The LIAJ comments on the IAIS Draft Application Paper on Macroprudential Supervision

Paragraph	Comment
General Comments	• The Life Insurance Association of Japan (hereafter "LIAJ") appreciates the opportunity to submit public comments to the International Association of Insurance Supervisors (or the "IAIS") regarding the Application Paper on Macroprudential Supervision. • We believe that the systemic risk of the insurance sector is relatively lower than the banking sector, which has payment and settlement functions. The policy measures applied should also be modified according to the degree of the systemic risk of the insurance sector, and the proportionality principle. • The Holistic Framework for Systemic Risk (or the "HF") and Macroprudential Supervision require insurance companies to take various measures including data collection, stress testing, liquidity risk management, and reporting to supervisors. However, ICP Introduction 9 states the supervisor should increase or decrease the intensity of supervision according to the risks inherent to insurers (the proportionality principle). The intent of ICP Introduction 9 should be fully considered when applying the Application Paper.
Paragraph 15	• Although ICP 24.1.1 states supervisors should examine the efficiency, costs and benefits when considering data collection, Paragraph 15 does not stipulate that these points be considered for data collection. In this regard, we understand that there is room for further improvement of efficiency in the IAIS data collection for assessing the impact of Covid-19 among individual insurance companies, which began last year, by utilizing data requested by local supervisors and public information. Therefore, we would like to confirm the efficiency, costs and benefits stated in ICP 24.1.1 will also be fully considered when applying the Application Paper. • As for the reference to climate-related risk in the fifth bullet point, to address such emerging risks, it should be noted in the Application Paper that "supervisors should provide insurance companies with sufficient preparation time and prior discussion when ad-hoc data collection and analysis are conducted

	to address emerging risks".
Paragraph 33	• As "the purpose of this Paper", Paragraph 33 states "and for supervisors to put in place (directly or indirectly) mitigating actions to limit systemic risk". • In addition, for "examples of indirect actions", Footnote 3 illustrates "expectations or recommendations to insurers whose behaviour can influence the insurance market leading to a containment of a specific risk". • These descriptions can be interpreted as an "indirect intervention measure" by the supervisors (Japan FSA), which broadly permits them to exercise direct or indirect influence on the management of insurance companies in the name of reducing systemic risk. • Therefore, we would like to propose these descriptions be deleted and confirm the proportionality principle stated in the ICP Introduction and Paragraph 9 are given priority over the statement in Paragraph 33.
Paragraph 87	• Section 4.1 (Assessing systemic importance of an individual insurer) states approaches that assess risk by using certain indicators and identify individual insurance companies. On the other hand, the IAIS document entitled "Holistic Framework for Systemic Risk in the Insurance Sector (November 14, 2019)" aims to transition away from the binary approaches used in the G-SIIs selection method. Therefore, we would like to confirm this does not indicate a reversal in direction.
Paragraph 92	• Paragraph 92 states securities issued by financial institutions should demand haircuts or be written-off as potential resources of liquidity or solvency. However, such special treatment of securities just because they are issued by financial institutions may adversely affect the appropriate assessment of liquidity or solvency of insurance companies. • Since insurance companies set risk limits for each counterparty by considering counterparty exposures and the marketability of each asset, the treatment should not be differentiated just because instruments are issued by financial institutions.

Paragraphs 105～109	• We would like to confirm the statements in Paragraphs 105-109 are for reference only and are not intended to require the application of such an indicator-based approach as a methodology for supervisors to assess systemic risk in all jurisdictions.
Paragraphs 110～124	• The "reduced-form approach" is mainly designed for public companies (listed companies). As stated in Paragraph 112 and Cons in Table 9, the model may not function effectively for unlisted companies. • As many players in the Japanese life insurance industry are unlisted companies, we would like to confirm the "reduced-form approach" is not intended to be applied in all jurisdictions and the assessment method most suitable to the circumstances of each jurisdiction can be selected.
Paragraphs 141～142	• As for applying the indicators listed as an example, we understand that supervisors need to collect data from individual insurance companies. Therefore, it should be stated in the Application Paper that communication between supervisors and individual insurance companies will take place in order to avoid any confusion because of unexpected changes or addition to the indicators.
Paragraph162	• Paragraph 162 states the possibility of supervisors requiring insurance companies to develop a systemic risk report to address a threat to financial stability. We would like to confirm the report is not intended to require insurance companies to develop a report comparable to the Systemic Risk Management Plan (or the “SRMP”), which is a measure imposed only on the G-SIIs. • In addition, the name "systemic risk report" gives the impression of the SRMP and is not consistent with the statement in ICP 10.2.6 “requiring the insurer to prepare a report describing actions it intends to undertake to address specific activities the supervisor has identified, through macroprudential surveillance, as potentially posing a threat to financial stability”. Furthermore, the content to be included in this report may overlap with the liquidity risk management plan and contingency funding plan required for insurance companies in the HF. • Moreover, the IAIS also recognizes the importance of liquidity risk of the insurance sector is lower than the banking sector as Paragraph 79 states "Liquidity risk arises as a result of imbalances between

	liquidity sources and needs, although not as important for insurers as it is for banks”. Therefore, we are concerned the new policy measure on related matters may go beyond the scope of necessity. • Hence, we propose the name "systemic risk report" be deleted or changed to simply "report". As for how insurance companies should report to supervisors, there should be a description that allows flexible supervisory measures according to the circumstances of each jurisdiction. • Furthermore, ICP 10.2.1 requires "well founded" reasons for supervisors to take measures from the perspective of ensuring predictability. Therefore, the report should only be required when there are “well founded” reasons to assume that there are still systemic risk concerns after insurance companies have exhausted all possible measures including the implementation of risk management measures.
Paragraph 165	• Paragraph 165 states the need for information disclosure for the insurance sector by referring to the statement in ICP 24.5.1. The statement 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”. • However, the disclosure of comparable information between individual insurers and the insurance sector as a whole may cause unanticipated reactions from the market. This may have unintended consequences for individual insurance companies and the insurance sector. Therefore, we would like to respectfully request the IAIS to carefully consider these points when applying the Application Paper.