regular dialogue among the IAIS, supervisors and the chief executive and chief risk officers of internationally active insurance groups.

The IAIS should encourage national supervisors to take stock of how their prudential regimes have performed and are continuing to perform as the COVID-19 crisis unfolds. In considering the larger economic context in which their actions are taken, supervisors should determine whether, in light of the specific challenges of COVID-19, their actions are providing insurers and the capital markets with optimal incentives or whether their responses may have any unintended or procyclical consequences. National supervisors should be encouraged to continue their proactive engagement with the industry and other stakeholders in order to help identify any unintended consequences of policy or supervisory responses.

Crises such as the current pandemic evolve and the impacts can be felt over long periods of time. We commend the IAIS and many of its members for being deliberate with the consideration of when to take action – as was the case with the emergence of calls for retroactive amendments to insurance contracts – and when to conclude that more information is needed to fully understand a potential risk and its short- and longer-term implications, including possible procyclical or other unintended consequences of well-intentioned actions. In light of the ongoing nature of the pandemic and the potential for further economic and financial market headwinds, we believe that supervisors should explore how existing regulatory and supervisory constructs may trigger procyclical effects or have unintended impacts on insurer incentives and behavior. National supervisors should be encouraged to consider actions that could be taken to minimize the potential for such outcomes. We believe that the IAIS can play a leadership role in encouraging jurisdictional regulators and supervisors to embark on these exercises.

We encourage the IAIS and its members to continue efforts to facilitate coordinated supervisory actions. Such coordination can support the development of more aligned policy responses.

4. What are the main areas you will be focusing on over the coming 1 to 2 years?

IIF insurance members will have different areas of focus in the next 1 to 2 years, depending upon their business mix and strategic priorities. As a result, IIF members may provide additional perspectives on this question through company-specific responses.

5. Where do you think that the IAIS should focus its work during this period?

Supervisory Coordination, Pragmatism and Flexibility. As the future trajectory of the crisis is unknown, we encourage the IAIS and its members to retain a pragmatic and flexible approach and to adopt reasonable accommodations in implementing supervisory requirements and data calls.

Facilitating the Digital Transformation of the Industry. The IAIS has an important role to play in helping supervisors understand the digital transformation underway in the insurance industry and in encouraging its members to support that transformation by reassessing existing regulatory requirements that may be outdated (e.g. requirements for “wet” signatures and hardcopy record retention). Removing regulatory barriers to facilitate the digital transformation will have numerous benefits beyond merely enhancing convenience. Paperless efforts by companies can help them to address environmental issues, for example, by reducing paper usage by tens of millions of sheets per year.

The IAIS and its members should also provide greater clarity on the appropriate use of alternative data sources (e.g. telematics). As noted above, the IAIS should encourage its members to refrain from imposing any impediments to innovation if those limitations are not firmly supported by a risk-based analysis.

Some barriers to digitalization may require coordination with other standard setters and supervisors. An effort to provide greater clarity on the use of alternative data sources may require coordination with authorities responsible for data protection. Updating anti-money laundering (AML) standards for insurers may require dialogue with the Financial Action Task Force and national authorities with jurisdiction over these matters. Outdated AML and know-your-customer rules or privacy standards may have negative impacts on remote working and insurance distribution that are not supported by a risk-focused analysis. Outdated rules and standards may not provide the intended protections to insurers and their customers and may impose unnecessary costs and burdens. The IAIS should engage with other global standard setters to address these issues and encourage its members to engage with the responsible authorities in their jurisdictions. In addition, IAIS supervisory materials should be updated to reflect changes in customer needs and preferences and new ways of doing business and supporting customers, including through platforms.

Incorporation of Climate-Related Risks. The pandemic crisis has confirmed the potential significance of second-order market and real economy effects arising from a primarily environmental risk event. Similarly, insurers recognize the growing potential for such effects arising from climate-related risk events and are increasingly incorporating these risks in their ORSAs and enterprise risk management frameworks. We look forward to partnering with the IAIS and the Sustainable Insurance Forum to work towards supporting the integration of environmental, social and governance considerations into the economic recovery in a manner that is to the advantage of policyholders and broader stakeholders.

Consideration of the Need for Changes to the ICS. The IAIS and jurisdictional supervisors have an opportunity to assess the sensitivity of the ICS to volatile market conditions, such as those experienced in the current environment, and to consider whether the current design of the ICS is an appropriate measure of global solvency.

We note that COVID-19 may also impact the opportunities for IAIS members and front-line prudential supervisors to review the results of ICS reporting as part of this assessment. For example, the discussion of ICS results in supervisory colleges is a foundational element of the monitoring period; however, the crisis has refocused supervisory attention in addition to limiting the ability for such engagement. The IAIS should consider its timetable and adjust, as necessary, to provide adequate time for a thorough evaluation of the performance of the ICS. The IAIS should also take the opportunity to perform a comprehensive impact assessment of the ICS that reflects developments since March 2020, as well as a business-as-usual environment, and to make any necessary adjustments to the standard.

Engagement on Systemic Risk. The pandemic also provides the IAIS and the FSB with considerable insight into the effectiveness of the Holistic Framework for identifying potential sources of systemic risk within the insurance sector and how insurers' risk management contributed to the resilience of the industry during the crisis to date. More broadly, we note the importance of the IAIS' ongoing engagement with the FSB to raise awareness of insurers' role in the economy, and their contributions to financial stability and risk prevention and mitigation. As well, the IAIS can highlight developments within the insurance sector and key differences between the risk profiles of insurers and other financial institutions.

We appreciate the opportunity to provide further feedback to the IAIS on the impacts of COVID-19 on the insurance sector. We look forward to additional dialogue with the IAIS in the near future and, in the meantime, we stand available to expand on this feedback.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "W. J. Murray", with a long horizontal flourish extending to the right.