Insurance Europe response to the IAIS consultation on the review of the GME (IIM assessment methodology)

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Contact person:	International Team	E-mail:	international@insuranceeurope.eu
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Introduction

Insurance Europe welcomes the opportunity to provide comments to the IAIS consultation paper on the review of the Global Monitoring Exercise (GME), regarding the Individual Insurer Monitoring (IIM) assessment methodology.

General comments

The consultation proposes changes without supplying any quantitative support. This makes it complex to assess the impact of the proposed modifications, such as changes in weightings or denominators. For such questions, it is important to evaluate not only the rationale behind the proposed changes, but also the appropriate degree of adjustment.

With regard to the proposed updates to the various existing indicators, Insurance Europe does not have any specific comments.

The industry notes that, at the time of writing, no feedback has been shared or published regarding the ancillary risk indicators on which the IAIS consulted earlier in 2025. These indicators should therefore not be incorporated into the GME/IIM methodological update. Moreover, it appears premature to include them in the data collection templates, even on an indicative basis.

Q1. *What are your views on the proposed revisions to the level 3 assets indicator with respect to the accuracy and consistency of the methodology?*

The industry welcomes the intention of the IAIS to correct the current misleading representation of level 3 assets within the IIM methodology.

Insurance Europe aisbl • rue Champ de Mars,23 B-1050 Brussels
Tel: +32 2 894 30 00 • E-mail: info@insuranceeurope.eu
www.insuranceeurope.eu

Insurance Europe agrees with the issues around the level 3 assets indicator which the IAIS has stated in section 2.1.1 of the consultation paper and also believes that these need to be addressed going forward.

However, the industry questions if the level 3 assets indicator is an appropriate way of measuring the scale of potential fire sales of illiquid assets by an insurer in distressed financial market situations. Notably:

- Insurers typically hold a large amount of highly liquid assets on their balance sheet which can be sold to generate liquidity at short notice should the need arise.
- More illiquid assets, for example alternative assets, are held to a much lower extent.
- Since these investments often reflect long-term assets which generate stable cash-flows they are typically used to match long-term liabilities, e.g., from life insurance contracts.
- Insurers therefore have many other much more liquid assets at their disposal to generate liquidity.
- Using the total amount of level 3 assets as a proxy for the scale of potential fire sales of illiquid assets by an insurer **significantly overstates the systemic risk** and assumes a course of action by insurers that they would usually not choose to take.

Additionally, the amount of level 3 assets on an insurer's balance sheet does not necessarily only contain assets that theoretically could be sold in a crisis situation to generate liquidity. It also includes items that reflect the **organisational structure** of an undertaking, for example investments in associates and joint ventures. Such assets are even more unlikely to be sold as selling them would imply changing the set-up of an insurer's internal business organisation. Including these types of assets in the level 3 assets indicator **again overstates the systemic relevance**.

Q4. *Do you have any views or suggestions on the potential introduction of a complexity category or indicator?*

The introduction of a complexity indicator should not be addressed within the current discussion but should instead be the subject of a dedicated consultation. Indeed, the complexity of an entity can be perceived very differently from one authority to another, particularly due to regional or national specificities. Moreover, complexity is inherently multifactorial. It depends on various factors, including:

- Legal structure,
- Nature of activities,
- Geographical presence, and
- Investment practices.

Many of these factors are already covered by existing indicators. This is a sensitive issue which, if handled hastily, could prove extremely punitive for certain entities, particularly due to potential methodological biases in the assessment approach.

Q8. *Do you have views on the proposed simplification of derivatives data collection?*

Insurance Europe supports the proposed simplification.

Q9. *Do you have views on the proposed simplification of deductions from total borrowing?*

Insurance Europe supports the proposed simplification.

Q16. *Do you have any views on updating the denominators of the IIM absolute assessment methodology?*

Updating the denominators is essential, as the values currently in use no longer reflect the realities of the (re)insurance market. Their continued application leads to a distorted view of certain aspects, such as the substitutability among market players.

Furthermore, to ensure a more accurate understanding of the various market participants once the indicators have been updated (eg, level 3 assets, number of countries, IFA, IFL, etc.), it is essential that the revised denominators reflect these changes in the calculation of the indicators, so as to avoid a distorted representation of reality.

Q19. *Do you have any views on the proposed amendments to enhance regional balance and diversity (including the total assets USD 55 billion reference) in the Insurer Pool?*

Insurance Europe supports the IAIS in formulating a defined threshold of total assets for identifying insurance groups that could be considered by supervisors to participate in the IIM exercise. However, setting this threshold at USD 55 billion is a disproportionate downgrade from the previous reference of 'approaching 65 billion'.

This change is also disproportionate compared to the increase in the threshold for groups being committed to participate in the exercise (from USD 65 billion threshold to USD 70 billion).

Q21. *Do you have any other feedback on the GME methodology for assessing systemic risk in the global insurance sector?*

In general, the industry is of the opinion that the IIM methodology still includes several flaws that should be addressed going forward.

The current methodology inherently **punishes size**, for example, in the "Size" and "Global activity" categories.

Insurers benefit greatly from the law of large numbers and from **diversification** of risks. Notably:

- Insurers reduce the relative risk of losses by insuring a large number of independent units of risks.
- Many insurers further reduce risk and loss volatility by writing several lines of business, and across several countries.
- The larger the number of units, and the more diversified by line of business and geography, the more stable the business is, in general. However, these aspects are neglected in the aforementioned categories.
- Considering two hypothetical insurers, with the same level of written premiums:
    - One of them writes its premiums in many different countries and therefore diversifies its risks,
    - While the other writes all of its premiums in its home country.
- Under the current IIM methodology, all else being equal, the insurer that writes its premiums in many countries would get the higher score and would be considered more systemically risky. The failure of the insurer focusing on only its home country would likely be more impactful on its this country due to the singular business focus.

Additionally, by using total assets and total revenues as indicators, the IAIS IIM methodology leads to a **double counting** in the overall score. Notably:

- **Total assets**: For example, some data items that are already included as part of total assets are used in other indicators as well (e.g., holdings of debt securities or equity as part of the indicator intra-financial assets). Therefore, they are taken into account twice in the calculation of the total score.

- **Total revenues:** For example, premiums included in the indicator "premiums for specific business lines" are also part of total revenues. Premiums for specific business lines that are written outside of an insurer's home country are taken into account three times in the derivation of the total score, as these premiums are:

    - Part of the insurer's total revenues,
    - Used for the indicator "revenues outside of home country", and
    - Included in "premiums for specific business lines".

  It appears unjustified that premiums written for example in aviation, marine or credit insurance contribute three times or that certain types of assets contribute twice to an insurer's total systemic risk score.