Asian Insurance Forum 2021

"Opportunities and Challenges in the Post-pandemic New Normal"

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Keynote Speech by Mr Jonathan Dixon

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Thank you to Chairman Moses Cheng and CEO Clement Cheung. It's fantastic to be with you. Thank you for inviting me to speak today at this important annual event in the Asian insurance sector calendar.

I am very sorry not to be able to join you in person, and to see old friends – but also because of the many common issues on our agendas.

This morning I would like to share some insights from the IAIS, the global standard-setter for insurance supervision, about our current areas of focus – and our perspectives on the opportunities and risks facing the global insurance sector in the post-pandemic new normal.

Let me begin with an important aspect of our work, which is our global coordination role on risk assessment – specifically our Global Monitoring Exercise, or GME. This global risk assessment informs our views on the risks and opportunities in the global insurance sector – and is the basis for our collective discussions on coordinated supervisory responses.

This is an area of work that has been significantly enhanced in recent years. The GME is a key component of our Holistic Framework for the assessment and mitigation of systemic risk in the global insurance sector, one of the key post crisis reforms that we adopted at the end of 2019. The Holistic Framework recognises that systemic risk in the global insurance sector may arise not only from the distress or disorderly failure of an individual insurer, but also from the collective exposures and activities of insurers at a sector-wide level. Accordingly, the GME covers data from about 60 of the largest insurers and aggregate sector-wide data from supervisors across the globe, covering over 90% of global written premiums. The GME is therefore a very rich source of data that helps ensure that the international coordination of supervisory responses to mitigate any potential systemic risk in the insurance sector is grounded in evidence.

Last year, we repurposed the GME to assess potential vulnerabilities arising from the impact of Covid-19. The analysis was concluded this year and the data showed that in the face of significant market movements and disrupted economic activity, insurers remained both operationally and financially resilient – although noting that this was helped by unprecedented levels of fiscal and monetary support in some regions.

This year, for the first time, we completed our "regular" GME, covering the past two years of data. The analysis focused on two aspects: 1) firstly, individual insurers with a relatively high systemic risk footprint or with large increases in particular systemic risk indicators; and 2) secondly, it identified three sector-wide macroprudential themes impacting insurers: namely, (i) the impact of low-for-long interest rates and a related trend of increased private equity ownership in the life insurance sector; (ii) increasing credit risk; and (iii) heightened cyber risk. The outcomes of this year's GME were recently published in our Global Insurance Market Report, or GIMAR, which I would encourage you to read if you have not already done so. It sets out the key financial stability priorities for insurance supervisors.

I want to come back to what our assessment work says about the key risks and opportunities in the sector, but before I do so I also wanted to touch on progress in finalising another key post-crisis reform for the IAIS, which is the global Insurance Capital Standard or ICS. The ICS forms part of our Common Framework for the Supervision of Internationally Active Insurance Groups – or ComFrame – that we adopted in 2019. The ICS is currently in its first phase of implementation, which is a five-year monitoring period. It will create a common language for supervisory discussions of group solvency of Internationally Active Insurance Groups – and enhance global convergence among group capital standards.

I am happy to that we have seen strong participation and engagement from insurance groups worldwide, across all regions, in the monitoring period. We are grateful to the insurers who have continued to engage so constructively with this process. I want to say a particular thank you for the strong support we have received from Hong Kong – both the Insurance Authority and the global firms headquartered here – as we move to finalise the design of the ICS. It's through this participation, that these insurers have a direct hand in helping to shape this international standard.

Now, with additional groups now participating in year two of the monitoring period, plus expanded engagement in supervisory colleges, we are firmly on track to deliver a final ICS by the end of 2024, despite the challenges of Covid-19. Our Executive Committee as recently as last month reaffirmed our commitment to these ICS Monitoring Period timelines.

I now want to come back to the theme of looking to the horizon – and talking about our role as global coordinator of supervisory responses.

Chief amongst these is climate change – which is also on your agenda for discussion today. This is a key priority for the IAIS, if not the top priority, given the systemic nature of the risk and what we recognise as the critical stewardship role of the insurance sector in the transition to net zero. The IAIS has been working on the issue for several years, and I am proud to say, as a pioneer amongst standard setting bodies on this topic. We have published guidance on the supervision of climate related risks in the insurance sector, including specific recommendations on how the existing regulatory toolkit can be used, including in the areas of risk management and ORSAs and on the implementation of the recommendations from the Task Force on Climate-related Financial Disclosures.

In the run up to COP26, we issued a statement that commits the IAIS to further amplify our response to climate change. We have set up a Climate Risk Steering Group to accelerate and coordinate this work. I am very pleased that Daniel Wang from the Monetary Authority of Singapore is chairing this group and that the Insurance Authority of Hong Kong is actively contributing to the work.

Immediate next steps include:

- Firstly, assessing whether the existing regulatory toolbox is enough, by means of a gap analysis of our global standards to consider whether climate risk needs to be more explicitly addressed, or whether further supervisory guidance is needed;
- Secondly, work to share examples of effective practices for developing climate scenario analysis in the insurance sector, building off the cross-sectoral work of the likes of Network for Greening the Financial System and others; and
- And lastly, considering how best to integrate climate-related financial risks in the annual data collection as part of our GME.

I also want to flag our recently published report on insurers' investment exposures to climate risk which clearly highlights the benefits of an orderly transition, both from a solvency and financial stability perspective. Compared to an orderly transition towards internationally agreed climate targets, a disorderly transition, or a scenario whereby climate targets are not met at all, would have a two to six times greater adverse effect on sector-wide solvency.

This is a powerful message, but the report also flags that there is much work to do to strengthen the analysis, not least the need for 1) joint efforts to overcoming the conceptual and methodological challenges of modelling long-term, nonlinear effects of climate change; 2) a globally consistent framework for climate risk-related financial information (and hence our support for the formation of the International Sustainability Standards Board); and 3) efforts to address gaps in supervisory reporting on climate risks.

But monitoring the risks will not be enough. We also need concrete actions from public and private sectors alike on climate change mitigation and adaptation. In this regard, it is encouraging, I think, to see so much progress made by the many industry-led initiatives – such as the Glasgow Financial Alliance for Net Zero. And as a body of supervisors, we will be considering the possible ways our members could most usefully engage with insurers on their plans for transitioning to net zero.

In the interest of time, I will highlight some of our other strategic themes more briefly, but I do want to touch on a few, as these are important issues on our agenda but also for the Asian region:

On Digital Transformation – Our focus here is on equipping supervisors to best support innovation, through identifying hurdles to digitalisation and removing obstacles, while at the same time meeting supervisory objectives of policyholder protection and financial stability – maximising the opportunities, while managing the risks of this "new normal". The Asian region is clearly a leader here, and we will look to continue to learn from this leading-edge work that happens here and share it with our members more broadly. Our IAIS FinTech Forum is undertaking deep-dive analysis on supervisory practices with respect to various digitalisation trends, as a first step towards developing further global guidance. For supervisors, the "new normal" means undertaking supervision in an increasingly virtual setting – and that is why we will be taking forward work on the increased use of Supervisory Technology, or SupTech, in this context.

On Cyber risk, in light of the global and accelerating nature of this threat to the insurance sector, last month our Executive Committee resolved that cyber risk will be the next special topic of our annual Global Insurance Market Report. The work will explore the potential financial stability impact of cyber risk, how cyber underwriting may mitigate or possibly even amplify this risk, and how the GME could contribute to monitoring of these issues at the global level.

Financial inclusion and sustainable development remain important focus areas for us too, particularly given our broad membership. Together with our key partner, the Access to Insurance Initiative (A2ii), we help our members play their role in addressing protection gaps and achieving sustainable development through proportionate regulation and through supporting innovation. With the pandemic having exacerbated issues of social inequality, the urgency of addressing protection gaps is now more pressing than ever. A good deal of our focus to date has been on efforts to address the climate risk protection gap, and currently we are also progressing work looking at a supervisory perspective on the pandemic risk protection gap and looking at how some of these lessons can be applied more generally to issues of protection gaps.

Lastly, I want to touch on issues of diversity, equity, and inclusion, or DE&I. I am happy to share that the IAIS has added issues of DE&I in the insurance sector as a strategic theme. We recently issued a statement highlighting the importance of DE&I considerations to the objectives of insurance supervision. Starting next year, we will consider the many interlinkages between DE&I and our work on governance, culture and conduct, and start to share good practices on supervisory and industry initiatives to embed DE&I into insurers' governance and business models. I am also pleased that Helen Rowell, Deputy Chair of APRA, recently became the IAIS' DE&I Champion and I am sure she will be a powerful voice in driving forward our work in this area.

So, thank you for the time. And in conclusion, I think the one common factor in all of the issues I have discussed today is the global nature of the risks and opportunities that the insurance sector faces in this new normal – and that the Asian region is at the cutting edge of many of these trends. I believe our drive for supervisory coordination will not only prove key to effective supervisory responses to global challenges, but also should benefit particularly internationally active insurance groups, as over time this will contribute to reduced market fragmentation and a more common language for understanding and addressing these challenges.

Once again, thank you Moses and Clement and your team not only for inviting me to speak today but also for the excellent continued cooperation - I look forward to the important insights coming from your discussions today, and, in particular, the strong collaboration to come.

Thank you.