

## The LIAJ comments on Public consultation on ancillary risk indicators in the Global Monitoring Exercise

Question	Comment
Q24. Do you have any other comments on the correlation adjustment for the ILR?	<p>The Life Insurance Association of Japan (the “LIAJ”) appreciates the opportunity to submit public comments to the International Association of Insurance Supervisors (the “IAIS”) on the public consultation on ancillary risk indicators in the Global Monitoring Exercise.</p> <p>In regard to the correlation factor between the 6 stress scenarios used for the correlation adjustment of ILR, Figure 15 could serve as a starting point data for estimating the impact of the correlation factors adjustment. However, further detailed data is not provided in the consultation document, and the specific calculation method of the correlation factors remains unclear. We request the IAIS to provide stakeholders the specific calculation method once it becomes clarified, and another opportunity to comment based on the specified calculation method.</p>
Q25. Do you have any other feedback on the development of ancillary risk indicators in the GME?	<p>The LIAJ has made comments in the past regarding the liquidity assessment of insurance liabilities based on economic penalty and time restraint matrix 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.</p> <ul style="list-style-type: none"> <li>➤ The liquidity assessment of insurance liabilities is based on economic penalty and time restraint matrix. However, we believe this is rather over-simplified. It should be comprehensively assessed based on a wider 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, the LIAJ propose the following three perspectives from i to iii.</li> <li>➤ Also, in the “Level 2 Document - Liquidity Metrics as an Ancillary Indicator” published by the IAIS in November 2022, the matrix for assessing the liquidity of insurance liabilities was divided into “retail” and “institutional” (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. <ul style="list-style-type: none"> <li>i. Regarding the factor level, it should be considered that our actual surrender rate is much lower than 50% for retail. <ul style="list-style-type: none"> <li>– The highest mass surrender experienced in Japan had a surrender rate of about 25% (the rate of decrease in individual insurance and annuity for Toho Mutual Life Insurance Company in 1997), which was far below 50%.</li> </ul> </li> </ul> </li> </ul>

- As demonstrated in the IAIS’ ICS data collection, Japanese life insurance sector’s surrender rate is stable and the 50% level is very atypical from reality.
- ii. Insurers run their business based on the characteristic of their domestic market so the IIM assessment indicator 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 based on market value. 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 repurchase a policy after the cancelation.
- iii. Regarding time restraints on the 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, the IAIS only considered surrender results during normal times. 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). This is due to early payment handling during normal times since the insurance company is required to pay overdue interest if the cash surrender value is not paid within a certain time. As this payment period is not guaranteed to the policyholder 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 be categorized as three months or more.

As stated above, we would like to continue our discussions on factors regarding the liquidity assessment of insurance liabilities. Nonetheless, with regard to the calculation method for “12. Liability liquidity” (set out in Table 3 in “Holistic Framework for Systemic Risk in the Insurance Sector Global Monitoring Exercise June 2023” published by the IAIS) used as one of the indicators in the current IIM Assessment Methodology, a revision should be considered to align with “Level 2 Document - Liquidity Metrics as an Ancillary Indicator” by separating the factor into “institutional “ and “retail”, if the same liquidity risk of insurance liabilities will be assessed. If the IAIS believes this revision is unnecessary, an explanation would be appreciated.