The LAIJ comments on the IAIS Public Consultation on

the review of the Individual Insurer Monitoring (IIM) Assessment Methodology

Question	Comment
P11 Q. Do you have any other feedback on any of the indicators?	About Liability Liquidity ・The LIAJ has made comments in the past regarding the liquidity assessment of insurance liabilities based on economic penalty and time restraint metrics for relevant consultations including those on the implementation of liquidity metrics as an ancillary indicator, starting from the development of the G-SII assessment methodology to the adoption of the current Holistic Framework. While these comments have been taken into consideration by the IAIS to some extent, the current IIM assessment methodology related to the liquidity assessment still remains an issue for the life insurance industry in Japan. As such, we would like to make the following comments, including issues we have also raised in previous public consultations. ➢ The liquidity assessment of insurance liabilities is based on economic penalty and time restraint metrics. However, we believe this is rather over-simplified. It should be comprehensively assessed based on a wide range of perspectives such as the purpose of the insurance policy, the existence of actual economic penalty for policies with high assumed interest rates, the characteristics of insurance types and the existence of insurance policyholder protection schemes. In particular, we propose the following three perspectives from i to iii. ➢ Also, in the “Level 2 Document - Liquidity Metrics as an Ancillary Indicator” published by the IAIS in November 2022, the metrics for assessing liquidity of insurance liabilities for retail policyholders were separated from that of institutional policyholders (Table 4 – ILR factors – Liability liquidity: Retail and Institutional) and the factors applied to retail were reduced to half of those applied to institutional.

	However, given the reason mentioned below in item i, we believe further reduction in the retail factors should be considered. i. Regarding the factor level, it should be considered that our actual surrender rate is much lower than 100% (for retail). - In Japan, the highest mass surrender rate experienced is 25% (rate of decrease in individual insurance and annuity for Toho Mutual Life Insurance Company's case in 1997), which is far below 100%. - As demonstrated in the IAIS' ICS data collection, Japanese life insurance sector's surrender rate is stable and the 100% level is very atypical from reality. ii. Insurers run their business based on the characteristic of their domestic market so the metrics should also take into consideration of this reality. Specifically, we would like to propose that there should be a difference in factors between protection-based products and savings-based products, as well as setting the surrender penalty as market value based. Protection-based products are less likely to be surrendered not only because the protection will be lost at time of cancelation, but also because it would be difficult for the policy holder to re-purchase a policy after the cancelation. iii. Regarding time restraints on surrender of Japanese insurance policies, we would like the IAIS to allow to categorize it for three months or more upon an event of crisis. For the IAIS liquidity metrics of insurance liabilities, only surrender results during normal times were considered. However, we understand that liquidity metrics consider insurers' situation during a crisis; therefore, time restraints

	for surrenders should also consider situations during a crisis. - As for Japanese surrender results, time restraints are considered low (less than a week). But this is due to the quick payment done during normal times which is promoted by the fact that if the payment of cash surrender value is not made by a certain time, the insurance company is required to pay overdue interest. However, since this payment period is not guaranteed to the customer, and if a lack of capital occurs, it is possible for the insurance company to decide to extend the payment period and rather pay the overdue interest based on the policy's terms and conditions. Therefore, we propose the cash surrender value and overdue interest be considered as liquidity needs in terms of liquidity risk management, and the time restraints during an event of crisis to be able to be categorized as three months or more. ➢ As stated above, we would like to continue our discussion on factors regarding the liquidity assessment of insurance liabilities. Having said that with regards to the scoring indicators mentioned in 13. Liability liquidity formulas in the IIM Assessment Methodology, revising the institutional and retail factors should be considered to align with "Level 2 Document - Liquidity Metrics as an Ancillary Indicator". In case IAIS believes this revision is unnecessary, it would be truly appreciated if you could explain us about your rationale.