



BULLETIN ON
MACROPRUDENTIAL SURVEILLANCE

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FINANCIAL SERVICES COMMISSION
Bulletin on Macroprudential Surveillance

1.0. Background

- 1.01 ICP 24 requires that the “The supervisor (FSC) identifies, monitors and analyses market and financial developments and other environmental factors that may impact insurers and insurance markets and uses this information in the supervision of individual insurers. Such tasks should, where appropriate, utilise information from, and insights gained by, other national authorities.”
- 1.02 ICP 24 therefore broadly requires that the FSC identifies and utilises market-wide and environmental information in the supervision of insurers. The principle also necessitates, where appropriate, for information sharing purposes, cooperation of the supervisor with other national authorities.
- 1.03 During 2016, an assessment of the adherence of the Financial Services Commission (FSC) to ICP¹ 24 was conducted by the IAIS² with a view to identifying any gaps relating to the FSC’s level of observance of the seven accompanying standards. The possible levels of observance, as outlined in the IAIS’ assessment rubric are *not³ observed*, *partly⁴ observed*, *largely⁵ observed* and *observed⁶*. The results of the assessment indicated that the FSC had *partly observed* ICP 24.
- 1.04 Based on the abovementioned, this bulletin seeks to report on measures the FSC intends to implement, which will aid in attaining observance of the seven standards of ICP 24.

2.0. Standards of ICP 24

2.01 ICP 24.1

The supervisor identifies underlying trends within the insurance sector by collecting data on,

¹ Insurance Core Principle

² International Association of Insurance Supervisors

³ No substantive progress towards observance has been achieved.

⁴ Partly observed suggests that, despite progress, the shortcomings are sufficient to raise doubts about the supervisor’s ability to achieve observance.

⁵ Only minor shortcomings exist which do not raise any concerns about the supervisor’s ability to achieve full observance with the ICP

⁶ Whenever all the standards are considered to be observed or when all the standards are observed except for those considered not applicable.

but not limited to, profitability, capital position, liabilities, assets and underwriting, to the extent that it has information available at the level of legal entities and groups. The supervisor also develops and applies appropriate tools that take into account the nature, scale and complexity of insurers, as well as non-core activities of insurance groups, to limit significant systemic risk.

2.02 ICP 24.2

The supervisor, in performing market analysis, considers not only past developments and the present situation, but also trends, potential risks and plausible unfavourable future scenarios with the objective and capacity to take action at an early stage, if required.

2.03 ICP 24.3

The supervisor performs both quantitative and qualitative analysis and makes use of both public and other sources of information, including horizontal reviews of insurers and relevant data aggregation.

2.04 ICP 24.4

The supervisor uses market-wide data to analyse and monitor the actual or potential impact on the financial stability of insurance markets in general and of insurers in particular and takes appropriate action. The supervisor also makes sufficiently detailed aggregated market data publicly available.

2.05 ICP 24.5

The supervisor assesses the extent to which macro-economic vulnerabilities and financial market risks impinge on prudential safeguards or the financial stability of the insurance sector.

2.06 ICP 24.6

The supervisor has an established process to assess the potential systemic importance of insurers, including policies they underwrite and instruments they issue in traditional and non-traditional lines of business.

2.07 ICP 24.7

If the supervisor identifies an insurer as systemically important, it develops an appropriate supervisory response, which is commensurate with the nature and degree of the risk.

3.0 The FSC's Plans

The FSC has taken and continues to take steps to expand and strengthen its supervisory capacity. Within this context, the FSC has identified a number of tools that will enable and enhance its macroprudential supervisory functions. These tools include, inter alia:

- a. Risk Analysis
- b. Stress testing
- c. Risk-based supervision, and
- d. Group-wide supervision.

It is the FSC's view that these tools, together, once fully operationalized, will aid in filling the gaps identified during the IAIS' assessment.

3.01 Risk Analysis

The FSC has started the process of incorporating risk analysis in the supervision process. The Senior Analyst will work in conjunction with the Research & Policy Unit in order to identify endemic and emerging trends and risks, and to recommend mitigating strategies to address those risks. This will support prioritization of the examination scheduling.

3.01 Stress Testing

The FSC has recommended legislative changes in order to equip itself with the necessary powers to subject general insurers to annual stress testing requirements. These legislative changes are primarily aimed at widening the FSC's risk management oversight function, since the existing legislative framework covers only stress testing requirements for life insurers.

Once these legislative changes are made, the FSC will assess how plausible but unfavourable scenarios may impact insurers. These stress testing results may also be augmented with other macro-financial models in order to assess how macroeconomic vulnerabilities and financial market risks could impact the wider financial system.

3.02 Risk-based Supervision

The FSC is at an advanced stage of developing its risk-based methodology to be utilised in determining the level of supervisory intensity to be applied to regulated entities. The methodology, once completed, will be applied quarterly and annually in determining, inter alia, regulated entities that are systemically important, as informed by certain characteristics such as size, substitutability, complexity and interconnectedness, along with the relevant supervisory response to be taken based on the level of risk emanating from those entities.

3.03 Group-wide Supervision

A consultation paper on Group Wide Supervision was issued to the insurance sector with a number of proposed legislative changes that seek to widen and strengthen the existing provisions on group-wide supervision.

These legislative changes will strengthen the FSC's capacity in areas including access to data on the operations of financial and non-financial entities. Additionally, the FSC would be able to identify systemic vulnerabilities by applying the relevant quantitative and qualitative techniques to the data collected on regulated and unregulated entities. By strengthening the authority of the FSC to access and act on data, risks posed by both regulated and unregulated entities within a group will be more efficiently identified, monitored and mitigated.

4.0 Other Supervisory Matters

The FSC has maintained strong relationships with other domestic regulators in its role of monitoring non-deposit taking intuitions. These collaborative efforts have helped to sharpen the environmental awareness of the FSC by facilitating the sharing of information on a wide cross-section of entities that fall outside of its regulatory ambit, particularly deposit taking intuitions.

Additionally the FSC intends to increase the disclosure of aggregate data to assist the public to make informed decisions and to provide them with increased information about insurance entities and any associated companies within a group.

5.0 Conclusion

The FSC continues to make strides towards aligning with the standards of ICP24. The necessary legislative framework is, therefore, currently being shaped in order to enhance the effectiveness of the various tools available to the FSC, some of which have been include group-wide supervision, risk-based methodology and stress testing. It is the view of the FSC that these tools, once fully operationalized, will together enhance our observance of ICP 24.