

IAIS Consultation

Print view of your comments on "Revisions related to the Holistic Framework for Systemic Risk in the Insurance Sector" - Date: 15.08.2019, Time: 09:39

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Question	
	Q1 General comments on the Revisions related to the Holistic Framework for Systemic Risk in the Insurance Sector
Answer	<p>In general, GFIA is of the view that a risk-related, activities-based inquiry is the appropriate means for identifying potentially systemic risks in the insurance sector. GFIA appreciates the IAIS's intention to move away from an entity-based approach for assessing systemic risk. However, GFIA takes the view that a number of modifications are necessary in order to incorporate the Holistic Framework into the ICPs and ComFrame.</p> <p>GFIA has always argued that conventional insurance is not systemically risky, and that systemic risk can only originate from a very limited number of activities undertaken on a large scale in the wrong conditions. A greater focus on potentially systemic activities of the insurance sector as a whole is therefore warranted. A strict and consistent application of the principle of proportionality is crucial. Proportionality should not be limited to requiring all insurers or all IAIGs to apply a measure with different expectations of granularity. Proportionality also means questioning whether an insurer shall be subject to a certain measure at all. In general, GFIA has always argued that conventional insurance and reinsurance are not systemically risky. The example of conventional reinsurance is particularly relevant: the IAIS itself has stated that reinsurance was not systemic and does not carry out a risk of contagion. Supervisors should adhere to the proportionality principle in the application of measures.</p> <p>There is still substantial language that has been added in the consultation document relating to the Holistic Approach to systemic risk that focuses on the size of insurers or groups. As a result, more work is necessary to move away from an entity-based focus and toward an activities-based approach for addressing potentially systemic risk. GFIA is of the view that a narrow consideration of size alone is not constructive in addressing potential systemic risk.</p> <p>Additionally, the repeated references to proportionality are helpful but do not adequately address a pervasive concern about the manner in which the Holistic Framework has been incorporated into the ICPs and ComFrame. It is critical that guidance on proportionality such as that included in ICP 24.0.5 be strengthened and included in the Overarching Concepts section of the Introduction to the ICPs.</p> <p>While "proportionality" is referred to in the ICPs, systemic risk introduces a new dimension to proportionality than was previously considered in the ICPs' supervisory measures. For an assessment of systemic risk, it is necessary for a supervisor to consider particular activities or exposures from a macroprudential perspective. GFIA is also of the view that this concept of proportionality from a macroprudential perspective be included in the Overarching Concepts section of the Introduction to the ICPs.</p> <p>When applying the principle of proportionality, it would also be appropriate in view of the substantial additional work and costs to both supervisors and insurers resulting from the liquidity and macroprudential additions to be more specific about the lines of insurance and companies for which liquidity and macroprudential effects have not been an issue, especially for conventional insurance. Guidance to that effect would be a critically important</p>

addition. In turn, this will permit supervisors to focus on parts of the business most likely to present liquidity and macroprudential issues.

Furthermore, inquiries into activities that could potentially pose systemic risk should be limited to particular risk exposures that can realistically have a negative impact on financial stability and the broader economy through an identified transmission channel. Accordingly, GFIA agrees with the definition of systemic risk provided in ICP 24.0.4, as the definition specifically references negative consequences to the broader economy through an identified transmission channel.

The data collection amendments in the ICPs go very far in terms of significantly increasing the burden both for insurers and supervisors.

Finally, just as it was helpful to the IAIS and stakeholders for the subject consultation of ComFrame and Other Supervisory Material and the consultation on the Holistic Framework to be handled separately with marked text in different colours delineating changes pertinent to each, it would also be desirable, if not necessary, for text in the ICPs to somehow be set apart or otherwise identifiable to the Holistic Framework. That is clearly the case for ComFrame, but is also necessary for all material related to the Holistic Framework because of the different dimension of proportionality that applies, as compared to micro-prudential supervision.

Q2 General Comment on revisions to ICP 9 and ComFrame integrated therein

Answer

Q3 Comment on Guidance ICP 9.1.8

Answer

The Guidance requires a supervisor's assessment framework to consider risks from the activities of an insurer or group of insurers that may have a serious negative impact on financial stability. Applying the principle of proportionality, the Guidance should make clear that the assessment should be directly focused on particular risk exposures that can realistically have a negative impact on financial stability and the broader economy through an identified transmission channel. The cost and burden to insurers in furnishing underlying data must be proportionate to the risk to the broader economy.

Furthermore, GFIA would suggest additional guidance on the definition of "collective activities" in this paragraph as well as CF9.2.b.8.

Q4 Comment on ComFrame Guidance CF9.2.b.1

Answer

Q5 Comment on ComFrame Guidance CF9.2.b.8

Answer

Q6 General Comment on revisions to ICP 10

Answer

More guidance relating to ladders of intervention should be added in connection with the ICP.

GFIA has serious concerns with the broad array of regulatory actions contemplated in ICP 10 that a supervisor may take without meaningful due process and transparency. In its current form, ICP 10 does not require supervisors to meet with, or even communicate with, companies prior to imposing significant supervisory measures, such as limiting new business.

Prior to imposing preventive and corrective measures, supervisors should be required to first meet or communicate with affected companies to explain how supervisors reached their conclusions and what data the supervisors' conclusions are based on. When contemplating preventive or corrective measures related to macroprudential concerns, it is critical that supervisors also disclose the extent of their consultation with other supervisors responsible for macroprudential supervision in that jurisdiction. Cross-sectoral (i.e., insurance, banking, securities firms, etc.) data is necessary when conducting macroprudential supervision, and exposures that may seem large within the insurance industry may in fact be significantly smaller when compared with other financial service providers. As result, before preventive and corrective measures are imposed, it is

paramount for companies to understand how insurance supervisors consulted with other macroprudential supervisors and whether there were differing opinions regarding whether the relevant exposure could pose a systemic risk.

After this consultation, companies must also have the opportunity to respond before supervisory measures are imposed. The opportunity to respond is imperative so companies can have the ability to provide additional clarity to supervisors regarding what the relevant exposure truly is and what the company is doing to address it. If supervisors' concerns persist after a meaningful opportunity to respond, it would only then be appropriate for regulators to take preventive or corrective action.

Where a preventive or corrective action is taken, it is critical that such measures be imposed in a manner that is proportionate and no more broadly than necessary to address an existing systemic risk. The cost of compliance should not exceed the impact the firm's individual risk exposure has on the systemic risk being addressed because the socialization of unnecessary compliance costs will adversely affect policyholders through higher rates without a corresponding benefit.

Q7 Comment on Guidance ICP 10.0.2

Answer

A reference to cost/benefit here would be important. The cost of mandatory mitigation with regard to some risks might actually result in greater costs than the risks themselves, thereby needlessly increasing costs to consumers.

GFIA welcomes the explicit statement that the interests of policyholders and the public interest of financial stability are not independent of each other and that measures primarily aimed at policyholder protection also contribute to financial stability. At the same time however, the industry suggests a wording that takes the strong interconnection between these objectives fully into account. Sophisticated regulatory frameworks, for example Solvency II quite effectively addresses financial stability threats as well. Therefore, the application of preventive and corrective measures already available to ensure compliance with laws and regulations also serve financial stability as a rule. Only in exceptional circumstances a conflict of objectives might occur. Accordingly, the last sentence of 10.0.2 should be worded as follows:

"By mitigating certain risks, preventive and corrective measures that are primarily intended to protect policyholders may also regularly contribute to financial stability as well, by decreasing the probability and magnitude of any negative systemic impact".

Q8 Comment on Guidance ICP 10.2.2

Answer

GFIA has serious concerns with ICP 10.2, which could greatly expand supervisors' authority to impose a wide range of corrective or preventative measures without a finding that the insurer failed to meet regulatory requirements. ICP 10.2 states that supervisors must apply preventive measures if an insurer "seems likely to" operate in a manner that is inconsistent with regulatory requirements. GFIA suggests that the ICP make it clear that the application of such measures should occur only where some regulatory requirement has been violated. Additionally, in applying the supervisory measures provided in ICP 10.2, reference to ladders of intervention and cost/benefit should be added along with due process concerns.

Regarding 10.2.2 - GFIA suggests making it clear that measures should be proportionate to the financial stability threat originating from the insurance industry. Because of the limited systemic risk of the insurance industry, it should be clarified that urgent measures solely dedicated to preserve financial stability should be applied with maximum restraint.

Q9 Comment on Guidance ICP 10.2.6

Answer

Please refer to the response to Q8.

The first sub bullet point of the second bullet point has been amended to provide an example indicating that supervisors should have the power to impose hard or soft counterparty limits on individual counterparties, sectors or asset classes. GFIA is of the view that this example should be deleted as it would be inappropriate for supervisors to set such limits; rather, insurers should manage counterparty exposures in line with their risk appetite as indicated in ICP16.6.

In GFIA's view, such thresholds can be destabilising themselves. Interventions via hard

threshold values could lead to a sustained disruption of the necessary balance between profitability, liquidity and security at the portfolio level of the individual insurer. Besides, assets are managed in line with the liability side. Hence, any exposure limit or concentration threshold would have to encompass asset-liability aspects. At financial market level, pressure to sell or forced sales would have negative side effects and are potentially destabilising. Setting thresholds could lead to herd behaviour and procyclical actions, rather than mitigating them. Even soft thresholds require insurers to take them into account in their investment strategy, reporting obligations and regulatory interactions. Therefore, any form of thresholds should be avoided.

Systemic Risk Management Plans (SRMPs) may offer a useful way for insurers to take corrective action on systemic risk before supervisory measures are necessary, but these need to be justified by clearly quantified and articulated evidence of systemic risk in advance with a clear commitment to proportionality.

Considering that ICP 24 addresses supervisory intervention and measures, it will be important to consider process and timeline to ensure SRMPs are meaningfully taken into account. According to ICP 24.3.4 the supervisor has to require the insurer to take action necessary to mitigate any particular vulnerability that have the potential to affect financial stability. In addition, ICP 24.4.3 clarifies that the supervisor should have supervisory requirements targeted at those insurers that have been identified as systemically important to mitigate systemic risk. A systemic risk report should therefore be used as an option for insurers to initially suggest mitigating measures to the supervisor, with more interventionist supervisory actions considered only once an insurer's report and proposed mitigating actions have been considered. More reports and information requirements would produce significant administrative burdens and necessitate additional IT investments at the expense of insurers and, ultimately, policyholders.

Any request for systemic risk reports should therefore be convincingly justified and subject to the proportionality principle. In practice this is likely to mean that supervisors bear in mind the cost and practicality of requiring a systemic risk report from an insurer with limited resources.

Q10 Comment on Guidance ICP 10.2.7

Answer

Please refer to the response to Q8.

It is highlighted that a maximum interest rate could be a sensible instrument to avoid under-pricing or under-reserving in excessively competitive market situations. Regarding an additional reserving requirement, GFIA highlights the proposal should be carefully analysed and put forward within the right context, in order to have a proper understanding of the purpose and expected benefits of such intervention power. In some jurisdictions, reserving already considers the time value of financial guarantees on the basis of the actual interest rate environment. Any request for systemic risk reports should therefore be convincingly justified and subject to the proportionality principle. In practice this is likely to mean that supervisors bear in mind the cost and practicality of requiring a systemic risk report from an insurer with limited resources. If such a measure is introduced, the design is crucial and needs comprehensive analyses and the implementation of adequate safeguards in order to avoid double counting of the same risk.

While supervisory or management actions regarding a temporary freeze of the redemption values on insurance liabilities or payments of advances on contracts could be considered when faced with the manifestation of the tail risk mass surrender, at the same time however, this strong tool has to be handled with great care, in particular in its disclosure aspects, in order to avoid undesirable side effects.

Further criteria for the design of an assessment are required.

Q11 General Comment on revisions to ICP 16 and ComFrame integrated therein

Answer

Please refer to the response to Q1.

Considering the heavy additional burden on supervisors and companies, additional guidance on applying the new dimension of proportionality which exists relative to systemic risk through the inclusion of the holistic framework in the ICPs is necessary to focus the application of the related supervision measures and would be very beneficial to both supervisors and companies. Such guidance is necessary not only in the text in ICP 16, but as stated in the response to Q1 should be included in the overarching concepts section of the Introduction to the ICPs.

Q12 Comment on Guidance ICP 16.0.3

Answer

Q13 Comment on Guidance ICP 16.1.1

Answer

More clarity on what constitutes “concentration risk” would be helpful.

Q14 Comment on Guidance ICP 16.1.4

Answer

Q15 Comment on ComFrame Standard CF16.1.b

Answer

Q16 Comment on Standard ICP 16.2

Answer

Additional clarification on “as necessary” would be appreciated. Who determines what is necessary, the company or the supervisor? GFIA takes the view that it should be the company.

Stress testing may be a useful tool in identifying where a real risk arises in the broader context of the whole risk management framework of an insurer.

Q17 Comment on Guidance ICP 16.2.22

Answer

Q18 Comment on Guidance ICP 16.2.23

Answer

Q19 Comment on Guidance ICP 16.2.24

Answer

GFIA welcomes the discussion of stress testing in other ICPs, but since ICP 16.2 refers specifically to insurers’ own Enterprise Risk Management (ERM) frameworks, it is inappropriate to reference supervisory intervention in relation to the frequency, scope and type of stress testing here. A sound ERM framework is based on the premise that insurers develop internal management and controls. This could be undermined by stress tests imposed by supervisors directly within a firm’s ERM framework. ERM frameworks could be informed by macroprudential stress testing, but this would be well beyond the scope of ICP 16.2. GFIA therefore suggests ICP 16.2.24 is deleted.

The Guidance should make clear that any required stress testing should be directly related to particular risk exposures that can realistically have a negative impact on financial stability and the broader economy through an identified transmission channel. This focus is particularly important when determining whether non-life insurers should be required to undergo stress testing.

Non-life insurers’ cash flows reflect the simple fact that claims are payable only when due to claimants under the underlying insurance policy after investigation and, for liability claims, after settlement negotiations. Claimants have no right to be paid on demand. Moreover, covered events triggering significant property-casualty insurance liabilities (e.g., hurricanes, wildfires, etc.) are rarely, if ever, correlated to risks in the broader financial system, with the resulting claims payments occurring over months, quarters, and for the largest events, years.

GFIA thus takes the view that stress testing for non-life insurers will have very limited value to supervisors. Rather, supervisors would be better served to understand and assess the stress testing that is already performed by the insurer itself, summarized in ORSAs, to gauge any likelihood of a risk that could rise to level of systemic importance for a firm. Should a scenario modelled by an insurer result in such a finding, it could then be

assessed on a sectoral basis. However, and again, GFIA is of the view that such will not be the case for non-life firms.

The Guidance should recognize that conventional insurance activities are not a significant source of systemic risk and especially stress testing for non-life insurers would provide limited value to supervisors in this context, unless a company is engaged in an activity with a material exposure to liquidity risk.

Finally, GFIA recommends deleting the last bullet point, which allows supervisors to take into account any other activities that the supervisor deems relevant in determining whether to require stress testing. As stated above, any required stress testing should be directly related to particular risk exposures that can realistically have a negative impact on financial stability and the broader economy through an identified transmission channel. Otherwise, this Guidance would go beyond what is necessary to achieve its purpose.

Q20 Comment on ComFrame Standard CF16.2.b

Answer

The relationship between CF 16.2.b and CF 16.12.b is not clear as both require macroeconomic stress tests. GFIA suggests merging both ComFrame elements. GFIA further notes that this requirement is overly prescriptive and undermines the principle of an ORSA and should thus be removed from 16.2.b.

Q21 Comment on ComFrame Guidance CF16.2.b.2

Answer

Q22 Comment on Standard ICP 16.6

Answer

The requirement to integrate credit risk appetite under an investment policy is too prescriptive. Insurers should have the flexibility to document their risk appetites in the manner that best fits their ERM framework, for example through including (credit) counterparty risk appetite alongside capital and liquidity risk appetite within an ERM policy.

Q23 Comment on Guidance ICP 16.6.4

Answer

Q24 Comment on Guidance ICP 16.6.11

Answer

A key characteristic when assessing counterparties is collateral requirements and assessing exposure net of such requirements. A counterparty that is in a stressed financial position in the presence of robust collateral requirements is a very different exposure than one without such collateral requirements. Therefore, GFIA recommends adding a sentence at the end of the paragraph to indicate that an additional consideration should be the nature and amount of any collateral securing counterparty obligations.

Q25 Comment on Guidance ICP 16.6.12

Answer

Q26 Comment on ComFrame Standard CF16.6.b

Answer

This standard could require a centralized supervisory system that is not consistent with a legal-entity based system or with the way in which many potential IAIGs are supervised. Generally, GFIA agrees that best risk management practices should be utilized on an enterprise-wide basis. However, many potential IAIGs, do not have or need a "group-wide" supervisor specifically charged with regulating an intermediate or ultimate holding company and/or enterprise-wide insurance activity.

Q27 Comment on ComFrame Guidance CF16.6.b.1

Answer

Q28 Comment on ComFrame Guidance CF16.6.b.2

Answer

Q29 Comment on Standard ICP 16.7

Answer

Q30 Comment on Guidance ICP 16.7.5

Answer

Q31 Comment on Standard ICP 16.8

Answer

Please refer to the response to Q1 and general comments on ICP 16.

Q32 Comment on Guidance ICP 16.8.1

Answer

Though it is clear that conventional insurers do not face liquidity concerns, where any insurer does have liquidity concerns the assumptions used in liquidity analysis are expansive, reflect the unique characteristics and experience of each insurer's liability mix, and involve a high degree of professional judgment. GFIA therefore suggests that where any insurer does present liquidity concerns the supervisors focus their assessments on the internal framework and practices governing the liquidity assumption review and development process rather than on the detailed assumptions themselves.

The requirements are too far-reaching for the moderate liquidity risk level of conventional insurance. Insurers' business models differ fundamentally from banks' business models. Insurers investments are long term because they are backed by long term liabilities. Therefore, it makes no sense to expect comprehensive analysis (including the ability to monetise assets in each situation, characteristics of insurance contracts that may affect policyholder behaviour around lapse, withdrawal or renewal, and contingent sources of liquidity). Further it is not clear why the analysis needs to be provided to the supervisor and how this duty relates to the liquidity risk management report (compare also comment on Question 36).

Furthermore, the policyholder behavior for mass lapse events is not solely linked to contracts' features. The whole ecosystem, including the retirement system, possible inheritance planning, availability of other financial products, etc. can provide disincentive or not to surrender. GFIA would recommend deleting the guideline.

Q33 Comment on Guidance ICP 16.8.2

Answer

Q34 Comment on Guidance ICP 16.8.3

Answer

Q35 Comment on Guidance ICP 16.8.4

Answer

Q36 Comment on Standard ICP 16.9

Answer Proportionality should be emphasized here as it seems excessive for many companies. Please refer to the response to Q1.

Stress testing may be a useful tool in identifying where a real risk arises in the broader context of the whole risk management framework for an insurer.

In relation to the second bullet point, the reference to 'unencumbered high quality liquid assets' is subjective and should be amended to 'unencumbered liquid assets'. The quality of those assets should be determined by insurers' liquidity risk appetite and the time horizon which could for example permit lower quality unencumbered liquid assets subject to appropriate haircuts and stresses and depending on the time horizons considered. This bullet point should also have 'in appropriate locations' added to the end of the sentence so that it is consistent with CF16.9.b.

The requirement of a more detailed liquidity management process is viewed very critically. This applies in particular to the requirements of a contingency funding plan and liquidity stress tests. The IAIS has not demonstrated why liquidity risk is assigned such a role within the holistic framework. Existing liquidity risk management processes should be considered largely sufficient to address what is generally a moderate level of liquidity risk in the insurance business. Besides, there could be potential side effects (e.g. opportunity costs would arise in case certain minimum requirements would be set and insurers could be compelled to invest in lower yielding liquid assets to comply with a coverage ratio instead of investing in less liquid, higher yielding assets etc.).

Finally, it is unclear how contingency funding plans work and to what extent they impinge on pre-emptive recovery planning.

Q37 Comment on Guidance ICP 16.9.1

Answer In the third example of Guidance ICP 16.9.1, "insurance products that contain provisions that allow a policyholder to withdraw cash from the policy with little notice or penalty" is considered to have high likelihood of liquidity risk when assessing insurance liability liquidity. However, if this Guidance is applied, the scope of detecting material liquidity risk will be much wider than reality. Therefore, GFIA would request the revision of the third example by using a similar phrase that can be seen in the second bullet point of ICP16.8.1, where it says "characteristics of insurance contracts that significantly affect policyholder behavior around lapse, withdrawal or renewal."

GFIA does not take the view that it is appropriate to discredit activities such as repo, securities lending, derivatives or some insurance products, the way the IAIS proposes to do. Liquidity management is to be considered at the company level, or at minimum within the legal boundaries to allow for cross-funding, and therefore not through a silo approach per "activity" as long as appropriate framework/governance are in place to manage risks inherent to such activity.

Q38 Comment on Guidance ICP 16.9.2

Answer Proportionality should be emphasized here; please refer to the response to Q1. The definition of a "contingency funding plan" is not clear. This could be quite burdensome for many companies.

Q39 Comment on Guidance ICP 16.9.3

Answer

Q40 Comment on Guidance ICP 16.9.4

Answer Although GFIA agrees that certain situations or the nature of insurance portfolios could lead supervisors to increase or decrease intensity, the guidance is too vague on the criteria that should be utilized to inform such judgement. GFIA recommends inclusion of criteria and examples that could lead to such situations.

Q41 Comment on Guidance ICP 16.9.5

Answer	<p>It is not clear who would determine what constitutes a “high quality asset”. GFIA takes the view that it should be left up to the company, subject potentially to supervisory review.</p> <p>HQLA is a banking concept which is mainly used to measure if a bank has sufficient high-quality liquid assets (HQLA) to survive a significant stress scenario lasting for 30 days. GFIA does not take the view that this is relevant to insurance business. Cash flow patterns in case of stress, over 30 days in the banking approach, justifies such consideration, whereas insurance stresses are in their vast majority unwinding beyond this time horizon, and do not call for similar or identical consideration regarding assets’ liquidity. Due to the longer horizon, cash flows generated by assets (e.g. coupons, redemptions, dividends, rents) are also important to face liquidity engagements in stressed situation. HQLA relies on a pure asset liquidation basis in a very short-term time horizon and is obviously not consistent with insurance time horizons. In addition, such strict bucket approaches should be avoided. It would conflict with principle and risk-based frameworks such as SII where investments and ALM are not pre-judged.</p>
	<p>Q42 Comment on ComFrame Standard CF16.9.a</p>
Answer	<p>During the stakeholder session it seemed as though stress testing is to be done by the insurer for the benefit of the insurer. Yet this provision gives great power to the supervisor.</p>
	<p>Q43 Comment on ComFrame Guidance CF16.9.a.1</p>
Answer	<p></p>
	<p>Q44 Comment on ComFrame Guidance CF16.9.a.2</p>
Answer	<p></p>
	<p>Q45 Comment on ComFrame Guidance CF16.9.a.3</p>
Answer	<p></p>
	<p>Q46 Comment on ComFrame Guidance CF16.9.a.4</p>
Answer	<p></p>
	<p>Q47 Comment on ComFrame Guidance CF16.9.a.5</p>
Answer	<p></p>
	<p>Q48 Comment on ComFrame Guidance CF16.9.a.6</p>
Answer	<p></p>
	<p>Q49 Comment on ComFrame Standard CF16.9.b</p>
Answer	<p>It is not clear who would determine what constitutes a “high quality asset”. GFIA is of the view that it should be left up to the company, subject potentially to supervisory review.</p> <p>The standard to maintain an adequate level of unencumbered high quality liquid assets should not be mandatory for all IAIGs but should depend on the risk profile (compare also comment on Q32 and Q36). The reference to ‘unencumbered high quality liquid assets’ should be amended to ‘unencumbered liquid assets’. The quality of those assets should be determined by insurers’ liquidity risk appetite which could for example permit lower quality unencumbered liquid assets subject to appropriate haircuts and stresses and depending on the time horizons considered.</p>
	<p>Q50 Comment on ComFrame Guidance CF16.9.b.1</p>
Answer	<p></p>

Q51 Comment on ComFrame Guidance CF16.9.b.2

Answer

Q52 Comment on ComFrame Guidance CF16.9.b.3

Answer

Q53 Comment on ComFrame Guidance CF16.9.b.4

Answer

Q54 Comment on ComFrame Guidance CF16.9.b.5

Answer

Q55 Comment on ComFrame Guidance CF16.9.b.6

Answer

Q56 Comment on ComFrame Guidance CF16.9.b.7

Answer

Q57 Comment on ComFrame Guidance CF16.9.b.8

Answer

Q58 Comment on ComFrame Standard CF16.9.c

Answer

Again, the definition of “contingency funding plan” is not clear. How is it drafted, by whom and is it a free standing or included in other documents?

The standard to maintain a contingency funding plan should not be mandatory for all IAIGs but should depend on the risk profile (compare also comment on Q32 and Q36).

Q59 Comment on ComFrame Guidance CF16.9.c.1

Answer

Q60 Comment on ComFrame Guidance CF16.9.c.2

Answer

Q61 Comment on ComFrame Guidance CF16.9.c.3

Answer

Q62 Comment on ComFrame Guidance CF16.9.c.4

Answer

Q63 Comment on ComFrame Guidance CF16.9.c.5

Answer

Q64 Comment on ComFrame Standard CF16.9.d

Answer

	Q65 Comment on ComFrame Guidance CF16.9.d.1
Answer	
	Q66 Comment on ComFrame Guidance CF16.9.d.2
Answer	
	Q67 Comment on Standard ICP 16.12
Answer	A reference to proportionality here would be appreciated as well as examples of criteria for determining “as necessary”.
	Q68 Comment on Guidance ICP 16.12.3
Answer	
	Q69 Comment on ComFrame Standard CF16.12.b
Answer	The relationship between CF 16.2.b and CF 16.12.b is not clear as both require macroeconomic stress tests. GFIA suggests merging both ComFrame elements.
	Q70 Comment on ComFrame Guidance CF16.12.b.1
Answer	
	Q71 General Comment on revisions to ICP 20
Answer	GFIA highlights that, with respect to liquidity risk, public disclosure could trigger negative and procyclical effects. If enforced, reporting on liquidity should be limited to supervisory reporting (ICP 9) to avoid such procyclical effects.
	Q72 Comment on Standard ICP 20.2
Answer	To achieve the objective, GFIA is of the view that reporting on the management of systemic risk to supervisors is more important than public disclosure.
	Q73 Comment on Guidance ICP 20.8.1
Answer	
	Q74 Comment on Standard ICP 20.11
Answer	The inclusion of quantitative measures for liquidity in supervisory standards is too prescriptive and should be removed. Prescribed metrics should be avoided for liquidity since these can create a distorted view. Overall the Standard is overly prescriptive and unnecessarily burdensome, especially for smaller insurance companies. The Standard requires all insurers—without regard to proportionality—to provide disclosures with detailed quantitative and qualitative information concerning liquidity risk. The Standard should incorporate the principle of proportionality by recognizing that conventional non-life insurance activities are not a significant source of liquidity risk. Non-life insurers’ cash flows reflect the simple fact that claims are payable only when due to claimants under the underlying insurance policy after investigation and, for liability claims, after settlement negotiations. Claimants have no right to be paid on demand. Moreover, covered events triggering significant non-life insurance liabilities (e.g., hurricanes, wildfires, etc.) are rarely, if ever, correlated to risks in the broader financial system, with the resulting claims payments occurring over months, quarters, and for the largest events, years. For many smaller non-life insurance companies, the cost of requiring detailed disclosures on liquidity

risk would likely outweigh any expected benefits. Consistent with the principle of proportionality, the Standard should require consideration of factors such as the insurer's business model and size before an insurer is required to provide a detailed disclosure on liquidity risk.

In addition, to achieve the objective, GFIA takes the view that reporting on the management of systemic risk to supervisors is more important than public disclosure.

Q75 Comment on Guidance ICP 20.11.1

Answer

Q76 Comment on Guidance ICP 20.11.2

Answer

Q77 General Comment on revised ICP 24

Answer

GFIA has always argued that conventional insurance is not systemically risky, and that systemic risk can only originate from a very limited number of activities undertaken on a large scale in the wrong conditions. A greater focus on potentially systemic activities of the insurance sector as a whole is therefore warranted. However, the size of individual insurers is still considered a source of systemic risk. An individual insurer's size should not be a focus in its potential contribution to systemic risk since conventional insurance business contributes very little to systemic risk; rather focus should be on the size or scale and materiality of actual systemic activity.

There is still a lack of articulation around the nature of systemic risk in the insurance sector. For any activity to be deemed potentially systemically risky there needs to be a clear transmission channel into wider financial markets with a quantification of the nature, scale and materiality of activities/exposures in the context of the size of the market as a whole. GFIA takes the view that guarantees, derivatives etc. should not be viewed in isolation as sources of systemic risk but should instead be viewed in the context of the overall Asset Liability Management and Risk Management frameworks of the insurer, with techniques such as stress testing used to identify their contribution to systemic risk. It is therefore not necessarily helpful to individually identify these items.

Additionally, it is critical that guidance on proportionality such as that included in ICP 24.0.5 be strengthened and included in the Overarching Concepts section of the Introduction to the ICPs. While "proportionality" is referred to in the ICPs, systemic risk introduces a new dimension to proportionality than was previously considered in the ICPs' supervisory measures. For an assessment of systemic risk, it is necessary for a supervisor to consider particular activities or exposures from a macroprudential perspective. Therefore, GFIA suggests a change to section 24.0.5, and GFIA also asks that this concept of proportionality from a macroprudential perspective be included in the Overarching Concepts section of the Introduction to the ICPs.

In terms of global collaboration and cross-sectoral consistency, it is not clear how this will work in practice. In particular, there were several issues raised with the draft indicators proposed in the previous Holistic Framework consultation in terms of identifying and mitigating systemic risk and it is therefore impossible to express a view on monitoring without seeing a more concrete framework for monitoring, application of supervisory powers and disclosure.

Throughout the standards in ICP 24 reference is made to 'The supervisor' which creates the potential that supervisors of different parts of an insurance group may seek to assess systemic importance separately for the parts they supervise, rather than focusing on the group as a whole. GFIA therefore recommends that reference to 'The supervisor' is replaced with 'The supervisor, or for an insurance group the group supervisor'.

Q78 Comment on Guidance ICP 24.0.1

Answer

Q79 Comment on Guidance ICP 24.0.2

Answer From GFIA's perspective, it is important that additional data collection from insurers should be minimised and already available data should be taken into account. Double queries should be avoided (also with regard to different institutions).

Q80 Comment on Guidance ICP 24.0.3

Answer GFIA disagrees with the statement that the size of a company is relevant to the amplification and transmission of shocks to the financial system or real economy. As explained in paragraph 59 of the IAIS consultation on a Holistic Approach to Systemic Risk, it is not the size of an activity, but how it is managed, that determines its level of risk. An activity could be carried out by one firm or many and the level of risk should be measured by the amount of liquidity or counterparty exposure it creates.

Q81 Comment on Guidance ICP 24.0.4

Answer GFIA is unconvinced by the argument that systemic risk stems from a lack of substitutability; GFIA sees this predominantly as a competition issue. An insurer's size is also a poor indicator of systemic risk, rather the focus should be on an identified systemic activity, the size of this specific activity and then a transmission channel into wider financial markets.

Q82 Comment on Guidance ICP 24.0.5

Answer GFIA agrees that supervisory measures based on macroprudential concerns should be proportionate to the nature, scale and complexity of the identified exposures or activities. Proportionality should be understood in the context of the broader financial system. Insurer activities that are not likely to result in an impairment to the financial system with the potential to have serious negative consequences for the real economy should not be the subject of macroprudential regulation. Similarly, data requirements should not be applied in the name of macroprudential supervision unless the data addresses activities that are likely to result in such an impairment. With the holistic approach to systemic risk embedded in the ICPs and ComFrame, it is critical that guidance such as that included in this section be strengthened and included in the Overarching Concepts section of the Introduction to the ICPs. While "proportionality" is referred to in the ICPs, systemic risk introduces a new dimension to proportionality that was previously not necessary to consider in applying supervisory measures from a microprudential perspective. For an assessment of systemic risk, it is necessary for a supervisor to consider particular activities or exposures from a macroprudential perspective. Therefore, GFIA suggests the following change, but also asks that this be included in the Overarching Concepts section of the Introduction to the ICPs.

The suggested change is as follows: "Macroprudential supervision can help identify the need for supervisory measures. Supervisory measures based on macroprudential concerns should be proportionate to the nature, scale and complexity of the identified exposures or activities on the financial system as a whole, while considering which activities contribute to that aggregate exposure. In its macroprudential supervision, the supervisor should also take into account the risks that non-insurance legal entities and activities may pose to insurance legal entities, insurance groups and the wider financial system."

Q83 Comment on Guidance ICP 24.0.6

Answer

Q84 Comment on Standard ICP 24.1

Answer The commitment to cost-benefit analysis as well as proportionate data requests based on the nature, scale and complexity of the insurer is welcome. The supervisory definition of proportionate is likely to differ between jurisdictions and so the IAIS should elaborate on what it means by proportionate and then attempt to ensure consistent outcomes.

Data collections under this Standard should be limited to identifying risk exposures that can realistically pose a systemic risk to the broader economy through an identified transmission channel. Any macroprudential data collections should be viewed as a starting point for a

forward-looking, cross-sectoral analysis. Cross-sectoral (i.e., insurance, banking, securities firms, etc.) data is necessary when conducting macroprudential supervision. Otherwise, insurance supervisors would not have the data necessary to determine whether an insurer's activities may realistically pose a risk to the broader economy. Activities that could have systemic importance can be carried on across the financial sector, not just in the insurance industry. And exposures that may look large within the insurance industry may look significantly smaller when compared with other financial service providers. Therefore, supervisors should be required to coordinate their macroprudential analysis with banking and other financial sector supervisors.

Q85 Comment on Guidance ICP 24.1.1

Answer

Proportionality is important in this context as expansive data collection exercises can be time and resource-intensive. Any additional data requested should be proportionate to the nature, scale and complexity of the exposures identified. It should be reminded that the amount of data collected by the IAIS has significantly increased over the past few years, even though it was explained that such data collection should be streamlined. Data collected should be strictly limited to those relevant to construct market indicators.

GFIA is of the view that leveraging existing data collections is key to the Global Monitoring Exercise. Any data collected should have a clear nexus to an identified regulatory goal. GFIA also strongly urges refraining from a focus on individual insurers. Regarding the efficiency of data collection, GFIA takes the view that the supervisor should always examine costs and benefits when considering data collection. The supervisor should make use of all available data sources and calibrate its data requests and data processing capabilities so that the data requests are proportionate to the nature, scale and complexity of exposures identified. The supervisor should first determine what data points are likely to assist with the identification of the build-up of vulnerabilities linked to systemic risk transmission channels. To avoid overlap and duplication in data gathering, the supervisor should then perform a gap analysis to understand whether and to what extent such data is available from existing sources.

Q86 Comment on Guidance ICP 24.1.2

Answer

Liquidity of the assets needs to be considered in the context of liability liquidity, i.e. taking account of the degree of liquidity mismatch. Features of micro-prudential regimes already encourage good liquidity risk management and ensure that long-term illiquid assets are matched with long-term illiquid liabilities. Any additional macroprudential tools should therefore be developed in line with existing micro-prudential regimes to ensure there is no duplication.

GFIA would also point out that the current approach lacks empirical evidence regarding the dynamic of surrender in the insurance business.

Q87 Comment on Guidance ICP 24.1.3

Answer

Q88 Comment on Guidance ICP 24.1.4

Answer

Q89 Comment on Guidance ICP 24.1.5

Answer

GFIA is of the view that this paragraph should be deleted as it does not link with the preceding sections focusing on liquidity risk, macroeconomic exposures and counterpart risk. The microeconomic data to be collected under this Guidance is backward-looking and unconnected to particular risk exposures that can realistically have a negative impact on financial stability and the broader economy through an identified transmission channel. Further, companies do not necessarily already publish all of the data required to be collected, so compliance with this data call would be unnecessarily burdensome.

Q90 Comment on Guidance ICP 24.1.6

Answer

Q91 Comment on Standard ICP 24.2

Answer

Q92 Comment on Guidance ICP 24.2.1

Answer

Q93 Comment on Guidance ICP 24.2.2

Answer

Q94 Comment on Guidance ICP 24.2.3

Answer

Q95 Comment on Guidance ICP 24.2.4

Answer

The Guidance should provide a much more limited scope and frequency of horizontal reviews. Horizontal reviews should be limited to exposures that can realistically pose a systemic risk through an identified transmission channel, and the reviews should be proportionate to the nature, scale, and complexity of exposures. Further, it is unclear how supervisors are going to obtain the information necessary to accomplish a horizontal review and keep that information confidential, since supervisors will not have direct regulatory authority over all groups in a horizontal review.

The Guidance also implies that there should be supervisory action taken against insurers that are outliers in a horizontal review. However, a company may be an outlier as a result of its niche or unique business model and activities that are unrelated to vulnerabilities warranting a supervisory response. Therefore, the Guidance should make clear that supervisors should first consider why a firm is an outlier, whether the reason for being an outlier raises a particular regulatory concern, and any measures or processes that the company has in place to mitigate the company's risk related to being an outlier. Any supervisory action against an outlier must be taken after this company-specific analysis.

Q96 Comment on Guidance ICP 24.2.5

Answer

Q97 Comment on Guidance ICP 24.2.6

Answer

Q98 Comment on Guidance ICP 24.2.7

Answer

Q99 Comment on Guidance ICP 24.2.8

Answer

Q100 Comment on Guidance ICP 24.2.9

Answer

GFIA is unconvinced by the argument that systemic risk stems from a lack of substitutability; GFIA sees this predominantly as a competition issue.

Q101 Comment on Guidance ICP 24.2.10

Answer	
	Q102 Comment on Guidance ICP 24.2.11
Answer	
	Q103 Comment on Guidance ICP 24.2.12
Answer	
	Q104 Comment on Standard ICP 24.3
Answer	
	Q105 Comment on Guidance ICP 24.3.1
Answer	The sentence "The supervisor should take a total balance sheet approach" should be deleted since the meaning of it is unclear.
	Q106 Comment on Guidance ICP 24.3.2
Answer	The overwhelming majority of insurers buy derivatives in order to hedge risks as part of prudent risk management rather than as speculative trades. Central clearing requirements introduced since the financial crisis have also mandated collateral to be posted against most derivatives, ensuring financial protection in the event of counterparty default. Taking both these facts into account, degree of engagement in derivatives is a poor indicator of systemic risk. The focus should instead be on identifying speculative derivatives or derivatives sold by groups of insurers to hedge the risks of other financial institutions, although it is not clear that any insurers are engaging in such activity.
	Q107 Comment on Guidance ICP 24.3.3
Answer	A more horizontal view of systemic risk across all financial market activity is needed. The guidance under ICP 24.3 lacks contextualisation of the materiality of potential systemic risk, GFIA therefore suggests that ICP 24.3.3 is amended as follows – 'As part of its assessment, the supervisor should consider recent developments, such as changes in economic conditions or technological change that may affect the insurance sector's risk exposures. Additionally, the supervisor should cooperate and coordinate with other financial sector supervisors (such as banking, securities and pension supervisors, central banks and government ministries) to gain additional perspectives on the nature, scale and materiality of activities/exposures in the context of the size of the market as a whole in considering whether it has the potential to be systemic, and the potential change in the risk exposures of insurers stemming from evolutions of other markets'.
	Q108 Comment on Guidance ICP 24.3.4
Answer	GFIA agrees that supervisors should communicate the findings of systemic-importance assessments to either individual insurers or the sector, as appropriate. However, where potential sources and transmission channels for systemic risk have been identified, the supervisor should provide evidence or greater clarity as to which activities within the business of insurance are the source or transmission channel of systemic risk.
	Q109 Comment on Standard ICP 24.4

Answer The following should be added as Guidance:
“When assessing systemic risk, supervisors should not assess the insurance sector alone, but rather the whole financial sector including banking and securities and make comparisons across them.”

Q110 Comment on Guidance ICP 24.4.1

Answer

Q111 Comment on Guidance ICP 24.4.2

Answer GFIA agrees that many “macroprudential tools are, in effect, microprudential instruments developed or applied with a macroprudential perspective in mind”. This perspective and, more widely, the relationship between micro and macroprudential rules should be considered at every step of policymaking. It is essential that microprudential regulation does not unintentionally exacerbate macroprudential concerns and so it is crucial that these IAIS workstreams are not siloed.

In addition, GFIA suggests that the strong interconnection between the two objectives “policyholder protection” and “financial stability” is made clearer by a change of wording in the last sentence of 24.4.2:

“By mitigating certain risk exposures, measures that are primarily intended to protect policyholders regularly (instead of “may also”) contribute to financial stability by decreasing the probability and magnitude of any negative systemic impact.”

Q112 Comment on Guidance ICP 24.4.3

Answer GFIA would challenge the appropriateness of the sentence which begins, “in jurisdictions where one or more insurers have been identified as systemically important”. GFIA would urge the IAIS to avoid encouraging such designations which are contrary to the overarching spirit of the Holistic Framework. This sentence should be amended in a way that fosters more of a consistent activities-based approach at the jurisdictional level.

The final sentence where an insurer or insurers are “determined to be systemically important” suggests this is a permanent determination that cannot be rescinded. The insurer or insurers should be given the opportunity to address the activity or aspect of their business deemed to be systemically relevant and so any extension of requirements should be potentially temporary.

The emphasis within the paragraph is on targeting measures at insurers or groups of insurers, whereas GFIA considers the focus should be on the activities of insurers or groups of insurers that may individually or collectively have the potential to cause material levels of systemic risk. The IAIS needs to revisit the drafting of the paragraph in this context.

The final sentence in particular should be amended as follows – ‘...the supervisor should extend certain requirements as necessary to insurers and/or a group of insurers that it has determined to be systemically important based on its assessment of the materiality of the potential systemic risk that the nature, scale and complexity of the activities could plausibly give rise to.’

Q113 Comment on Guidance ICP 24.4.4

Answer The Guidance should make clear that, in applying the principle of proportionality to specific supervisory responses, it is critical that policy measures are not applied more broadly than necessary to address any existing systemic risk. For example, it would not be appropriate to require insurers, or a group of insurers, which have been identified based on thresholds unrelated to systemic risk such as those for IAIGs, to be subject to uniform supervisory responses or measures. The cost of compliance should not exceed the impact the firm’s individual risk exposure has on the systemic risk being addressed because this will lead to unnecessary compliance costs which may adversely affect policyholders through higher rates without a corresponding benefit.

Furthermore, in applying supervisory responses or measures, predictability and fairness to

insurers should be ensured, and consistency across jurisdictions should be secured to prevent the arbitrary application of regulations by authorities.

Q114 Comment on Guidance ICP 24.4.5

Answer

While GFIA appreciates the removal of the ICS as a metric for assessing systemic risk, it is concerned that ICP 24.4.5 introduces the concept that supervisors may develop requirements that are time varying in nature depending on the economic environment. GFIA takes the view that supervisors should exercise extreme caution in considering such measures as they potentially risk creating incentives for procyclical behaviour.

Q115 Comment on Standard ICP 24.5

Answer

Q116 Comment on Guidance ICP 24.5.1

Answer

The anonymisation of information in the context of IAIGs may not be sufficient to conceal the source company, given the likely small number of IAIGs in any way comparable to another IAIG. Therefore, GFIA would strongly urge that Guidance should be revised to provide that supervisors must exercise great care to ensure that aggregated data and statistics are carefully reviewed prior to publication to ensure that no material non-public information regarding a particular insurer is inadvertently disclosed.

Q117 Comment on Guidance ICP 24.5.2

Answer