■The LIAJ comments on the IAIS consultation paper on the Revisions related to the Holistic Framework for Systemic Risk in the Insurance Sector

No.	Comment
1	Question： General comments on the Revisions related to the Holistic Framework for Systemic Risk in the Insurance Sector
	<Overall comment> ・In this consultation, the LIAJ recognizes that the IAIS has intended to shift from an approach where systemic risk is only being applied to certain entities such as G-SIIs to an approach focusing more on the activities of each insurer. ・However, the LIAJ respectfully asks the IAIS and participating supervisors to consider the following points which we believe still do not properly reflect the reality of life insurers' businesses (see referred comment boxes for details). - Predictability of the supervisor's intervention (see comments for ICP 10) - Perception of macroeconomic exposure risk (see comments for ICP16) - Perception of liquidity risk (see comments for ICP16) - Disclosure of liquidity risk (see comments for ICP20) - Data collection for macroprudential supervision (see comments for ICP24) ・In particular, there is a significant flaw in the perception of liquidity risk, which may cause, depending on the jurisdiction, the majority of the entire insurance business to be subject to liquidity risk regulation. Therefore, the LIAJ believes there is an issue with the proposed assessment methodology. <Ensuring due process for the implementation of Holistic Framework> ・According to the current schedule, the ICP and ComFrame including Holistic Framework is to be adopted in November 2019 and start to be implemented from 2020. ・However, the currently proposed supervisory material only reflects the "Supervisory Policy Measures" (Section 3 of the consultation paper "Holistic Framework for Systemic Risk" published in the 14 November 2018), and does not include other parts of the Holistic Framework such as Section 4 "Global monitoring exercise by the IAIS" or the implementation assessment by the IAIS (Section 5), implying that they will be adopted without any consultation. ・The LIAJ requests the IAIS to consider having due process measure such as an opportunity for stakeholder hearing, not only for the current parts reflected in the supervisory material but for the entire Holistic Framework including Sections 4 and 5.
6	Question： General Comment on revisions to ICP 10
	・The LIAJ acknowledges that under the Principle Statement ICP 10, the IAIS has set certain requirements for the supervisor's intervention in implementing preventive and corrective measures by stating, "the supervisor: requires and enforces preventive and corrective measures; and imposes sanctions which are timely, necessary to achieve the objectives of insurance supervision, and based on clear, objective, consistent, and publicly disclosed general criteria." However, some individual items in the Guidance seem to use expressions which do not necessarily seem to support a "clear, objective, consistent criteria" as

	stated in the aforementioned Principle. Therefore, the LIAJ would like to request that the overall supervisory material be based on a rules-based approach to ensure foreseeability of the supervisor's intervention. ・Specifically, please refer to our comments on Q8 and Q114 for details.
8	Question： Comment on Guidance ICP 10.2.2 If the insurer operates in a manner that is likely to impact its ability to protect policyholders' interests or pose a threat to financial stability, it should lead to more urgent preventive measures by the supervisor.
	・In ICP10.2, it is stated that "the supervisor requires preventive measures if the insurer seems likely to operate in a manner that is inconsistent with regulatory requirements." And in Guidance ICP10.2.1, the supervisor is allowed to have "a degree of discretion" when determining whether or not to intervene, but their concerns must be "well founded" to commence such intervention. ・In the newly added Guidance ICP10.2.2, it is stated that "if the insurer operates in a manner likely to pose a threat to financial stability," and if the supervisor recognizes a potential macroeconomic risk, even if there are no issues on an individual entity basis, the supervisor is allowed to take a wider approach of "more urgent preventive measures" such as requiring the insurer to change its risk exposure. From the insurers' point of view, because there is no prerequisite such as "well founded" in the Guidance ICP10.2.2, there remains a possibility of unexpected supervisory intervention from macroeconomic perspective. The LIAJ believes the lack of such wording defeats foreseeability of supervisory intervention. ・Therefore, while we assume that ICP10.2.2 also requires "well founded concern" as a basis for supervisory intervention, the LIAJ requests such wording to be inserted into ICP10.2.2 in order to secure clarity of language and enhance foreseeability of the supervisor's intervention.
11	Question： General Comment on revisions to ICP 16 and ComFrame integrated therein.
	・In the current consultation, while provisions such as ICP 16.8, ICP16.9 and CF16.9.a-16.9.d relating to the supervisors requiring more detailed liquidity risk management to insurers were added, the LIAJ welcomes the consideration of proportionality in the supervisory material by adding wording such as "as necessary" (in ICP16.9), or the wordings "In deciding whether it is necessary to require more detailed liquidity risk management processes, and the intensity of such processes, the supervisor should take into account the nature, scale and complexity of the insurer's activities…" (in Guidance ICP16.9.3). ・However, when these Policy Measures will actually be implemented in each jurisdiction, there are still some concerns from an operational aspect; the LIAJ would like to comment on such concerns in each individual Comment Boxes below.
17	Question： Comment on Guidance ICP 16.2.22 16.2.22 Stress testing is intended to serve the insurer as an aid to sound risk management, particularly to identify residual macroeconomic exposure. Additionally, stress test results may provide the supervisor with a view of vulnerabilities in the insurance sector as a whole and inform any necessary supervisory measures.
	・ICP16.2.22 states, "Stress test results may provide the supervisor with a view of vulnerabilities in the insurance sector as a whole and inform any necessary

	supervisory measure." Would it be correct to understand that stress scenarios to be tested under such “stress testing” as indicated in this ICP may be decided by each individual insurer and not by the supervisor?
18	Question： Comment on Guidance ICP 16.2.23 Macroeconomic exposure in the insurance sector can accumulate through some types of insurance liabilities or may be created through non-insurance activities. Examples of activities that may create macroeconomic exposure are: ・savings-oriented products (or protection-oriented products with a savings component) that offer guarantees on policyholders’ premium payments, often combined with embedded options for policyholders,particularly where guarantees of significant value are unmatched. Such products could require adjusting hedges when financial markets are functioning poorly, thereby exacerbating market movements; ・products embedding features such as automatic asset sales triggered by asset value decreases or that require dynamic hedging, as these products can procyclically aggravate market movements, by leading to “buy high, sell low” asset trades; and ・derivatives contracts such as financial guarantee products including credit default swaps (CDS) that are not used to hedge risk;
	<On Macroeconomic exposure risk> ・As an example of an insurance product having macroeconomic exposure risk, Guidance ICP 16.2.23 states "savings-oriented products (or protection-oriented products with a savings component) that offer guarantees on policyholders’ premium payments, often combined with embedded options for policyholders, particularly where guarantees of significant value are unmatched." The LIAJ believes that such types of products are not and will never be any source of significant macroeconomic risk. While there are cases where such products intentionally do not match cash flow, even in such cases there are no material contractual restrictions. Assuming there would be fluctuation of interest rate at the time of reinvestment, it is still manageable in the medium/long term, and does not require immediate action at the timing of certain financial stresses, and as a conclusion, will not trigger any systemic risk. ・Therefore, the LIAJ believes this Example is inadequate and should be deleted.
32	Question： Comment on Guidance ICP 16.8.1 When analysing its liquidity profile, the insurer should assess the liquidity of both its assets and liabilities and report such analysis, including any assumptions used in the analysis, to the supervisor. The insurer should consider, where applicable, issues such as: ･market liquidity in normal and stressed conditions, quality of assets and its ability to monetise assets in each situation; ･characteristics of insurance contracts that may affect policyholder behaviour around lapse, withdrawal or renewal; ･adverse insurance events that may trigger short-term liquidity needs, including catastrophes; ･non insurance activities such as margining or posting collateral for derivatives contracts, securities lending or repurchase agreements; and ･contingent sources of liquidity (including committed lines of credit or future premium income) and whether these would be available in stressed conditions.

	・ICP16.8.1 states that "When analysing its liquidity profile, the insurer should assess the liquidity of both its assets and liabilities." While there is a possibility of having liquidity risk when an insurer holds low liquidity asset against high liquidity liability, if there is sufficient amount of high liquidity asset, it can be said that there is no source of liquidity risk. ・From this perspective, the wording that can be seen in ICP16.9.1, "These activities may contribute to systemic risk when not properly managed, for instance when funds received from short-term securities lending or repurchase agreements or balances from more liquid insurance products are invested in illiquid assets" should be explicitly incorporated in this ICP as well in the context of liquidity risk assessment.
37	Question： Comment on Guidance ICP 16.9.1 Liquidity risk is triggered as a result of an imbalance between liquidity sources and needs, for instance due to liquidity transformation. Examples of activities that could generate unexpected liquidity needs include: ･derivatives, particularly any collateral or margin that needs to be posted for mark to market declines in the value of the contract; ･securities financing transactions, including repurchase agreements and securities lending; and ･insurance products that contain provisions that allow a policyholder to withdraw cash from the policy with little notice or penalty. These activities may contribute to systemic risk when not properly managed, for instance when funds received from short term securities lending or repurchase agreements or balances from more liquid insurance products are invested in illiquid assets
	<On Liquidity risk> ・As the second example of activities that could generate unexpected liquidity needs, under ICP16.9.1, "securities financing transactions, including repurchase agreements and securities lending" are considered to have high liability liquidity in regard to insurance liability liquidity assessment. ・However, in paragraph 145 of the IAIS Public Consultation Document on Holistic Framework for Systemic Risk in the Insurance Sector published on Nov 14th 2018, securities lending transactions where re-hypothecation or reuse of collaterals is contractually explicitly prohibited were exempt from data collection for G-SIIs designation. Similarly, in cases where there is an unexpected liquidity needs, such as when the counterparty needs to urgently collect collateral, it will be possible to return such collaterals immediately. Therefore the LIAJ wishes to clarify that this will not be a source for systemic risk as there will be no need to sell low liquidity asset. ･As the third example under ICP16.9.1, "insurance products that contain provisions that allow a policyholder to withdraw cash from the policy with little notice or penalty" are considered to have high likelihood of liquidity risk when assessing insurance liability liquidity. However, if this Guidance is applied, the scope of insurance activities having significant liquidity risk will be much wider than reality. Therefore, the LIAJ would like to request revision of the third example by using a similar expression 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." ･If such evaluation of insurance products is based on the matrix described on Table 5 of Annex 1 in the November 2018 IAIS Public Consultation Document, it does not properly reflect the reality of the insurer's business and is not appropriate when considering the cliff effect. ・As mentioned in paragraph 4.24 of IAIS's Policy Document "Systemic Risk from Insurance Product Features (previously referred to as Non-traditional

	Non-insurance activities and products)” published on June 16th, 2016, the liquidity of surrender value should be assessed in a holistic manner considering various aspects such as the purpose of the insurance policies, existence of de-facto economic penalties embedded in high-guarantee rate products, characteristics of individual and group insurance policies, or existence of policyholder protection schemes and mechanisms, etc. ・In the case of Japan, there is a regulatory framework where once it is recognized that there is a possibility of significant disruption in the financial market and the financial system, the Deposit Insurance Corporation of Japan (DICJ) provides liquidity support to the broader financial sector including insurers. In assessing liquidity risk, we believe due consideration should be given to such framework contributing to mitigate systemic risk.
42	Question： Comment on ComFrame Standard CF16.9.a The group wide supervisor requires the Head of the IAIG to assess the IAIG’s resilience against severe but plausible liquidity stresses to determine whether current exposures are within the IAIG’s liquidity risk appetite.
	・The group-wide supervisor requires the Head of the IAIG to conduct stress tests against “severe but plausible liquidity stresses.” Is it correct to assume that individual insurers can determine the stress scenario under the stress test?
63	Question： Comment on ComFrame Guidance CF16.9. c.5 The supervisor may allow the IAIG's contingency funding plan to be developed as part of a recovery plan.
	・In Guidance CF16.9.c.5, it states that “the IAIG's contingency funding plan can be developed as part of a recovery plan.” Can the liquidity stress test also be developed as part of a recovery plan as well?
64	Question： Comment on ComFrame Standard CF16.9.d The group wide supervisor requires the He ad of the IAIG to report, at least annually, on its management of liquidity risk. The report includes at least the following: ・ a liquidity risk appetite statement; ・ established liquidity risk limits; ・ a discussion of the current liquidity position of the IAIG in relation to its liquidity risk appetite and limits; ・ a summary of strategies, policies and processes that the IAIG has in place to manage liquidity risk; ・ a discussion of potential vulnerabilities in the IAIG’s liabilities as well as the means of enhancing the liquidity position; and ・ the IAIG’s approach to, and results of, liquidity stress testing.

	<Regarding Liquidity Risk Management Reporting> ・In CF16.9.d, the Head of IAIG is required to include “at least” 6 items in its annual liquidity risk management report to the group-wide supervisor. However, the content of the liquidity risk management plan should be determined based on each individual insurer's different risk profiles and should be indicated as illustrative examples by adding words such as "for example." ・For example, as the 5th item to be reported under CF16.9.d, "a discussion of potential vulnerabilities in the IAIG’s liabilities as well as the means of enhancing the liquidity position" is required to be included. However, it is inappropriate to require such item because, in general, this is not customary practice of liquidity risk management and it is unclear how to specifically include such “discussions” in the report.
71	Question： General Comment on revisions to ICP 20 The supervisor requires insurers to disclose relevant and comprehensive information on a timely basis in order to give policyholders and market participants a clear view of their business activities, risks, performance and financial position.
	・Please refer to our comments for Q74 and Q75
74	Question： Comment on Standard ICP 20.11 The supervisor requires that disclosures about the insurer’s liquidity risk include sufficient quantitative and qualitative information to allow a meaningful assessment by market participants of the insurer’s material liquidity risk exposures.
	<On Information disclosure of liquidity risk> ・In ICP20.11, the supervisor requires that disclosures about the insurer’s liquidity risk include sufficient quantitative and qualitative information. However, if such disclosures are based on a uniform standard which does not reflect individual situation of the insurance market, it might create misleading results and cause unintended consequences (please also refer to the LIAJ’s comments submitted for the November 2018 Public Consultation). ・Therefore, the LIAJ requests a revision of this ICP to ensure a proportional consideration of the individual situation of the insurance sector in each country to be included so as to avoid a “one-size-fits-all” disclosure standard.
75	Question： Comment on Guidance ICP 20.11.1 Disclosures on liquidity risk should include: ・quantitative information on the insurer’ s sources and uses of liquidity, including the surrender value of insurance policies; and ・qualitative information on the insurer's liquidity risk management strategies, policies, and processes.
	・The LIAJ disagrees with Guidance ICP20.11.1 which requires insurers to include “the surrender value of insurance policies” as part of the quantitative

	information to be disclosed as liquidity risk. ・If the insurer's liability liquidity is determined only by the amount of the surrender value, it will give a false impression to the policyholders and will be misleading. Therefore, the LIAJ can not support such a biased disclosure requirement.
76	Question： Comment on Guidance ICP 20.11.2 Disclosures should discuss known trends, significant commitments and significant demands. Disclosures should also discuss reasonably foreseeable events that could result in the insurer's liquidity position improving or deteriorating in a material way.
	・We would like the following sentence to be added to this Guidance ICP: "What information to be disclosed should be considered from a viewpoint of whether such disclosure would contribute to mitigation of systemic risk." ・Please also refer to our comments for Q74 and Q75
84	Question： Comment on Standard ICP 24.1 The supervisor collects data necessary for its macroprudential supervision.
	・Data collection for macroprudential supervision purposes should strictly be limited to data necessary to achieve its objective, and should not impose any additional burden for the sake of collecting data. ・Please refer to our comments for Q85 onwards for specific details.
85	Question： Comment on Guidance ICP 24.1.1 Data collection for macroprudential purposes should take into account the following general aspects: ·Efficiency of data collection: the supervisor should examine costs and benefits when considering data collection. Data collections should be aligned with their respective usage. Therefore, 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 insurers and of the financial system; ·Data validation: before analysing data and providing recommendations on the findings, the supervisor should validate data used in its assessment; ·Data quality assurance: the supervisor should regularly evaluate the appropriateness of data collected and data needs to capture market developments and address deficiencies in: the type of data collected; its ability to process data in a timely and/or complete way and; its ability to collect ad hoc data in a timely manner. ·Scope: for sector wide assessments, data collection should cover a representative sample of the respective market or risk; ·Consistency: regular data collections of a standardized set of information should remain consistent over time in order to analyse trends. The supervisor should, however, consider the evolving nature of the relevant exposures; and ·Ad hoc data collection: in order to address emerging risks, the supervisor should have processes in place that allow for ad hoc data collections.

	・The LIAJ requests that the concept of efficiency in data collection stated in Guidance ICP24.1.1 ("…the supervisor should examine costs and benefits when considering data collection. Data collections should be aligned with their respective usage") be properly reflected in other areas of the Supervisory Material, such as ICP24.5 or Guidance ICP24.5.1. ・We request that the efficiency of data collection to be always ensured. Specifically, data collected to serve the objective of macroprudential supervision should not be used for other purposes such as individual insurer's quantitative comparison. Also, as mentioned above, insurers should not be unnecessarily required to report excessive data.
86	Question： Comment on Guidance ICP 24.1.2 To support the assessment of liquidity risk, the supervisor should collect data that provide sufficient indications on possible liquidity mismatch between assets and liabilities both at individual and sector wide level. Reporting requirements on liabilities should include, but not be limited to, information on the surrender value of insurance products, product features that increase or decrease the propensity for early pay outs under certain circumstances (such as penalties or delays in the ability to access the cash value of a policy), and the maturity or redemption structure of non-insurance liabilities. On the asset side information on the degree of liquidity of the assets and on the potential margin call on derivatives should be collected.
	・In Guidance ICP24.1.2, "penalties or delays in the ability to access the cash value of a policy" is cited as an example of product features that increase the propensity for early pay outs under certain circumstances. ・However, as mentioned in paragraph 4.24 of IAIS' policy document "Systemic Risk from Insurance Product Features (previously referred to as Non-traditional Non-insurance activities and products)" published on June 16th, 2016, the liquidity of surrender value should be assessed in a holistic manner considering various aspects such as the purpose of the insurance policies, existence of de-facto economic penalties embedded in high-guarantee rate products, characteristics of individual and group insurance policies, or existence of policyholder protection schemes and mechanisms, etc.
89	Question： Comment on Standard ICP 24.1.5 The supervisor should collect microeconomic data, such as insurance pricing, underwriting, expenses, claims inflation, reinsurance, intra-group transactions, and general developments in the insurance sector (for example, the development of claims, earned and guaranteed interest rates, reserves, pandemics, and changes in morbidity and mortality, longevity, changes in the frequency and severity of catastrophes changes in medical expense inflation and changes in law). In addition, the supervisor may collect data on both the asset and the liability structure of insurers, including those that are related to non-insurance activities. The supervisor should consider having established processes and communication channels on microeconomic data collection with other involved supervisors when an insurer operates in multiple jurisdictions.
	・In Guidance ICP24.1.5, examples of microeconomic data that might be collected by the supervisor are listed. However the relation between these data and the necessity for macroprudential supervision is unclear. It is a concern that the supervisor is requiring insurers to provide overly unnecessary data. ・Therefore, the LIAJ requests deletion of this Guidance or a modification to clarify the relation between the collectable data and the necessity for macroprudential supervision.

95	Question： Comment on Guidance ICP 24.2.4 The supervisor should conduct horizontal reviews to reveal the range of practices among insurers relevant to a common subject (for example, the assessment of the appropriateness of insurer's assumptions used for reserving). A horizontal review may provide a relative ranking to determine which insurers are outliers, and as such provides the supervisor with a reference for potential further actions. A horizontal review may provide an aggregated view of the risks linked to certain exposures and/or activities and may also help determine whether industry practice as a whole is effective enough to address the risks embedded in the activity.
	・We would like the second sentence of this Guidance ICP to be revised as follows: "A horizontal review may provide a relative ranking to determine which insurers are outliers who are likely to cause systemic risk, and as such provides the supervisor with a reference for potential further actions."
114	Question： Comment on Guidance ICP 24.4.5 Supervisory requirements may be intended to mitigate the potential spill-over effects from the distress or disorderly failure of an individual insurer or from the common exposures or behaviours of a group of insurers or across the sector. In the latter case, supervisory requirements may have different effects during different phases of the economic, underwriting or credit cycle. Therefore, the supervisor may develop requirements that are time-varying in nature, depending on the economic environment. The activation of such time-varying requirements could be rules-based (for example triggered automatically given a pre-defined condition) or discretionary (i.e. upon explicit decision by the supervisor). A rules-based approach may be more transparent but requires regular assessments of its adequacy under changing conditions affecting the insurance business.
	・In the Principle Statement of ICP10 ("The supervisor: requires and enforces preventive and corrective measures; and imposes sanctions which are timely, necessary to achieve the objectives of insurance supervision, and based on clear, objective, consistent, and publicly disclosed general criteria"), there is a certain restriction on the implementation of preventive and corrective measures by the supervisor. ・On the other hand, Guidance 24.4.5 states that under certain circumstances, there is a possibility that supervisory measures be discretionary, rather than a rules-based approach, and the LIAJ reads this sentence as contradictory to the Principle Statement of ICP 10. ・The LIAJ requests that the entire Supervisory Material be written in a consistent manner so that intervention by the supervisor will always be rules-based.
115	Question： Comment on Standard ICP 24.5 The supervisor publishes relevant data and statistics on the insurance sector.
	・The LIAJ requests ICP24.5 to be modified so that it will be consistent with Guidance ICP 24.5.1 and Guidance ICP24.5.2 as follows: "The supervisor publishes relevant **aggregated** data and statistics on the insurance sector."
116	Question： Comment on Guidance ICP 24.5.1

	The publication of aggregated data and statistics by the supervisor may enhance market efficiency by allowing market participants to make more informed decisions and reducing the cost to the public of acquiring insurance sector information. Moreover, the publication of data may serve as a market disciplining mechanism by facilitating comparisons of an individual insurer to the sector as a whole.
	・In Guidance ICP24.5.1, it states "the publication of data may serve as a market disciplining mechanism by facilitating comparisons of an individual insurer to the sector as a whole." This is a grave concern as it implies a possibility that proprietary and confidential information of the individual insurance company submitted to the supervisor for the purpose of disclosing insurance sector-wide information may be diverted or publicized without the explicit prior concent of the insurance company. ・The LIAJ requests the IAIS to take necessary measures when publicizing aggregated data and statistics, to limit disclosure to the sector-wide level only and not disclose any detailed data of individual insurance companies.