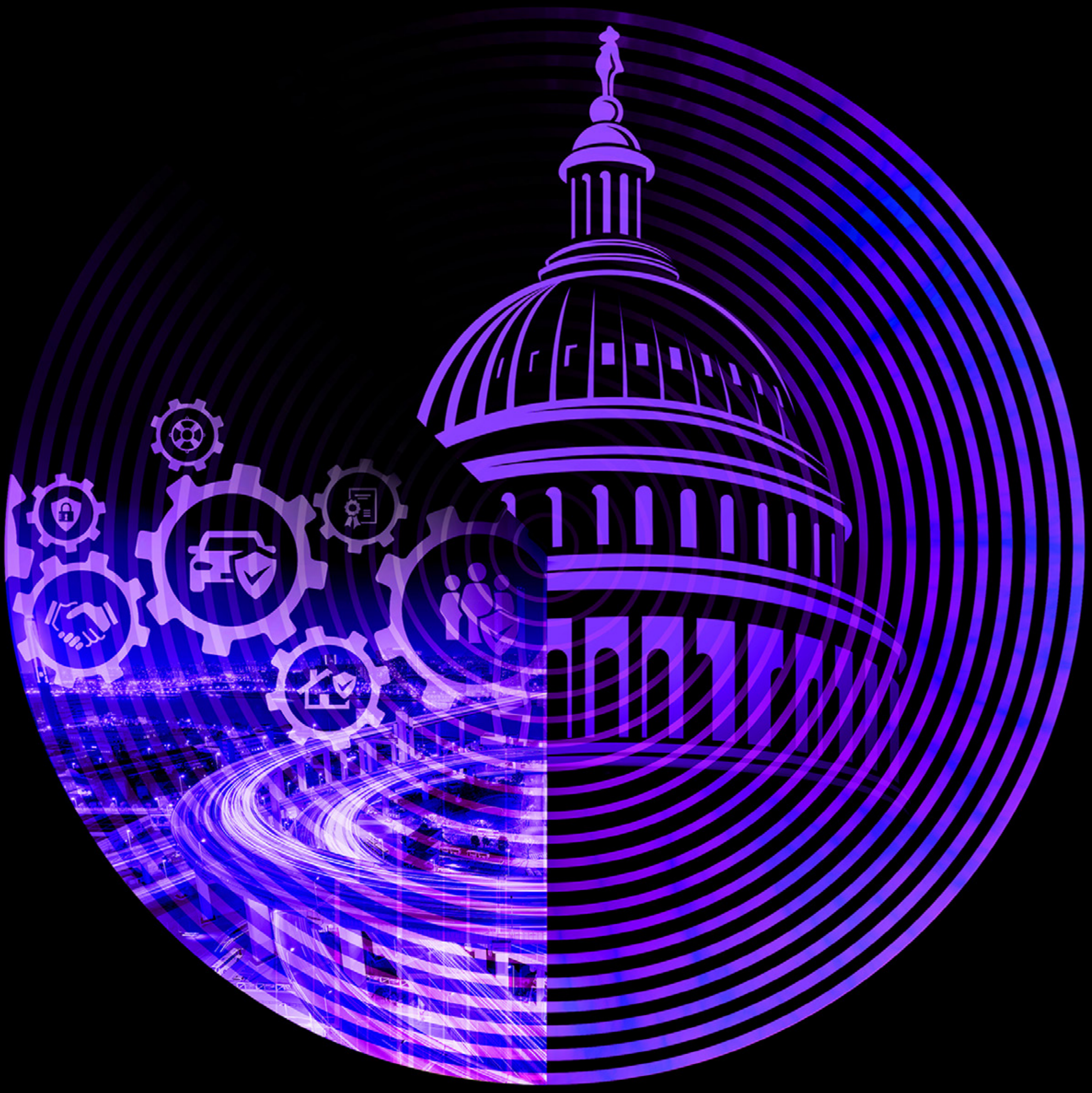

2023 IAIS Global and Annual Meeting Review

Center *for* Regulatory Strategy US

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Introduction

The concept of insurance as foundational in addressing global social and economic challenges was brought into high relief during 2023's meetings of the International Association of Insurance Supervisors (IAIS), most noticeably when Japanese Prime Minister Fumio Kishida addressed the annual conference in Tokyo November 9 to describe the importance of the insurance sector's and insurance supervisor's role in bringing about transformation.[1]

Kishida opened the IAIS annual meeting in Tokyo held November 9–10 by highlighting insurance companies' importance in providing long-term funding in social challenges and "green" transformation policies as well as protection against risk.

Kishida expressed his belief that it will become increasingly important that the public and private sectors take action in a collaborative manner to address challenges such as climate change and natural catastrophe (natcat) and weather-related disasters and that it is "extremely important" that insurance supervisors around the world engage in dialogue.

From its global seminar June 15–16 in Seattle to the sessions of the annual meeting five months later, it is clear the IAIS is involved in such engagement.[2] The prime minister also stressed to the conference that it's important that insurance companies maintain their soundness, sophisticated governance, and management structure. Here, too, the IAIS demonstrated its focus on this dual concern of supervisors. Protection and solvency remained richly visited themes throughout the IAIS meetings in 2023.

The Tokyo-based annual meeting drew more than 400 participants from more than 100 jurisdictions, according to IAIS Secretary General Jonathan Dixon. The theme Dixon identified in June also prevailed at the annual meeting a season later, when his remarks underscored the importance of the insurance sector in meeting societal goals and the part supervisors can play in addressing these very severe societal challenges in ways that don't undermine financial stability.

Running through the 2023 discourse were the sentiments of collaboration and global standards harmonization in support of tackling challenges from assessing alternative capital to climate change risks.

Leadership changes at the IAIS also literally took center stage at the IAIS in 2023. It was in Tokyo where Shigeru Ariizumi, vice minister for international affairs of the Financial Services Agency (FSA) of Japan, publicly took the reins from outgoing Executive Committee (ExCo) Chair Vicky Saporta, executive director of Prudential Policy Directorate at the Bank of England, extolling her tenure and success in gathering all stakeholders together and developing a path forward agreeable to all IAIS members.

As the new ExCo chair (and former vice chair), Ariizumi outlined three issues going forward, underscoring the continuation of Saporta's leadership goals:

1. The International Capital Standard (ICS) implementation;
2. The IAIS role in ensuring the insurance sector can deliver on its commitment to society with a call to action to narrow the natcat protection gap; and
3. Intensified efforts toward developing the IAIS 2025–2029 strategic plan.

Here is a closer look at the core pillars of oversight that the IAIS explored in depth through its public meetings in 2023:

- The role of the IAIS in ensuring adequate protection for consumers in the face of accelerating climate change and natural catastrophe severity and frequency.
- Structural change during this final stretch toward implementation of the ICS and monitoring of risks such as liquidity, credit, and portfolio quality overall. This work is a key part of the IAIS's focus and is designed to play a significant role in fortifying the insurance sector's stability. (This also includes development of the IAIS 2025–2029 strategic plan.)

Global attention to protection gaps

No shortage of gaps

From Seattle to Tokyo in 2023, IAIS supervisors as well as attendees were clear that stakeholders in the public and private sectors have a role to play in addressing climate risks and natural catastrophes. The message was reiterated by IAIS executives as well as industry panelists. IAIS meeting participants also underscored the message that recovery from natural disasters is stronger if there is a strong insurance market, but with reservations from industry that by itself it does not have enough capacity to ensure recovery. "This is not just an insurance problem," observed one chief risk officer of a multinational insurance company in Spain during a session at the global seminar in Seattle.

Participants and supervisors welcomed the approach by IAIS to identify protection gaps and work more with consumer group representatives to identify issues such as consumer vulnerabilities, rights, protections, and the role of disclosures and market conduct.

Protection gap discussions centered on climate, demographic risks and health, and financial protection gaps.

In Seattle, then-NAIC President Chlora Lindley-Myers, director of the Missouri Department of Commerce and Insurance, opened the meeting by asking whether every person who needs insurance can obtain it at a fair and reasonable price regardless of race, gender, or other unique characteristics. She noted that the impact in gaps in coverage can reach far beyond the industry and consumers the sector serves. Lindley-Myers identified well-known protection gaps such as in cyber, infrastructure, climate, and knowledge, but also asked the sector to be aware of these hidden gaps: training; education, and communication.

Are we unscrambling the "jargon and insider-speak" so consumers have access to the latest information in easy-to-understand formats, she encouraged participants to ask of themselves. Afterall, informed consumers make better decisions about preparation mitigation and recovery, Lindley-Myers noted.

Climate change gaps—and a bevy of climate-related papers

In Tokyo, Daniel Wang, chair of the IAIS Climate Risk Steering Group (CRSG) and executive director of the insurance department for Monetary Authority of Singapore, continued to stress the importance of considering climate-related risks in a forward-looking manner. He pointed to insurers having become more climate-resilient and the role of the IAIS. However, Wang noted that the IAIS "is not resting on our laurels." Instead, the IAIS is refining its climate data views even as its members and their insurers improve their reporting frameworks and their climate disclosures, Wang said.

The Singapore insurance supervisor pointed to a freshly released report in November, "A call to action: the role of insurance supervisors in addressing natural catastrophe protection gaps," which highlights five major areas of supervisory activity to address natcat protection gaps.[3] They include assessing insurance protection gaps; improving consumer financial literacy and risk awareness; incentivizing risk prevention; creating a regulatory environment to support the availability of insurance; and advising government and industry on public-private partnerships (PPPs) or insurance schemes.

Wang discussed the potential of parametric or index-based insurance as a solution and opening up the reinsurance market to natcat protection gaps, and he noted the IAIS report also addresses the risks involved. The report states that parametric insures should be understood by policyholders so that they know what kind of event would actually result in a payout.

Wang also noted that the IAIS is actively considering climate-related risks in a forward-looking manner. He added that a number of supervisors have already set risk-based capital requirements on natcat risks to ensure that capital resources are properly allocated to cover these risks.

"Everyone has skin in the game, and everyone has a role to play," Wang had mentioned in Seattle while moderating a panel on integrating climate risk into supervisory practices. Industry participants agreed, adding remarks about how people and entities need to work together to address climate risk as a global risk, not just a financial one. When a natural catastrophe occurs, the most important element is the people working together toward disaster recovery, one industry participant pointed out. Recovery is quicker with a strong insurance market, panel members agreed. A public-private partnership to address climate risk is necessary because private industry doesn't have enough capacity on its own, said one executive on the panel, who added that the situation "is not just an insurance problem."

Based on natcat data that the IAIS has seen from a number of individual insurers, the IAIS estimates that immediately following a one-in-200-years event, insurers' capital coverage ratios could decline on average by approximately one-third. This highlights the urgency of taking action, Wang stressed.

Yoshihiro Kawai, chair of the Organisation for Economic Co-operation and Development (OECD) Insurance and Private Pension Committee; chair, Global Asia Insurance Partnership; and former IAIS secretary-general, reiterated the theme that collaboration is an essential part in reduction, prevention, literacy, and facilitation issues surrounding climate change issues—the industry cannot do it alone. Kawai further stated the newly released gaps report mentions that supervisors are in a good position to be a bridge between policyholders and industry. Through this bridge, according to the report, supervisors can "enhance coordination of a broader government response.... Joint efforts can lead to the development of innovative products, solutions and coordinated risk management strategies."

"We have moved more people and more assets into the high-risk regions.... We need to incentivize risk reduction and risk prevention," said one industry association representative in Seattle, highlighting the role of insurance regulators in promoting a systemwide risk reduction approach or plan or framework to keep insurance viable and not priced out of the market.

Ricardo Lara, commissioner of the California Department of Insurance, raised the need to focus on new and innovative products to help consumers. Lara noted that California is studying insured and uninsured losses around extreme heat, with implications for building materials and how structures are built—and communicating risks of certain materials to consumers and guiding them on mitigating that risk. Insurance "can no longer be an afterthought," he said, further lamenting that consumers are seeing coverage rates "skyrocket" and want quick answers to really difficult problems.

While collaboration is key, he acknowledged, so is being bold in prevention. He pointed to insurance products deployed to protect natural infrastructure, such as coral reefs in Puerto Rico and Hawaii, and said California is looking to follow this lead with innovations in natural protection products.

Participants in IAIS sessions in June and November also emphasized the need to have broad input—and even creating a consumer office that's built into a company's internal structure or perhaps having a consumer advisory panel. Jon Godfread, North Dakota's insurance commissioner, chair of the IAIS Supervisory Forum, and then-NAIC vice president, noted that it's good for regulators to come out of their shells and be exposed to different, shared ideas during the global seminar in Seattle.

A word to the wise

A consulting firm executive told IAIS annual meeting attendees in Tokyo that the next challenge is not to just simply supply quantitative information but to give sufficient information to supervisors so they can evaluate an insurer's resilience to climate change and avoid boilerplate disclosures. "Everyone's got a plan till he gets punched in the face," he said, noting he was paraphrasing legendary boxer Mike Tyson.[4] "Climate change will be that punch in the face for humanity," the executive said. The plans of insurers need to be resilient to overcome any unforeseen events, and insurers need to be able to bob and weave and survive no matter what climate throws at us. Insurance companies need organizational structures that are capable of responding to an event, he said.

Climate disclosure exercises and compliance also got their moment in the spotlight in the land of the rising sun. Participants discussed combatting greenwashing, enhanced disclosures, and forms that encourage companies to identify risks. One global insurer noted that to minimize greenwashing, corporate managers should stay accountable, adding that disclosure of information needs to be aligned with the strategy of the company. This international insurance executive expressed concern as to whether insurers feel they have sufficiently granular data on physical risks to understand their exposures on both sides of the balance sheet and what to do if they don't.

If the data isn't good, what can insurers do, this executive asked. He noted that at this moment in time, scope 3 greenhouse gas (GHG) emissions data is "very rough" and "very premature" to disclose with any precision. The US Environmental Protection Agency (EPA) defines scope 3 emissions as the result of activities from assets not owned or controlled by a company but that the organization indirectly affects in its value chain. It notes that scope 3 emissions often represent the majority of an organization's total GHG emissions.[5]

Participants agreed that it's important to disclose what you can as an insurer, with the understanding that all actors will need to bring their emissions down to net-zero by 2050.

"If we wait until the data becomes more reliable or credible, then nothing's going to happen … the goal now is to enhance disclosure, not accuracy," said the insurance executive during the Tokyo panel on evolving supervisory practices to tackle climate risk.

IAIS CRSG Chair Daniel Wang agreed. "Do not let perfection be the enemy of the good," he said, referring to imperfect climate disclosures.

There are three things supervisors can do, Wang told attendees.

1. **Consistent climate data reporting material to achieve comparative data:** Insurance supervisors can collect climate-related data through exercises such as climate modeling and risk scenarios to improve data collection and disclosures.

2. **Provide global baseline standards and provide time for insurers to build capacity with a phased-in approach:** Fostering convergence to a common baseline will create greater harmonization for insurers.

3. **Capacity-building efforts through the creation of training and support for insurers:** "We can lean into the pool of green expertise" at the public and private level through brainstorming and other means, Wang said.

Consumer education and financial literacy are important

Back in Tokyo, NAIC President Elect Andrew Mais, moderating a panel on embedding customer-centric outcomes in the insurance sector, found through a polling question that consumer education and increased financial knowledge can best support better consumer outcomes for those buying insurance and dealing with claims. Many claims-handling complaints from consumers are reviewed by regulators, he said. Mais mentioned that he had a 93-year-old mother who brings him materials to review, pointing out that people don't all have intermediaries they can ask to understand insurance products.

Karen Cox, CEO of Financial Rights Legal Centre, underscored the reality that disclosure is not enough, based on research and other findings, and that people—even if they read policies—often don't understand them. Many people need verbal information, not written or graphic information, Cox said.

When asked by panelist moderator Mais about how to reach diverse communities, a Japanese life insurance executive for sustainability management and development gave specific examples of firm financial inclusion initiatives for all groups of customers, from those in protected groups to those with specific disabilities such as hearing loss. Having family members understand the policies was also highlighted.

Mark White, chair of the IAIS Market Conduct Working Group and CEO of the Financial Service Regulatory Authority of Ontario, responded that his office spends a lot of time looking at what's going on in the marketplace. It's important as a supervisor to be situational and approach issues in a proportional way, he said. Supervisors have to work to level the playing field by identifying issues of concern to consumers that they can't understand or aren't economically able to act on, according to White and other panelists. If there are patterns of high lapse rates, regulators can step in to investigate what is happening, or being understood, by consumers; look into how data is used; how a purchase is made, including the bundling of products; and how consumers are behaving.

Addressing demographic and health risk gaps, for example, Clement Cheung, chair of the IAIS Audit and Risk Committee and CEO of Insurance Authority Hong Kong, expressed concern that Hong Kong's life expectancy is very high, but the number of caregivers is on the decline.

Markets have imperfections, and some of those imperfections are insidious and difficult, so regulators need to get very involved with the complexity of the insurance product life cycle, White said. He mentioned the issue of inherent biases in data and algorithms. When Mais addressed the potential ability of supervisors to look into algorithms, for example, where these algorithms screen out consumers at some point in the process, White said it was a tough thing for insurance supervisors to do.

White discussed IAIS Insurance Core Principle (ICP) 19 on business conduct.[6] This ICP requires that insurers and intermediaries treat customers fairly, both before a contract is entered into and throughout the contract till all obligations under the contract have been satisfied. White discussed reasonable accommodations that an insurer or an intermediary should provide for diverse customers to ensure fair outcomes. It's "not about insurers abandoning risk analysis or about the cross-subsidization of diverse consumers," White explained. Instead, it's about "finding the right balance in the marketplace where that insurer and that supervisor operate."

For a while now, global regulators have had a sharp eye on problematic applications that could unfairly affect vulnerable consumers. In general, market conduct issues with regard to protection gaps in the industry will be a focus of supervisory efforts in the future, attendees were told in June.

By November, the IAIS had released a draft application paper "to support supervisors in their efforts to identify instances of potential unfair treatment of consumers that can emerge in relation to sustainability-focused products or natcat protection products."[7]

Protection gaps caused by climate events are limited not only for consumers but the greater marketplace.

Also in November, the IAIS released an application paper on climate-related scenario analysis used to understand the financial risks to the insurance sector and how analysis exercises can best be employed to assess macro- and microprudential risks.[8]

Within the CRSG, IAIS members are developing a comprehensive supervisory response to climate risk, Wang said, spread out over multiple consultations.[9]

Structural change in 'a multi-crisis world' and the last mile toward the ICS

Risks that supervisors are scrutinizing

Panelists outlined current and emerging risks beyond climate that affect the insurance sector. Interest rate risk, with issues on duration matching for some insurers, and the risk of collateral calls and policy surrenders was more an issue at the Seattle meeting in June than it was by November. Credit risk was also a concern, as was the unknown future involving cybersecurity, whose risk one European country's supervisor said hadn't been sufficiently mapped out.

Susan Neely, president and CEO of the American Council of Life Insurers (ACLI) and president of the Global Federation of Insurance Associations (GFIA), offered commentary in Seattle that the industry can weather the current storm as it is matching assets to liabilities and is already highly regulated.

"We are living in a multi-crisis world," noted one insurance supervisor in June, mentioning supply chain issues, global conflict, interest rate pressures, and the US banking crisis in the first months of 2023.

IAIS officials were clear that despite such headwinds the organization's global monitoring exercises to assess risks in the insurance sector was a tool against tumult. With the exception of some idiosyncratic places, the insurance sector has remained resilient due to sound liability matching, taking into account liquidity and concentration risk, IAIS officials underscored. They said this highlighted the need for a common language on standards, at which they were moving "full speed ahead" with the ICS to have it ready and firmly on track for 2025, after the five-year monitoring period ending in 2024.

Seattle's discussion focused on the turbulent time in global financial markets.

By the end of the year, the IAIS has published its 2023 (sharing the outcomes of this year's) Global Monitoring Exercise (GME.)[12] This report, highlighting key risks and trends facing the global insurance sector, asserted that geopolitical risks and purchasing power risk could negatively affect insurers' solvency and profitability through lapses and other declines.

Liquidity risk was also at the forefront of supervisors' minds at panel sessions in June, with the accompanying need for regulators to monitor and measure liquidity risk profiles. One supervisor noted there was a need to beef up liquidity monitoring for the prudential oversight framework.

In Tokyo, Dieter Hendrickx, chair of the IAIS Macroprudential Committee, discussed the structural shifts in the life insurance sector. Hendrickx, also head of Prudential Policy Insurance at National Bank of Belgium, noted that the sector has been challenged by a decade of low interest rates, leading to structural changes in the life insurance market. One notable trend is the increasing investment in alternative assets across the globe, which are typically associated with high liquidity risk and complexity. Hendrickx emphasized that in the current environment of increasing interest rates, insurers need to understand the new risks that can emerge and how investments in alternative assets could interact with those. He also highlighted the challenges of asset valuation and liquidity in case of asset liquidation.

Another important point was the increased use of asset-intensive reinsurers, which can raise concerns due to their complexity and jurisdictional authority, according to Hendrickx. He stressed the need for supervisors to understand these transactions and trends, and suggested the use of external data sources and information exchange between supervisors to achieve this.

The ICS is coming, the ICS is coming!

By the annual meeting in Tokyo, the ICS was beginning to come more into focus.

While in Seattle, United Kingdom's Vicky Saporta, outgoing ExCo IAIS, mentioned that the United Kingdom is revising its own standard, similar to ICS, and will align if needed. Gary Anderson, vice chair of the IAIS Executive Committee and commissioner of Massachusetts Division of Insurance, discussed the timeline on the US Aggregation Method (AM) alternative for the ICS and its comparability assessment process, with the final comparability report due in late 2024.

In Tokyo, Paolo Cadoni, vice chair of the IAIS Policy and Development Committee and head of the Insurance Policy Division at Bank of England, mentioned that 2024 will be the final year of the monitoring period, anticipating adjustments to be made to the ICS.

Saporta said a lot of work still needs to be done, but reassured participants that the IAIS is still on track. She emphasized the need for adjustments, thorough evaluation, and the importance of the assessment team in ensuring credibility. There is one more year of analysis before the ICS is finalized in December 2024, Saporta said. She stressed that the AM would be judged on the agreed-upon criteria and would not be given "a free pass." Nor would it be precluded, she said.

The IAIS assessment team is "frontloading" a lot of the work, given the fact that it needs to launch the templates for the final ICS in June 2024, Saporta said. In Tokyo, Saporta championed what she termed "evidence-based policy" in discussing the ongoing comparability assessment between AM and ICS using criteria that had been previously agreed upon. The assessment team, she said, has geographical diversity and expertise in both the AM and the ICS.

When asked by Yoshi Kawai in Tokyo about her past eight years on ExCo and her most memorable moment, Saporta pointed to the November 2019 IAIS meeting in Abu Dhabi where an agreement was forged by the IAIS's ExCo on the way forward for the ICS to serve as a common language to supervise internationally active insurance groups.[13]

"We were united, and that then plotted the path we have been traveling, where it all came together," she said, noting that the IAIS was then "united in harmony and moved forward."

"*Je ne regrette pas rien*," she remarked, although later she said that perhaps "I should have started a bit earlier."

Ariizumi, of Japan's FSA and the new chair of IAIS ExCo, at the annual meeting in Tokyo, emphasized the need for thorough planning and coordination to achieve a comprehensive ICS package by the end of 2024. The "last mile is not always the easiest mile," said Ariizumi. He added that there remains a need to frontload some of the work and coordinate all the exercises to have a comprehensive package by the end of next year to have the ICS as a Prescribed Capital Requirement (PCR) , an appropriate economic impact assessment, and a proper comparability assessment between the ICS and AM. Ariizumi emphasized the importance of close communication among members to finalize this very comprehensive work of the IAIS.

Anderson gave an overview of the history of data collection on AM, indicating that it has been ongoing since 2018. The Massachusetts insurance regulator added that the data collected would inform the evaluation of the comparability criteria.

Petra Hielkema, IAIS FinTech Forum champion and chairperson of European Insurance and Occupational Pensions Authority (EIOPA), thanked those who provided data for helping in the development of the AM and ICS, indicating that the data would contribute to the creation of a worldwide standard.

Overall, the Tokyo annual meeting underscored the importance of data to inform the development and finalization of the ICS, with 2024 being a crucial year for ICS adoption and adjustments.

What's next?

The IAIS is focused on the development of the IAIS 2025–2029 strategic plan and financial outlook. This involves intensified efforts to set the medium-term strategic plan and a focus on implementation and capacity-building, according to the organization.

The IAIS is reviewing comments received on its closed the public consultation on the ICS as a PCR. The US homegrown AM tested in an ICS comparability exercise should be finalized by the end of 2024, with templates anticipated in June.

The global seminar this year will be held July 8–11 and will be virtual. The annual meeting will be in Cape Town, South Africa, the first week of December, with details to be furnished later.[14]

IAIS meeting participants almost always had their focus on the future—to those who will "take our place," or be here after us, as Lindley-Myers noted at the outset of the global seminar in June. The group focused on the steps it can take forward together and how it can get there by working collaboratively, being adaptive and attentive to address the issues, and remaining vigilant while "always, always" seeking to learn and grow, as Lindley-Myers said.

"Can you imagine the parties we will have in Cape Town?," asked IAIS Secretary General Dixon, envisioning post-ICS adoption celebrations at the annual conference in December.

> The "last mile is not always the easiest mile"
>
> **Shigeru Ariizumi**
> **ExCo chair**

Endnotes

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Contacts

Guarav Kumar
Advisory Principal | Deloitte & Touche LLP
gukumar@deloitte.com

David Sherwood
Advisory Managing Director | Deloitte & Touche LLP
dsherwood@deloitte.com

Center for Regulatory Strategy Americas

Irena Gecas-McCarthy
FSI Director, Deloitte Center for Regulatory Strategy, US
Principal | Deloitte & Touche LLP
igecasmccarthy@deloitte.com

Jim Eckenrode
Managing Director | Deloitte Services LP
jeckenrode@deloitte.com

Liz Festa
Senior Research Analyst | Deloitte Services LP
lfesta@deloitte.com

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