

The LIAJ comments on the IAIS Public Consultation on draft revised Application Paper on recovery planning

Question	Comment
<p>Q1. General comments on the draft revised Application Paper on recovery planning</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 draft revised Application Paper on recovery planning.</p> <p>The LIAJ supports the proposed revisions as they provide clarity on the application of the proportionality principle and allow each jurisdiction to flexibly adjust its practices according to its own circumstances. The LIAJ expects the IAIS to continue updating and sharing examples and other information to reduce the practical burden on insurers.</p> <p>Also, the LIAJ appreciates the IAIS’s effort to cooperate and align various concepts concerning the RRP requirements with the FSB. For example, “Scope of Insurers Subject to the Recovery and Resolution Planning Requirements in the FSB Key Attributes”, which is a consultation report concurrently issued by the FSB, refers to the IAIS’s materials.</p> <p>However, the LIAJ believes that the RRP requirements for the insurance sector should primarily be considered proactively by the IAIS and addressed ultimately by each supervisor, who should take into consideration the reality of their respective jurisdiction. The LIAJ also believes that it would be appropriate for the FSB to provide feedback on the IAIS’s conclusion as necessary to ensure the consistency across the financial sector. The LIAJ would appreciate the FSB’s further consideration on this, taking the following two reasons into account:</p> <ul style="list-style-type: none"> (i) Jurisdictional supervisors are responsible for supervising insurers within their own jurisdictions, and the IAIS is a standard-setting body whose members are jurisdictional supervisors. The LIAJ believes that the IAIS, which is most familiar with the insurance sector and has already accumulated expertise through the development of ICPs and ComFrame, should consider and develop insurance-specific global standards, including the scope of insurers subject to the RRP requirements. Another reason to support the effectiveness of consideration by the IAIS is that it comprises more than 200 jurisdictions as its members, including non-members of the FSB, and has an effective regime for summarising broad opinions when developing policies on RRP and other topics. Alongside this, the FSB’s independent role (e.g. providing comments on the criteria developed by the IAIS from the viewpoint of ensuring consistency between sectors) should be clearly defined. (ii) If the global criteria on RRP for the insurance sector were set out separately in documents issued by the FSB and the IAIS, readers would need to refer to more materials, which could lead to additional costs arising from increased complexity and confusion in practice. Minor

	<p>differences in concepts and wording between the documents of the FSB and the IAIS could cause unnecessary misunderstandings among readers. Consolidating the criteria in the IAIS document would reduce the amount of reference materials and help prevent inconsistencies or failure to reflect future changes.</p> <p>For example, in terms of concepts, the FSB emphasises direct transmission to counterparties and other entities rather than transmission through the market in section 3.3.6 of its “Scope of Insurers Subject to the Recovery and Resolution Planning Requirements in the FSB Key Attributes”. The LIAJ would like the IAIS to note and take into consideration in the practical application of the Paper, that the insurance sector has different characteristics from the banking sector.</p>
<p>Q9. Comments on Section 3 Scope of application and proportionality</p>	<p>In paragraph 32 of the Application Paper, the IAIS refers to the insurer’s “size, activities, lines of business, risk profile, substitutability and interconnectedness” as 6 factors that supervisors should consider when determining which insurers should be subject to a recovery plan requirement. On the other hand, the FSB refers to “nature, scale, complexity, substitutability, cross-border activities, interconnectedness” as 6 factors in its “Scope of Insurers Subject to the Recovery and Resolution Planning Requirements in the FSB Key Attributes”. To avoid unnecessary misunderstandings for readers, the LIAJ proposes that the IAIS align its wording and concepts with those of the FSB. It would be particularly difficult to read that the IAIS also proposes consideration on cross-border activities, as proposed by the FSB, solely from the description in paragraph 32.</p>
<p>Q10. Comments on Box 1: Recovery plan requirement under the EU IRRD</p>	<p>While the LIAJ understands that the Application Paper introduces EU IRRD as a reference, the detailed description on the scope of applying its recovery planning requirement, which covers at least 60% of a member state’s insurance market (while having certain exemptions), could mislead readers into thinking that the IRRD is being proposed as a future global standard. If future Application Papers and other materials are developed based on the IRRD, the requirements could be overly strict for other jurisdictions including Japan. Given that Application Papers are supplementary documents that do not establish new standards and that the IAIS sets proportionality as its core principle, the LIAJ would like the IAIS to clarify that the IRRD is being used merely as an example, such as by mentioning other examples alongside the IRRD.</p>
<p>Q11. Comments on Box 2: Matters specific to insurance groups</p>	<p>The LIAJ understands that there can be cases where a host supervisor requires a separate recovery plan for the local insurance subsidiary in its jurisdiction. However, it would be important that this recovery plan is developed in line with the group recovery plan to ensure consistency and effectiveness of recovery plans within the group. Accordingly, the LIAJ requests that the IAIS add a description of the importance of communication to ensure the alignment of group and local recovery plans through supervisory colleges and other measures. The LIAJ also requests that the IAIS ensure that practices for coordinating recovery plans between authorities do not place an excessive burden on insurers.</p>

Q14. Comments on Section 5 Elements of a recovery plan	As analyses considering multiple stress scenarios have already been introduced in Own Risk and Solvency Assessment (ORSA) and Enterprise Risk Management (ERM) processes, it would be reasonable to consider market-wide shocks and insurer-specific shocks. However, given the practical burden that considering multiple stress scenarios could pose, the LIAJ would like to request that the IAIS continue to allow flexible operation based on proportionality. The LIAJ also requests that the IAIS share various examples under different conditions to help reduce the practical burden.
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The LIAJ comments on the IAIS Public Consultation on draft revised Application Paper on resolution powers, preparation and plans

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<p>Q1. General comments on the draft revised Application Paper on resolution powers, preparation and plans</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 draft revised Application Paper on resolution powers, preparation and plans.</p> <p>The LIAJ supports that the revision to this Application Paper updates the practical guidance on the application of resolution processes. As resolution is highly affected by insurers’ structure, the complexity of their reinsurance agreements and the regulatory differences, the LIAJ would like to request that the IAIS continue to allow flexible implementation based on proportionality. The LIAJ also expects the IAIS to continue updating and sharing examples and other information to reduce the practical burden on insurers.</p> <p>Also, the LIAJ appreciates the IAIS’s effort to cooperate and align various concepts concerning the RRP requirements with the FSB. For example, “Scope of Insurers Subject to the Recovery and Resolution Planning Requirements in the FSB Key Attributes”, which is a consultation report concurrently issued by the FSB, refers to the IAIS’s materials.</p> <p>However, the LIAJ believes that the RRP requirements for the insurance sector should primarily be considered proactively by the IAIS and addressed ultimately by each supervisor, who should take into consideration the reality of their respective jurisdiction. The LIAJ also believes that it would be appropriate for the FSB to provide feedback on the IAIS’s conclusion as necessary to ensure the consistency across the financial sector. The LIAJ would appreciate the FSB’s further consideration on this, taking the following two reasons into account:</p> <ul style="list-style-type: none"> (i) Jurisdictional supervisors are responsible for supervising insurers within their own jurisdictions, and the IAIS is a standard-setting body whose members are jurisdictional supervisors. The LIAJ believes that the IAIS, which is most familiar with the insurance sector and has already accumulated expertise through the development of ICPs and ComFrame, should consider and develop insurance-specific global standards, including the scope of insurers subject to the RRP requirements. Another reason to support the effectiveness of consideration by the IAIS is that it comprises more than 200 jurisdictions as its members, including non-members of the FSB, and has an effective regime for summarising broad opinions when developing policies on RRP and other topics. Alongside this, the FSB’s independent role (e.g. providing comments on the criteria developed by the IAIS from the viewpoint of ensuring consistency between sectors) should be clearly defined. (ii) If the global criteria on RRP for the insurance sector were set out separately in documents issued by the FSB and the IAIS, readers would need to refer to more materials, which could lead to additional costs arising from increased complexity and confusion in practice. Minor

	<p>differences in concepts and wording between the documents of the FSB and the IAIS could cause unnecessary misunderstandings among readers. Consolidating the criteria in the IAIS document would reduce the amount of reference materials and help prevent inconsistencies or failure to reflect future changes.</p> <p>For example, in terms of concepts, the FSB emphasises direct transmission to counterparties and other entities rather than transmission through the market in section 3.3.6 of its “Scope of Insurers Subject to the Recovery and Resolution Planning Requirements in the FSB Key Attributes”. The LIAJ would like the IAIS to note and take into consideration in the practical application of the Paper, that the insurance sector has different characteristics from the banking sector.</p>
<p>Q7. Comments on Section 1.6 Related work by the FSB</p>	<p>The LIAJ supports the IAIS’s development of guidance that is based on the FSB’s framework while taking into account the characteristics of the insurance sector. The LIAJ would request that the implementation remain flexible to reflect the characteristics of the sector.</p> <p>As stated in our comment for Q1, the LIAJ believes that the RRP requirements for the insurance sector should primarily be considered proactively by the IAIS and ultimately addressed by each supervisor, who should take into consideration the reality of their respective jurisdiction. The LIAJ also requests that the IAIS align its wording and concepts with those of the FSB.</p>
<p>Q11. Comments on Section 2.4 Considerations related to reinsurance</p>	<p>Given recent discussions, the LIAJ understands the increasing importance of taking into account the impact of reinsurance when considering resolution plans. On the other hand, insurers can benefit from AIR in various ways, as set out in the IAIS’s “Issues Paper on structural shifts in the life insurance sector”. Additionally, the LIAJ believes that the Application Paper’s assertion that AIR is particularly relevant compared to other forms of reinsurance is not clearly justified, and that AIR should only be highlighted to the extent necessary.</p> <p>If a reference to AIR is to be made, it would be more useful to provide guidance on the perspectives from which the impact of AIR should be more carefully considered.</p>
<p>Q44. Comments on Section 7 Resolvability Assessments</p>	<p>The LIAJ understands that the resolvability assessments are supposed to be carried out every one to three years on an ongoing basis, taking into account material changes and various other changes, on the premise that insurers should always remain assessable. In this context, it is significant that, in paragraph 131, the Application Paper advises the authorities when collecting information to first utilise information available from other supervisors to ensure efficiency and then request only additional information needed from the insurer in order to limit excessive burdens on the insurers.</p> <p>In light of the proportionality principle and the approach stated in paragraph 131, the LIAJ expects the authorities to utilise the information available through the existing recovery plans and ordinary risk management/supervisory processes, so that duplication of requests for information is avoided and the effectiveness of the authorities’ resolvability assessments is ensured. The LIAJ also proposes to add in paragraph 188, for example, that the frequency of review could be reduced in the absence of material changes.</p>

Q45. Comments on Section 7.1 Resolving impediments	The LIAJ considers the illustrative description of impediments to resolution set out in this section to be highly valuable. It would be appreciated if the IAIS could provide specific examples to help remove these impediments.
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