

Position Paper

of the German Insurance Association (GDV)
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on macroprudential supervision of NBFIs and the insurance sector

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Executive Summary

The German Insurance Association (GDV) acknowledges the increasing importance of non-bank financial intermediation (NBFI) for the effectiveness and stability of the financial system. We agree that a comprehensive and effective macroprudential framework is warranted, encompassing all NBFI activities. However, regarding macroprudential reforms, a risk-oriented approach that fully recognizes the heterogeneity of the NBFI sector and the already existing regulatory framework is crucial.

The insurance sector plays a unique role in the economy and the financial system, and its risk profile is distinct. Due to the essential functions the insurance sector performs, it is already highly regulated and supervised, including macroprudential oversight. With the Solvency II review, further macroprudential tools and measures were agreed on. Therefore, the insurance sector should always be treated separately and not be included under the “NBFI sector” and its regulation. Instead, any concerns regarding potential gaps in the regulatory framework should be addressed within the context of insurance supervision.

1. Introduction

In light of the structural changes in the financial system and the heightened risks to financial stability, the so-called non-bank financial intermediation (NBFI) sector has emerged as a major focus for macroprudential regulators and supervisors. This focus has been reinforced by the recent financial crises, originating in this very sector,¹ that highlighted the importance of systemic liquidity risk.

Globally, a major workstream of the Financial Stability Board (FSB) is currently aimed at enhancing the resilience of non-bank financial Intermediation, e.g. with respect to potential margin calls on derivative positions and leverage.² In the European Union, the European Commission has extended its review of the European macroprudential framework for the banking sector to encompass the NBFI sector,³

¹ In particular, recent financial crises that originated in the NBFI sector were the “dash-for-cash” episode at the onset of the Covid-19 pandemic in March 2020, the collapse of the family office Archegos in 2021, and the UK pension funds and gilt market crisis in the autumn of 2022.

² [FSB Progress report “Enhancing the Resilience of Non-Bank Financial Intermediation”](#), July 2024

³ [Report from the Commission to the European Parliament and the Council on the macroprudential review for credit institutions, the systemic risks relating to Non-Bank Financial Intermediaries \(NBFIs\) and their interconnectedness with credit institutions, under Article 513 of Regulation \(EU\) No 575/2013 of the European Parliament and of the Council of 26](#)

and launched a consultation on the adequacy of macroprudential policies for NBFIs in May 2024.⁴

In line with the growing importance of the NBFIs sector, the increased focus on NBFIs is understandable. However, **in our view the current approach to a macroprudential framework for NBFIs raises fundamental definitional and conceptual questions and should be modified.**

The NBFIs sector encompasses a wide range of highly diverse entities and activities such as investment funds, venture capitalists, family offices, and the crypto ecosystem. These entities differ greatly in terms of business models, existing supervisory framework, and their contribution to systemic risk. This heterogeneity should be fully taken into account when discussing potential macroprudential reforms. In the ongoing discussion about the macroprudential framework for NBFIs, the insurance sector is often categorized as part of the NBFIs sector. Concerns about unaddressed systemic risk in NBFIs and the perception that NBFIs are much less regulated than banks are frequently generalized to the entire NBFIs sector, including insurers. However, this does not do justice to the insurance sector, its supervisory framework, and its risk profile. We are concerned that this approach could result in inappropriate new provisions for insurers, thereby impairing the effectiveness of the insurance sector.

2. Insurance – a unique sector⁵

The insurance sector fulfils fundamental economic functions for the economy and society. Insurers provide protection against a wide range of risks for almost every private household and company, including natural hazards, third-party liability, or occupational disability. In addition, life insurance serves as a pillar of old age provision. As institutional investors, insurers are a crucial long-term source of financing for the private and public sectors. The insurance sector is also a unique source of expertise and support in risk management and mitigation for its customers and society at large. Given its vital role in the economy and the financial system, the insurance sector is already subject to stringent regulation and supervision. This includes strict solvency capital requirements and extensive provisions for risk management and internal governance. Insurers are also required to comply with comprehensive disclosure requirements.

[June 2013 on prudential requirements for credit institutions and amending Regulation \(EU\) No 648/2012](#), January 2024

⁴ [Targeted consultation assessing the adequacy of macroprudential policies for non-bank financial intermediation \(NBFIs\)](#), May 2024

⁵ For a more detailed explanation, see the report [“Insurance: a unique sector. Why insurance is different to banking and other financial sectors”](#) published by the Global Federation of Insurance Associations (GFIA) in January 2024.

Due to its specific business model, the insurance sector is exposed to risks that are different in nature, scale, and scope from those of both banks and other NBFIs. The insurance business is characterised by its long-term orientation, stable financing of liabilities, advance financing of insurance benefits through insurance premiums and the linkage of most insured events to external causes. Consequently, systemic risks in insurers' core business are low. Insurers have little leverage. Their liquidity risks are moderate and considerably lower than in the banking sector and some other NBFIs segments.⁶ While the insurance sector is highly interconnected with other financial sectors, it predominantly serves as a stabilizing factor in the financial system, enhancing resilience by providing insurance coverage, e.g. for natural hazards, and by holding assets through market crises or buying assets temporarily undervalued in stress episodes.

We recognize that the structural changes in the financial system affect (systemic) risk in the insurance sector. For instance, liquidity risks have increased in importance. However, these issues have already been addressed by insurance regulators and supervisors through bespoke measures designed for the insurance sector.

3. Effective macroprudential framework for insurers

The insurance sector is not only subject to comprehensive microprudential supervision, but also benefits from a robust macroprudential framework. Globally, the International Association of Insurance Supervisors (IAIS) established its [Holistic Framework for the assessment and mitigation of systemic risk in the insurance sector](#) in 2019. Implementation assessments by the IAIS have consistently shown a high level of adherence in the countries examined. There is widespread agreement that the Holistic Framework has proven highly effective as a macroprudential framework for the insurance sector during recent crises.⁷ In the EU, a comprehensive monitoring framework for potential systemic risks in the insurance sector is in place, including EIOPA's insurance risk dashboard and financial stability reports, as well as oversight by macroprudential supervisors such as the ESRB. Furthermore, the current supervisory regime, Solvency II, incorporates significant macroprudential elements, such as the volatility adjustment.

⁶ The particularities with regard to insurers' liquidity risks are highlighted in a recent report by the Geneva Association "[Liquidity Risk in Insurance – A topical perspective](#)", July 2024.

⁷ Based on the positive experience of the initial years and the IAIS's implementation assessments, in 2022 the FSB endorsed the Holistic Framework as the macroprudential framework for the global insurance sector and discontinued its earlier macroprudential regime of annual identification of global systemically important insurers (G-SIIs) which had been suspended since 2017 in light of the development of the Holistic Framework (see [FSB press release of 9 December 2022](#)).

The regulatory and supervisory framework for insurers is continuously evolving, including macroprudential considerations. The heightened significance of liquidity risks has already led to a substantial enhancement in the surveillance of insurers' liquidity risks. For instance, in 2020 EIOPA established a quarterly monitoring exercise regarding the liquidity position and projections of insurers with a potentially vulnerable liquidity profile. Since 2021, a liquidity component has also been included in EIOPA's insurance stress test.

Furthermore, as part of the Solvency II review, a major reform of the macroprudential framework for the European insurers was agreed upon in December 2023. The amendments to the Solvency II Directive integrate extensive macroprudential requirements into insurers' ORSA und investment strategies. They also introduce new macroprudential tools und supervisory powers. Given the structural changes that have heightened the importance of liquidity risk in the financial system, these new tools and supervisory powers are specifically aimed at addressing liquidity risk. All insurers, with the exemption of small and non-complex undertakings, will be required to draw up and keep up to date a liquidity risk management plan (LRMP) covering liquidity analysis projecting the incoming and outgoing cash flows in relation to their assets and liabilities. Further, new supervisory powers to address severe liquidity vulnerabilities are introduced, including temporary restrictions of dividend distributions and temporary suspensions of redemption rights of life insurance policyholders.

The new measures address both insurance specific risk, e.g. increased lapses in life insurance, and cross cutting risks like potential liquidity needs to meet margin calls on derivative positions.

4. Need for a tailored approach

The insurance sector has demonstrated its resilience during the shocks and crises of the past years. The existing regulatory and supervisory regime has functioned well. With the Solvency II review, a further strengthening of the macroprudential framework has already been agreed upon. Consequently, we see no evidence for the necessity of further macroprudential reform for insurers.

In any case, it is crucial that the insurance sector is recognised and treated as a distinct sector. It should not be subsumed under a general discussion on the regulation of the NBFIs sector. To ensure an effective and efficient macroprudential approach for the insurance sector, any macroprudential measure or tool must be tailored to the characteristics of the insurance business and aligned with the existing insurance supervisory framework, including the IAIS's Holistic Framework. Supervisory instruments or measures developed for other segments of the financial system should under no circumstances be simply transferred to the insurance

sector. Regulation of the insurance sector that is based on broader concerns about banks and other financial sectors should be avoided. This would lead to unjustified operational and cost burdens and undermine the effectiveness of the insurance sector in its critical role as a risk carrier and long-term-oriented investor.

Berlin, 6 September 2024