IAIS Consultations

Print view of your comments on "Holistic Framework for Systemic Risk in the Insurance Sector" - Date: 25.01.2019, Time: 16:41

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Treat my comments as confidential	No

	Question
	Q1 Is the list of key exposures that may lead to a systemic impact and its description appropriate? Please elaborate.

Answer

General Comments:

GFIA has always argued that traditional insurance is not systemically risky and that an entity-based assessment of systemic risk is inappropriate.

The definition of systemic risk is critical to the determination of activities that can cause systemic risk. Therefore, GFIA encourages a narrow focus on those activities that could cause an “impairment of all or parts of the financial system” and could have “serious negative consequences for the real economy”.

GFIA notes that the IAIS proposes a new framework intending to combine three different approaches: i) an entity-based approach, ii) an activity-based approach (e.g. an aggregated data collection reflecting the insurance sector’s risk per activity with a focus on liquidity risk) iii) a cross-sectorial approach based on the comparison of common indicators.

GFIA would emphasise that extending some of the measures that currently only apply to G-SIIs, to a broader portion of the insurance sector means that the idea of proportionality and the consideration of cost and benefits aspects become crucial. The challenge is to define a concrete threshold to identify systemically risky activities that could lead to collective actions and therefore amplify shocks to the rest of the financial system. The threshold must be adequately calibrated to meet the materiality criterion. More specific information about the application of proportionality principles is needed in the consultation draft.

GFIA takes the view that, at this stage, the scope of proposals is very unclear and that it is therefore not easy to determine which insurer may be subject to which policy measure. In considering the scope of the application of policy measures, the IAIS should distinguish between: i) those measures that are reflective of good practice, which should be approached in a proportionate manner given the nature of insurers’ business and very low likelihood of potential contribution towards systemic risk (for example, managing counterparty exposures as part of ERM); and ii) those measures with more limited scope, such as resolution, which should only be applied where it can be demonstrated that there are material risks to the global financial system.

GFIA understands the need for data to support an adequate and relevant supervisory process. But GFIA would point out that insurers already have to face very burdensome data collection exercises. Therefore, the IAIS should ensure that its data collection exercise is necessary, proportionate and appropriately justified.

The ICS is incomplete and not fit-for-purpose in its current form, with significant further work needed before it could be considered “final”. Given its preliminary nature, the IAIS should remove all references to the ICS from the Holistic Framework and the ICS should not be used as a basis for supervisory intervention until it is formally implemented as a group-wide PCR.

Q1:

GFIA understands the IAIS' efforts to evaluate systemic risk in the insurance sector.

However, GFIA is of the view that there is still insufficient clarity on how systemic risk is generated by insurers and transmitted to the financial system or even how the definition of "systemic risk" can be operationalised for the insurance sector. In order to have a coherent framework, specificity and definition are needed around the scope of activities and risks that are potentially subject to systemic risk regulation. The IAIS should propose clear criteria for a risk manifestation to be considered "systemic" for the insurance industry. The challenge is not only to distinguish micro from macro risk, but also to assess which systemic (macro) risk is related to insurance. These elements should be better articulated before the holistic framework can provide a basis for the assessment and mitigation of systemic risk in the insurance sector.

Extending some of the measures that currently only apply to G-SIIs, to a broader portion of the insurance sector means that the idea of proportionality and the consideration of cost and benefits aspects become crucial. The challenge is to define a concrete threshold to identify systemically risky activities that could lead to collective actions and therefore amplify material shocks to the rest of the financial system. The threshold must be adequately calibrated to meet the materiality criterion. Furthermore – supposing there is a residual gap – policy measures must be proportionate. That includes a strong focus on how existing policy measures and risk management practices reduce or even close the gap.

The objectives of supervision are an adequate protection of policyholders and beneficiaries and the stability of financial system. Therefore, the holistic approach should focus on the stability of the global financial system.

Lack of substitutability should be excluded from the sources of risks. The operation of an insurer in a specific market should not be considered as an activity of potential systemic risk to the financial system. Including these criteria might disincentivise product offerings in highly concentrated markets and lead to a restricted product range in terms of marine, aviation, export credit, catastrophe, mortgage and financial guarantee.

In paragraph 34, it is noted that some products offered by insurers (which contain provisions whereby a policyholder can withdraw cash from the policy with little notice or penalty) contain high liquid liability; however, this description is too simplified and inappropriate since it does not properly take into account the reality of insurers' business. According to the IAIS' policy document "Systemic Risk from Insurance Product Features" released on 16 June 2016 states, in subsection 4.24, The liquidity of surrender value should be assessed in a holistic manner where due consideration is paid to broader aspects including purpose of the insurance contracts and substantial economic penalties embedded in high guaranteed rate contracts. The matrix of Table 5 in Annex 1 does not explicitly reflect such holistic assessment. In addition, the weightings are excessive.

Moreover, as described in paragraph 34, it is possible that insurers face liquidity risk where they do not adequately match liquid liabilities with illiquid assets; however, this is not a source of systemic risk if insurers have invested sufficiently in liquid assets.

It is noted in paragraph 37 that fixed benefit guarantees expose insurers to the macroeconomic exposure risk. GFIA would point out that the IAIS policy document "Activities-based Approach to Systemic Risk" released on 8 December 2017 states, in paragraph 50, "It is important to note that insurance guarantees are not inherently systemic and represent a fundamental aspect of insurance business model".

In paragraph 39, the IAIS states that reinsurance contracts could be a source of counterparty exposure. GFIA would point out that IAIS concluded in its 2012 report "Reinsurance and financial stability" that traditional and finite reinsurance is unlikely to create systemic risk.

Even though cyber risks can surely cause significant damages, GFIA does not see how this risk could be adequately quantified and it would also be difficult to quantify climate risk exposure. As emerging risks, there is currently no evidence that these can be considered systemic.

Q2 Are there any other key exposures that are missing? Please elaborate.

Answer

Q3 Is the description of the transmission channels of systemic risk appropriate? Please elaborate.

Answer

GFIA notes that IAIS describes scenarios leading to transmission to the entire financial system. But the description is purely qualitative, and GFIA would have expected the IAIS to assess whether these scenarios are in fact economically plausible and how the activities of insurers could give rise to/be subject to fragility that could plausibly be a cause of material systemic risk to the global financial system.

In order to be systemic, GFIA takes the view that the risk must be sufficiently material to create the possibility of near-simultaneous failures of multiple financial institutions.

Q4 Are any key transmission channels missing? Please elaborate.

Answer

Q5 Are there any further considerations on Section 2? Please elaborate.

Answer

The inclusion of the “Other” category in Figure 1 on page 5 is a concern, as this could include: under-reserving risk (which is already micro-regulated), cyber risk (not yet assessed, see Paragraph 45), climate risk (not yet assessed, see Paragraph 48) and other items not yet identified. GFIA cites recent EIOPA reporting on 2018 insurance group stress testing, supporting the premise that multiple natural catastrophes do not pose significant systemic risk due in large part to the reinsurance mechanism designed to spread risks in this situation. GFIA is of the view that the “other” category, including activities whose impact on systemic risk are either widely addressed by current microprudential regulation of insurers or are qualitatively and quantitively ill-defined, should be eliminated from the consultation draft.

Q6 Do you agree with the proposed scope of application and of the practical application of the proportionality principle as described above? Please elaborate.

Answer

No

Answer Comment

GFIA does not take the view that any insurance group or entity, by itself, poses systemic risk to the broader economy. As such, no insurance group or entity should be designated as requiring enhanced regulatory supervision. GFIA supports the IAIS recognition of this fact and the FSB’s decision to refrain from the identification of G-SIIs in 2018 and potentially suspend the process until 2022.

GFIA notes that much of the EBA infrastructure is retained in the consultation document despite significant overlap between the risk exposures and transmission channels that underpin EBA and ABA. As such, GFIA calls on the IAIS to take further steps to eliminate this redundancy, thereby avoiding needless costs on supervisors and insurers without any improvement in the ability to assess or mitigate global financial stability concerns.

GFIA welcomes the statement on proportionality, and is of the view that it is critical that supervisors carefully weigh the burdens and likely benefits of any new/additional regulatory tools. GFIA would urge that the concept of proportionality figure more prominently throughout the Consultation.

Considering the summary of policy measures in table 2 (page 41), it is clear that the IAIS pursues the generalisation of policy measures designed for the G-SII, to make them “applicable to the supervision of all insurers within a jurisdiction, including International Active Insurance Groups (IAIGs)”. At this stage, it remains very unclear which measures would apply to which insurers and under what circumstances.

In considering the scope of the application of policy measures, the IAIS should distinguish between: i) those measures that are reflective of good practice, which should be approached in a proportionate manner given the nature of insurers’ business and very low likelihood of potential contribution towards systemic risk (for example, managing counterparty exposures as part of ERM); and ii) those measures with more limited scope, such as resolution, which should only be applied where it can be demonstrated that there are material risks to the global financial system.

Q7 Do you have any other comments on the introductory description of the supervisory policy measures as described in section 3.1? Please elaborate.

Answer

The consultation paper does not specify which measures are to be used when. The connection between risk exposure and policy measures is quite vaguely defined. This is critical, since transmission channels to the broader economy vary, depending on the underlying activity. As a result, policy measures should address the underlying activity, so as to be most effective and avoid unintended consequences.

The consultation paper makes frequent use of the term "macroprudential monitoring/surveillance". The IAIS has not appropriately explained the objective of macroprudential monitoring/surveillance and how it is to be achieved. This needs to be done before any further details can be developed. The IAIS should explain how and if "macroeconomic" risks differ from systemic risks. In general, insurers are not amplifiers of macroeconomic cycles, so do not warrant specific monitoring.

Q8 Do you agree with the above proposal to amend the Standards and Guidance on supervisory review and reporting framework? Please elaborate.

Answer

No

Answer Comment

Any standards and guidance changes should be principle-based and flexible enough to allow for local supervisory conditions. An over-reliance on quantifiable data standards is not likely to be productive and will also likely be “backward looking” to the last financial crisis, while failing to identify any new potential threats to financial stability.

Q9 Do you agree with the above proposal to amend the Standards and Guidance on macroprudential surveillance? Please elaborate.

Answer

No

Answer Comment

The proposal to amend the Standards and Guidance on macroprudential surveillance is based on data collection. Macroprudential surveillance should not result in the creation of a data warehouse of insurers’ data. GFIA recommends that IAIS should ensure that its data collection exercise is necessary, proportionate and appropriately justified.

For example, it is noted in paragraph 77 that the supervisor should collect information on the surrender value; however, the liquidity of surrender value should be assessed in a holistic manner, where due consideration is paid to broader aspects including purpose of the insurance contracts and substantial economic penalties embedded in high guaranteed rate contracts. Moreover, as described in paragraph 34, it is possible that insurers face liquidity risk where they do not adequately match liquid liabilities with illiquid assets; however, this is not a source of systemic risk if insurers have invested sufficiently in liquid assets.

In addition, GFIA considers that the proposed enhancements to ICP 24 in Paragraph 77 should place the emphasis on insurers understanding their liquidity risk and evidencing this through their ORSA. As a first resort, supervisors should look to gain comfort in this way, rather than from a prescription that they should undertake their own granular independent assessment.

Q10 Do you agree with the above proposal to amend the Standards and Guidance on macroprudential surveillance? Please elaborate.

Answer

No

Answer Comment

The IAIS has chosen a stress-testing approach for assessing systemic risk. This approach can bring benefits to the supervision of systemic risk, as it could assess the vulnerabilities of the insurance sector and raise awareness of the potential threats to financial stability.

However, the intended scope of stress testing in the proposed enhancements to ICP 24 as set out in Paragraph 79 is insufficiently clear. The IAIS should provide more clarity in this respect. In order for stress-testing to bring benefits, GFIA emphasises that:

• A realistic view of the vulnerability of the insurance sector can only be achieved if the technical specifications underlying the exercise are consistent with economic reality and allow for management actions. In particular, it should be recognised that any exercise which is based on instantaneous shocks is a simplification of reality. Due consideration should therefore be given to the fact that insurers will be able to mitigate the impact of the shocks through necessary management actions over weeks and months.

• To properly assess the potential systemic impact of the adverse economic events, the extreme scenarios being tested must remain plausible, economically justifiable and should be internally consistent. The IAIS proposes a variety of stress testing, involving as many as nine different frameworks (three types of stress test for three types of risks). Even for a large insurer, this seems excessive. GFIA does not support any form of prescribed individual company stress testing.

• If the ICS were to be implemented, the calculation of the post-stress capital requirements would rely on a “stress upon a stress” exercise. The capital requirements would be the reflection of higher level of risks than in the initial capital standard. This would create an unnecessarily pessimistic view of the health of the insurance industry and result in confusion.

• Stressing should not be used for enforcing capital add-ons for insurers.

• Operationally speaking, early engagement with industry and appropriate timelines for development of these standards should be foreseen to ensure a smooth execution of the process.

Q11 What should be the role of supervisory stress testing? Please elaborate.

Answer

GFIA strongly opposes supervisor-prescribed microprudential stress testing on individual companies that can have the practical effect of creating an additional binding standard, perhaps indirectly through forced public disclosure. GFIA also opposes capital stress-testing approaches that involve calculating a post-stress solvency ratio, leading to an implicit requirement to hold capital to survive a stress on a stress.

Stress testing is most relevant for capital and liquidity but much less meaningful for counterparty exposure. While GFIA supports counterparty reporting requirements and internal exposure limits, designing and executing counterparty stress testing would be extremely difficult.

Q12 Is the development of an Application Paper on macroprudential surveillance deemed useful? Please elaborate.

Answer

Q13 What elements could be addressed in such an Application Paper?

Answer

Q14 Are the proposals on macroprudential surveillance as described in section 3.2 appropriate? Please elaborate.

Answer

The proposals on macroprudential surveillance could be appropriate under the condition that they are accurately defined and adequately targeted, which they are not at this stage of the IAIS’ work.

The consultation paper notes in Paragraph 80 that the ICS will provide a global risk sensitive measure that could be used to contribute to monitoring and assessment within the holistic framework. The ICS is incomplete and is not fit-for-purpose in its current form, with significant further work needed before it could be considered “final”. Given its preliminary nature, the IAIS should remove all references to the ICS from the Holistic Framework.

Q15 What are the expected costs and benefits of the proposals on macroprudential surveillance as discussed in section 3.2?

Answer

If done in a proportionate and tailored manner, macro-prudential surveillance can be useful in identifying and mitigating systemic risk in the insurance sector. If inappropriate components are included this could impose significant costs on consumers, financial markets, and insurers. In particular, the costs of potential data reporting and added capital requirements will be significant.

Q16 Do you agree with the above proposal to amend the Standards and Guidance on ERM? Please elaborate.

Answer

No

Answer Comment

GFIA generally agrees with the principle of the proposed enhancements to ICP 16 as set out in Paragraph 90, apart from the bullet indicating that guidance should include “the report to the supervisor”. The IAIS should clarify that the ORSA should be the first tool the supervisor uses to assess how an insurer manages its liquidity risk within its ERM framework. If the ORSA is satisfactory, a separate report would be duplicative in this respect and unnecessary. GFIA also has concerns over the prescriptiveness of the proposed Application Paper on Liquidity Planning. This should be principles-based and not prescriptive, given that its purpose is to provide guidance on how the standards can be applied, rather than setting standards. Finally, the safeguards that will address any liquidity shortfall should encompass the management actions of the insurers.

Q17 Do you agree with the above proposal to apply the more detailed requirements on liquidity planning and management to IAIGs, and other insurers as necessary? Please elaborate.

Answer

No

Answer Comment

More detailed requirements on liquidity planning, management and reporting need to be carefully analysed, considering the benefits and costs induced to the industry and the financial system. Liquidity planning should be aligned with an insurer’s business and form part of its enterprise risk management. If the IAIS considers that further guidance is required to strengthen liquidity reporting, GFIA considers this would be more appropriately addressed in the first instance through the ORSA requirements in ICP16. If the ORSA is satisfactory, GFIA does not take the view that separate public reporting will add value.

Q18 Do you agree with the above proposal to amend the Standards and Guidance on disclosure? Please elaborate.

Answer

No

Answer Comment

While transparency can at times be seen as a tool to promote best practice, in this instance GFIA is of the view that such a measure may increase systemic risk, since it could lead to unpredictable policyholder behaviour. The proposed public disclosures on liquidity risk seem counterproductive and should not be further considered by the IAIS.

If current ORSA and other insurer filings and plans are inadequate to address concerns, supervisory reporting of the systemic risk management could be more effective and in line with the objectives of the IAIS than public disclosure.

Q19 Taking into account the objective of the public disclosure requirement, should the disclosure of quantitative information receive a higher weight in the supervisory material compared to the qualitative? Please elaborate.

Answer

Paragraph 19 states that the disclosure of results to the group-wide supervisor and to insurers in the Insurer Pool is required; it also proposes that firms disclose a Public Report. The footnote to this adds that the IAIS is looking for disclosure of Phase II outcomes and Phase III analysis and outcomes; however, it also states that the IAIS will review this during 2019. It is therefore unclear what public disclosures are proposed to be made prior to 2020.

Just as unclear is paragraph 93, which introduces a requirement for disclosing liquidity risk and cites IAIS’ work on a liquidity metric, without providing any further detail.

Q20 Are the proposals in 3.3.1 on liquidity risk appropriate? Please elaborate.

Answer

GFIA takes the view that the ORSA should be the first source of information used by supervisors to assess insurers' liquidity risk management; any additional guidance should be principles-based and focused on outcomes. If the ORSA is satisfactory, separate reporting to (or information requests from) supervisors should not be required, as the IAIS proposes in the consultation paper. Specifically concerning:

• Paragraph 77 (enhancements to ICP 24) sets out information that supervisors should collect and analyse in assessing liquidity risk;

• Paragraph 90 (enhancements to ICP 16 and development of an Application Paper) is generally quite prescriptive and includes a "report to the supervisor";

• Paragraph 94 (enhancements to ICP 20) requires public disclosures; and

• Paragraph 105 (enhancements to ICPs 15 and 16) requires a breakdown of counterparty exposures, where total exposure would appear more appropriate.

GFIA would also point out that an expanded ORSA would diminish its usefulness, to the extent it trends away from the "own" risk of a specific company to a vehicle for assisting supervisors in identifying and mitigating systemic risk within the insurance sector.

Q21 Do you agree with the above proposal to amend the Standards and Guidance on macroeconomic exposure and ERM? Please elaborate.

Answer

Q22 Are the proposals in 3.3.2 on macroeconomic exposure appropriate? Please elaborate.

Answer

Paragraph 96 notes that, as a standardised metric, the ICS could be useful in assessing macroeconomic exposure by providing comparable information to supervisors. However, it is unclear how the IAIS is proposing to use an ICS that is still under development to measure macroeconomic exposures, or in which ways it will aid in analysing the impact of macroeconomic shocks on the total balance sheet. The IAIS has previously committed to not applying the ICS as a PCR during the monitoring period, and companies will not be managing to it. During the monitoring period, the ICS will continue to be calculated on an approximate, unaudited basis. Therefore, the ICS is unlikely to produce meaningful and actionable information during this time. Another concern with using the ICS is the blurring between micro- and macroprudential regulation. The ICS is a micro-metric, and so the IAIS needs to articulate how this will help identify emerging macro-risks. Given its preliminary nature, the IAIS should remove all references to the ICS from the Holistic Framework.

Q23 Do you agree with the above proposal to amend the Standards and Guidance on counterparty exposure? Please elaborate.

Answer

No

Answer Comment

The details set out in the second bullet point of Paragraph 105 regarding proposed enhancements to ICPs 15 and 16 are too prescriptive. The enhancements should be more principles-based and proportionate and focus on total counterparty exposure. In particular, the requirement under the final bullet point requiring insurers "to also encompass all reasonably foreseeable and relevant material counterparty exposures" is excessively prescriptive.

GFIA is concerned with the discussion of bank-related regulations, as this could invite the inference that insurance supervisors should emulate regulatory activities that are inappropriate for the insurance sector. The same can be said for the derivatives discussion. Here it should be noted that tremendous work has gone into examining the use of derivatives in the insurance sector, and as the Consultation concedes that considerable attention has already been to this subject in IAIS materials.

Q24 Are the proposals in 3.3.3 on counterparty exposure appropriate? Please elaborate.

Answer

GFIA does not agree that investment policies need to be expanded; scenarios analysis is unwarranted as a new ORSA requirement.

Q25 What are the expected costs and benefits of the proposals on on-going supervisory policy measures as discussed in section 3.3?

Answer

GFIA sees little if any benefit to the proposed expansions and requirements. The costs could well be significant, particularly the required scenario testing. Even when policy measures are appropriately developed, a cost–benefit analysis should be made. For example, since the management systems of insurance contracts/asset management differ in each jurisdiction, is it is conceivable that the code system for aggregating exposures is not unified. In this case, introducing policy measures at global level would generate considerable costs.

Q26 Do you agree with the proposals on supervisory coordination, including CMGs? Please elaborate.

Answer

Q27 Do you agree with the proposals on recovery planning? Please elaborate.

Answer

No

Answer Comment

As paragraph 114 states, the proposals on recovery planning should be closely correlated to an insurer’s risk profile, nature or complexity of business, or more broadly its systemic importance. It should not be required that all insurers develop a recovery plan.

Q28 Do you agree with the proposals on resolution planning? Please elaborate.

Answer

Q29 Are the proposals as discussed in section 3.4 on crisis management and planning appropriate? Please elaborate.

Answer

Q30 Do you agree with the above proposal to amend the Standard on powers of intervention based on macroprudential surveillance? Please elaborate.

Answer

No

Answer Comment

GFIA considers that care needs to be taken when applying supervisory powers of intervention to groups of insurers on a market-wide basis. While this may make sense for the banking sector, given its homogeneous business, application of broad market-based powers of intervention in the insurance sector could result in unforeseen consequences. Unlike banks, individual insurers have very different products, business mixes and liabilities, which may respond differently to a market-wide macroprudential intervention. Any powers of intervention introduced to the ICPs should have a clearly articulated purpose in terms of the nature and level of potential systemic risk to the global financial system their use would be intended to mitigate. In addition, the use of such powers of intervention should be subject to adequate safeguards. The supervisor should demonstrate that their use is only considered where: (1) there is potential material, systemic risk to the global financial system; and (2) the necessary reduction or mitigation of this risk cannot be achieved through existing supervisory approaches and tools. As such, any powers of intervention should be viewed as powers of last resort for use in exceptional circumstances.

Q31 Do you agree with the above proposal to amend the Standards and Guidance on preventive and corrective measures? Please elaborate.

Answer

No

Answer Comment

GFIA considers that some of the additional measures set out under the third bullet point of Paragraph 129 regarding proposed enhancements to ICP 10 seem to be more appropriate as crisis management/resolution measures, rather than measures aimed at mitigating/managing systemic risk.

Q32 Are the proposals in section 3.5 on powers of intervention appropriate? Please elaborate.

Answer

GFIA is of the view that an understanding of an insurer's business should be a prerequisite to the use of intervention powers. For this reason, it would be more appropriate in most cases to apply intervention powers to individual insurers rather than groups of insurers.

As set out in the answer to question 30, GFIA also takes the view that intervention powers should be used as a last resort when:

• There is potential systemic risk that could be material to the global financial system; and

• The necessary reduction or mitigation of this risk cannot be achieved through existing supervisory approaches and tools.

Q33 What are the expected costs and benefits of the proposals on powers of intervention in section 3.5?

Answer

GFIA sees little benefit or necessity for the expanded powers. If implemented poorly, or without properly designed triggering measurements, the expanded powers could impose significant costs on the insurance sector.

Q34 Are there any further considerations on Section 3? Please elaborate.

Answer

Clarity is required over when and to whom intervention powers may apply, and how this links to the global monitoring exercise. For example, GFIA would ask the IAIS to clarify whether there would be a materiality threshold for potential systemic activity/exposure below which such intervention powers would not be considered appropriate. Given the IAIS' stated position that identification of G-SIIs is not warranted under the Holistic Framework, GFIA takes the view that it would be appropriate to remove the "G-SII Package" column from the figure in this section.

Q35 Do you agree with the approach to the global monitoring exercise as described above? Please elaborate.

Answer

The IAIS has still not clearly articulated how the data collection process will work – for example, it is not clear what kind of data will be collected, with what level of granularity, and how exactly the data will be used (i.e. at a firm level or on a more general market basis).

With respect to the "global monitoring of individual insurer´s systemic importance", GFIA generally welcomes the changes made to the indicators. However, the data used should more explicitly measure the degree to which individual insurers are pursuing systemically risky activities. Supervisory intervention powers should apply only when individual insurers engage in systemically risky activity to the extent that they can initiate a "domino effect". This is only the case when the activity is concentrated in a single/few insurers and the insurer(s) are engaging in this activity on a very large scale. Such situations are rare.

Finally, the fact that a small number of insurance groups may have relatively significant holdings of one or more asset/liability classes should not be of concern absent a clear showing of systemic risk through an appropriately identified transmission mechanism.

Q36 Should the IAIS consider changing the identification process and criteria for the selection of insurers for inclusion in the data assessment? Please elaborate.

Answer	Many existing measures applicable to G-SIIs are being rolled out more widely to IAIGs and other groups and firms, as set out in Table 2 on page 41. The implications of a firms' score within the systemic risk assessment is not clear. If the IAIS intends to use a score-based method (as currently used for G-SIIs), then it needs to address concerns that the data indicators are still not linked clearly enough to the causes/transmission channels and put too much weight on size and global activity, which penalises large firms. If the intention is to intervene on an activity basis when certain activities are identified, it is not clear how this aligns with the indicators and designations.
	Q37 How should these criteria compare to the criteria used to determine whether an insurance group is an IAIG? Please elaborate.
Answer	
	Q38 Are the proposed changes to the Intra-financial assets (IFA) and Intra-financial liabilities (IFL) indicators appropriate? Please explain.
Answer	GFIA has concerns applicable to all of the proposed changes to the indicators. As a threshold matter, GFIA is of the view that the indicators are poorly designed to assess systemic risk in the insurance sector. GFIA further takes the view that the desire to achieve consistency with banking methodologies is misplaced. Of greater importance is that indicators fail to provide a holistic view of systemic risk in the insurance sector. As just one example, illiquid assets do not contribute to systemic risk if these assets are backing illiquid liabilities. There also appears to be an over-concern with derivatives, and GFIA suspects that derivatives are "double counted" at least as applied to some entities. A fundamental re-assessment of the indicators is warranted; at a minimum, the indicators need to be refined and there should be a demonstrable link with a transmission mechanism that is relevant to systemic risk.
	Q39 Are the proposed changes to the Derivatives indicator appropriate? Please explain.
Answer	It is not clear why derivatives are effectively double-counted through inclusion under intrafinancial assets (IFA) and intrafinancial liabilities (IFL), and in a separate category in Table 3 on pages 45-46. The separate derivatives category under the counterparty exposure indicators should be removed to avoid duplication, given that OTC derivatives will be centrally cleared and reflected in the other indicators. The framework also seems confused when mapping the areas where derivatives are marked as causing exposure on to the indicators. Situations where these risks could arise should be considered more widely.
	Q40 Are the proposed changes to the Level 3 assets indicator appropriate? Please explain.
Answer	Level 3 assets need to be considered in the context of insurers' ALM and liquidity management, specifically the duration of the liabilities that Level 3 assets are held to match. Measuring the absolute value of Level 3 assets alone is a meaningless indicator of asset liquidation risk. For example, where Level 3 assets are held to match illiquid liabilities, there is no liquidity risk (i.e. they cannot be subject to the risk of fire sale). GFIA therefore suggests that the indicator should be deleted if a meaningful way to consider Level 3 assets in the context of ALM and liquidity management is not found. Alternatively, the indicator could be supplemented with ancillary information so that a meaningful assessment can be made. The IAIS should also be mindful of insurers' natural role as long-term investors and not disincentivise them (through inappropriate measures) from investing in Level 3 assets such as infrastructure, which are important to the global economy, and a good match for long term illiquid liabilities.
	Q41 Are the proposed changes to the Derivatives indicator appropriate? Please explain.
Answer	

Q42 Are the proposed changes to the Short term funding (STF) and Liability Liquidity (LL) indicator appropriate? Please explain.

Answer

GFIA agrees that the potential risk from securities lending transactions stems from collateral reinvestment. But the proposal to exclude only securities finance transactions where collateral reuse is contractually explicitly prohibited is too restrictive and would lead to inappropriate inclusion of securities finance transactions where there is no collateral reuse and no potential systemic risk. GFIA suggests that this measure is further refined to exclude all SFTs where collateral is held and not reinvested.

The changes in Table 3 on pages 45-46 propose considering potential future exposures in case markets move against derivative positions. However, this is heavily dependent on which direction the movement goes – if the position is such that other sources of liquidity would increase when a firm needs to post collateral, that is unlikely to be a problem. Conversely, if the position is such that collateral is needed when other liquidity sources are diminishing, that would be more problematic. Paragraph 37 also mentions that not hedging could increase risk; however, this is not referenced later on when the indicators are considered.

Q43 Is the proposal to drop the Non-policy holder liabilities and non-insurance revenues and Turnover indicators appropriate? Please explain.

Answer

Q44 Are the suggested changes to the indicators appropriate in improving the consistency with the banking methodology? Please elaborate.

Answer

GFIA does not consider the suggested changes to be appropriate. The aim of any indicators should be to identify the potential for real systemic risk. The measurement of potential systemic risk should seek to identify the relevance of the level of potential systemic activity/exposure to the global financial system. Building a framework that seeks consistency between the insurance and banking methodologies should not be the goal, as this may introduce artificial biases in measures. For example, Paragraph 143 notes that systemic risk can differ significantly across sectors, and this can lead to different choices for specific weightings between indicators. GFIA disagrees with the statement in Paragraph 146 that “it is not desirable to significantly change the underlying weighting scheme between the categories”. GFIA is of the view that the weighting scheme should be removed from the methodology and replaced with absolute values combined with a threshold for the level of activity/exposure that would lead it to be considered a material systemic risk.

In principle, a cross-sectoral approach is the only appropriate way to measure and mitigate systemic risk and therefore a financial sector-wide monitoring would be more appropriate compared to a monitoring focusing on the insurance sector only.

Q45 Are the suggested changes to the indicators appropriate in addressing the unintended consequences in the assessment of banking subsidiaries within the Insurance Pool? Please elaborate

Answer

Q46 Are the proposed changes to the weighting scheme appropriate? Please explain.

Answer

Q47 Do you agree with the move towards a more absolute approach to the assessment of systemic risk stemming from the failure or distress of individual insurers? Please elaborate.

Answer

No

Answer Comment

GFIA welcomes the IAIS’ proposal to move to a more absolute approach as the predominant systemic risk assessment methodology but takes the view that further work is needed to ensure that the indicators are designed and calibrated to measure potential systemic risk that is material to the global financial system. Specifically:

• To be credible, any assessment of potential systemic risk needs to be based on absolute measures (that compare the size of the activity/exposure to the market size for such activities) to determine whether they are material to the global financial system. Therefore, a materiality threshold should be developed at an indicator/category level, to determine whether the potential systemic risk each indicator/category is designed to assess is likely to be material.

• Freezing the denominator at outset, as set out in Paragraph 150, is inappropriate as it will result in changes in markets not being reflected, which could distort results over time.

• Deducting banking data from the denominators, as set out in Paragraph 153, is inappropriate as it will mean that potential systemic risk to the global financial system is not being assessed with reference to the whole global financial system, but a subset of it. This is not absolute and will distort results.

• The use of weightings between indicators will also distort results, given that the weightings are designed to add up to 100%. This means that reducing weightings in one area will necessitate increases elsewhere.

Q48 Are there other considerations on the cross-sectoral analysis? Please elaborate.

Answer

GFIA does not take the view that comparing scores between the different methodologies used by banks and insurers (as noted in Paragraph 153) would be an appropriate approach. Nevertheless, the relative size of insurers' activities/exposures to the global financial system, in comparison to the banking sector's activities/exposures where the same activity is undertaken, may provide a useful (albeit crude) guide to arriving at a threshold above which that activity/exposure may be regarded as potentially systemic.

Notably missing from this cross-sectoral section is any mention of asset managers.

Q49 Are there other, additional analyses that the IAIS should apply to support the assessment? Please elaborate.

Answer

Q50 Do you agree with the move away from setting a (fixed) threshold that results in a binary classification of insurers as either systemic or not? Please elaborate.

Answer

No

Answer Comment

GFIA agrees that there should not be a threshold that determines whether an insurer is deemed to be a G-SII or not. GFIA considers that the previous methodology had conceptual flaws which led to G-SIIs being designated largely due to their size, with few relevant measures of actual potential risk. However, it is unclear from the consultation paper how the IAIS will determine whether an insurer is demonstrating a significant level/trend of increasing systemic impact, or how this links with the use of intervention powers discussed in the consultation. In moving away from a threshold, it is still important that where the IAIS/national authorities determine that an insurer is demonstrating a significant level and/or trend of increasing potential systemic impact in case of distress or failure, that they can quantify objectively the level of risk to the global financial system. GFIA therefore considers that, instead of a threshold applied to the sum of all the indicators, each indicator should have an objective threshold based on absolute measures that could pose a material threat to the global financial system. In addition, GFIA would ask the IAIS to clarify the meaning of the final sentence of Paragraph 155, which notes that the threshold "would not solely be used to identify a specific status". This implies that the IAIS may continue to designate insurers as G-SIIs.

Q51 Are there any considerations on the criteria that may be used to trigger further analysis or specific discussions within the IAIS? Please elaborate.

Answer

Q52 Do you support the development of a quantitative metric to measure liquidity risk? Do you have suggestions for the development of such a metric?

Answer

The consultation document mentions that the IAIS “intends to develop” liquidity risk metrics, while giving little information on the specifics of such metrics, thereby making it difficult to discuss the proposal. Nevertheless, GFIA is of the view that using a tool initially developed for banking supervision to compute a liquidity ratio such as the one presented in Annex 2 of the consultation document, would not capture the specificities of insurance business. The liquidity ratio requires banks to hold an amount of highly liquid assets that are equal to or greater than their net cash flow over a 30-day stress period. A 30-day horizon represents nearly an instantaneous lapse time. It can be useful for banking system assessment as shocks in bank can be instantaneous. In an insurance context, investment, cash management and ALM rely on longer time horizons and instantaneous shocks do not materialise immediately on insurers’ balance sheets.

Q53 Are there any other ancillary indicators that the IAIS should consider?

Answer

The need for other ancillary indicators in part depends on the adequacy of the indicators included within the global monitoring. GFIA considers that the current measure on Level 3 assets is inappropriate in an insurance context, as it does not consider the liquidity of an insurer’s assets in the context of the liquidity of its liabilities i.e. where illiquid assets are held against illiquid liabilities there is no liquidity risk. If this deficiency in the indicators is not corrected, then an ancillary indicator/assessment should be introduced to ensure Level 3 assets are viewed in the context of the liquidity of insurers’ liabilities. Similarly, for securities lending transactions where collateral is held and not reinvested, the proposed changes to the indicators to exclude transactions where there are contractual provisions to prohibit collateral reinvestment (while a welcome step in the right direction) will still not recognise all securities transactions where there is no collateral reinvestment. Ideally, this should be corrected; if this is not done then an ancillary indicator should be introduced to ensure that such transactions are properly assessed.

Q54 Are there ancillary indicators that should be dropped?

Answer

Q55 What are the expected costs and benefits of the proposals on individual insurance monitoring as discussed in section 4.1?

Answer

Q56 Do you agree that the sector-wide monitoring should have an annual assessment including a possibility for specific, more detailed assessments when needed? Please elaborate.

Answer

No

Answer Comment

GFIA supports a sector-wide approach to identifying and mitigating systemic risk but takes the view that this is a section of the Consultation Paper that needs much additional work. It is impossible to know at this time how the material set forth in Section 4.2 will translate into practical actions and outcomes for supervisors and entities.

Sector-wide monitoring should be assessed every three years and there should also be a possibility for specific and more detailed assessments when needed and duly justified. Insurers being long-term investors, the risk profile of the insurance sector does not change drastically over a year, except in crisis periods. Besides, a framework built on data collection and stress-testing could be very burdensome for insurers if implemented every year.

Q57 Do you have additional suggestions on how to identify levels and trends for the sector-wide assessment of systemic risk? Please elaborate.

Answer

The "sector-wide global monitoring" is the foundation of a domestic systemic risk framework. GFIA would point out that a domestic systemic risk only rarely leads to a global systemic risk. This would tend to be the case when the same risk materializes in several jurisdictions. Therefore, the IAIS should monitor aggregated data only, rather than focus on individual jurisdictions. Stress testing may indicate how a given stress may impact different insurers’ business models, and whether there are any potential systemic vulnerabilities.

	Q58 Do you agree that the additional sector-wide data collection should be based on a representative sample of insurers from relevant jurisdictions, using aggregate data from legal entities? Please elaborate.
Answer	No
Answer Comment	While the aggregation of data under a macroprudential framework may make sense for the banking sector given the homogeneous nature of this business, insurers have very different products, business mixes and liabilities. Given these differences, GFIA questions what data could be collected and aggregated that would be useful in identifying potential systemic risk. To be meaningful, data would need to be considered in the context of widely differing individual business models. Any aggregation of information risks inaccuracy and misunderstanding due to potential inconsistencies. More generally, the approach would need to allow for overall ALM and risk management. Multiple data collections should be avoided. Available data, like the OECD Global Insurance Statistic (GIS) should be considered before collecting further data. If additional sector-wide data collection were to be done, the IAIS must ensure that it is necessary, proportionate and appropriately justified.

	Q59 Do you have alternative suggestions on how to identify appropriate samples for the additional sector-wide data collection of systemic risk?
Answer	As noted in the answer to Question 58, GFIA does not consider that aggregate data will be useful. As suggested in the answer to Question 57, stress testing would be more likely to indicate how a given stress may impact different insurers' business models.

	Q60 Do you agree that the IAIS seeks to extend the use of other IAIS data collections for the purpose of sector-wide monitoring, where relevant? Please elaborate.
Answer	No
Answer Comment	At this stage, the IAIS is collecting a large amount of data, especially from G-SIIs. GFIA would welcome an assessment of how this data is being used before additional data collection is planned.

	Q61 What are the expected costs and benefits of the proposals on sector-wide monitoring as discussed in section 4.2?
Answer	

	Q62 Do you agree with the proposal for the transparency towards participating insurers and the public? Please elaborate.
Answer	

	Q63 Are there any further considerations on Section 4? Please elaborate.
Answer	

	Q64 Do you agree with the proposed implementation assessment as described in section 5? Please elaborate.
Answer	No
Answer Comment	GFIA agrees the IAIS should ensure that the measures are consistently implemented. Improvements in the measures should be discussed as part of the annual global monitoring.

	Q65 Is the weighting factor above appropriate? Please elaborate.

Answer	
	Q66 Is the table above from the 2016 G-SII methodology still appropriate? Please elaborate.
Answer	Only focusing on economic penalties and delay in access is not a good overall proxy for liquidity risk in insurance. There are many factors that may provide disincentives for policyholders to surrender policies, including opportunity costs that cannot be adequately assessed through a simple metric. The absence of a “first mover advantage” is also an important factor, for example where surrender values can be adjusted to match market values. GFIA does not consider the 2016 G-SII methodology to be appropriate and proposes that the table is removed, as it does not provide a good overall proxy for liquidity risk in insurance. GFIA anticipates that the proposed development of metrics to assess insurers’ liquidity risk (discussed in Paragraphs 160 to 162) will provide more insight.