

The LIAJ comments on the IAIS Public Consultation on  
the review of the Individual Insurer Monitoring (IIM) Assessment Methodology

Question	Comment
<p>Q3. Do you have any further feedback with regards to the proposed change to the level 3 asset indicator?</p>	<p>The Life Insurance Association of Japan (the “LIAJ”) appreciates the opportunity to submit our comments to the International Association of Insurance Supervisors (the “IAIS”) on the public consultation on the review of the Global Monitoring Exercise.</p> <p>The LIAJ supports the IAIS’s proposal to change the definition of the level 3 assets indicator. However, we are concerned that simultaneous changes to the definitions of the numerators (including adjustment to the asset liquidation indicators and indicators’ weighting mentioned later) and denominators may lead to significant fluctuation in the scores, potentially impairing continuity of the IIM. To address this, we suggest following approaches:</p> <ul style="list-style-type: none"> <li>i. For the 2025 data, calculate the scores based on the updated definition (to the extent possible) and disclose the methodology for converting scores from the previous definition to the updated one; and</li> <li>ii. For the 2026 data, calculate the scores based on both the previous and updated definitions to highlight the differences.</li> </ul> <p>If the IAIS has already calculated scores internally based on the proposed definitions, we would appreciate disclosure of these results.</p> <p>Also, when adopting the proposed annual revision of the denominators in the future, we expect the IAIS to provide measures to ensure continuity.</p>
<p>Q4. Do you have any views or suggestions on the potential introduction of a complexity category or indicator?</p>	<p>The LIAJ agrees with the IAIS’s consideration of complexity in measuring systemic risk. However, we would like to note that, given the expected high complexity of the level 3 assets, treating them as a separate category could result in double-counting of risks, leading to excessively high scores.</p> <p>Additionally, we would like to confirm whether the consideration of complexity aligns with the proposed definitions of alternative assets set out in draft Issues Paper on structural shifts in the life insurance sector on March 19, 2025. In that case, we would like to reiterate our comment below that suggests a holistic discussion, including the possibility to consider the appropriateness of the capital charge imposed by the ICS on assets rated Below-IG.</p>

	<p>The Issues Paper states that complexity can arise from structuring. However, the need for structuring may be driven by the relatively high capital charge imposed by the ICS on investments rated Below-IG, leading insurers that comply with the ICS to invest in the IG portion of structured products backed by assets that are Below-IG. Therefore, a possible future review of the ICS could consider the appropriateness of the capital charge for assets rated Below-IG based on the review of insurers' behaviour stated above.</p>
<p>Q5. Do you have any comments on the potential introduction of an adjustment to the asset liquidation indicators' scores based on a measure of the insurance group's aggregate liquidity risk? If so, do you have any views on the use of the ILR as the measure of liquidity risk?</p>	<p>The LIAJ appreciates the IAIS's consideration on the absence of ALM consideration in the asset liquidation indicators. As we have commented on the past consultation concerning ILR, we believe that the current indicators still remain a concern for the life insurance industry in Japan. 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. Lowering the factor for retail: 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> <li>– 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.</li> </ul> </li> <li>ii. Segmentation of factors based on the product nature and setting the surrender penalty based on market value: 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.</li> </ul> </li> </ul>

	<p>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.</p> <p>iii. Adjustment to the time restraints on the surrender of Japanese insurance policies:</p> <p>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.</p> <ul style="list-style-type: none"> <li>– 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.</li> </ul>
<p>Q6. Do you have views on the appropriate level of the Liquidity Ratio Threshold?</p>	<p>The LIAJ supports the intent of proposed changes to the Liquidity Ratio Threshold based on the concern described in Section 2.2.1.</p> <p>However, as these changes could bring continuity concerns, we would like the IAIS to disclose measures to ensure continuity, if any. Also, we expect another opportunity for stakeholders to comment on the specific LRT levels once they have been clarified.</p>
<p>Q7. Do you have views on the appropriate magnitude of the haircut(s) and multiplier(s) that</p>	<p>The LIAJ supports the proposed changes to the assessment methodology to better reflect the actual practice of life insurers hedging liquidity risks internally by holding long-term illiquid assets and liabilities. However, we request the IAIS to ensure that threshold would not be overly skewed and that the diverse asset-liability structures within each jurisdiction and insurer is well captured.</p> <p>In addition, as these changes could bring continuity concerns, we would like the IAIS to disclose measures to ensure continuity, if any. Also, we expect another opportunity for stakeholders to comment on the specific levels once they have been clarified.</p>

could be applied?	
Q14. Do you have views on the proposed adjustments to the indicators' weighting?	The LIAJ supports the idea of reviewing the indicators' weighting based on changes in systemic risks over time. However, as these changes could bring continuity concerns, we would like the IAIS to disclose measures to ensure continuity, if any. Also, we expect another opportunity for stakeholders to comment on the specific weights once they have been clarified.