

ASISU

THE MIDDLE ROAD

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Challenge of insurance supervision  
- systemic risk and insurance -



# Contents

- I. *Background*
- II. Definition of systemic risk
- III. Methodology to assess systemic importance of insurers
- IV. Supervisory measures
- V. Next steps



## Background

- ... interdependent global financial markets
- ... benefits and risks
- ... existence of systemically important financial institutions (SIFIs)
- ... G20 Leaders request



## Background (continued)

- ... too big to fail: SIFIs is to be bailed out
- ... moral hazard
- ... no agreement on non-banking SIFIs
- ... are there any insurance SIFIs ?



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## II. Definition of systemic risk

Systemic risk is the risk of disruption to the flow of financial services that is

(1) caused by an impairment of all or parts of the financial system, and

(2) has the potential to have serious negative consequences for the real economy.



## Definition of systemic risk (continued)

### *Criteria*

... size

... degree of substitutability

... strength of interconnectedness



## Definition of systemic risk (continued)

### *Character*

- (1) Grey rather than black and white
- (2) Endogenous
- (3) Time varying element
- (4) Geographical element



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### III. Methodology to assess systemic importance of insurers

*Character of core insurance business*

1. Not involved in credit intermediation with maturity transformation
2. Longer time horizon



### III. Methodology to assess systemic importance of insurers (continued)

*Activities that could cause systemic impact*

1. Non traditional insurance activities (e.g. CDS by unregulated entities)
2. Inter-linkages with other financial institutions
3. Difficult to substitute products



### III. Methodology to assess systemic importance of insurers (continued)

*Possible criteria to assess systemic importance*

1. Non-traditional insurance activities
2. Size
3. Interconnectedness
4. Lack of substitutability



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## IV. Supervisory measures

- ... no agreement on existence of insurance SIFs
- ... no agreement on supervisory measures for insurance SIFs
- ... IAIS focus on supervision of internationally active insurance groups  
(not the same as SIFs)
- ... Common Framework for Supervision of Internationally Active Insurance  
Groups



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## V. NEXT STEPS

1. In-depth analysis of insurance and systemic risk by June 2011
2. Methodology to assess systemic importance of insurers by fall 2011
3. Evaluation framework for the application and review of G-SIFI policies in insurance by fall 2011