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Compiled Comments[1] on *Non-traditional Non-insurance Activities and Products*

[1] *This compilation of comments reflects the original text submitted by each respondent. The IAIS does not make any editorial revisions to these submissions prior to publication.*

Organisation	Jurisdiction	Confidential	Comments
1 - Based on the above characterisation of NTNI, is the terminology “non-traditional” confusing? If so, what might be a better term than NTNI? Additionally, what might be a better term than “traditional” for products and activities that are not NTNI?			
CLHIA	Canada	No	The NTNI label can be confusing since some products that may be labelled as "NT" under the proposed framework are long-standing ("traditional"), prudentially regulated insurance products ("insurance") that are recognised globally. We support the IAIS seeking to improve the term and suggest for consideration that "Potentially Systemically Risky Activity" would be more suitable.
China Insurance Regulatory Commission	China	No	We are happy with the two terms. But we suggest further define NI and provide a analytical framework for NI.
Insurance Europe	EU	No	Insurance Europe believes that the use of the term "traditional" (in conjunction with "non-traditional") is confusing and it would support an initiative by the IAIS to rename the NTNI. The following observations are worth noting: - What the IAIS framework could deem as NT may in reality be activities/products in a specific market, which have for a long time addressed policyholders' needs. These activities/products may actually have never caused any threat to financial stability, even during periods of financial market crisis. From this perspective, the term NT appears counter-intuitive. - Most of the non-traditional versus traditional activities/products broadly present the same fundamental insurance characteristics specific to the insurance business model: insurability through pooling and compensation of losses, inverted production cycle, same accounting regime, regulation and supervision, orderly resolution, matched assets and liabilities, etc. - It is not because insurance products are complex or innovative (ie non-traditional) that they have potential for systemic risk. As an example, life products that rely on cutting-edge asset/liability management techniques do not pose more threat to the financial system than products managed on a buy-and-hold asset management basis. - Any new proposal should include a reference to the fact that the activity identified is not necessarily systemic and only potentially systemic.
Allianz Group	Germany	No	We welcome the opportunity to comment on the IAIS's proposal of an analytical framework for the identification of non-traditional insurance activities. In general we refer to the separate consultation feedback and answers provided by the group of European Global Systemically Important Insurers. In addition we want to highlight some specific points below.
GDV - German Insurance Association	Germany	No	The division into "traditional" and "non-traditional" products and activities is not properly fitting, considering that some products classified as systemically risky might be part of an insurer's traditional business. Thus, terms like "insurance-driven" and "market-driven" would be more appropriate for clarifying the intention behind the distinction of the two. A clearer and also simpler way would be the separation between "potentially systemically risky" and "not systemically

			risky" activities. However, we want to highlight that this discussion about terminology is subordinate to the definition of the contents. In view of the established and common use of the term "NTNI", it should be carefully considered whether to change the term at all - even if it is not fitting perfectly.
Munich Re	Germany	No	We definitely believe that the distinction between "traditional" and "non-traditional" products and activities is artificial and does not reflect the actual purpose of the intendent classification. The relevant distinction is between systemically relevant and non-systemically relevant activities (see CRO Forum: NTNI from a CRO Forum perspective (February 2013)). In our view there are activities, which are not part of the (re)insurance core business model, that can be potentially systemically relevant (i.e. derivatives trading on the non-(re)insurance balance sheet; mismanagement of short-term funding from commercial paper or securities lending). However, as the term NTNI has been used in this context for a while now, we do not see the necessity to change it.
Global Federation of Insurance Associations	Global	No	The NTNI label is misleading and could be prone to misinterpretation. Many insurance products that may be labelled as "NTNI" under the proposed framework are long-standing, prudentially regulated insurance products that are recognised globally. An alternative naming convention should be considered.
Institute of International Finance/ The Geneva Association	Global	No	We think the characterization of insurance products as "traditional' and "nontraditional' is indeed confusing. A better terminology would be Potentially Systemically Relevant Activities (PSRA).
AIA Group	Hong Kong	No	Yes, it is confusing. In fact, the statement that "classification as "NTNI" is unrelated to the amount of time for which a product feature or activity has existed in a particular jurisdiction" is directly contradictory to the usual meaning of "traditional". Since the goal is to identify products that may create systemic risk a better nomenclature would be "Potentially Systemically Risky Insurance Products (P-SRIP's)". However, if a product has existed in a particular market for a period of time and shown no evidence of actually creating systemic risk this should be taken into account as to whether it should be classified as such. A better name for "traditional products" might be "Non Systemically Risky Insurance Products (N-SRIP's)"
on behalf of the European GSIIs, Aegon, Allianz, Aviva, Axa and Prudential	International	No	The "non-traditional" terminology has always been, per se, very confusing: - It may refer to very "traditional" activities/products which have been addressing for a long time policyholder's local needs taking into consideration the specificities of each market. Historically those activities/products have never caused any threat to financial stability even at the worst peak of market financial crisis. - Non-Traditional versus traditional activities/products broadly present the same fundamental insurance characteristics specific to the Insurance business model: Insurability through pooling and compensation of losses, Inverted production cycle, same accounting regime, regulation and supervision, orderly resolution, matched assets and liabilities, etc. This is not because insurance products are complex or innovative that they are necessarily systemic. As an example, Life products relying upon cutting edge asset liability management techniques may pose no more threat to the financial

			system than products deemed to be traditional. What matters is the way products are managed and how their risk can be contained within the Insurer. A better terminology would be Potentially Systemic Risk Relevant Activities (PSRA) and Non Systemic Risk Relevant Activities. Activities identified as PSRA should be assessed both in terms of benefits and threats they pose to the system. This may either lead to an initial list of products that is narrow or broad, but would allow a focus on overall risks to the system and taking a more synthetic approach to assessing such activities. It would shift the focus to drivers of risk rather than general product features and thereby reducing the risk of national or regional idiosyncrasies in terms of product offerings (public versus private solutions) and risk management practices.
Swiss Re	Switzerland	No	The term "traditional" does indeed invoke an association with historic precedence and therefore creates a degree of confusion. The IAIS strives to determine those activities that produce or amplify systemic risk. Therefore, "Systemically Risky Activities" or "SRA" might be appropriate. Until the assessment is complete, the IAIS could use the expression "potentially SRA". By applying this term, the IAIS would be direct and transparent in its terminology.
Center for Economic Justice	U.S.	No	The Center for Economic Justice is unable to submit comments by tonight´s deadline due to unforeseen circumstances. We request the opportunity to submit comments by end of day tomorrow 26 January.
Institute and Faculty of Actuaries	UK	No	We prefer the terminology "conventional / un-conventional' to "traditional / non-traditional'.
KPMG	UK	No	The term non-traditional in this context is slightly confusing as this consultation document relates to, in a way, traditional insurance products with some product features that could potentially lead to systemic risk, such as those that provide financial guarantees or provide policyholders with easy access to their assets. The IAIS could potentially use the term: 'potentially systemic insurance features', which better describes the areas the IAIS is considering. A better term for "traditional insurance' could then be "non-systemic insurance contracts'. The current usage of the term NTNI encompasses activities like shadow banking which can include non-insurance activities, although we note that non-insurance is not the aim of this paper.
Association of British Insurers	United Kingdom	No	Prior to responding to the individual questions, we would like to take this opportunity to make some overarching comments on the proposed NTNI framework. We appreciate that the IAIS has adopted an analytical approach to developing a framework for identifying NTNI activities; this is an important step. In our responses to the consultation questions, we identify specific areas where we think further improvement to the methodology would be desirable. In addition to these, however, we would also urge the IAIS to consider the broader

			impact of the NTNI identification framework, and the incentives it offers. It is important to consider the impact that the proposed methodology may have on consumers and savings, and the incentives it may create for design. For example, the current framework may incentivise insurers to incorporate high surrender penalties into policies. In cases such as this, it should be taken into account how the NTNI framework affects consumer outcomes, and whether this would be consistent with other regulatory and policy considerations. To elaborate, the impact of NTNI methodology on product design may be likely to have a negative impact on the consumers of savings products. Thus, proposals need to be tested against the objectives of conduct regulators and on the levels of savings: this may require the mapping out of the consequences with political decision-makers so that a holistic approach can be taken. As well as product design distortions, insurers may be discouraged from offering what has been labelled as "NTNI" products and activities more generally. This relates to both how the NTNI concept is incorporated into IAIS capital workstreams, and how other regulatory bodies may re-interpret the concept. For example, there have already been suggestions by the European Systemic Risk Board of the possibility to ring-fence and limit or restrict NTNI products. The types of products caught by the current proposals can play an important economic role, and provide policyholders with the safety of protection against future events, be it an unfortunate accident or retirement. Any unintended consequences for the provision of these products therefore need to be carefully evaluated in advance. For these reasons, it is important that - first of all - the methodology only captures products and activities that present true systemic risk, and - secondly - that the purpose and design of the methodology is clearly articulated. In relation to the second point, we agree that labelling what may be well-established insurance products as "non-traditional" is misleading and prone to misinterpretation. In relation to the first point, that the methodology only captures products that are the source of systemic risk, we appreciate that the analysis is broken down by vulnerabilities and transmission channels. It is important to note that systemic risk arises on account of transmission to the system. The existence of vulnerabilities in itself does not create systemic risk - these are addressed by robust micro-prudential regulation. The paper appears to be particularly focused on asset-side exposures, and we note that these risks, alongside those on the liability side, are already subject to micro-prudential regulation. Insurers' risk management processes are also relevant here. Therefore, the identification of vulnerabilities is an appropriate first step, as identified in the framework, but this is not in itself indicative of the presence of systemic risk. The focus of systemic analysis should be on whether, and how, these risks could be transmitted to the rest of the financial system, and the impact on the financial system and the real economy this would create. In this context, it should be considered in what circumstances systemic risk is transmitted through these channels. It is also necessary to factor in actions - by both management and supervisors - that can be taken to mitigate the likelihood that risks are transmitted. There are likely to be very few activities or products offered by insurers that are true originators of systemic risk within the financial system. In this light, it needs to be assessed whether the very comprehensive proposed methodology is commensurate with the outcomes of such analysis. If there are very significant, unmitigated, high risk exposures, then

			these should already be appropriately addressed through direct supervisory action. Finally, it is important that the assessment of systemic risk be consistent across different participants in the financial system, while recognising the unique characteristics of each type of participant. We believe further work will be required to achieve this.
Allstate Insurance Company	United States	No	We believe the term NTNI may be confusing in that it attempts to identify activities in terms of what they are not as opposed to what they are. As such, we believe it would be more appropriate to replace the notion of NTNI with Potentially Systemically Relevant Activities (PSRAs) which is a direct identifier.
American Council of Life Insurers	United States	No	We think the analysis of systemic relevance could be improved. The current analysis conflates a life insurer's own risks with risks to the global financial system. ACLI believes that it should be refined to distinguish a life insurer's own probability of default from the impact of that default on the global financial system. That would foster an analysis focused on life insurers' potentially systemically risky exposures and on potential transmission channels from the life insurance sector to the global financial system.
Americans for Financial Reform	United States	No	We do not have specific responses to most of the specific questions in the Consultation at this time. However, we would like to respond to Question 1, regarding the appropriateness of the term "Non-Traditional, Non-Insurance' for systemically risky activities. We do not believe this term is appropriate. The identification of systemically risky activities should not depend on whether an activity is "traditional' in a jurisdiction or is new. Monoline bond insurers were arguably "traditional' in the United States prior to the financial crisis but turned out to be quite systemically risky. Although the question does not inquire as to the appropriateness of the "non-insurance' label, we also do not believe this term should be used. Financial guaranty products, including covered credit default swaps, may be seen as insurance products and in some cases have been in the United States. Yet they are still systemically risky. We would prefer that the IAIS use a term for these types of products that refers directly to the reasons why they pose systemic risks. These risks are generally related to financial guaranty risk and/or liquidity risk. In general, analysis of activities should not depend on static "classifications' into traditional or non-traditional activities, but on a regularly updated analysis of the actual underlying activities and the risks it poses.
National Association of Mutual Insurance Companies	United States	No	General Comments This submission represents the collective comments of the membership of the National Association of Mutual Insurance Companies (NAMIC) in the United States. NAMIC is the largest property/casualty insurance trade association in the U.S., serving regional and local mutual insurance companies on main streets across America as well as many of the country's largest national insurers. NAMIC's 1,300 property/casualty insurance company members write $208 billion in premium and serve more than 135 million policyholders in the U.S. NAMIC members serve 48 percent of the personal lines (automobile/homeowners) market and 33 percent of the business insurance market. Over 200,000 people are employed by NAMIC member companies. NAMIC supports the IAIS's continued focus on activities and products of systemic importance. Non-traditional non-insurance (NTNI) activities are an important area of focus. And we provide herein several ways that the definition provided in the consultation can be improved and clarified by addressing factors and features contributing to systemic risk and even renaming the category of activities. The IAIS correctly stated in its November 2011 paper entitled, Insurance and Financial Stability, "for most lines of business there is little evidence of traditional insurance either

			generating or amplifying systemic risk within the financial system or in the real economy." Consequently the effort of the IAIS to focus much of the attention in the Basic Capital Requirement and the Higher Loss Absorbency applicable to GSIIs on NTNI is appreciated by NAMIC. NAMIC also agrees that the time was right to attempt to provide more information and definitional guidance to the industry related to NTNI to assure that it only encompassed those activities that actually did contribute to "amplifying systemic risk within the financial system or in the real economy." Finally, NAMIC agrees with the IAIS analysis that concludes that most property/casualty lines of insurance show no connection to systemic risk, no substantial market risk and no correlation with the movements of the market. Despite our basic agreement with the goal of the IAIS in the consultation document we have recommendations that we propose to render the definition clearly directed to the actual activities of concern. We will provide more information in these comments relating to the following: 1. Clarifications. There are other aspects of the NTNI definition that require clarification, especially which authority will be responsible for making the determination of whether a product line is a non-traditional insurance product (e.g. groupwide supervisors; supervisory college; local prudential regulators etc.); 2. Prudential Regulators. There are steps included within the definition that will benefit from further recognition of the role of local prudential regulators and consideration of prudential legal requirements, especially in the area of investment restrictions, assessment of what is non-traditional/systemic-risk causing and existing oversight of activities; 3. Insurers. There are factors included within the definition that will benefit from added recognition of the role of the individual insurer's enterprise risk management including liquidity and product risk management; 4. Guaranty Funds. There is language in the definition that will benefit from a more complete discussion of the role of policyholder protection plans like the guaranty funds in the U.S. 5. Annex 1 - Added Lines. Notwithstanding the IAIS general view of property/casualty insurance, there continues to be an open door in Annex 1 to reconsideration of property/casualty lines as well as other lines of insurance. We urge a focus on establishing a methodology and definition of NTNI in this consultation and the deletion of Annex 1 as it just raises unnecessary concerns. NAMIC has participated in the comments submitted by the Global Federation of Insurance Associations and those of the U.S. Chamber of Commerce and supports these comments. We will focus our attention in the comments below on important areas of emphasis and areas of concern for our membership not addressed in the GFIA remarks. Question 1. Issues being addressed: 1. NAMIC agrees that the terminology of "non-traditional" insurance is confusing. 2. The consultation draft fails to consider in the elements of the analysis potential mitigating factors like products that are common in the local jurisdiction, local prudential regulation, individual insurer's enterprise risk management, and individual insurer's investment strategy. Rationale and Basis for Comment: 1. The use of a term like "non-traditional" could be used to negatively affect innovation in insurance products developed and sold. The industry must continually search for ways to serve the insurance-buying public or the industry will become

			irrelevant. Not so many years ago identity theft and pet insurance would have been identified as non-traditional, but now they are common place in the United States and meet insurance needs of many people. We assert that the non-traditional nature of products should not be penalized, but that the focus should be on products contributing to or creating systemic risk. 2. While on some level products are bought and sold globally, many products familiar in the U.S. may not be "traditional" or even needed in other jurisdictions. This goes back to the unique nature of each country's legal system, unique level of risk aversion, high medical costs etc. Lawmakers and supervisors have adapted to many of these unique needs and have developed regulation and requirements to address those products. For example, insurance regulators review and must approve (in many U.S. states) all new or revised property/casualty contracts used in each state as well as the rates used to price those products. Consequently U.S. prudential regulators have more information about property/casualty products sold and more opportunity to question products than their counterparts in some other jurisdictions. These types of differences between jurisdictions should not be underestimated. All countries have unique needs and any attempt to apply an international standard to unique markets will fall short. Applying a capital factor to NTNI without understanding the nature of the product in the local jurisdiction will create disproportionate impacts on the markets. Alternatives for Consideration: 1. We propose the use of "systemic risk causing" activities or SRC instead of "non-traditional." 2. We suggest that the assessment of systemically important (or systemic risk causing) activities would best be made at the local level under high level principles agreed upon at the IAIS.
American Academy of Actuaries	United States of America	No	Before addressing the questions in the Consultation, we would like to offer the following general comment: The Consultation has identified useful principles to assist regulators in the evaluation of market and liquidity risks arising from insurance products. We have concerns, however, that these principles may result in prescriptive presumptions of systemic relevance based on specific product labels and features. Insurance markets differ markedly from one another internationally. Product lines, regulatory and tax regimes, consumer behavior, and many other factors can be very different from country to country. Local regulators should be afforded discretion to apply these principles flexibly, making adjustments when needed in order to accommodate their respective markets and regulated insurers. Yes, the term "non-traditional" could create confusion. The introduction to the Consultation explains that one main objective is to "provide further clarification on the concepts of NT and explain how their characteristics drive their systemic relevance." (emphasis added) As this statement suggests, the concept of "non-traditional" is focused on identifying potential sources of systemic significance or risk, and is not intended to define whether an activity is one that insurers have "traditionally" pursued according to the ordinary meaning of that term. As the Consultation notes, an activity might generate systemic risk, even though it is one that has a long-established history, and is therefore one that is "traditionally" offered by insurers in a particular marketplace. Similarly, new products or practices may not be systemically risky, or might reduce overall systemic risk, despite being

			new or innovative. The term "traditional" also conflicts with the important goal of ensuring that standards are applied transparently and as consistently as possible across diverse jurisdictions. An activity that is new and therefore "non-traditional" in one jurisdiction may be well-established and therefore "traditional" in another jurisdiction. Applying the term "non-traditional" in such a context could create confusion in those jurisdictions in which the IAIS determines that a well-established product or practice, with a long history and "tradition," is actually "non-traditional." What is really meant is that the product or practice potentially generates elevated systemic risk, irrespective of its history in any particular market. As alternatives, we suggest terms that explicitly refer to systemic relevance. Alternatives could include terms such as "systemic risk connected," "systemic risk contributing," "systemically significant," or "systemically relevant" products or activities. Terms for other products or activities could include the express opposites of these labels (e.g., "non-systemic risk connected" or "systemically neutral" products or activities).
American Insurance Association	United States of America	No	Purpose of NTNI Analytical Framework: the focus of the proposed framework should always be on identifying activities that can create systemic risk, and not on artificial classifications of "non-traditional" and "non-insurance". Indeed, the IAIS should consider changing the terminology from "non-traditional" to avoid confusion. The NTNI Consultation presents a reasonable approach for identifying sources of systemic risk, which should be applied to all activities of the insurance group - including those activities that were excluded from this consultation as "non-insurance" activities. For property-casualty insurers, the proposed framework correctly acknowledges that indemnity products, including surety, are not a source of systemic risk. AIA recommends dropping the traditional/nontraditional distinction, and focusing on whether the product feature or activity causes "systemic risk." Identifying sources of systemic risk must be the fundamental goal of the proposed analytical framework. Figure 1 on page 8 of the NTNI Consultation is a useful starting point for determining whether any given insurance feature has the potential of creating systemic risk. Rather than continuing the NTNI nomenclature, a more straight-forward analysis of systemic potential would be more meaningful. Referring again to Figure 1, the initial step in the systemic risk analysis is to identify the relevant features, which would come from the catalogue of product features that the IAIS plans to develop. Each of these features would be evaluated to determine if there are any vulnerabilities and transmission channels for passing those vulnerabilities to the broader financial system. After applying other relevant, but non-determinative factors, the analysis should produce a group of activities that could be characterized as "source activities of systemic risk".
Prudential Financial, Inc.	United States of America	No	Prudential Financial, Inc. (Prudential) would like to thank the International Association of Insurance Supervisors (IAIS) for the opportunity to comment on the November 25, 2015 Non-traditional Non-insurance Activities and Products consultation document. Prudential continues to remain committed to the further development of global regulatory standards for insurance and believes such standards are important for promoting effective and appropriate supervisory and regulatory practices. Such standards will contribute to our shared goals of effective policyholder protection, financial stability, sound regulatory outcomes, and more vibrant insurance markets. However, the evolution of global regulatory standards, including the refinement of the IAIS' Non-traditional Non-

			insurance (NTNI) activities and products concept, must be carried out in a measured and comprehensive manner. Further, it is critical that the IAIS consider the potential for their policy measures to adversely impact the ability of insurers to continue to offer socially necessary products to consumers and a steady flow of long term capital investment to financial markets. Every effort must be made to avoid such unintended consequences. We offer the following general comments on the consultation and request the IAIS review the comments we have provided in conjunction with those we submitted on the separate Global Systemically Important Insurers: Proposed updated Assessment Methodology consultation. + In the United States and Japan, which are the world's two largest life insurance markets, long duration life and income protection products - tailored to meet the needs of consumers in these markets - are critical to overall financial security and have been supported and incentivized through decades of responsible public policy and legislative / regulatory decisions. The IAIS' classification of products vital to these and other markets as systemic has the potential to drive G-SIIs to increase rates or exit product lines, resulting in an increase in market share for less capitalized insurers or market-based financing schemes (i.e. shadow insurance market). Such an outcome would prove to be a great disservice to the real economy and governments that face longevity challenges both today and into the future. + The IAIS must use this consultation as an opportunity to alter the future course of the consideration of systemic risk in insurance and corresponding G-SII designations. This begins by eliminating the artificial delineation of insurance activities / products between "non-traditional" and "traditional". This terminology has only led to confusion, inappropriate conclusions, and negative bias against specific products and their unproven / unjustified tie to the transmission of systemic risk to the global financial system. Notwithstanding the lack of facts or justification - in the eyes of many stakeholders including industry analysts, media, insurance consumers, policy makers and some insurance supervisors - the moniker non-traditional insurance activities has become a proxy for systemic risk in insurance. Going forward the IAIS should focus its efforts on assessing a broad array of activities, regardless of their current categorization (i.e. non-traditional versus traditional), that may create potential systemically relevant exposures (PSREs). PSREs should be empirically assessed through an appropriately modified G-SII assessment methodology that analyses the residual risk that certain activities undertaken by insurers pose to the global financial system through clearly identified and justified transmission channels. + The IAIS continues to conflate micro-prudential / probability of default issues with macro-prudential / systemic risk issues in the various policy measures under development, and in particular in the proposed framework for assessing activities and products. We believe the IAIS must focus on an insurer's transmission of risk to the global financial system as a first order concern, not the probability of or vulnerability to default. Such a blending of issues is most prevalent within the sections of the consultation that discuss substantial market risk exposures. These passages fail to provide clarity or demonstrate how an insurer's market risk exposures ultimately result in the transmission of risk to the broader financial system. Further, the consultation makes no attempt to draw a clear, or even implied, tie between market exposure vulnerabilities and the two identified transmission channels. These elements must be clearly articulated in the next version of the paper. + While Prudential supports the IAIS' effort to provide more clarity around the concept of potential systemically relevant exposures, we believe the framework introduces unnecessary complexity to the IAIS' policy measures. We agree that the market exposure channel and asset liquidation channel underpinning the proposed framework have the potential to

			transmit risk to the financial system however; the analysis of an insurer's exposure to these transmission channels should take place within the assessment methodology itself. Directly assessing an insurer's potential to transmit risk through the exposure and asset liquidation channels as part of the G-SII assessment process would result in a more transparent, consistent, and objective approach. + We believe the exposure channel component of the proposed framework for assessing activities and products is already captured in the G-SII assessment methodology through the interconnectedness category. Including the exposure channel in the NTNI category of the assessment methodology (assuming it remains as currently proposed by the IAIS), coupled with the interconnectedness category, results in a double count of an insurer's exposure. Such a double count could be eliminated by replacing the NTNI category of the assessment methodology with a category focused on an insurer's exposure to the asset liquidation channel. This would eliminate the apparent double count as well as the unnecessary complexity that accompanies the proposed framework for assessing activities and products while enhancing the transparency, consistency, and objectivity of the assessment methodology. + Should the IAIS move forward with their proposed framework for assessing activities and products and the proposed assessment methodology it is imperative they consider the following points: - The proposed framework does little to address how potential activities and products impact transmission channels. The IAIS must provide greater clarity on this critical element. - Given the significance of the activity and product assessment process, the IAIS should not set or be beholden to overly aggressive and arbitrary due dates but rather conduct the activity and product assessments through an ongoing and transparent exercise to ensure the results are fit for purpose. Regular, constructive stakeholder engagement should be a fundamental component of the assessment process however, the consultation provides no insight on if or how such engagement will occur. - The consultation correctly notes "policyholder runs are a somewhat uncommon phenomena", a statement that industry data and Prudential's experience throughout history and various economic crises supports. We believe strong liquidity management is a tenet of running a sound insurance company and are supportive of an appropriately designed liquidity framework to compliment appropriately designed capital standards. The IAIS' consideration of product design and contractual features that help mitigate policy surrender risk (i.e. penalties and delay mechanisms) is a step in the right direction. Further refinement and development - such as differentiating between policyholder surrenders of retail clients versus institutional clients - is necessary for the proposed framework to address the IAIS' macro-prudential goal of preventing the transmission of systemic risk to the global financial system. In addition, just as the proposed framework recognizes tools for mitigating liquidity risk it should also recognize tools - such as derivatives - for mitigating market risk. - Properly managed insurance groups do not pose a systemic risk to the global financial system or real economy. We further note our disagreement with the IAIS' prevailing belief and focus on variable annuities with guarantees as the most systemic insurance product in the market. While it is true that many of the guarantees associated with such products accrue greater value to the policyholder when financial markets decline, the associated liability is long term in nature and the value of the guarantee cannot be accessed by the policyholder via policy surrender. In addition, the long

term nature of such products allows time for markets to recover and firms to take measures to ensure they are able to deliver on the promise they have made when the benefit comes due. Further, should a policyholder surrender a contract when the guarantee has value, the capital position of the insurer would improve as the reserve supporting the guarantee would be released thereby freeing up assets to absorb potential losses. In addition, derivatives used to hedge against a market downturn would be in the money.

- The IAIS' framework must be holistic and take the following points into consideration when assessing the likelihood of an activity or product to cause an insurer to experience distress or a disorderly failure that gives rise to a significant disruption to the financial system and economic activity:

> the long term nature of life insurance and the reality that risks - including exposure and asset liquidation - manifest themselves over time, not all at once,

> a firm's ability to manage their solvency and asset liquidation risk through product design and other risk mitigation techniques,

> tools local supervisors and the group-wide supervisor could deploy to contain the transmission of risk to the global financial system and real economy,

> the existence of policyholder protection schemes, and

> distinguishing between solvency risk and systemic risk, or an orderly versus disorderly failure. History has demonstrated that large insurers can fail without disrupting the global financial system.

> The proposed framework does not account for the key elements noted above. Incorporating such elements in a consistent, objective, and transparent manner will prove to be a significant challenge. For this reason we reiterate our call to eliminate the unnecessary complexity the framework introduces and instead assess an insurer's market exposure and asset liquidation risk directly through the G-SII assessment methodology - through refinements to the Phase II categories and indicators and information exchanged during the Phase III qualitative stage.

+ The IAIS must not lose sight of the fact that the framework for assessing activities and products and related measures and standards, as designed, will only apply to a limited portion of the insurance industry and therefore, the benefit to financial markets and the real economy is questionable. If the IAIS continues to levy capital surcharges against activities and products they deem systemic it must address how covering a subset of the market - certain products of certain insurers - rather than the market as a whole, will preserve financial stability and prevent adverse impacts to the real economy. If the IAIS is convinced such activities and products increase the potential for a firm to experience distress or fail in disorderly manner to a degree that impacts the global financial system, how does it view the potential distress or disorderly failure of a smaller firm, collection of smaller firms, or domestic only firm with sizeable portfolios of such activities / products? Could they not give rise to contagion or systemic impacts?

Question 1 Response:
The IAIS must use this consultation as an opportunity to alter the future course of the consideration of systemic risk in

			insurance and corresponding G-SII designations. This begins by eliminating the artificial delineation of insurance activities / products between "non-traditional" and "traditional". The terms "non-traditional" and "traditional" should be eliminated from future IAIS vernacular. This terminology has only led to confusion, inappropriate conclusions, and negative bias against specific products and their unproven / unjustified tie to the transmission of systemic risk to the global financial system. Notwithstanding the lack of facts or justification - in the eyes of many stakeholders including industry analysts, media, insurance consumers, policy makers and some insurance supervisors - the moniker non-traditional insurance activities has become a proxy for systemic risk in insurance. Going forward the IAIS should focus its efforts on assessing a broad array of activities, regardless of their current categorization (i.e. non-traditional versus traditional), that may create potential systemically relevant exposures (PSREs). The label PSREs offers better terminology to use when referring to an assessment of potentially systemic activities and products. PSREs should be empirically assessed through an appropriately modified G-SII assessment methodology that analyses the residual risk that certain activities undertaken by insurers pose to the global financial system through clearly identified and justified transmission channels.
MetLife, Inc.	USA	No	As indicated in our Opening Statement, MetLife suggests that NTNI as proposed is a poor proxy for systemic risk, as it is more an attempt to measure vulnerability to market stress (or probability of default) than to measure the impact of failure given default. As will be evident from our response to the Updated Methodology, MetLife proposes a framework that incorporates relevant indicators into a revised interconnectedness category and a new asset liquidation category. Under our proposal, systemic relevance would be determined by means of metrics applied to indicators selected because they measure impact of default as opposed to vulnerability under market stress. They explicitly incorporate product and balance sheet risk management tools that can eliminate risk or reduce risk to residual levels. It is this residual risk that should be the focus in the assessment and management of systemic risk in the insurance sector; it is this residual risk that should count for assessment and HLA purposes. We would also reiterate our statements made on prior occasions that additional capital (and therefore HLA) is not an appropriate liquidity management tool. Terminology used to describe systemic relevance or systemic risk exposure of this kind should encourage a focus on appropriate analysis as opposed to specific activities. A term such as "potential systemically relevant exposure" (or PSRE) may be appropriate
Northwestern Mutual	USA	No	Yes, the terminology is confusing. In our view, a key source of the confusion lies in that the disagreements over the interpretation of "nontraditional" and "traditional" insurance are really disagreements about what subset of nontraditional insurance activities may give rise to systemic risk. Regarding traditional insurance, as the IAIS has previously recognized, "neither long experience of insurance markets nor information arising from the global financial crisis provides any evidence of traditional insurance either generating or amplifying systemic risk within the financial system or in the real economy." IAIS, Global Systemically Important Insurers: Initial Assessment Methodology, 18 July 2013. Accordingly, we suggest that rather than replacing the terms "traditional" and "nontraditional", the IAIS should retain the traditional category and divide the category of nontraditional insurance products into two portions: those with and without potential systemic relevance. For insurers, and the consumers they serve, this approach would preserve the bedrock understanding that traditional

			insurance business models and products do not increase systemic risk and are not being targeted for associated prudential requirements. It seems to us that in its laudable effort to establish a comprehensive and theoretically sound analytical framework for distinguishing those insurance activities that could generate or amplify systemic risk, the IAIS may introduce ambiguity to its prior conclusion that traditional insurance does not increase systemic risk. This could generate regulatory uncertainty for products which have served consumers for many years without contributing to systemic risk. To avoid ambiguity as to the treatment of traditional products, we recommend that the IAIS add a preliminary step to its analytical framework. Products meeting clear standards based on empirical experience (developed further in our response to Question 2 below) would continue to be labeled as traditional and, being clearly recognized as not contributing to systemic risk, would not require further analysis under the IAIS's analytical framework. Products not meeting these standards - i.e., nontraditional products - while not necessarily systemic, would be further assessed according to the analytical framework the IAIS is developing in order to be categorized either as having or as not having potential systemic relevance. Ultimately, given the significance and complexity of this undertaking, we recommend that before implementing its analytical framework the IAIS subject it to rigorous testing and analysis, including back-testing covering a sufficiently long period of time to reflect a wide range of economic scenarios.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Yes, the terminology is confusing as it suggests a focus on products and activities that are less common or only more recently undertaken by insurance companies. An alternative that captures the purpose of the IAIS work on NTNI might be Potentially Systemic Activities and Product features or "P-SAP". The term has the additional benefit of making it clear that activities and product features in this category require additional analysis - a second step to evaluate the extent of actual systemic risk to the global financial system.
Financial Services Roundtable	Washington, DC	No	The full text of our comments, which respond to both the G-SII and NTNI consultations are included in Box #17. For a pdf. version of these comments, please send a message to Robert.Hatch@FSRoundtable.org or visit our website by going to http://fsroundtable.org/iais-letter-on-systemic-risk-assessment-methodology/.
2 - Are there any other benefit or liquidity features that should be taken into account in identifying NTNI products and activities?			
CLHIA	Canada	No	As mentioned in our overall comments under Question 17, the identification of NT products and their contribution to systemic risk, reflective of the global diversity of particular features, policyholder behaviour and business practices is highly complex and nuanced. These nuances need to be considered to ensure there is a robust assessment of the extent to which "NT" products potentially pose significant systemic risk. Regarding the delay to access liquidity features, in addition to the availability to the insurer of features to delay payment, there must be consideration of the insurer's actual use of them.
Insurance Europe	EU	No	The list of benefit features is narrow and there is no recognition that a combination of features can in fact create/increase exposure to market/liquidity risk. In addition, the identification framework misses a link between benefit features and liquidity features. Products benefits should be assessed for the social and economic needs they address,

			as this can significantly impact the liquidity features. Specifically, life benefits are designed to meet the long-term needs of policyholders and to respond to multiple life cycle objectives: saving, retirement, inheritance. This leads to most of the contracts exhibiting very limited liquidity risk. When assessing product features related to guarantees, a separation should be made between guarantees that apply at any time at the policyholder's discretion and guarantees that apply at maturity or at specific times during product life. In addition to reflecting guarantees as part of the benefit features, the existence of guarantees should be reflected as a separate feature under liquidity risk, as it can create a significant disincentive to surrender, especially in periods of low market returns. As a general comment, it should be clearly recognised that the callable nature of a product, which may give rise to liquidity risk, does not in itself give rise to systemic risk concerns. In the area of liquidity features, the ability and extent to which an insurer can adjust surrender payments is an important risk management feature and should be reflected. Insurance Europe objects to the IAIS approach on derivatives and it believes that the use of derivatives for risk management and hedging should be taken into consideration. The IAIS assessment is based on the case where – in stressed market conditions – derivatives that would need to be rolled over would become unavailable. While this is a possible scenario, further considerations are needed to appropriately capture the risk of derivatives. Such considerations include: i) if the derivative cannot be rolled over and the insurer has an unhedged balance sheet risk, this should be dealt with by the micro-prudential supervisory framework and not by the systemic risk framework; ii) in many cases derivatives do not need rolling over as the maturity of the derivative matches the expiration of the risk, so the hedge remains in place in all market conditions (unless, of course, default of the counterparty occurs). When derivatives are taken into consideration, the market risk related to the use of derivatives should be identified as being the residual risk not already covered by any existing laws and regulations. Specifically, margining and other risk management requirements that emerged from the G-20 derivatives reform should be appropriately captured in the measurement of risk.
GDV - German Insurance Association	Germany	No	In our view, the list represents the range of contractual benefit and liquidity features well. There is nothing to add at the moment.
Munich Re	Germany	No	In general, we prefer to measure significant market and liquidity risk not on the level of specific (re-)insurance contract features (in the NTNI-paper) or identifiers (in the G-SII valuation method). In this context, of the specific features mentioned in the NTNI-paper, only the liquidity features are an adequate measurement for systemic risk.
Global Federation of Insurance Associations	Global	No	It would be helpful if the IAIS could start by confirming that most insurance products do not contribute to systemic risk, citing their conclusion in the IFS and RFS papers. GFIA members are agreed that the IAIS has not taken into consideration all the benefits and liquidity features needed for a full assessment of NTNI. However, the missing benefits and liquidity features differ depending on the jurisdiction

			and the nature of the products popular in that jurisdiction. So the responses of individual trade associations and companies will give a fuller response on this issue. However, for example, the benefits should include guarantees, and the liquidity features should include the economic costs of surrender.
Institute of International Finance/ The Geneva Association	Global	No	Yes. - We believe the NT framework does not reflect all the dimensions of the relationship between guarantees and market and liquidity risk. Most importantly, while the use of guarantees is indeed relevant to determine an insurer's exposure to market risk, this also holds for liquidity risk. Yet this is unaccounted for in the framework. Presence of guarantees and insurance coverage creates disincentives for policyholders to surrender contracts in stress scenarios, which reduces the requirement for insurers to sell assets and reimburse policyholders, or for policyholders to switch to less risky assets. Both factors reduce the risk of liquidity and of fire sales. This should be better reflected in the market and liquidity risk analyses. - A significant part of "credit protection/insurance" and/or "financial guarantee" insurance meets the category of "indemnity". Claims amounts are unknown ex ante and the policies cover for a specific loss, not a guaranteed value. This does not expose the insurer to substantial market risk. We would advise the IAIS to replace "Credit Insurance / Financial Guarantee" by three categories: Credit Insurance, Surety, and Other Credit Covers including Financial Guarantee. In its current form, the list combines multiple products with significantly different characteristics. - Since CDS are not considered insurance contracts we would suggest to leave them out of your table on page 10 of the NTNI consultation document under the header features of insurance contract. CDS are correctly captured as derivatives in the relative indicator as part of NI-activity.
AIA Group	Hong Kong	No	It would appear that products where benefits are variable at the discretion of the insurer but where the insurer has no obligation to share profit, such as universal life and certain kinds of deferred annuities sold in the US are not covered in the table. With regard to the ability to invest in order to match cash flows, we do not see the relevance of "contractual limitations". The vast majority of insurance contracts provide no contractual limitations on the ability to invest to match liability cash flows. The relevant consideration is not a contractual limitation but rather the availability of investments that can match liability cash flows. There are cases where there is no contractual limitation but the practical ability to match does not exist. See, however, our comments generally on "market risk". In addition, we believe that the framework should recognize management actions to control risk, in particular the use of collateralised derivatives. With regard to liquidity features, it is not clear what "early" surrender benefits are or why that is relevant. We suggest the category should simply be "no surrender benefits available".
on behalf of the European GSIIs, Aegon, Allianz, Aviva, Axa and Prudential	International	No	Products benefits should first be assessed in terms of the social and economic needs they address. Life benefits are designed to meet the long-term needs of the policyholders and to respond to multiple life cycle objectives: saving, retirement, inheritance. Therefore most of the contracts have low liquidity risk. The list of benefit features in the consultation paper is quite narrow, and the following could be added: In particular it can be combinations of features that increase exposure, e.g. - Index-linked benefits could be tied to long-term inflation rate

			- Insurance linked guarantees - guaranteed annuity options, renewal guarantees, longevity guarantees - The consideration of guarantees should distinguish between surrender guarantees that may apply at any time at the policyholder's option from those that only apply at maturity or a single or limited dates given their differing risk profile. The liquidity features, should include: - Ability and extent to which the firm or supervisors can adjust surrender payments to match underlying asset values (even where these asset value are distressed). This is different to an "economic penalty' and an important risk management feature. - Economic cost disincentive as discussed in our answer to Question 7 below. - Tax penalties and specific regime for inheritance
The Life Insurance Association of Japan	Japan	No	·While we have no objection to taking "benefit and liquidity features" into account in identifying NTNI products and activities, adequate attention should be paid to ensure that NTNI definition does not diverge from the conclusion of analysis in the IAIS paper published in November 2011 . More specifically, we would like the IAIS to make sure that any consideration during the review process is based on the finding from the IAIS paper that the most of insurers' lines of business do not contribute to systemic risk.
Swiss Re	Switzerland	No	The table in paragraph 2.7 does not take into account products covering losses due to non-performance under a contract or non-payment of a trade receivable. We would propose to expand the definition of indemnity to include "e.g. theft, medical expenses, or losses due to non-performance under a contract, non-payment of a trade receivable". See our response to Question 5 for further explanation. Swiss Re adds that the IAIS must consider derivatives when assessing the "extent to which an insurer can invest in order to match cash-flows of liabilities". This is the case, because it is possible to realize a "derivative" by following an appropriate investment strategy in the underlying. If the IAIS would treat the corresponding two positions differently, even though they are equal in substance, it would violate the substance-over-form principle. Moreover, if the derivative is acquired from a counterparty, the corresponding risk is assessed when assessing the counterparty. This is the only meaningful way to consider the effect of risk mitigation appropriately. Else, double counting and, as a result, inappropriate calibration are inevitable.
Aegon N.V.	The Netherlands	No	In order to better focus on the actual drivers of systemic risk, we believe that the liquidity framework could benefit from significant additional refinement and granularity. In particular, the potential loss of guarantees should be reflected within the "economic penalty" assessment. We acknowledge its inclusion within the proposed "wider set of factors," but we feel this is insufficient for such an important feature.
KPMG	UK	No	Other benefits can include those that make a regular payment over a fixed term that increases with inflation such as inflation linked fixed term annuities. Others include regular payment amounts as replacement to salary up to a specified age which also increases with inflation. The non-cancellable, guaranteed renewable features of products are those that would appear to increase insurer risk.

Prudential plc	UK	No	We believe that the proposed NT framework does not reflect all the dimensions of the relationship between guarantees and market and liquidity risk. Most importantly, while the use of guarantees is indeed relevant to determine an insurer's exposure to market risk, presence of guarantees and insurance coverage creates disincentives for policyholders to surrender contracts in stress scenarios, which reduces the requirement for insurers to sell assets and reimburse policyholders, or for policyholders to switch to less risky assets. Both factors reduce the risk of liquidity and of fire sales. This should be better reflected in the market and liquidity risk analyses. The consideration of guarantees should separate surrender guarantees that may apply at any time at the policyholder's discretion, from those that only apply at maturity or at single or limited dates, given their differing risk profiles. Other economic disincentives to surrender may exist and these are discussed further in our response to Q7. We also have the following comments on Footnote 9 relating to derivatives: o It is asserted that a firm's derivatives hedging strategy may break down if they are unable to roll over hedges. While this is a possibility, such an event will create a risk for the insurer and is therefore a micro-prudential risk issue. It is not clear how this creates systemic risk. o The other example used is of substituting market risk with counterparty risk. This too is a micro-prudential risk and is managed via collateralisation and existence of counterparty limits. It is unclear how this creates risk for the system. o The third example used is that demand for derivatives during a market downturn can cause derivatives prices to rise. Insurers offer long term guarantees and do not necessarily have to be forced buyers of derivatives in stressed scenarios. The appropriate way to manage this risk is to ensure that micro-prudential regulation does not create procyclicality. The tools that are proposed to be used for systemic risk management (i.e. enhanced supervision, recovery and resolution and HLA) will not in themselves lead to a reduction in this risk.
Association of British Insurers	United Kingdom	No	Before setting out suggestions for other benefit and liquidity features that should be taken into account, we would like to note that the framework does not appear to consider hybrid products (products that exhibit various combinations of the features). As these are very common in the insurance industry, further thought is required as to how the framework could accommodate this. - The following benefit features should be included: o Index-linked benefits: e.g., could be tied to long-term inflation rate; o Insurance linked guarantees: guaranteed annuity options, renewal guarantees, longevity guarantees; o The consideration of guarantees should separate surrender guarantees that may apply at any time at the policyholder's discretion, from those that only apply at maturity or at single or limited dates, given their differing risk profiles. - For liquidity features, the list should also include: o Ability and extent to which the firm can adjust surrender payments to match underlying asset values (even where these asset values are distressed). This is different to an "economic penalty' and an important risk management feature. o Economic cost disincentive as discussed in our answer to Question 7. We also note that footnote 9 of the consultation mentions that that a firm's derivatives hedging strategy may break down if they are unable to roll over hedges. While this is a possibility, such an event is a micro-prudential risk issue for the

			insurer. It is not clear how this creates systemic risk. The other example used is of substituting market risk with counterparty risk. This, too is a micro-prudential risk and is managed via collateralisation and existence of counterparty limits. It is unclear how this creates risk for the system. The third example used is that demand for derivatives during a market downturn can cause derivatives prices to rise. Insurers offer long-term guarantees and do not necessarily have to be forced buyers of derivatives in stressed scenarios. The appropriate way to manage this risk is to ensure that micro-prudential regulation does not create pro-cyclicality. The tools that are proposed to be used for systemic risk management (i.e. enhanced supervision, recovery and resolution and HLA) will not lead to a reduction in this risk.
Allstate Insurance Company	United States	No	We note the list does not identify securities lending or commercial paper programs as PSRAs which they can be to the extent not appropriately managed; this was particularly evident during the 2008-2009 Credit Crisis and affected a number of financial firms.
American Council of Life Insurers	United States	No	The current NT analysis assumes that either a "benefit feature' or a "liquidity feature' is a hallmark of a systemically relevant life insurance or annuity contract because it may expose a life insurer to failure. We respectfully disagree with the construct of the analysis and its conclusions. Focusing on the features of life insurance products or contracts may inform the prudential supervisor's assessment of an insurer's vulnerabilities. We believe that is appropriate. The focus of a macroprudential analysis, however, should instead be on the global insurance industry's potentially systemically risky exposures and their potential impact on the global financial system. In our view, this would mean refining the market and liquidity vulnerability analyses and examining potential transmission channels of that risk to the global financial system. This transmission channel analysis should be the initial filter for the entire G-SII Assessment Methodology. It should include consideration of management's tools and techniques for managing counterparty and liquidity exposures. Where objective and globally consistent risk management measures can be identified, they should be included in the Phase II analysis; where risk management measures are more specific to individual firms, they should be included in a transparent Phase III analysis.
National Association of Mutual Insurance Companies	United States	No	Question 2. Issue being addressed: 1. Yes, NAMIC believes that the analysis should also take into account how the risks are managed, how liquidity is addressed from an investment perspective and the local laws and regulations that require such behavior -- not just the features of a product. The consultation draft should also clarify that the local supervisor or the groupwide supervisor has the responsibility for the analysis. 2. There are also features that should be removed from the list. Rationale and Basis for Comment: 1. Risk management bears a significant connection to the actual possibility that systemic risk is increased by any particular activity. Mitigation through reinsurance/risk transfer or through an investment strategy that reduces liquidity risk should be taken into account. In other words, the NTNI should be considered on a net basis instead of a gross basis. It is imprudent to apply a higher capital requirement without understanding the entire risk balance.

			2. NAMIC does not understand the inclusion of "Profit Participation, where policyholders share in profits of the insurer" as a valid consideration in the analysis for NTNI. This seems to unfairly and unnecessarily impact mutual companies that may pay dividends to policyholders or participating agreements designed to incentivize safer work environments that may result in shared profits. If this is not the intention of the wording in the section 2.7 Table - Benefit Features - Nature of Benefit, then the meaning should be clarified. Alternatives for Consideration: 1. If local prudential regulators are assessing appropriate activities as related to systemic risk, they will also be in a position to consider all of the relevant factors including ERM, investment strategies, local jurisdictional law and restrictions etc. This will provide a more relevant assessment of the activities causing systemic risk. 2. We suggest the deletion or revision of the section of the Benefits Features - Nature of Benefits that refers to "profit participation, where policyholders share in profits of the insurer." A revision should exclude the specific circumstance of dividends paid to policyholders under mutual insurance policies.
New York Life	United States	No	While we understand the desire to generalize product features and assign them to categories, presumably to avoid undesirable distortions, we caution against the assumption that risk management approaches across the firms and jurisdictions are standardized or non-differentiating elements. Because the NTNI determination has links to the GSII assessment and potential implications for several developing and completed capital initiatives, we respectfully urge the IAIS to take an analytical view of not just whether risk is undertaken, but also whether it is of a magnitude that could lead to systemic impact. When analyzing market risk in the context of a product feature, one could argue that the associated market risk exists in the financial system, irrespective of whether it resides with the individual or is pooled by the insurer in products that combine protection and savings components. The relevant question should be whether this risk is exaggerated once it sits with an insurer. Such an analysis inevitably requires appropriate consideration of scale and risk management. In reviewing the consultation's approach on benefit features and assessing extent to which an insurer can invest in order to match cash flows of liabilities (without the use of derivatives), we bring to your attention some issues that could undermine the IAIS' objectives in this regard. We note that many derivatives could probably be rewritten as reinsurance contracts. In addition, there are certain contracts which may or may not be classed as derivatives, such as foreign exchange forwards and mortgage TBAs (mortgage-backed securities eligible to be sold in the "to-be-announced" or TBA market). While a black-or-white litmus test for NTNI classification based on use of derivatives would give the appearance of being objective and analytical, it will likely miss the policy objectives of the NTNI consultation. As an alternative, we recommend an inquiry into how insurers can measure their risk exposures over time and how well they can demonstrate that derivatives are functioning as a hedge. Tail risks that cannot be measured reliably should not get the benefit of being hedged. This residual non-hedged exposure could then be considered non-cash flow matched.
American Academy of Actuaries	United States of America	No	General comments on the list of benefit and liquidity features appear immediately below, followed by specific comments on several of the features included in the list. General Comments The Consultation explains, in Section 2.4, that it is focused "on insurance product features," and notes that activities

			envisioned under NTNI Principle 3, including investment or capital markets activities that create "maturity or liquidity transformation or imperfect transfer of credit risk," are not considered in the document but "would still constitute NTNI." We question whether it is desirable to focus a substantial portion of the NTNI framework on specific product features. Any attempt to classify product features risks oversimplifying the complex, difficult question of whether a particular insurance company practice, in a specific jurisdiction, generates systemic risk. Product features and the systemic impact of any given practice can vary significantly by jurisdiction. Demographic profiles and cultures, as well as consumer behavior, differ materially in various parts of the world. Contract terms for similarly titled products also can vary widely from country to country. The proposed approach also focuses on features without taking into account how their relative size in a company or a market affects systemic relevance. It is not the absolute size of an exposure that contributes to systemic risk, but rather the relative size when compared to an entity's capacity for that risk. A small firm may have a large concentration of systemic risk-contributing products that theoretically might affect other parts of the financial system. A large firm may write more of those products, but well within its capacity for the liquidity demands, such that the exposure in that firm does not lead to system-wide risks. It may be that relative size will play an important role when the NTNI concept is used in other regulatory contexts, but if that is the case, the NTNI criteria should be clear that relative size will be a significant factor in any context in which NTNI is being implemented in a specific regulatory action. A feature-based approach also discounts the importance of risk mitigation techniques that are common in the insurance industry, and does not account for the contribution of different risk management approaches among companies to the generation and propagation of systemic risk in the economy. While a large forced asset sale by one or more insurers might impact other parts of the financial sector, an inability to appropriately manage liquidity may be the reason for the forced sale, rather than specific product features. For example, the use of securities lending in an investment portfolio for life insurance products will not invariably generate systemic risk. Investing collateral in short-term assets prevents maturity transformation from taking place. Systemic risk is created only when the collateral is invested in illiquid assets, and the insurer does not maintain enough other liquidity to cover its short-term securities lending obligations. It is not the product features that are responsible for the systemic risks. Instead, it is the potential mismanagement of an investment strategy that could support any number of different products that generates the systemic risk. This important nuance will not be captured if the approach focuses too heavily on product features, without giving sufficient attention to risk management practices and other activities that accompany those features. For these reasons, generating a label for specific product features and attempting uniform application of that label across jurisdictions is unlikely to appropriately identify systemic risk. Instead, it is important that the IAIS allow flexibility to local regulators to evaluate systemic relevance based on the regulator's specific market, and in light of the specific features of each company that is being regulated. A regulator should be given the tools to apply general principles in as consistent a manner as is practical, but should not be bound by a presumption that a specific product feature will generate NTNI in his or her jurisdiction or for any particular company. Specific Comments - The Effect of Insurance Protection on Liquidity. The list of benefit and liquidity features does not take into account the

			effect that insurance coverage can have on the likelihood that consumers will treat their insurance products as a source of liquidity. For example, in the United States, consumers are often reluctant to surrender a life insurance product that provides significant mortality protection, even when the product also builds cash value during the insured's life. There is a rational basis for this reluctance. Upon surrender, the insured loses mortality protection and may not be able to obtain it again on similar terms because of underwriting requirements, particularly when a long-term product is involved. The prospect of paying deferred income tax on accumulated cash value magnifies the disincentive to surrender. The natural reluctance to surrender makes the product significantly less liquid. While the Consultation recognizes that this disincentive to surrender might be an "ancillary factor" that is capable of rebutting a presumption of liquidity risk, we are concerned that this treatment does not give sufficient emphasis to the decisive role that such disincentive can play. - Cash-Flow Matching. The list also includes a "benefit feature" category to measure the insurer's ability to invest in a way that matches the expected cash flows of a product's liabilities. This category only includes features that are based on "contractual limitations" that affect an insurer's investment decisions. However, in some cases, an insurer may have unlimited contractual freedom to invest in assets of its choosing, but cash-flow matched assets may not be available. For example, assets of sufficient duration may simply be unavailable to match a liability that has a very long expected term. It is also unclear how descriptions of features in this cash-flow matching category are intended to apply to property and casualty products. For these products, the amount and timing of the insurer's payment obligations can be uncertain. Generally, there will not be assets available with payment amount and timing characteristics that match this uncertainty in the nature of the liability. Although this disconnect is not necessarily one that creates any systemic risk, the criteria in the list could be interpreted to imply such a risk. To eliminate this problem, we suggest specifying that the cash-flow matching category is not intended to apply to property and casualty products.
American Insurance Association	United States of America	No	In sections 2 and 3, the NTNI Consultation provides examples for analyzing product features in order to evaluate the potential to create systemic harm. The analysis process involves identifying features of the product and determining if the feature creates a vulnerability that can be transmitted to the broader financial system. AIA notes that the NTNI Consultation correctly acknowledges that indemnity products "do not expose the insurer to substantial market risk" and "are generally uncorrelated with markets." This recognition is important for property-casualty insurers, in that the IAIS had at one time characterized surety insurance, which is an indemnity product designed to ensure performance of a contractual obligation, as non-traditional for BCR purposes. AIA believes the analysis in sections 2 and 3 is correct and expects the IAIS to clarify the treatment of surety and other indemnity products as products that do not create systemic risk. This clarification should not only be reflected in the NTNI proposed analytical framework, but should also be reflected in the future formulations of the BCR and HLA.
Prudential Financial, Inc.	United States of America	No	When assessing the likelihood of an activity or product to cause an insurer to experience distress or a disorderly failure that gives rise to a significant disruption to the financial system and economic activity, the IAIS' must be holistic and take the following points into consideration: + the long term nature of life insurance and the reality that risks - including exposure and asset liquidation - manifest themselves over time, not all at once, + a firm's ability to manage their solvency and asset liquidation risk through product design and other risk mitigation

			techniques, +tools local supervisors and the group-wide supervisor could deploy to contain the transmission of risk to the global financial system and real economy, + the existence of policyholder protection schemes, and + distinguishing between solvency risk and systemic risk, or an orderly versus disorderly failure. History has demonstrated that large insurers can fail without disrupting the global financial system. The framework the IAIS has proposed does not account for the key elements noted above. Incorporating such elements in a consistent, objective, and transparent manner will prove to be a significant challenge. For this reason we reiterate our call to eliminate the unnecessary complexity the framework introduces and instead assess an insurer's exposure and asset liquidation risk directly through the G-SII assessment methodology - through refinements to the Phase II categories and indicators and information exchanged during the Phase III qualitative stage. In addition, the consultation correctly notes "policyholder runs are a somewhat uncommon phenomena", a statement that industry data and Prudential's experience throughout history and various economic crises supports. We believe strong liquidity management is a tenet of running a sound insurance company and are supportive of an appropriately designed liquidity framework to compliment appropriately designed capital standards. The IAIS' consideration of product design and contractual features that help mitigate policy surrender risk (i.e. penalties and delay mechanisms) is a step in the right direction. Further refinement and development - such as differentiating between policyholder surrenders of retail clients versus institutional clients - is necessary for the proposed framework to address the IAIS' macro-prudential goal of preventing the transmission of systemic risk to the global financial system. In addition, just as the proposed framework recognizes tools for mitigating liquidity risk it should also recognize tools - such as derivatives - for mitigating market risk.
MetLife, Inc.	USA	No	With respect to benefit features, MetLife believes that focusing on contract provisions permitting or restricting the insurer's ability to invest in order to match cash flow could restrict the ability to invest to match cash flow under various macroeconomic or market conditions. To determine interconnectedness/counterparty exposures, we suggest the IAIS focus on the indicators and exposure metrics under the Interconnectedness and Asset Liquidation categories outlined in our response to Question 17.
Northwestern Mutual	USA	No	In order to avoid creating confusion as to the categorization of traditional insurance products, we suggest that the IAIS add a preliminary step to its analytical framework. This step would categorize as presumptively not contributing to systemic risk (i.e., as "traditional") those products meeting both of the following requirements: 1. The product is purchased to provide an insurance benefit (including mortality, morbidity, longevity and general insurance). This requirement recognizes that products purchased to meet an insurance need as a general matter do not present a meaningful "run risk", due in large part to the factors described in Section 3.2 of the consultation document. Capital markets products such as funding agreements and guaranteed investment contracts would not meet this requirement.

			2. There are no substantial guarantees where policy values are explicitly linked to market performance (such as with unit linked products or through reference to a market index). This requirement gets to the core of the market risk concerns expressed in Section 3.1 of the consultation document. Unit linked products for which the insurer provides a substantial guarantee are not necessarily systemically relevant, but the direct pro-cyclical relationship of the insurer's guarantee liability to market performance and the corresponding need for hedging transactions that increase complexity and financial system interconnectedness, provide a reasonable basis for further analysis under the analytical framework. Products not meeting both of these requirements would be considered "non-traditional" and reviewed according to the remainder of the IAIS's analytical framework in order to determine whether such products do or do not have potential systemic relevance.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	A key issue is that the CD does not clearly explain how the identified market and liquidity risk features are transmitted and pose systemic risk to the global financial system.
3 - Do the identified transmission channels appropriately capture the ways in which the vulnerabilities could amplify shocks and create systemic risk? What, if any, other channels should be considered?			
CLHIA	Canada	No	We are uncertain on the role of transmission channels in the NTNI construct stemming from our understanding of the objective of the G-SII Methodology to focus on "loss given default" (LGD), not on probability of default (PD). Transmission channels can contribute to impacting the PD.
Insurance Europe	EU	No	There is currently no recognition in the framework that the flow of systemic risk through the transmission channels can be influenced and limited by management and supervisory action. For the asset liquidation channel, it is important to consider the following: - Asset liquidation could be triggered by a number of different factors, including idiosyncratic events that affect reputation, extreme market movements and natural catastrophe events. Asset liquidation related to massive withdrawal has never been observed in the insurance sector. - The presence of guarantees and insurance coverage creates disincentives for policyholders to surrender contracts in stress scenarios, reducing the requirement for insurers to sell assets. - The presence of guarantees reduces incentives for policyholders to switch to less risky assets in stress scenarios, thereby reducing the requirement for insurers to trade assets. - Where insurers have the flexibility to allocate assets, the risk of procyclicality should be managed by appropriate mechanisms in micro-prudential regulation.

			In addition to assessing the potential transmission channels, it will also be important to assess the capacity to transmit risk to the global financial system. The assessment of systemic consequences of asset liquidation requires more substantial analysis and should, in fact, recognise a number of impacting factors including: size, substitutability, timing in settling policyholders' obligations, trading asset volumes and contingencies in liquidity management. The interconnectedness measures should relate to NTNI and be assessed as absolute measures so that the materiality of any potential transmission of risk to the global financial system can be assessed in an appropriate context. The high level of substitutability of insurance markets should also be reflected in the measurement of potential for systemic risk flow, as while the insurance sector as a whole is critical to the functioning of the economy, individual companies are not.
European Commission	European Union	No	We encourage the IAIS to further consider the impacts on the financial system or on the real economy that defaulting insurers could have, clearly framing the exercise from an impact on default perspective. This work should be done in relation with the review of the designation methodology as the latter encompasses improvements to the designation indicators (including the interconnectedness indicators). Lastly we would welcome a comparative analysis with other sectors; interconnections with the financial system for instance can be put into context if expressed in absolute terms and compared with other sectors.
GDV - German Insurance Association	Germany	No	While we understand the exposure and asset liquidation as ways of amplifying shocks and creating systemic risk, we do not regard them as "transmission channels". The impact of market and liquidity risk on single insurers is already addressed by micro-prudential measures such as capital requirements and liquidity risk management (e.g. under Solvency II). Whether insurers amplify shocks into the system depends on the degree of interconnectedness with the financial system, which is very much lower than for banks. No cases are known, where insurance activities have amplified shocks into the global financial system through the above channels (considering that this consultation excludes non-insurance products such as those distributed by AIG in the financial crisis (NTNI Principle 3)).
Munich Re	Germany	No	We understand that exposure/counterparty and asset liquidation are ways of amplifying shocks and creating systemic risk. Furthermore, margin calls stemming from agreements with downgrade clauses (e.g. LoC) might also exacerbate the impact of a market shock and possibly create systemic risk, to the extent they have not been adequately considered in the liquidity risk management .
Global Federation of Insurance Associations	Global	No	The analysis needs to draw a clearer distinction between vulnerabilities and transmission channels, in order to focus the analysis on fundamental, destabilising, cross-sector consequences that are necessary to identify a product as systemically risky. The vulnerabilities do not themselves lead to systemic risk. The vulnerabilities represent potential sources of risk to the insurer - but that is the concern of microprudential regulation. It is only when the vulnerabilities are transmitted to the financial system or to the wider economy that there is the potential for systemic risk. In addition, existing supervisory frameworks and management actions reduce the chance of rapid and immediate transmission, both through the exposure channel and through the asset liquidation channel. It is also a relevant consideration at the vulnerability stage of the analysis. As a consequence, the IAIS analysis greatly exaggerates the likelihood of systemic risk.
Institute of International	Global	No	Inter-institutional exposures and procyclical asset liquidations are commonly identified by regulators and academics around the world as transmission channels of systemic risk, and we agree with their relevance in a systemic risk

Finance/ The Geneva Association			framework. However, we believe that the proposed method for identifying non-traditional insurance products blurs the distinction between transmission channels for systemic risk, and vulnerabilities. Vulnerabilities are addressed by microprudential regulation; it is important to ensure that this regulation does not overlap with systemic risk regulation. The liquidity and market risks of products identified by the proposed method as non-traditional are mainly indicative of the risk profile of the individual insurer. However, it is mostly unclear how they either increase the insurer's exposures to other financial institutions, or increase the likelihood of asset liquidations with consequences for the financial system as a whole.
AIA Group	Hong Kong	No	The identified channels seem appropriate.
on behalf of the European GSIIs, Aegon, Allianz, Aviva, Axa and Prudential	International	No	1) We believe that in the analysis of transmission channels, the distinction between micro-prudential and macro-prudential issues is not clear. It is important to distinguish between different types of risk - System-to-firm" risks from external events which increase the risk of failure of an insurance company. Micro-supervision aims to reduce the probability of failure from these risks, through advanced prudential frameworks (e.g. Solvency II where capital requirements are determined on a stressed basis). - "Firm-to-system" risks which are caused by the impact of a company distress or failure on the financial system. This should be addressed by macro-supervision where systemic oversight aims to reduce the impact of such distress or failure. Micro-prudential and systemic risk issues must be clearly distinguished: - For the Exposure Channel, it is asserted in the consultation that NTNI activity could allow a shock to spread more easily to other financial institutions or markets. It is not clear whether the IAIS believes that NTNI activities increase the likelihood of failure of an insurer (system to firm) or whether it is believed that NTNI activities create more linkages with other financial institutions and therefore have a more material impact if a failure was to occur (firm to system). The likelihood of failure is a micro-prudential regulation issue and should not be confused with a macro-systemic risk. Linkages to other financial institutions need to be differentiated between linkages that create exposure for the insurer versus linkages where exposure is created for the other financial institution. Where exposure is created for the insurer (e.g. when buying an option), it is a micro-prudential issue. Where exposure is created for counterparties, risk mitigation coming from collateral mechanisms collateralization (recognising quality of assets posted, frequency of margin calls, etc.) and central clearing, as required under EMIR/Dodd Frank, must be considered. - As insurers are connected to the financial system, they also contribute to the ability to absorb stresses to the system. It must be considered in the NTNI framework. For example, through bond investments in financial markets and holding strong capital buffers for default risk as required by micro prudential frameworks, insurers provide an ability to the market to deal with such risk. Additionally, through the use of e.g. fixed rate bond investments or alternatively floating rate investments swapped to fixed via an interest rate swap , an insurer acts as a market participant that is able to ensure risks in the financial system are placed where these can be managed best. Without insurers active in the financial markets, such risks would reside with consumers or other market participants that would be less able to absorb losses that are the result of market distress. 2) The initial rationale in identifying NTNI activities was to focus on the impact upon default.

			Under this view, product features may not be relevant in assessing the impact of asset liquidation considering the default already materialized; only the subsequent effect on the financial system counts. And then, size, timing in settling policyholders obligations, trading volumes of accessible markets and contingencies in liquidity management are key elements that should be considered to capture asset liquidation systemic effects. Moving to a focus on products features would introduce a new paradigm mixing up "firm-to-system' and "system-to-firm' risk concepts for which we would challenge the relevance in the systemic debate. If the IAIS were to confirm its new orientation, the presence of guarantees should be duly considered as it reduces the risk of asset liquidation: - Presence of guarantees and insurance coverage creates disincentives for policyholders to surrender contracts in stress scenarios, reducing requirement for insurers to sell assets - Presence of guarantees reduces incentives for policyholders to switch to less risky assets in stress scenarios, therefore reducing requirement for insurers to trade assets 3) Assessment of potential transmission channels and capacity to transmit risk to the global financial system should be done in terms of residual risk. The identified transmission channels need to be viewed in the context of the firms risk management and of the micro-supervisory tools to determine whether any residual systemic risk could indicate that particular product lines may have the potential to be deemed NTNI. Where GSIIs have prepared Systemic Risk Management Plans (SRMPs) and Recovery Plans more sophisticated assessment of the degree of residual risk has been carried out. Insights should be drawn from this assessment and should be taken into account in determining whether any products have heightened residual risk that might lead to their classification as NTNI. 4) In addition to assessing the potential transmission channels it will also be important to assess the capacity to transmit risk to the global financial system. This should be taken into account in the review of the designation methodology. In particular, the interconnectedness measures should relate to NTNI and be assessed as absolute measures so that the materiality of any potential transmission of risk to the global financial system can be assessed in an appropriate context.
Swiss Re	Switzerland	No	The framework is largely appropriate for identifying sources of risk for individual insurers. However, while an insurance product's implied market and liquidity risks have consequences for the risk profile of the individual insurer, they do not necessarily pose risk to the financial system as a whole. The latter is, rather, dependent on an insurer's NTNI-interconnectedness with the financial system and the vulnerability of the financial system. The described transmission channels may or may not lead to systemic risk. Significant further work is necessary in this respect. We believe that this should be a focus of further work of the IAIS. The IAIS should differentiate between NT activities that lead to systemic risk through interconnectedness and those that do not.
Aegon N.V.	The Netherlands	No	We agree that the Asset Liquidation Channel appropriately captures the ways in which a vulnerability to substantial liquidity risk could amplify shocks and generate systemic risk. However, we would recommend further refinement of the way in which liquidity is assessed, as the current approach misstates the potential for systemic risk because it fails to assess holistically the liquidity profile of the insurer's assets and liabilities.

			We do not agree that the Exposure Channel appropriately captures the ways in which a vulnerability to substantial market risk could amplify shocks and generate systemic risk. Fundamentally, this construct appears to conflate macro-prudential regulation (focusing on the impact of a company's distress or failure on other institutions) with micro-prudential regulation (focusing on the risk of the insurance company's distress or failure). It also focuses solely on an insurer's liabilities while excluding its assets. We therefore believe that "substantial market risk" should be excluded as a relevant vulnerability.
KPMG	UK	No	This appears appropriate.
Prudential plc	UK	No	We welcome that the analysis is broken down by vulnerabilities and transmission channels and agree with the transmission channels that are identified. However, it is important to note that systemic risk arises on account of transmission of risk to the financial system. The existence of vulnerabilities in itself does not create systemic risk. We note that a similar conclusion on systemic risk was reached by the BCBS in its July 2013 report on the updated assessment methodology for banks: "The Committee is of the view that global systemic importance should be measured in terms of the impact that a bank's failure can have on the global financial system and wider economy, rather than the risk that a failure could occur. This can be thought of as a global, system-wide, loss-given-default (LGD) concept rather than a probability of default (PD) concept". In the consultation paper, we believe that the distinction between vulnerabilities and transmission channels is often blurred. The analysis as presented in the consultation paper does not explain the link between identified vulnerabilities and the transmission channels. We believe that it is important to assess the vulnerabilities along with transmission mechanisms to identify whether products and activities give rise to systemic risk. In the conclusion of the consultation paper, it is stated that "Product features that have a guaranteed benefit and for which the insurer does not have the ability to invest in assets that will yield sufficient cash flows to pay off expected claims (ignoring derivatives), could expose the insurer to substantial market risk and therefore be classified as NTNI." We reiterate that assuming market risk in itself does not create systemic risk. It is important to consider transmission mechanisms and when considering transmission mechanisms, it is important to consider whether insurers expose counterparties to risk or are themselves exposed to risk from counterparties. Such conclusions, without clearly articulating the nature of the transmission mechanism to the rest of the financial system can potentially exaggerate the perception of systemic risk created by insurers. The G-SII assessment methodology should then be updated to accurately reflect this understanding of transmission mechanisms. In particular, the interconnectedness category, including derivatives and intra-financial liabilities, should use absolute reference values based on cross-sectorial data, which should at a minimum include significant global banks. Similarly, in relation to liquidity risk, a clear distinction needs to be drawn between whether the systemic risk concern relates to the impact of liquidation of assets (if any) on markets (asset liquidation channel) or if it relates to losses incurred by insurers in case surrender values paid out are more than the value of assets backing liabilities. Losses incurred to insurers, if any, is a vulnerability and for it to result in a product being classified as NTNI, there must be a

			clear transmission channel to the system. When considering the asset liquidation channel, it is important to note the following: o The presence of guarantees and insurance coverage creates disincentives for policyholders to surrender contracts in stress scenarios, reducing requirement for insurers to sell assets o The presence of guarantees reduces incentives for policyholders to switch to less risky assets in stress scenarios, therefore reducing requirement for insurers to trade assets o Where insurers have the flexibility to allocate assets (e.g. non linked business), the risk of procyclicality should be managed by appropriate mechanisms in micro-prudential regulation.
Association of British Insurers	United Kingdom	No	We agree that it is appropriate to break down the analysis into vulnerabilities and transmission channels. It is important to note that systemic risk arises on account of transmission to the system. The existence of vulnerabilities is a pre-requisite, but it does not in itself create systemic risk - and is addressed by microprudential regulation. We note that a similar conclusion was reached by the BCBS in its July 2013 report on the updated assessment methodology for banks: "The Committee is of the view that global systemic importance should be measured in terms of the impact that a bank's failure can have on the global financial system and wider economy, rather than the risk that a failure could occur. This can be thought of as a global, system-wide, loss-given-default (LGD) concept rather than a probability of default (PD) concept". However, in the consultation paper, we believe that the distinction between vulnerabilities and transmission channels is often blurred. In particular, when discussing the exposure channel, it is stated that an NTNI activity could allow a shock to spread more easily to other financial institutions or markets. It needs to be made explicit that this refers to cases where NTNI activities create more linkages with other financial institutions and have the potential to transmit risk, and, therefore, could have a more material impact if a failure was to occur. Exposure to risk as a result of an activity or product will not in itself lead to damage to the financial system or to the wider economy. There has to be a transmission channel. In considering these linkages to other financial institutions, a distinction should be drawn between linkages that create exposure for the insurer and linkages where exposure is created for the counterparty. As the focus is on the transmission of risks to the system, it is the latter that is relevant. This analysis of systemic risk needs to be distinguished from the consideration of the likelihood of failure of an individual insurer, or that where the impact of a linkage is on the insurer itself (e.g., if an insurer buys an option): both are micro-prudential regulation issues and should not be confused with systemic risk. We agree that certain types of activities are riskier, and therefore more likely to lead to the failure, but these should already be addressed by robust regulatory regimes, including enhanced supervisory scrutiny where appropriate. To summarise, as part of the assessment, you would therefore need to look at whether: 1) a product or an activity involves a linkage which creates increased exposure to the rest of the financial system;

			2) this is the type of linkage that increases exposure for the other financial institution; 3) the exposure is likely to be a transmitter of risk, and allow shocks to spread more easily. This should include analysis of insurer's risk management practices to determine whether there could be any material residual risk that cannot be contained within the insurer. This should include consideration of Systemic Risk Management Plans (SRMPs) and Recovery Plans (where available), as these provide a sophisticated way to assess the degree of residual risk. The likely management and supervisory actions to reduce the risk of transmission also need to be taken into account; 4) the probability - and circumstances - of scenario(s) where this risk transmission mechanism could be triggered; 5) if the product or activity meets the four conditions above, there needs to be an evaluation of the likely materiality and consequences of this transmission, on both the financial system and the real economy (i.e., is there capacity to have a significant negative impact on the financial system and the real economy).
American Council of Life Insurers	United States	No	The analysis assumes that a life insurer's probability of default is the same as the effect of that default on the financial system as a whole. Paragraph 2.9 conflates the life insurer's own risks (probability of default - microprudential) with risk to the financial system (loss given default - macroprudential). Identifying an insurer's vulnerabilities is different than identifying the industry's potentially systemically risky exposures and examining potential transmission channels for them. We recommend further examination of asset liquidation risks that might be systemically relevant, including the techniques and tools used to manage them. This section assumes that the life insurance business is highly interconnected with "creditors, counterparties, investors, and other market participants." These linkages should be more carefully analyzed. The life insurance business model is to issue long-term promises that are backed with assets invested for the long-term. That allows life insurers to act generally as shock-absorbers in the financial system as a whole. We believe this is an important high-level consideration in any analysis of the industry's impact on global financial stability.
National Association of Mutual Insurance Companies	United States	No	Question 3. Issue being addressed: Similar to the answer provided to question 2, the transmission channels also fail to take into account the ERM practices, the investment strategies and the local prudential regulations impacting the vulnerabilities. We agree with the suggestion in paragraph 2.10 and 3.1 that the local prudential regulators must be involved in the determining the actual level of systemic risk posed by a product. Rationale and Basis for Comment: Without considering these issues NTNI will be overstated as will the possibility of systemic risk. Alternatives for Consideration: As noted in our response to Question 2 and in the general comments, there are many unique features within individual jurisdictions that cannot be underestimated. A consideration of the each country's legal system, unique level of risk aversion, high medical costs etc. must be taken into account in making the decisions about activities that are systemic risk causing.

			For this reason, local prudential regulators should be assessing insurer activities that cause systemic risk, as they will be in the best position to consider all of the relevant factors including ERM, investment strategies, local jurisdictional law and restrictions etc. This will provide a more relevant assessment of the activities transmitting systemic risk to the broader financial system.
American Insurance Association	United States of America	No	Another reason to move away from the NTNI terminology is the IAIS' failure to develop a suitable approach for defining and evaluating "non-insurance" products and activities. It was disappointing that the NTNI Consultation opted to ignore "non-insurance" rather than determine an appropriate framework for assessing whether "non-insurance" products or activities create systemic risk. The incongruity of this situation is that the NTNI Consultation has, nevertheless, developed a suitable framework in Figure 1. By putting all activities of the insurance group through the same analytical framework, the IAIS will have a consistent approach for determining those activities that may give rise to systemic risk. Since the ultimate goal is to identify sources of systemic risk, the IAIS should neither ignore nor make assumptions about any activities of the insurance group.
Prudential Financial, Inc.	United States of America	No	The IAIS continues to conflate micro-prudential / probability of default issues with macro-prudential / systemic risk issues in the various policy measures under development, and in particular in the proposed framework for assessing activities and products. We believe the IAIS must focus on an insurer's transmission of risk to the global financial system as a first order concern, not the probability of or vulnerability to default. Such a blending of issues is most prevalent within the sections of the consultation that discuss substantial market risk exposures. These passages fail to provide clarity or demonstrate how an insurer's market risk exposures ultimately result in the transmission of risk to the broader financial system. Further, the consultation does not make any attempt to draw a clear, or even implied, tie between market exposure vulnerabilities and the two identified transmission channels. These elements must be clearly articulated in the next version of the paper. In addition, we believe the exposure channel component of the proposed framework for assessing activities and products is already captured in the G-SII assessment methodology through the interconnectedness category. Including the exposure channel in the NTNI category of the assessment methodology (assuming it remains as currently proposed by the IAIS), coupled with the interconnectedness category, results in a double count of an insurer's exposure. Such a double count could be eliminated by replacing the NTNI category of the assessment methodology with a category focused on an insurer's exposure to the asset liquidation channel. This would eliminate the apparent double count as well as the unnecessary complexity that accompanies the proposed framework for assessing activities and products while enhancing the transparency, consistency, and objectivity of the assessment methodology. If left unchanged, it is critical for the IAIS to provide clarity on rationale for such an emphasis - i.e. is it their intent and if so why or alternatively an explanation for how the two elements are different.
MetLife, Inc.	USA	No	Consistent with our comments above and in our response to the Updated Methodology, as regards Paragraph 2.9, while product features may expose an insurer to market stress, this exposure is not automatically commensurate with the creation of systemic risk and impacts on other financial institutions, i.e. evaluation of vulnerabilities to market stress does not translate to evaluation of systemic impact in the event of failure and therefore does not translate to systemic importance without the identification of a systemic risk transmission channel. That said, understanding vulnerability to market or liquidity stress is important for other reasons and MetLife could

			support an objective, transparent assessment of insurer vulnerability in a robust qualitative assessment such as that proposed for Phase III of the Update Methodology. However, we would add that being a measure of probability of default, vulnerability is more appropriately the object of capital and solvency requirements, not a component in assessing systemic relevance.
Northwestern Mutual	USA	No	Financial system exposure and asset liquidation are appropriate transmission channels to focus on for the potential to amplify shocks and create systemic risk. We would encourage the IAIS, before implementing its analytical framework, to confirm, through thorough testing and analysis, and document the linkages between the elements of the framework and these transmission channels.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Yes, these are the key channels for consideration. However the analysis needs to make clear how these channels translate micro prudential risks into macro prudential issues.
4 - Are these the appropriate two steps that should be used to assess whether a benefit feature could exposure the insurer to substantial market risk? What other steps, if any, should be considered in the analysis? Should the two steps be given equal weighting in the assessment of whether a product has substantial market risk? Should the nature of the two step analysis be disjunctive or conjunctive?			
CLHIA	Canada	No	Please note that the concern in our answer to Question 3 regarding focus on probability of default vs. loss given default remains. One key source of granularity that should be considered is the dampening of risk from risk mitigation practices. Given the existence of the second step, we believe that it would be incomplete to not recognize the solvency level of the insurer, as a step three, to absorb "inability" to "invest in the assets backing the guarantee". Higher capitalization levels will permit mitigation of the "may expose" the insurer to substantial market risk. It is challenging to comment on whether of each of the steps should have equal weights or not at this point in time. We believe the steps would have to be "conjunctive" (not "disjunctive").
OSFI	Canada	No	- With respect to "market risk", the IAIS should be clear that "market" risk is "financial market risk" - i.e. it is not the risks of pricing changes to the value of goods and services. The IAIS should also be clear as to whether or not commodities are considered part of the financial markets for the NTNI analysis. - The steps the IAIS is proposing are appropriate except the IAIS has not defined what it means by "is the insurer contractually able to invest in assets that match the cash flows of the guaranteed payments" (see Figure 2). The

			matching of assets to cash flows could vary depending on jurisdictions due to the availability of deep and liquid markets. It could be the case where an insurer, for example, sells the same product in North America and in Asia, but yet has substantially different assets backing the cash flows of the products. Depending on the assets backing the cash flows, would this change whether the product is defined as NTNI? If so this would be contrary to finding a common definition for different jurisdictions. - In addition, the IAIS refers to unpredictability of cash flows, does the IAIS have definitions for what is "predictable" and "unpredictable" cash flows?
Insurance Europe	EU	No	Insurance Europe supports the two-step approach for identifying substantial market risk and notes that the succession of the two steps (as illustrated in the consultation paper) is important, ie question two on ability to invest is only relevant if the answer to question 1, on whether the product exposes the insurer to substantial market risk, is yes. Insurance Europe agrees with the conclusion in paragraph 3.6 that, where contractual guarantees can be hedged, there is either no correlation of the liabilities associated with the product to the overall market risk or the correlation degree in tail events is not large enough to amplify any existing disruption. However, Insurance Europe does not support the IAIS approach of assessing market risk based on the ability to match liability cash flows on a buy-and-hold basis and ignoring the use of derivatives. Derivatives can, in fact, be useful tools for matching risks. Indeed, in a low interest rate environment, the choice of a derivative as a hedging tool over the actual buy-and-hold strategy of an asset could make more sense from an economic perspective. The consultation paper (footnote 9) notes three elements based on which the IAIS justifies the lack of recognition of derivatives as a mitigating tool. Insurance Europe believes that none of these elements is linked to systemic risk concerns and all of them are, in fact, covered by micro-prudential regulation, so the exclusion of derivatives is not justified: i. The IAIS assessment is based on the case where, in stressed market conditions, derivatives that need rolling over would become unavailable. While this is a possible scenario, further considerations are needed to appropriately capture the risk of derivatives. Such considerations include: i) if the derivative cannot be rolled over and the insurer has an unhedged balance sheet risk, this should be dealt with by the micro-prudential supervisory framework and not by the systemic risk framework; ii) in many cases derivatives do not need rolling over as the maturity of the derivative matches the expiration of the risk, so the hedge remains in place in all market conditions (unless, of course, default of the counterparty occurs, which should also be part of micro-prudential supervision). ii. Footnote 9 further notes that the demand for derivatives during a market downturn can cause derivatives prices to rise and become prohibitively high. While this may well be the case, insurers cannot be assumed to be "forced buyers" of derivatives in stressed scenarios. Again, any unhedged risk should be covered by the micro-prudential regulation (which is already the case in Solvency II) and should not be subject to macro-prudential regulation. iii. Footnote 9 also notes that, in the case of derivatives, market risk is replaced by counterparty risk. While any

			contractual obligation – including one in the form of a derivative – gives rise to counterparty risk, there is no automatic link to systemic risk. Even more important, addressing derivatives counterparty risk is one of the key outcomes of the G-20 derivatives reform, which was launched in 2009 and triggered a set of measures aimed at increasing the transparency of the derivatives market and addressing systemic risk. There measures included: compulsory central clearing (where possible), compulsory reporting of derivatives and compulsory margining of derivative exposures. Two types of margin were defined: a) the variation margin - aimed at covering daily changes in the market value of a derivative position and b) the initial margin - aimed at covering any changes in the value of variation margin collateral in cases where a default would occur and this collateral would need to be sold. The entire framework for haircuts on collateral and initial margins was very conservatively calibrated with the stated objective of them being sufficient to offset any loss caused by the default of a counterparty with a high degree of confidence. In addition to the important safeguards already embedded in the regulation of the derivatives market, in Europe the prudential framework for insurers (ie Solvency II) includes extra capital requirements meant to cover derivatives counterparty risk. Against this background, Insurance Europe objects to the IAIS consideration of counterparty default risk on the derivatives market. The IAIS should therefore recognise the value of derivatives in hedging market risk and a more relevant question from the IAIS would be whether derivatives create interconnectedness concerns and of what magnitude these are. Insurance Europe notes that the derivative volumes traded by insurers are marginal compared to those of the banking sector (also largely due to the difference in business models).
GDV - German Insurance Association	Germany	No	The proposed two-step approach seems a reasonable way of assessing the exposure to substantial market risk. Yet, we want to highlight the importance of the succession of the two questions. The question of whether a material benefit guarantee applies must be answered first. The successive question about the ability to invest in assets backing the guarantee should only be asked in case of affirmation of the first question. Thus, we agree with the set-up of the decision tree in figure 2. We support the conclusion that where the contractual guarantees are of such nature that they can be hedged in principle using simple fixed income type securities, there is either no correlation of the liabilities associated with the product to the overall market risk or the degree of such correlation in tail events is not large enough to amplify any existing disruption.
Munich Re	Germany	No	The proposed two-step approach seems a reasonable way of assessing the exposure to substantial market risk. Yet, we want to highlight the importance of the succession of the two questions. The question of whether a material benefit guarantee applies must be answered first. The successive question about the ability to invest in assets backing the guarantee should only be asked in case of affirmation of the first question. Thus, we agree with the set-up of the decision tree in figure 2. We support the conclusion that where the contractual guarantees are of such nature that they can be hedged in principle using simple fixed income type securities, there is either no correlation of the liabilities associated with the product to the overall market risk or the degree of such correlation in tail events is not large enough to amplify any existing disruption.
Global Federation of	Global	No	The two step approach to identification of substantial market risk is helpful. Following this approach helps to make clear that some traditional insurance products, for example those which offer fixed guarantees, are not sources of systemic

Insurance Associations			risk, and can be offered to policyholders free from the suspicion that the NTNI label would bring. The assessment of market risk should take a more holistic approach and therefore take into account other risk mitigating measures, including the use of derivatives that help to reduce risk (eg for hedging).
Institute of International Finance/ The Geneva Association	Global	No	Our answer to question 4 and 5: We believe that the market risk analysis does not capture all the relevant dimensions of the impact of market risk on insurers. First, and as stated in our answer to Question 2, we believe the NT methodology should perform its analysis on a more granular level to account for the many variations in which life products are offered. For instance, profit participation products may or may not be unitized and their guarantee may or may not be tied to the existence of a profit in the first place. Specifically, the NT methodology does not incorporate all dimensions of the relationship between guarantees and market risk. While it is correct that guarantees lead to insurers taking on risks from their customers, guarantees also reduce incentives for policyholders to switch to less risky assets in stress scenarios, therefore reducing requirement for insurers to trade assets. This should be better reflected in the market risk analysis. Second, in assessing product features which create market risk, the IAIS has only included the ability to match liability cash flows as a way of managing this risk. The framework ignores the use of derivatives, implying that all use of derivatives is seen to have a similar impact. Yet there may be instances where derivatives are bought at inception of contracts and held to maturity and therefore no ongoing trading is necessary, such as may be the case when buying a swap to manage asset duration to match liabilities. Such use of derivatives may be different from the use of derivatives to implement a more dynamic hedging strategy. In fact, the use of derivatives to hedge non-linear exposures can prevent the need for an insurer to pursue complex, dynamic hedging strategies of continuously rebalancing bond and equity positions. Further, the systemic implication of use of the various types of derivatives can be different. If an insurer buys options, it is not creating counterparty risk for the seller but is exposed to counterparty risk. We would like to stress that it remains unclear from the market and liquidity risk analyses how these vulnerabilities relate to systemic risk. While the liquidity and market risks identified in the proposed non-traditional insurance (NT) methodology are indicative of the risks on an individual insurer's balance sheet, they are not necessarily indicative of the risks posed by the insurer's activities to the financial system at large. As with all insurance products, the presence of a vulnerability should only be addressed by systemic risk regulation if its order of magnitude warrants it and it links to a transmission channel of systemic risk. Footnote 9 on page 10 of the NTNI consultation document supports the exemption of derivatives use in the NT assessment method by stating that a firms' hedging strategy could break down if they are unable to roll over derivatives in a stressed market. While this is a possibility, such an event will create a risk only for the insurer and is a microprudential issue. The footnote also mentions that derivatives in effect substitute market risk for counterparty risk. While this is correct, this also is a microprudential risk which is managed through collateralization and counterparty limits. We strongly advocate that use of derivatives be recognized as a risk mitigant under the G-SII and NTNI assessment frameworks; that way, the frameworks would incorporate incentives for good risk management by insurers. Lastly, regarding credit guarantees, it would be useful to incorporate in the table in paragraph 3.6 that short term trade

			credit (with a coverage period of less than one year) is not classified as NT, consistent with IAIS field testing instructions.
AIA Group	Hong Kong	No	We believe the conceptual framework set out is fundamentally flawed. Market risk, in the absence of liquidity risk is not systemic. Systemic risk emerges when an institution suddenly cannot meet its obligations and there are transmission channels to the economy. In the absence of liquidity risk, market risk alone does not produce this effect. "Market risk" emerges on the balance sheet - liabilities increase more than assets or assets decrease more than liabilities. But the insurer can still meet its obligations as they fall due - at least for a time. The fact that there is time, allows for recovery planning to be effective or for an orderly winding up. We believe the IAIS should show concrete examples of how market risk alone can have a systemic impact. We also note that there seems to be an implication that "duration gap" when assets are shorter than liabilities is not a type of market risk. This is not correct. This type of market risk is called reinvestment risk and it is a very real form of market risk - but it has no systemic consequences because if it materializes it can be dealt with in an orderly fashion. For example in Japan and Taiwan, this type of market risk has existed for many years with a reasonably large number of without any systemic consequences even on the local economies. Market risk has the potential to lead to systemic risk only when it can emerge quickly. This is perhaps captured by also requiring that the market risk exist in combination with liquidity risk.
on behalf of the European GSIIs, Aegon, Allianz, Aviva, Axa and Prudential	International	No	The orientation taken by the IAIS ignore the role of asset and liability management, risk management and investment decision-taking in insurance by focusing exclusively on products features. Instead, in assessing product features which create market risk, the IAIS has only included the theoretical ability to match the liability cash flows of the guaranteed payments ignoring "the use of derivatives", or on a broader view alternative ways to mitigate the market risk attached to most Life insurance activities. We challenge the simplified illustration of the IAIS analysis of exposure to substantial market risk on page 12 of the consultation and in particular the second step to determine whether the insurer is able to invest the assets backing the guarantee in a manner that matches the cash flow of the guaranteed payments ignoring the use of derivatives. - Matching with fixed income instruments is not always the preferred best solution which the discrimination introduced by the second step would imply. - New generation of life insurance products require more and more a mix of matching solutions partly relying upon cash flow matching, partly relying upon hedging. - The management of residual basis risk remaining at the level of the overall insurance balance sheet may call for the use of derivatives The distinction introduced between "substantial" market risk (section 3.1) and "relevant but non determinative factors" (section 4) is arbitrary. Whatever their features, products exposure to market risks may be or may be not "substantial ". Their containment within the insurer primarily depends upon the way they are managed. Besides large part of those markets risks are seized by micro prudential supervision and there is capital to face them. We therefore have reservation on the IAIS conclusion that "Product features that have a guaranteed benefit and for which the insurer does not have the ability to invest in assets that will yield sufficient cash flows to pay off expected claims (ignoring derivatives), could expose the insurer to substantial market risk and therefore be classified as NTNI." (cf. 5.2 page 20, consultation document)

			We also have the following observations following the various comments on derivatives in the consultation paper. - There may be instances where derivatives are bought at inception of contracts and held to maturity and therefore no ongoing trading is necessary (e.g. buying a swap to manage asset duration to match liabilities). Such use of derivatives may be different from the use of derivatives to implement a more dynamic hedging strategy. Further, the systemic implication of use of the various types of derivatives can be different. If an insurer buys options, it is not creating counterparty risk for the seller but is exposed to counterparty risk. The footnote 9 of the consultation (p 10) mentions that a firm's derivatives hedging strategy may break down if they are unable to roll over hedges. While this is a possibility, such an event will create a risk for the insurer and is therefore a micro-prudential risk issue. It is not clear how this creates systemic risk. The other example used is of substituting market risk with counterparty risk. This too is a micro-prudential risk and is managed via collateralisation and existence of counterparty limits. It is unclear how this creates risk for the system. The third example used is that demand for derivatives during a market downturn can cause derivatives prices to rise. Insurers offer long term guarantees and do not necessarily have to be forced buyers of derivatives in stressed scenarios. The appropriate way to manage this risk is to ensure that micro-prudential regulation does not create procyclicality. The tools that are proposed to be used for systemic risk management (i.e. enhanced supervision, recovery and resolution and HLA) will not lead to a reduction in this risk. Furthermore, rolling hedges should not be confused with dynamic hedges. A rolling hedge using for example futures (a linear instrument that is generally used to hedge a linear exposure) is the result of markets favouring trading in near maturity futures to increase liquidity in the future market and to take full benefit of the flexibility this provides to the functioning and usefulness of this market. Dynamic hedges, on the other hand, are the result of non-linear exposures that are hedged using linear instruments. Trading is the result of a need to replicate a non-linear exposure through the regular trading of linear instruments. The impact of dynamic hedging on market liquidity may be positive (increased market activity) or negative (stressed selling), but historically many dynamic hedges have performed well even in distressed market liquidity. - The relevant question from an IAIS standpoint should rather be whether derivatives create interconnectedness issues which are marginal compared to those created by the banking system and represent a very small fraction of the global ETD Future and OTC markets. To summarise E-GSII views on derivatives in the light of potential systemic risk we would appreciate the IAIS to consider with attention the following points. 1. The use and exposure of insurers to the derivatives market is relatively small compared to other sector players such as banks. This is a key point that needs to be acknowledged throughout the G-SII framework. 2. Life insurers in specific serve a very important need for consumers to secure their future through saving, in particular retirement funding, and as such manage market risks on behalf of their policyholders via products with embedded guarantees. In essence insurers provide their policyholders with an option when issuing a guarantee, creating the need

			for the insurer to mitigate such risk that it takes on from their policyholder. An insurance company may either replicate the option via dynamic hedging or buy an offsetting option from e.g. a bank. In the latter case the exposure is indeed transferred to another party and we understand regulators attention to this, but it also should be expected that any party will only take on such an exposure if it believes it can properly absorb or manage it and that this party is subject to relevant sectorial supervision. The notion that through life insurance products with guarantees large new risks are created that via derivatives are simply transferred elsewhere in the financial system - thereby potentially escaping supervision - is therefore misleading. Furthermore, the existence of a guarantee provides stability for the financial markets in that policyholders with guarantees are less inclined to react to short term market stresses. 3. When insurers hedge the guarantees using derivatives, interconnectedness may be introduced, which has been identified as a channel for transmission of systemic risk. However, when considering interconnectedness it is important to also consider whether the exposure will be from the insurer to the system or from the system to the insurer. When insurers buy options, they are exposed to the banks and not the other way around. Therefore, the failure of the insurer will not lead to any direct losses for the bank. How derivatives used by insurers for hedging purposes contribute to the interconnectedness of the global financial system to a degree that noticeably affects the level of systemic risk is not established. Further, it is also important to consider the derivatives market reforms that have been undertaken since the financial crisis that focus on mitigating the risk of interconnectedness via collateral mechanisms and exchange traded derivatives. 4. We clearly understand that in the light of systemic risk, the IAIS initial focus is on liabilities that have more direct links with the financial markets. Not surprisingly, these liabilities are also the key source for the stabilizing role insurers play in the wider financial markets as it is widely recognised. Such liabilities may be considered systemically relevant, but the impact is more likely positive rather than disruptive or amplifying systemic risk. A better understanding of how insurers manage such liabilities, e.g. via the SRMP or LRMP, may provide useful insights for macro prudential regulation. Putting higher capital standards via HLA on such liabilities, because classified as Non Traditional, may achieve the opposite of what is intended, namely to provide financial stability and to mitigate systemic risk. It would undermine the affordability and availability of such products and diminish the positive role that insurers can play in the wider financial system.
General Insurance Association of Japan	Japan	No	We understand that the assessment in the second step (whether the insurer is able to invest the assets backing the guarantee in a manner that matches the cash-flows of the guarantee) is based on "whether there are contractual limitations on the insurer's investment activities". However, if it were based on "the insurer's asset management performance" rather than "the contractual limitations on investment", the following should be considered in the assessment of whether a product has substantial market risk. - While there are likely to be cases where the insurer does not have assets that match super long-term guarantees, it is still be possible to match the cash-flows through reinvestment. - Even when it is difficult to match the cash-flows, the insurer would not be exposed to substantial market risk as long as it is able to match the duration or interest rate sensitivity of its assets and liabilities.
The Life Insurance Association of Japan	Japan	No	·Interest rate guarantee provided by fixed benefit policies would not be sources of systemic risk. This point has been clarified in the IAIS paper through note 8; "Note that guarantee, in this context, … does not include the implicit assumptions made in product pricing", and we support the IAIS proposal. Fixed benefit insurance products sold in our jurisdiction, including whole life insurance products, would not be sources of systemic risk.

			-This is because sharp risk-off would not be needed for fixed benefit products even during a stressed period. As for life insurance products with fixed benefit, especially those with long-term guaranteed interest rates, it is true that those products bear interest rate risk because of the insurance liabilities based on the premise of long-term coverage, but it is not until the reinvestment phase far in the future that this risk becomes relevant and consequently, in general, it is considered that this risk would not threaten insurers' solvency in the foreseeable future. This risk can be addressed over medium to long periods of time and there is no need for fire sales of assets in the short term. European Solvency II also allows for maximum of seven years of recovery period, which enables insurers to avoid fire sales of risky assets. -Another rationale is stability of life insurers' cash flow position. Generally, the insurance benefits are paid from the well-scheduled redemption at maturity of government bonds, etc. and from the insurance premiums periodically paid under long-term level premium insurance policies. Therefore, the payment of benefit is hardly considered to affect the life insurers' cash flow position directly, even during a stressed period. -Indeed, Japanese life insurers, whose sales has historically been focused on fixed benefit life insurance products, did not execute sharp risk-off even in the middle of the Lehman crisis around 2008. Rather, they continued to provide stable funding to the capital market even during the financial crisis, and thereby contributed to the stabilization of the financial system.
Swiss Re	Switzerland	No	The two steps are largely appropriate in our view. We understand these steps as being sequential and conjunctive - this would be a logical and reasonable approach in our view. In addition, a weighting is not necessary. However, we strongly disagree with the proposal to ignore the use of derivatives (please see our response to Question 2).
Aegon N.V.	The Netherlands	No	As explained in our response to question 3, we have not seen persuasive evidence that an insurer's exposure to "substantial market risk" generates systemic risk. We have additional concerns with the way that this concept is proposed to be applied through the "cash flow matching" principle. A large number of products sold by the life insurance industry involve long-term promises that include various guarantees. At times, guarantees are required by jurisdictional law in order to protect consumers. A majority of those guarantees cannot be exactly cash flow matched with available assets, and in practice derivative strategies are frequently used to mitigate some of the risk exposures. Therefore the "cash flow matching" criterion is likely to reveal a broad scope of products with various degrees of mismatch. We are concerned that it may be necessary to draw a sharp, arbitrary dividing line between products, some of which will suffer the consequences of falling on the wrong side of the line. We further note that "cash flow matching" may be understood differently in different jurisdictions. For example, paragraph 4.1 seems to suggest that "cash flow matching" could involve an ongoing, holistic assessment. In contrast, we have observed that some supervisors apply the "cash flow matching" principle in an extremely strict manner based on changes in market values of assets and liabilities. No credit is given for partial or even 95% matching. We have an increasing concern that the IAIS may be migrating toward such a philosophy, which would harm a number of products sold by our company in different jurisdictions. Furthermore, if this philosophy were adopted, illogical outcomes could result. Either a partially or fully "cash flow matched" insurer would remain susceptible to asset defaults and potential distress or failure at the bottom of the credit cycle. Therefore this approach would create a false differentiation between products, some of which would be labeled as systemically risky, while others would not. This would translate into "winners" and "losers" among jurisdictions. Finally, Paragraph 2.9 indicates that the underlying concern involves an exposure to substantial market risk "that would

			put pressure on the insurer's solvency at the bottom of the market." A relationship between risk manifestation and solvency pressure is inherent with any type of risk assumed by insurers. For example, a property insurer is more likely to fail following a hurricane or earthquake. Even a life insurer that is backing "cash flow matched" liabilities with credit risk-bearing assets is more likely to fail at the bottom of the credit cycle. Solvency pressure is not a principle that is sufficient to identify products with systemic relevance. We conclude that the suggested "cash flow matching" principle is inappropriate and inadequate for identifying which products present substantial market risk.
Institute and Faculty of Actuaries	UK	No	The use of derivatives need not be ignored in determining whether or not there is exposure to substantial market risk. Derivatives can be used to reduce or eliminate market risk provided there is sufficient and appropriate collateral.
KPMG	UK	No	Yes, these two steps seem appropriate. However, we have the following comments. Firstly, the benefit feature under consideration could be extended to include lump sum payments that attract a guarantee feature, and not merely consider those that provide an income stream. Secondly, we do not agree with the blanket exclusion of the use of derivatives to achieve matching. Some insurance products, for example index-linked contracts, can only achieve matching of the underlying exposure through use of derivatives which is therefore necessary to manage the exposure. We agree that insurance products without a guarantee do not present substantial market risk for insurers as policyholders' payments will be reflective of the market value of their assets, thereby reducing the insurer's exposure to market risk. Where applied, any early surrender penalties will further reduce this risk. The IAIS mentions that the market risk is reduced where an insurer is able to invest in assets that match the liability cash flows of the product. However, it should be noted that market risk can be significant for those asset classes that the insurer chooses to invest in and this may result in significant losses. More important in our view then is that the insurer is actually investing in assets that match the insurance liability and that the loss on investment performance accrues to the policyholder rather than the insurer. Where the insurer has the discretion to adopt a different investment strategy (for example a high risk investment strategy to optimise returns), this could have the potential to lead to significant losses that accrue to the insurer.
Prudential plc	UK	No	In assessing product features which create market risk, the IAIS has only included the ability to match liability cash flows ignoring the use of derivatives. The IAIS has further clarified that this is because use of derivatives does not extinguish the risk but transfers it to another part of the system. This implies that all use of derivatives is seen to have a similar impact on the system. However, there may be instances where derivatives are bought at inception of contracts and held to maturity and therefore no ongoing trading is necessary for instance, buying a swap to manage asset duration to match liabilities. Such use of derivatives may be different from the use of derivatives to implement a more dynamic hedging strategy. Further, the systemic implication of the use of the various types of derivatives can be different. If an insurer buys options, it is not creating counterparty risk

			for the seller but rather it is exposed to counterparty risk. We further believe that the analysis needs to have another step, which assesses whether and how the market risk is transmitted to the system through the identified channels (i.e. the exposure channel or asset liquidation channel). The product or activity should not be deemed to be NTNI unless the risk is assessed to be transmitted via the identified channels, E.g. when insurers hedge guarantees using derivatives, interconnectedness may be introduced, which has been identified as a channel for transmission of systemic risk (exposure channel). However, when considering interconnectedness it is important to also consider whether the exposure will be from the insurer to the system or from the system to the insurer. When insurers buy options, they are exposed to the banks and not the other way around. Therefore, the failure of the insurer will not lead to any direct losses for the bank. Further, it is also important to consider the derivatives market reforms that have been undertaken since the financial crisis that focus on mitigating the risk of interconnectedness via collateral mechanisms and exchange traded derivatives. Unless the analysis considers transmission channels, it will end up considering the amount of risk taken by insurers. While this is a relevant issue for micro-prudential regulation, it may not always be relevant for measurement and management of systemic risk.
Association of British Insurers	United Kingdom	No	In assessing product features that create market risk, the IAIS has only included the ability to match liability cash flows ignoring the use of derivatives. However, derivatives are a key risk management tool for insurers. Derivatives are typically used to reduce exposure to risks (e.g., inflation or interest rates), or as part of insurers' asset-management strategies (i.e., by buying a swap to manage asset duration to match liabilities). It is likely that in derivatives are bought at inception of contracts and held to maturity, and ongoing trading is therefore not necessary. Furthermore, we note that the various types of derivatives may have different systemic implications. For example, if an insurer buys options, the insurer is exposed to counterparty risk, but does not create counterparty risk for the seller (going back to the discussion in question 3 on linkages that create exposure for the other party). If the reason for dismissing the use of derivatives is that they are perceived as "risky', we note that insurers are prohibited from speculative derivative trading. In relation to the IAIS's concerns regarding counterparty risk and access/cost in times of stress, these considerations are not unique to this asset class (e.g., there are concerns being raised about the liquidity of bond markets under stress as well) - and these concerns should not be exaggerated. If the concern is that derivatives transfer risk from one part of the system to another, we would like to note that buying derivatives need not only imply transfer of risk from insurers to other players. This could also imply pooling of risks and risks residing in part of the system where they are best managed. Finally, there has been extensive global and national efforts to make derivatives safer and, in particular, to significantly mitigate the counterparty risk through the introduction of central clearing and collaterisation. For these reasons, we strongly feel that it is disproportionate to disregard the role of derivatives. Paragraph 3.3: it is not clear what is meant by "undiversifiable" market risk - and particularly in which types of cases this might be "significant". Market risk can be diversified by taking on a broad spread of risks. Where a particular insurer is

			exposed to concentrated market risk, this can be addressed as part of microprudential supervision. It is not clear in which instances this cannot be diversified or addressed through other risk management tools. Figure 2: the flow chart should also consider the possibility of mitigating risks through management and supervisory action, as well as the wider context of insurers' risk management.
Allstate Insurance Company	United States	No	We believe the two-step process is appropriate as constructed, however, we suggest providing additional clarity on the "ability to invest assets that match the cash flows of the guaranteed payments (ignoring derivatives)". A useful example would be a "High Watermark" guarantee on variable annuity contracts. The payment of the guarantee creates market risk that is unlikely to be offset by cash flows from the product without the use of derivatives.
American Council of Life Insurers	United States	No	We agree that the analysis can be used to assess some of an insurer's vulnerabilities to exogenous events. We do not agree, however, that such vulnerabilities necessarily lead to systemically relevant activity. See ACLI response to Q3. We urge caution in the use of "cash flow matching' to assess exposure to substantial risk, noting that different jurisdictions have different interpretations and applications of the concept.
National Association of Mutual Insurance Companies	United States	No	Question 4. We generally agree with these two steps, however, the consultation draft needs to be very clear in identifying the local prudential regulator to make the appropriate assessments of whether a benefit feature could actually expose an insurer to substantial market risk or be systemic risk causing.
New York Life	United States	No	The consultation should add an additional step to the analysis that involves an assessment of an insurer's group wide management strategy. As the document maps through the elements of market risk and liquidity risk, and whether such undertakings escalate to a "substantial" threshold level, there is little to no consideration on how an insurer is actually managing the risk. Further, there is no attempt at establishing thresholds. At a minimum, any determinations of an insurer's engagement in NTNI activity should be assessed in the context of the insurer's overall liquidity profile. This context can be developed into an objective threshold when analyzing products features and can be assessed consistently across firms and jurisdictions.
American Academy of Actuaries	United States of America	No	While the two steps proposed provide a useful framework for the evaluation of market risk, we are concerned that the IAIS is not allowing enough room for supervisory judgment. Given the vast range of products, the wide array of individual company profiles, and the numerous and diverse jurisdictions involved, it is important to avoid an overly prescriptive approach. Presumptions of substantial market risk, or an exhaustive list of sources and exceptions to this risk, will be untenable. Consider, for example, products like life insurance and annuities that naturally hedge each other. Each may serve as a source of some market risk, but in a company that has such a natural hedge, a substantial part of the market risk is eliminated. The proposed framework would not take this into account, but it is a potential mitigating factor that a regulator should be empowered to consider when applying the framework.

American Insurance Association	United States of America	No	Consideration of a product's benefit and liquidity features necessarily relies on the underlying assessment of whether the product follows the insurance business model. The insurance business model and the insurance products and activities that flow from that model do not inherently pose a systemic threat to global financial stability. To the contrary, the insurance business model possesses features that enhance financial market stability, not the least of which is the fact that property-casualty insurance operations are funded by upfront premiums, which therefore reduces the need to access the credit markets. This low leverage environment of property-casualty insurers is a key element of stability.
Prudential Financial, Inc.	United States of America	No	Please see our responses to questions 2 and 3.
MassMutual Financial Group	USA	No	Life insurance companies use derivative financial instruments in the normal course of business to manage risks associated with their long-term insurance liabilities. As an example, MassMutual employs a rigorous asset/liability management process to help mitigate the economic impacts of various investment risks, including the reduction of currency, credit, and interest rate imbalances determined through ongoing asset/liability analyses. While the NTNI methodology does factor in cash flow matching of liabilities, it ignores asset/liability management through the use of derivatives. We propose the IAIS modify the Consultations to include a comprehensive view of risk management techniques as part of the quantitative risk assessment process.
MetLife, Inc.	USA	No	Exposure to market risk may speak to the vulnerability of a firm, but it has no bearing on the systemic impact of a firm if it fails. Thus application of these steps is not pertinent to a macroprudential assessment of potential systemic impact. Furthermore, to appropriately assess vulnerability, these steps are inadequate. Example 1: If a firm is contractually able to match cash flows of guaranteed payments but it chooses not to do so, the firm is still exposed to market risk and thus is more vulnerable than if it had matched the cash flows. Example 2: If a firm is unable to match cash flows without derivatives, but it implements a robust and well-managed derivatives program to hedge away its risk, it will be subject to significantly reduced market risk; such a firm is much less vulnerable than a firm which does not have such a risk management program in place. In addition, we note that derivatives may give rise to some potential systemic impact via the interconnectedness transmission channel. It is appropriate to consider that. Having considered that, however, it is not appropriate to then disregard the positive impact that such derivatives have when it comes to reducing vulnerability.
Northwestern Mutual	USA	No	It is in the nature of the most traditional of life insurance products for the insurer to provide some form of guaranteed payment stream. Insurers assume market risk as an inherent feature of the life insurance business model and, in the context of backing traditional product benefits, taking on that risk has not contributed to systemic risk. Therefore, in order to be meaningful, the proposed two step analysis must be conjunctive and the second step is more important than the first. As to the second step, we read this as an effort to distinguish those products for which the insurer obligates itself to provide the greater of market performance and some guaranteed floor. In our view, this second step is a necessary, but not sufficient, test to conclude that a product has systemic relevance. We recognize that such products do expose the insurer to greater risk - hence the frequent use of derivatives transactions to manage this risk - than those that either involve only a simple guarantee on future benefit accruals or strictly pass-through investment performance to the policy

			holder. However, apart from the increased financial system interconnection resulting from such derivatives transactions, it has not in our view been demonstrated that the additional risk to the insurer in and of itself has systemic implications.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	The proposed two-step process is first identifying whether there are material benefit guarantees which potentially expose the insurer to significant market risk, followed by an assessment of whether those market risks can be mitigated. The analysis of these steps should be conjunctive. However, additional clarity is needed regarding the second step of the analysis. The consultation document proposes determining the ability to cash-flow match based on whether there is an absence of contractual limitations from doing so. For life insurance products, the existence or absence of such limitations may not be a sufficient determinant for "NTNI' classification. For these products, additional analysis, guidelines or mechanisms to verify that effective mitigation strategies are actually occurring may be needed.
5 - Does the list above assess a comprehensive set of benefit features? What, if any, benefit features are not assessed in this section that the IAIS should consider? Do the benefit features listed in this section help provide the IAIS with sufficient information to characterise products and activities as NTNI in a way that applies equally across jurisdictions?			
CLHIA	Canada	No	From the perspective of global application, the list of benefit features is not granular enough and hence jurisdiction specific benefit features need to be taken into account.
OSFI	Canada	No	- Product features - There can be ambiguity between what is a feature directly in an insurance contract and features that are included/required by legislation/regulation. The IAIS may want to consider a way to characterise products that have features either embedded directly or some form of legislation that may limit the exposure of certain features. Examples in Canada would be participating policies (need to set up a PAR account according to the Canadian Insurance Companies Act), or cancellation conditions for fire policies. Some of these legislative features involve supervisory judgement, where the regulator would review the company procedure for compliance with act and regulations/guidelines. While there are others that involve supervisory judgement in limited or extraordinary circumstances. For example, a feature that enables a supervisor to mandate delayed payments to policyholders - while it can be effective for stopping a run, it is not a power ordinarily used.
Insurance Europe	EU	No	Insurance Europe believes that the ultimate identification of products and features that can give rise to systemic risk should be left to national supervisors, as they have the knowledge and understanding of their own markets. Insurance Europe supports the objective of a consistent application of the analytical framework across jurisdictions – this should be tested by the IAIS in the process of recalibrating the BCR and the HLA. As noted in the answer to question 2, the list of benefit features is narrow and there is no recognition that a combination of features can in fact create/increase exposure to market/liquidity risk. In addition, the identification framework misses a link between benefit features and liquidity features. Products benefits should first be assessed in terms of the social and economic needs they address, as this can significantly affect the liquidity features. Specifically, life benefits are designed to meet the long-term needs of policyholders and to respond to multiple life-cycle objectives: saving, retirement, inheritance. This leads to most of the contracts exhibiting very limited liquidity risk.

			In addition, the following should be included in the framework: - Death benefits embedded into a life insurance contract should be explicitly excluded from the scope of the definition of potentially systemically risky activities. Death is an idiosyncratic and insurable risk through the pooling and compensation of losses, which is not related to the business cycle or financial market developments. - For the fixed-benefit and profit-participation benefit types, the assessment of exposure to market risk should reflect whether the insurer has the ability to generally adjust the surrender value to match market movements, including any guarantees of surrender values. In addition, profit-participation products may or may not be unitised and the guarantee may or may not be tied to the existence of a profit in the first place. When considering transmission channels, it is important to clearly understand whether insurers expose counterparties to risk or are exposed to risk from counterparties. Given that market risk in itself does not create systemic risk, a lack of clear understanding of the type and direction of counterparty risk can lead to an exaggerated perception of systemic risk created by insurers. Insurance Europe has reservations about whether qualifying guarantees on vested benefits or future accruals expose the insurer to a high degree of market risk as well about the IAIS conclusion that "Product features that have a guaranteed benefit and for which the insurer does not have the ability to invest in assets that will yield sufficient cash flows to pay off expected claims (ignoring derivatives), could expose the insurer to substantial market risk and therefore be classified as NTNI". The NTNI consultation paper suggests assessing surrender values under normal economic conditions and stressed market conditions. However, the IAIS fails to define the stressed market conditions to establish a robust comparison among the sample firms. This is particularly relevant for the applicability of stays on surrenders, their ultimate duration, and hence the pay-out pattern. While the ability of authorities to suspend surrenders is codified in various markets, it is situational and fraught with rational and behavioural considerations. Regarding credit guarantees, the table in 3.6 should be amended to clarify that short-term trade credit insurance (coverage period less than one year) is not considered as NT, consistent with the explicit wording of NTNI Principle 1 (annex 2). It is, in fact, inappropriate to include "selling of credit protection/mortgage insurance" in the table set out under paragraph 3.6. Credit protection and mortgage insurance policies do not guarantee the values of assets: they are purchased by individuals to protect payments they are due to make under loan arrangements to which they are parties. Payments are triggered under such a policy by the policyholder's death, disabling injury or illness or loss of job. Credit protection and mortgage insurance should be considered as similar to indemnity policies, since they provide cover for a specific loss, not a guaranteed value.
Allianz Group	Germany	No	We support the conclusion that where the contractual guarantees are of such nature that they can be hedged in principle using simple fixed income type securities, there is either no correlation of the liabilities associated with the product to the overall market risk or the degree of such correlation in tail events is not large enough to amplify any existing disruption. Regarding credit guarantees the table in 3.6 should be amended to clarify that under the proposed framework short term trade credit insurance (coverage period less than one year) is not classified as NT, consistent with explicit wording of NTNI Principle 1 (appendix 2) and field testing instructions.

GDV - German Insurance Association	Germany	No	We regard the list in this section as a comprehensive set of benefit features. The choice of features and their assessment are understandable and the conclusions seem logical. In particular, we agree with the perception that the traditional German life insurance business - which entails fixed benefits as well as profit participation - is not exposed to substantial market risk. This is due to the fact that insurers are in principle able to hedge against a large part of the risks posed on them by these products using fixed income assets. It is arguable though, whether or not the IAIS will be able to characterize products and activities in each individual case as NTNI appropriately by exclusively considering a predefined list of criteria. We therefore suggest that further relevant considerations regarding particular products are made by the group supervisor where necessary, and that the final decision on particular products is at the discretion of the responsible group supervisor. Regarding credit guarantees the table in 3.6 should be amended to clarify that short term trade credit insurance (coverage period less than one year) is not considered as NT, consistent with explicit wording of NTNI Principle 1 (appendix 2).
Munich Re	Germany	No	We regard the list in this section as a comprehensive set of benefit features. It is arguable though, whether or not the IAIS will be able to characterize products and activities in each individual case as NTNI appropriately by exclusively considering a predefined list of criteria. We therefore suggest that further relevant considerations regarding particular products are made by the group supervisor where necessary, and the final decision on particular products should be at the discretion of the responsible group supervisor. Regarding credit guarantees the table in 3.6 should be amended to clarify that short term trade credit insurance (coverage period less than one year) is not considered as NT, consistent with explicit wording of NTNI Principle 1 (appendix 2).
Global Federation of Insurance Associations	Global	No	The list of benefit features is too narrow, and different jurisdictions will have benefits that the IAIS should take into account.
Institute of International Finance/ The Geneva Association	Global	No	Our answer to question 4 and 5: We believe that the market risk analysis does not capture all the relevant dimensions of the impact of market risk on insurers. First, and as stated in our answer to Question 2, we believe the NT methodology should perform its analysis on a more granular level to account for the many variations in which life products are offered. For instance, profit participation products may or may not be unitized and their guarantee may or may not be tied to the existence of a profit in the first place. Specifically, the NT methodology does not incorporate all dimensions of the relationship between guarantees and market risk. While it is correct that guarantees lead to insurers taking on risks from their customers, guarantees also reduce incentives for policyholders to switch to less risky assets in stress scenarios, therefore reducing requirement for insurers to trade assets. This should be better reflected in the market risk analysis.

			Second, in assessing product features which create market risk, the IAIS has only included the ability to match liability cash flows as a way of managing this risk. The framework ignores the use of derivatives, implying that all use of derivatives is seen to have a similar impact. Yet there may be instances where derivatives are bought at inception of contracts and held to maturity and therefore no ongoing trading is necessary, such as may be the case when buying a swap to manage asset duration to match liabilities. Such use of derivatives may be different from the use of derivatives to implement a more dynamic hedging strategy. In fact, the use of derivatives to hedge non-linear exposures can prevent the need for an insurer to pursue complex, dynamic hedging strategies of continuously rebalancing bond and equity positions. Further, the systemic implication of use of the various types of derivatives can be different. If an insurer buys options, it is not creating counterparty risk for the seller but is exposed to counterparty risk. We would like to stress that it remains unclear from the market and liquidity risk analyses how these vulnerabilities relate to systemic risk. While the liquidity and market risks identified in the proposed non-traditional insurance (NT) methodology are indicative of the risks on an individual insurer's balance sheet, they are not necessarily indicative of the risks posed by the insurer's activities to the financial system at large. As with all insurance products, the presence of a vulnerability should only be addressed by systemic risk regulation if its order of magnitude warrants it and it links to a transmission channel of systemic risk. Footnote 9 on page 10 of the NTNI consultation document supports the exemption of derivatives use in the NT assessment method by stating that a firms' hedging strategy could break down if they are unable to roll over derivatives in a stressed market. While this is a possibility, such an event will create a risk only for the insurer and is a microprudential issue. The footnote also mentions that derivatives in effect substitute market risk for counterparty risk. While this is correct, this also is a microprudential risk which is managed through collateralization and counterparty limits. We strongly advocate that use of derivatives be recognized as a risk mitigant under the G-SII and NTNI assessment frameworks; that way, the frameworks would incorporate incentives for good risk management by insurers. Lastly, regarding credit guarantees, it would be useful to incorporate in the table in paragraph 3.6 that short term trade credit (with a coverage period of less than one year) is not classified as NT, consistent with IAIS field testing instructions.
AIA Group	Hong Kong	No	As mentioned above, the list doesn't include products with non-guaranteed elements that do not have profit participation, such as universal life. However, the analysis for products with profit participation products can be applied to such products. Also, the description of indicates that the policyholder may have an influence over investment decisions. While this is common for unit linked products, we are not aware of any participating products that have this feature. For reasons described in our answer to the prior question the column labeled "Is there substantial market risk?" should be changed to something like "Does the product have the potential to pose systemic risk"?
on behalf of the European GSIIs, Aegon, Allianz, Aviva, Axa and Prudential	International	No	- First see answer to question 2: Products benefits should first be assessed in terms of the social and economic needs they address. Life benefits are designed before all to meet the long-term needs of the policyholders and to respond to multiple life cycle objectives: saving, retirement, inheritance. It explains why insurance liabilities are largely illiquid. - Life insurance products with death benefits embedded into the contract should be excluded from systemic activities. Death is an idiosyncratic and insurable risk through pooling and compensation of losses, not related to the business

			cycle or financial market developments. - For the fixed benefit and profit participation benefit types, the assessment of exposure to market risk should reflect whether the insurer or the supervisor has the ability to adjust the surrender value to match market movements, including any guarantees of surrender values. - Exposure to market risk depends upon the management of this risk. VAs which were as from the beginning pinpointed by IAIS as systemic provide a good example on how market risk are fully mitigated by cutting edge ALM and Risk Management best practices. - Where the contractual guarantees provided by the product can be hedged in principle by using simple fixed income type instruments, there is either no or very limited correlation of the liabilities to the overall market risk. We agree with the assessment in the consultation document that the degree of correlation in tail events is not large enough to amplify existing market disruption. - Regarding credit guarantees the table in 3.6 should be amended to clarify that short term trade credit (coverage period less than one year) is not classified as NT, consistent with explicit wording of NTNI Principle 1 (appendix 2). Low interest rate environments highlight the need for ALM decisions to be more sophisticated than simple cash flow matching strategies, as it may not always be in the interest of clients. Prudential frameworks should not put in place incentives that prevent insurers from making sensible decisions in such cases by oversimplifying ALM practices. As well when considering transmission mechanisms, it is important to consider whether residual risk can be contained within an insurer, how insurers expose counterparties to risk or are exposed to risk from counterparties. SRMPs, that have already been produced, may provide useful information in this respect as we highlighted in in the general comments and question 3 above.
The Life Insurance Association of Japan	Japan	No	·Interest rate guarantee provided by fixed benefit policies would not be sources of systemic risk. This point has been clarified in the IAIS paper through note 8; "Note that guarantee, in this context, … does not include the implicit assumptions made in product pricing", and we support the IAIS proposal. Fixed benefit insurance products sold in our jurisdiction, including whole life insurance products, would not be sources of systemic risk. -As sharp risk-off would not be needed for fixed benefit products even during a stressed period, they would not be sources of the systemic risk caused by marketability risk, as described in the Consultation Document. As for life insurance products with fixed benefit, especially those with long-term guaranteed interest rates, it is true that those products bear interest rate risk because of the insurance liabilities based on the premise of long-term coverage, but it is not until the reinvestment phase far in the future that this risk becomes relevant and consequently, in general, it is considered that this risk would not threaten insurers' solvency in the foreseeable future. This risk can be addressed over medium to long periods of time and there is no need for fire sales of assets in the short term. European Solvency II also allows for maximum of seven years of recovery period, which enables insurers to avoid fire sales of risky assets. -Another rationale is stability of life insurers' cash flow position. Generally, the insurance benefits are paid from the well-

			scheduled redemption at maturity of government bonds, etc. and from the insurance premiums periodically paid under long-term level premium insurance policies. Therefore, the payment of benefit is hardly considered to affect the life insurers' cash flow position directly, even during a stressed period. -Indeed, Japanese life insurers, whose sales has historically been focused on fixed benefit life insurance products, did not execute sharp risk-off even in the middle of the Lehman crisis around 2008. Rather, they continued to provide stable funding to the capital market even during the financial crisis, and thereby contributed to the stabilization of the financial system.
Swiss Re	Switzerland	No	The list appears to be appropriate and comprehensive. Swiss Re welcomes that the NTNI assessment is performed for each product with different features and each jurisdiction separately - please see our remarks in the general comments. Further, we find the sentence "Indemnity events are generally uncorrelated with markets" extremely unhelpful. Most indemnity products, including e.g. ordinary property insurance, correlate to varying degrees with markets. Therefore, if the sentence should describe a feature, it is certainly misleading (at least) - if it should serve as a criterion, it does not help the desired selection. The expression "do not expose the insurer to substantial market risk" with the definition in 3.1.1 is sufficiently clear. The IAIS should delete the sentence "Indemnity events are generally uncorrelated with markets."
Institute and Faculty of Actuaries	UK	No	Consideration should be given to exposure to expense inflation; for example, if an insurer has issued a number of products with fixed administration charges.
KPMG	UK	No	Appears appropriate
Prudential plc	UK	No	For the fixed benefit and profit participation benefit types, the assessment of exposure to market risk should reflect whether the insurer has the ability to adjust the surrender value to match market movements, including any guarantees of surrender values.
Association of British Insurers	United Kingdom	No	For the fixed benefit and profit participation benefit types, the assessment of exposure to market risk should reflect whether the insurer has the ability to adjust the surrender value to match market movements, including any guarantees of surrender values.
Allstate Insurance Company	United States	No	We believe the list is comprehensive and appropriate to identify benefit features that represent NTNI exposures. We believe that once NTNI exposures are identified the risk management activities employed by the insurer to mitigate those exposures should also be considered.
American Council of Life Insurers	United States	No	This analysis focuses on the insurer's vulnerabilities as distinguished from the underlying drivers of systemic risk. See ACLI responses to Q1-Q3.
National Association of Mutual	United States	No	Question 5. There are no specific added features that NAMIC suggests, but it is important -- as we have commented throughout this consultation -- to recognize the unique features of each jurisdiction. Complete consistency between jurisdictions will not

Insurance Companies			be possible. Local regulators and groupwide supervisors will be in the best position to make the final decisions about systemic risk causing activities. In this definition it will be important to recognize that one-size does not fit all.
New York Life	United States	No	No. We don't believe the benefit features listed in this section, without additional context, provide sufficient information to characterize products and activities as NTNI. During the 2008 financial crisis, there were significant differences in the impact of the crisis on the financial health of different insurers. This variation in the performance of insurers during times of distress demonstrates tangible and measurable differences in the management of underlying risks. While the IAIS generally recognizes the heterogeneity of insurers, as compared to banks, the IAIS' approach to systemic risk fails to take into the consideration some critical drivers that give rise to these notable and well-accepted differences. An assessment of liquidity risk that could lead to systemic impact is difficult without a simultaneous discussion of thresholds or scale. When considering market risk, the consultation expressly recognizes one risk management practice, cash flow matching, while inappropriately discounting other strategies including the use of derivatives, underlying investment philosophy, and an insurer's discretionary ability to adjust non-guaranteed policy benefits such as dividends. While systemic risk considerations merit a discussion in any sector of the financial services industry post the 2008 financial crisis, the creation or transmission of systemic risk by an insurer will likely involve both an undertaking and mismanagement of market and liquidity risk. A question of whether or not a firm is effectively managing risk is generally not suitable for a binary response.
American Academy of Actuaries	United States of America	No	Making blanket categorizations across all jurisdictions and companies for a given product label is not recommended. Products perform differently within different jurisdictions. Moreover, even if a product can create liquidity risk across multiple jurisdictions, that risk may be easily mitigated through asset management strategies, suggesting that the categorization of the product should be dependent on the availability and deployment of these strategies, and the availability of the assets necessary to deploy them (e.g., whether sufficient long-duration assets are available in a given market). We note that the list does not adequately address insurance products that provide performance guarantees in which an insurer agrees to complete the performance if the original party does not perform. In some cases, this performance would then take place over months or years, such as for a construction surety bond. For some other products, the performance would require an immediate cash payment upon lack of performance by the original party. The former does not generate liquidity risk, while the latter may generate such risk if sufficient asset liquidity is not maintained. Therefore, we suggest adding a description of performance bonds, with clarification as to the two types of performance that may be required. While we agree with the conclusion that liabilities for "profit participating" products "are generally not correlated with the market" and can usually be cash-flow matched, we note that the description of the product does not match many of the types of products that are labeled as "participating" in the United States, Canada, and some other countries. For example, the list states that participating products "contain a guaranteed rate of return" that exposes the insurer to market risk. Dividend-paying whole life insurance products in the United States allow a return of premium through payment of a periodic dividend, but the dividend payment is typically not guaranteed. A minimum cash value is guaranteed, but that amount does not typically include participation in the dividend.

			Furthermore, the last row of the table states that Mortgage Insurance (MI) products expose insurers to a high degree of market risk. While we agree that default events for MI are highly correlated with market cycles, MI providers can reasonably cash-flow match their assets to their liabilities. MI providers periodically model liability cash flows resulting from stress events. These modeled liability results can then be used by asset managers to ensure sufficient cash flows are available to meet liability cash flows even during adverse market cycles. In addition, MI providers have leading risk indicators for when default events are increasing in likelihood, which allows the organization to prepare for and manage the increasing market risk. We would therefore suggest the IAIS revise the characterization of MI as highly unpredictable and unable to be cash-flow matched.
American Insurance Association	United States of America	No	In sections 2 and 3, the NTNI Consultation provides examples for analyzing product features in order to evaluate the potential to create systemic harm. The analysis process involves identifying features of the product and determining if the feature creates a vulnerability that can be transmitted to the broader financial system. AIA notes that the NTNI Consultation correctly acknowledges that indemnity products "do not expose the insurer to substantial market risk" and "are generally uncorrelated with markets." This recognition is important for property-casualty insurers, in that the IAIS had at one time characterized surety insurance, which is an indemnity product designed to ensure performance of a contractual obligation, as non-traditional for BCR purposes. AIA believes the analysis in sections 2 and 3 is correct and expects the IAIS to clarify the treatment of surety and other indemnity products as products that do not create systemic risk. This clarification should not only be reflected in the NTNI proposed analytical framework, but should also be reflected in the future formulations of the BCR and HLA.
Prudential Financial, Inc.	United States of America	No	The IAIS has long stated that the focus of their G-SII Assessment Methodology and related policy measurers, to which the proposed framework is a key underpinning, is to identify any insurer whose distress or disorderly failure would cause significant disruption to the global financial system and economic activity. Given this objective, the IAIS' efforts to identify systemic activities and products should be balanced and consider the potential benefit(s) that may accrue to an insurer's capital position or otherwise during times of stress. Using variable annuities with guarantees as an example - which the IAIS has long deemed as systemic - in the event of a policyholder surrender when their contract guarantee has value, the capital position of the insurer would improve as the reserve supporting the guarantee would be released thereby freeing up assets to absorb potential losses. In addition, derivatives used to hedge against a market downturn would be in the money.
MetLife, Inc.	USA	No	Please see our response to Question 4 above. In addition, we believe that a distinction must be made on the basis of who is impacted in the event an insurer fails. Through this lens, a variable annuity with a guarantee is not itself systemic as the party impacted is usually an individual policyholder as opposed to an institution connected to the financial system. Rather, from a macroprudential perspective, it is the hedging tools, such as derivatives (excluded from the above chart), that potentially could have a negative impact on the financial sector. We would also note that given the design of VA hedges, insurers are most likely to be in the money during times of financial stress, hence it is unclear what negative impact failure would have on an insurance companies' VA hedging counterparties. Finally, any analysis should not disregard the positive impact that such derivatives have when it comes to reducing vulnerability.

Northwestern Mutual	USA	No	The list of benefit features seems appropriately designed to describe those products that subject the insurer to the greatest degree of market risk. Yet, as noted in response to Question 4 above, even recognizing the potential for a high degree of market risk assumed in the case of unit linked products with guarantees, we encourage the IAIS to more clearly determine if such products have systemic relevance (beyond the potential increased financial system interconnection resulting from related derivatives transactions).
6 - Do the proposed time periods appropriately capture liquidity risk?			
Financial Services Commission (FSC)	British Virgin Islands	No	Possibly but reconsideration of the proposed time periods to appropriately capture liquidity risk i.e. less than 1 month, 1 month to 6 months and more than 6 months.
CLHIA	Canada	No	We suggest it is incomplete to assess the degree of liquidity risk by time period (and in reference to Question 7 economic penalty) in isolation of the insurer's risk management, business practices and the characteristics of the insurer's inforce business. The time periods appear high as three months should be more than adequate for management action to increase liquidity to meet demands. Regardless we suggest the IAIS document quantitative analysis to support any conclusions for specific time periods.
China Association of Actuaries	China	No	We have no comments on the criterion set by IAIS (one intuitive suggestion is replacing 3 months with 1 month, since "between 1 week and 3 months" might be too wide to be discriminative). Moreover, we would like to recommend IAIS to describe the present approaches of the delay in access and economic penalty in the product design across different jurisdictions, thus the time periods as well as the economic penalty thresholds may be set with more solid arguments. Otherwise the criteria would not be able to represent the situations in different markets.
China Insurance Regulatory Commission	China	No	We agree with the proposed time periods. But we suggest IAIS provide: 1) surrender value payment periods and the level of surrender penalties IAIS observed in major insurance markets; 2) how the current buckets are set and supported with these data. Otherwise the buckets may not be appropriate to reflect the real situations in various countries.
Insurance Europe	EU	No	This question implicitly assumes an acceptance of the level of concern of the IAIS about the risks associated with liquidity. In fact, Insurance Europe believes that the risks are greatly exaggerated in the consultation document. The factors mentioned do to some extent capture liquidity risk, but other considerations need to be taken into account. It would be more appropriate to consider insurers' ability to manage liquidity holistically. Insurance Europe would expect to see far more numerical analysis of the liquidity risk and of the impact of proposals for a three-month threshold and of other shorter thresholds.

Allianz Group	Germany	No	We suggest to change the time period of 3 months to 1 month. One month allows enough time for appropriate (dis)investment actions to mitigate increased liquidity demands.
GDV - German Insurance Association	Germany	No	In our view, the threshold for the high bucket (3 months) is rather high. It would be sufficient to set it at one month, as this period would give enough time to for insurers to assess their overall liquidity needs and proceed to a sparing disinvestment of liquid assets.
Munich Re	Germany	No	In our view, the threshold for the high bucket (3 months) is rather high. It would be sufficient to set it at one month, as this period would give enough time to insurers to assess their overall liquidity needs and proceed to a sparing disinvestment of liquid assets.
Global Federation of Insurance Associations	Global	No	The IAIS document has insufficient quantitative analysis to provide a robust justification for the risk classification attached to the time periods given. Further analysis is required. The period of time required will depend heavily on each insurer´s ability to manage liquidity risk, and any general conclusions should be treated with caution. In addition, the IAIS focus on contractual requirements does not take into account the possibility of regulatory measures. Mass surrenders of the kind feared by IAIS have been extremely rare events . In these unusual circumstances, it may be helpful for regulators to have the power to impose a temporary stay on surrenders. The advantage of this approach is that it does not place unnecessary burdens on policyholders who may wish to surrender their policies in normal economic conditions for reasons based in their own economic circumstances.
Institute of International Finance/ The Geneva Association	Global	No	The length of the periods suggested as liquidity thresholds is rather high. In our opinion, less than three months should be enough time for appropriate (dis)investment actions to mitigate increased liquidity demands. The current classification would lead to many insurance products falling in bucket Medium ("Delay in access between 3 months and 1 week'). That would limit the usefulness of this framework and lead to uncertainty, as insurance products in bucket Medium would automatically get an "NTNI classification subject to the absence of the narrow set of factors and supervisory judgment based on a wider set of overriding factors'.
AIA Group	Hong Kong	No	Any such classification is arbitrary, but the proposed segmentation is not unreasonable. If consideration is being given to classifying a company as a G-SII it may be worth reviewing the liability structure in more detail during Phase 3 to ascertain whether slightly different criteria would produce a materially different result.
on behalf of the European GSIIs, Aegon, Allianz, Aviva, Axa and Prudential	International	No	General comments on section 3.2 of the consultation paper - Instances of insurance runs induced by market stresses have been historically very scarce and those which were observed were not systemic events. If, under unprecedented and extreme circumstances, a GSII were subject to a run it would primarily be a national market issue as other players sharing the same kind of business would probably be impacted as well. There would be then no difference between G-SIIs and any other local player from a supervisory point of view. - Failure from liquidity shortage does not necessarily intervene at a moment where there is a strong correlation or particular weakened situation from other players and cannot be considered by its own, a driver of systemic risk. - In relation to liquidity risk, clear distinction needs to be drawn between whether the systemic risk concern

			o relates to losses incurred by insurers in case surrender values paid out are more than the value of assets backing liabilities This is a micro-prudential regulation issue and will not create systemic risk in itself o relates to impact of liquidation of assets (if any) on the asset markets in particular the impact on asset values and by extension contagion to other financial institutions that hold those assets as regulatory capital. In this case a broader systemic view needs to be considered: - In cases where policyholders have choice of asset allocation, the issue is not insurance sector specific. The same choices would be made if the investments were made via other intermediaries or directly. In case of insurers, the presence of cover/guarantees will only reduce incentives to withdraw. Therefore, penalising insurers will not reduce systemic risk on this count. - In cases where insurers decide the asset allocation, there is more flexibility in the liquidation process, thereby mitigating market movements. In such cases, insurers could potentially sell more liquid assets to fund any increased surrenders. Insurers' ALM practices generally also incorporate such options. In any case, if there are increased surrenders, the monies will move from one part of the financial system to another part and it is important that the systemic risk is not exaggerated. We also note that reference to bank deposits runs are made a number of times to explain the liquidity risk - it should however be noted that the banking methodology does not consider the size of retail deposits as an indicator in determining systemic riskiness - Insurance companies are prepared to deal with the unlikely and have put liquidity management routines in place. The implementation of sound liquidity management is an accepted good practice and not just a regulatory requirement. Liquidity risk is managed through proper liquidity management and risk appetite frameworks, investments in high quality and liquid assets, through adequate derivatives strategies (caps, swaptions). This would inform the LRMP that is already required for G-SIIs. As well liquidity stress tests are an important part of an insurance company's liquidity management. Due to their liquidity risk management processes, insurers are unlikely to be confronted with immediate liquidity shortfalls. Insurance companies look simultaneously at the portfolios not only of assets but also of liabilities to check on a permanent basis how assets match liabilities in terms of cash flows. It results into a deep understanding of both sources and needs of cash as well as the availability of unencumbered assets that can be readily converted to cash. - A specific highlight must be put on diversification of portfolios as a major driver of liquidity risk mitigation. Most large insurers have a largely diversified mix of business where liquidity can be centrally managed offering a first level of mitigation of the liquidity risk Therefore the liquidity risk, if any, attached to Savings and Retirement business can be, and is actually, mitigated by the possibility to mutualize cash resources, at a minimum at the level of a given legal entity, or even within a group of several legal entities. - Ultimately, and although liquidity risk per se cannot be hedged, insurers can also use financial techniques to mitigate lapse risks and/or their consequences.

			Question 6: Do the proposed time periods appropriately capture liquidity risk? - Yes, they do capture liquidity risk but other considerations should also be taken into account. - We would agree with the statement made in 3.11 that it is "more likely that a complex interaction between contract features, the state of the insurer, the market environment, individual characteristics and other dynamics will determine the extent to which counterparties have an incentive to surrender'. Therefore, focusing on only two factors is not a good proxy to determine the risk of a run. It will be more appropriate to consider the insurers ability to manage liquidity risk. - If a threshold had to be fixed at all a 1-month threshold instead of 3-month would be appropriate to allow the insurer to avoid disruptive fire sales.
General Insurance Association of Japan	Japan	No	- As liquidity risk related to insurance activities differs greatly across jurisdictions, relevant ancillary factors should be duly considered. For example, in Japan, there have been no cases where mass surrenders intensively occurred over a short period of time, even for products with a savings component. Accordingly, it is unlikely that credit uncertainty and market moves cause policyholder "runs". - Even when insurance activities could expose the insurer to substantial liquidity risk and "the time periods in which counterparties become able to access their funds" are considered, as for insurance activities, the wider set of ancillary factors such as policyholder protection schemes, loss of guarantees, and replacement of cover would greatly affect policyholders' lapse behavior. Therefore, unlike bank runs, it is difficult to expect that counterparties' decisions to surrender policies or insurers' measures to sell their assets and access liquidity will vastly differ over the threshold of "1 week" (for example, between 5 and 10 days). - Therefore, we suggest combining the Low (less than 1 week) and Medium (between 3 months and 1 week) ratings, i.e. having two ratings ("more than 3 months" or not). In addition, without being divided into the narrow and wider sets, ancillary factors should be comprehensively considered when the combination of delay and penalty ratings is not HH.
Swiss Re	Switzerland	No	In our view, delay in access greater than 3 months is high. This renders the classification conservative. In our view, it would be sufficient to set the threshold at one month, as this period would give insurers sufficient time to assess their overall liquidity needs and proceed with a disinvestment of liquid assets.
Institute and Faculty of Actuaries	UK	No	Three months could be too short a period of time for a High (H) rating given that the events that lead to a loss of liquidity could be systemic and persist for an extended period. We consider that six months may be more appropriate.
KPMG	UK	No	Although the proposed time periods appear appropriate, no recognition has been given to the fact that some insurance contracts do not specify settlement terms. Insurers may also flex their settlement period depending on volume of early surrenders requested. As the systemic risk is described in relation to forced assets sales, this should be assessed by reference to the latest settlement period that it possible. This may also depend on what penalty (if any) an insurer would incur if it breached its settlement period limit in order to prevent fire sales, which could even potentially act in the policyholders' interest if the reason for the market falls is deemed temporary in nature.

			We therefore believe that more consideration needs to be given to this criteria. In relation to the timeframes currently proposed: - A timeframe of less than a week is similar to deposits and this indicates that the money is basically at call and presents high liquidity risk for the insurer - More than 3 months gives the insurer significant time to rearrange their assets and make sales if required. Although, it is relevant to note that asset prices in downturns can be supressed for significant period of time. Recognising that different products may have different settlement periods, where this is relevant we believe it would be appropriate to adopt a weighted average approach, considering the aggregate potential policyholder exposure by maximum potential settlement period. Where financial penalties are applied in relation to late settlements, the highest settlement period can be used, subject to allowance for the impact of the penalties that would be incurred. This could be built in as a negative factor in the assessment of the penalties that insurers can place on policyholders for early surrender.
Association of British Insurers	United Kingdom	No	We would agree with the statement made in 3.11 that it is "more likely that a complex interaction between contract features, the state of the insurer, the market environment, individual characteristics and other dynamics will determine the extent to which counterparties have an incentive to surrender". Therefore, focusing on only two factors is not a good proxy to determine the risk of a run. It would be more appropriate to consider the insurer's ability to manage liquidity risk. This needs to be considered in the context of existing liquidity risk management planning requirements, including the LRMP for G-SIIs. Paragraph 3.9: it is not clear why the IAIS has singled out insurance contracts of short-term duration. If the issue relates to matching, as the first part of the paragraph suggests, the question should be whether short-term assets can be found to match these liabilities appropriately. Section 3.2.1.1 (delay in access): as mentioned elsewhere in this response, the ability of both insurers and supervisors to place a stay on access should be taken into account.
Allstate Insurance Company	United States	No	Yes, the proposed time periods appear reasonable.
American Council of Life Insurers	United States	No	The proposed time periods do not appropriately capture liquidity risk. We believe assessing the potential systemic impact of liquidity risk–distinguished from assessing an insurer's vulnerability to liquidity stresses–should include the insurer's contractual right to delay payment and a supervisor's power to stay payments.
National Association of Mutual	United States	No	Question 6. Issue being addressed: No we do not think they appropriately capture liquidity risk.

Insurance Companies			Rationale and Basis for Comment: We believe that further analysis is required to make the judgement about appropriate time periods for assessing liquidity risks. Alternatives for Consideration: Different time periods may be appropriate in different situations for different products. The three categories are too arbitrary in determining liquidity risk.
American Academy of Actuaries	United States of America	No	It is unclear whether this "delay in access" concept is intended to apply to the claim liabilities that result from property and casualty contracts. In some cases involving these contracts, the final payment amount is based on investigation and some degree of negotiation or settlement discussion, if not litigation, as to the amount of damages or whether damage payments are due at all. This process creates a natural lag in the cash outflows that generally is longer for the larger (and typically more complex) claims, and does provide some degree of control over cash outflows for the property and casualty insurer.
Prudential Financial, Inc.	United States of America	No	The consultation correctly notes "policyholder runs are a somewhat uncommon phenomena", a statement that industry data and Prudential's experience throughout history and various economic crises supports. We believe strong liquidity management is a tenet of running a sound insurance company and are supportive of an appropriately designed liquidity framework to compliment appropriately designed capital standards. The IAIS' consideration of product design and contractual features that help mitigate policy surrender risk (i.e. penalties and delay mechanisms) is a step in the right direction. Further refinement and development - such as differentiating between policyholder surrenders of retail clients versus institutional clients - is necessary for the proposed framework to address the IAIS' macro-prudential goal of preventing the transmission of systemic risk to the global financial system. In addition, just as the proposed framework recognizes tools for mitigating liquidity risk it should also recognize tools - such as derivatives - for mitigating market risk.
MetLife, Inc.	USA	No	The time periods proposed in Paragraph 3.13 are appropriate, but we would suggest that a broader analysis is necessary to capture liquidity risk. We would again refer the IAIS to the indicators and metrics included under our proposed Asset Liquidation Category which we believe appropriately captures liquidity risk. Please see our response to Question 17 below.
Northwestern Mutual	USA	No	While the time periods seem reasonable, it is worth noting that in the only cases of runs on insurance liabilities documented in the IAIS 2011 Insurance and Financial Stability report (Hong Kong and Singapore affiliates of AIG in September 2008), the authorities apparently were able within the first week to establish ring fencing and take other steps such that liquidity was not threatened. This experience, arising from the most significant event of insurer distress in recent memory, suggests that even policies falling within the medium delay category would seem unlikely to present systemically meaningful liquidity risk. Please see our response to Question 9 more generally regarding the relative significance of overriding qualitative factors in assessing insurance product liquidity risk.
National Association of Insurance	USA, NAIC	No	The break points appear reasonable for rating High, Medium and Low.

Commissioners (NAIC)			
7 - Other than contractual penalties or taxing requirements, what other economic penalties should be captured? These should be readily quantifiable and generally applicable (i.e. not policy- or policyholder- dependent).			
Financial Services Commission (FSC)	British Virgin Islands	No	In relation to the medium rating consideration should be given to a penalty of 10% instead of a ´penalty of less than 20%´.
CLHIA	Canada	No	We suggest it is incomplete to assess the degree of liquidity risk by economic penalty (and in reference to Question 6, time period) in isolation of the insurer's risk management, business practices and the characteristics of the insurer's inforce business, given the complexity of insurance products and significant non-economic drivers of policyholder behavior. Ability to replace coverage is important. Many products may no longer be available to a policyholder or may only be available at significantly greater cost to the policyholder providing significant disincentive to lapse. Recognition must also be given to the time and effort that may be required to replace including application and underwriting for some products. All of these "costs" would be disincentives to lapse and greatly reduce liquidity risk.
Insurance Europe	EU	No	The paper overemphasises exit penalties and fails to consider other factors that are equally important in the assessment of surrender risk. More specifically, the uncertainty that the policyholder faces when evaluating the surrender option is an additional element that should be included in this assessment, as it can translate into a strong disincentive to surrender. When faced with a surrender decision, policyholders will need to weigh a number of costs and consequences of surrender. These include: whether investment losses may recover over time; whether they are ready to lose valuable benefits/guarantees that are only payable at specified contractual events, such as final bonus payments payable on contract maturity; to be faced with tax implications and specific regimes for inheritance that they had not planned for; to be ready to lose benefits provided under their policy that cannot be replaced; not to be able to secure alternative cover on the same terms with the same product features; to be ready to incur additional costs in securing alternative provisions that would impact their investment; to require advice which may be difficult to find and costly. Such consequences could be reflected in the framework by the inclusion of another type of factor impacting liquidity risk, namely an economic cost or an opportunity cost for the policyholder. Therefore, given the range of factors and the uncertainty these create, it is not clear why the IAIS is only focusing on exit penalties, as this is just one of many interacting factors and does not represent a good overall proxy. The loss of qualifying status for tax benefits should also be explicitly reflected in addition to tax penalties.

			Insurance Europe would welcome clarification on the reference value for applying the penalty.
GDV - German Insurance Association	Germany	No	The penalty thresholds do not cover the full set of economic penalties suffered by cancelling a contract. In case of surrender, the policy holder will also lose other benefits, such as a terminal surplus or tax benefits. Also, in case of a rebuy of a similar contract at a later time, the policy holder will definitely be worse off than with the original policy. These should be taken into account when trying to paint a realistic picture of a policy holder's incentives to terminate the contract.
Munich Re	Germany	No	The reference value for the economic penalties should be clarified.
Global Federation of Insurance Associations	Global	No	The IAIS has focused on exit penalties as a disincentive to surrender. However, there is a very wide range of factors that act as brakes on policyholders considering the surrender of their policies. The document mentions tax considerations, but underestimates their impact. Other factors that should weigh in the mind of the policyholder are the loss of guarantees, loss of principal for savings products (i.e. where the surrender value is lower than the total or premiums paid), possible difficulty in finding a product with similar features, and the costs of switching products.
Institute of International Finance/ The Geneva Association	Global	No	We recognize the IAIS' interest in purely quantifiable metrics; however, the heterogeneity of the insurance sector, which the IAIS has acknowledged, does not easily lend itself to such measures. A narrow focus on only readily quantifiable and generally applicable penalties that are not policy- or policyholder-dependent would produce an incomplete picture of surrender risk. As noted by the IAIS in 3.11, it is more likely that a complex interaction between contract features, the state of the insurer, the market environment, individual characteristics and other dynamics will determine the extent to which counterparties have an incentive to surrender. Therefore focusing on only two factors is not a good proxy for assessing the liquidity of liabilities. In addition, penalties - including contractually defined, tax related, and other potential factors - will vary from policy to policy and would be impossible to for the industry or supervisors to measure in a consistent and timely manner. Further, one of the most important factors - the cost of forgoing insurance protection - cannot be measured. Therefore, in addition to economic penalties, the IAIS should consider the "economic cost disincentives' that policyholders are exposed to.
AIA Group	Hong Kong	No	We have no other suggestions.
on behalf of the European GSIIs, Aegon, Allianz, Aviva,	International	No	- The combination of a) contractual terms allowing for very short settlement periods, b) surrender value guarantees, and c) a high proportion of institutional investors as policyholders, has proved in the past to cause issues to insurance companies facing mass lapse events. This is the main factor that the IAIS should focus on. - The operational differences between banks and insurers should also be recognised. While bank depositors can access funds immediately through ATMs, bank branches or online banking, insurance policies cannot be surrendered in the

Axa and Prudential			same way. - In many cases, the insurers will have contractual ability to delay surrenders. If resolution authorities also have the power to apply temporary stays, it can be used to manage this perceived risk. It should also be noted that the FSB's annex to its Key Attributes for effective resolution regimes notes that resolution authorities should have at their disposal a broad range of powers, includes a power to suspend insurance policyholders surrender rights. Therefore, the power to stop surrenders should be taken into account in any consideration of disincentives to surrenders Supervisors in some jurisdictions have been empowered with specific tools. For example, at last resort, the French supervisory authority has the administrative power to block redemptions in order to face solvency or liquidity needs of the insurance company (Article 1 L. 612-33 of French Code Monétaire et Financier). If it has never been exercised in France, the regulator could still prohibit withdrawals if the potential for a mass lapse event were to arise. In Germany the supervisor has similar powers to delay pay-out and adjust surrender values. - Policyholder Protection Schemes should also be considered, as where policyholders are protected under such schemes they will have security and less incentive to surrender. - There are many factors that may provide disincentives to policyholders to surrender policies, in particular tax penalties and in some countries tax inheritance regime. It will not be straight forward for policyholders to evaluate these. This uncertainty in itself is a powerful disincentive to surrender given the policyholder will need to weigh up whether they may crystallise investment losses that may recover over time, lose valuable benefits/guarantees only payable at specified contractual events such as final bonus payments payable on contractual maturity, crystallise tax implications that they had not planned for, lose benefits provided under their policy that cannot be replaced (e.g tax inheritance exemptions), not be able to secure alternative cover on the same terms with the same product features, incur additional costs in securing alternative provision that would impact their investment, require advice which may be difficult to find and costly. Therefore, given the range of factors and the uncertainty these create it is not clear why the IAIS is only focusing on exit penalties as this is just one of many interacting factors and does not represent a good overall proxy. - The assessment of economic penalties should explicitly recognise that for some products the policyholder cannot access the funds until a specified date, but may be able to transfer the funds between product providers and in such cases there will be an economic cost that does not arise from penalties on surrender . For example pension accumulation products within some markets given their tax status do not allow policyholders to draw benefits until they are of retirement age. Policyholders may transfer their funds between product providers but in doing so would incur changes from the new provider. Therefore there is an economic cost in addition to any penalty that may be imposed through the charges that the new provider will make. - We do not consider that pension fund transfers, where permissible, are a liquidity feature that is close in nature to deposits, as the policyholder is not able to withdraw the funds and determining whether a transfer would be beneficial is not a simple matter - In surrendering a life investment product there is an opportunity cost that should also be taken into account, in that a replacement product with an alternative provider would need to deliver superior performance as the impact of the additional charges to the policyholders fund would need to be recovered. Future investment performance cannot be guaranteed making it difficult to assess the merits of such a change, in addition differences in product features would also need to be taken into account. - The extent to which surrender values can be adjusted to match market values is also a critical consideration. - Therefore, in addition to the three economic penalties listed, we would recommend that a fourth is added "economic cost disincentive' which would also be "High' to reflect the economic and opportunity costs that policyholders face that they cannot measure due to the inherent uncertainty of future investment performance

The Life Insurance Association of Japan	Japan	No	·We believe that "surrender value relative to market value" and "loss of guarantees" listed in paragraph 3.15 as ancillary factors, and "loss of principal for savings products" which we will propose in response to Question 10, should be captured as the economic penalties. -It is obvious that savings-type insurance products with higher guaranteed interest rate are subordinated to bank deposits with lower interest rate in the order of priority of surrender for policyholders in need of liquidity. This is mainly because policyholders consider the loss of guaranteed rate caused by the surrender as an economic penalty. We believe that the extent of this economic penalty can be measured by, for example, the difference between fair value and surrender value of the insurance policy.
nextron	none	No	asdsafS alfd lfjdsLDG$ $PF DJ podhdposhjgposhGJDOPSGJ gpjhdgpodhjgdpogj ofghgophjgp$odjghhg
Swiss Re	Switzerland	No	We agree that contractual penalties and tax requirements are the most obvious quantifiable factors. However, one could add "loss of accrued guaranteed benefits" to the list of ancillary factors in section 3.2.1.3. Policyholders with accrued guaranteed benefits must carefully weigh costs and benefits of cashing-in early, as the loss of such benefits provide a clear disincentive for surrendering policies.
KPMG	UK	No	This appears appropriate. The purpose of this consultation document is primarily to deal with insurance product features so contractual penalties is a significant item. The rest are ancillary items that are present and vary across jurisdictions. As stated above, account should also be taken of any penalties (if any) that the insurer would bear in relation to late payment of surrenders.
Prudential plc	UK	No	Loss of guarantees is considered to be within the wider set of ancillary factors and given less importance. We believe that guarantees are valuable to policyholders and will be even more valuable when markets are down. This will therefore be expected to be a stronger disincentive for policyholders to surrender. There are many factors that may provide disincentives to policyholders to surrender policies. For example, policyholders would need to weigh up whether, if they were to surrender, they might: - crystallise investment losses that may otherwise be recovered over time; - lose valuable benefits/guarantees only payable at specified contractual events, such as final bonus payments payable on contractual maturity; - crystallise tax implications that they have not planned for; - lose benefits provided under their policy that cannot be replaced; - not be able to secure alternative cover on the same terms with the same product features; - incur additional costs in securing alternative provision that would impact their investment; - require advice which may be costly.

			While some of these may not be readily quantifiable, it is important these considerations be included in the assessment of a products and activities as NTNI.
Association of British Insurers	United Kingdom	No	The combination of a) contractual terms allowing for very short settlement periods, b) surrender value guarantees, and c) a high proportion of institutional investors as policyholders, has proved in the past to cause issues to insurance companies facing mass lapse events. The IAIS should make this the main area of focus. Regulatory action: It should be noted that the FSB's annex to its Key Attributes for effective resolution regimes notes that resolution authorities should have at their disposal a broad range of powers, including a power to suspend insurance policyholders surrender rights. Therefore, the power to stop surrenders should be taken into account in any consideration of disincentives to surrenders. Policyholder Protection Schemes should also be considered, as where policyholders are protected under such schemes they will have greater security and less incentive to surrender. There are many factors that may provide disincentives to policyholders to surrender policies. For example, policyholders would need to weigh up whether, if they were to surrender, they might: - crystallise investment losses that may otherwise be recovered over time; - lose valuable benefits/guarantees only payable at specified contractual events, such as final bonus payments payable on contractual maturity; - crystallise tax implications that they have not planned for; - lose benefits provided under their policy that cannot be replaced; - not be able to secure alternative cover on the same terms with the same product features; - incur additional costs in securing alternative provision that would impact their investment; - require advice which may be costly. Therefore, given the range of factors, it is not clear why the IAIS is only focusing on exit penalties. This is just one of many interacting factors and does not represent an accurate overall proxy. The assessment of economic penalties should explicitly recognise that for some products the policyholder cannot access the funds until a specified date, but may be able to transfer the funds between product providers and, in such cases, there will be an economic cost that does not arise from penalties on surrender. For example, pension accumulation products within the UK, given their tax status, do not allow policyholders to draw benefits until retirement age. Policyholders may transfer their funds between product providers, but in doing so would incur changes from the new provider. This is an economic cost in addition to any penalty that may be imposed. We do not consider that pension fund transfers, where permissible, are a liquidity feature close in nature to deposits, as the policyholder is not able to withdraw the funds, and determining whether a transfer would be beneficial is not a simple matter. The extent to which surrender values can be adjusted to match market values is also a critical consideration.

			Therefore, in addition to the three economic penalties listed, we would recommend that a fourth - ´economic cost disincentive' - is added. This should also be set as "High' to reflect the economic and opportunity costs to policyholders.
American Academy of Actuaries	United States of America	No	While it is appropriate to take contractual penalties and tax impacts into account, it is important to ensure that the incentives created by these types of penalties are not overemphasized in the framework when compared to other economic incentives extrinsic to the contract or its taxation. These other kinds of economic incentives can be just as important, or potentially more significant, in the overall analysis, depending on the product and jurisdiction. For example, as we discussed in our answer to Question 2, the loss of mortality coverage, and its potential unavailability in the future for underwriting reasons, can create powerful economic disincentives for a consumer considering surrender of a life insurance policy.
Prudential Financial, Inc.	United States of America	No	We recognize the IAIS' interest in purely quantifiable metrics however the heterogeneity of the insurance sector, which the IAIS has acknowledged, does not easily lend itself to such measures. A narrow focus on only readily quantifiable and generally applicable penalties that are not policy- or policyholder- dependent would produce an incomplete picture of surrender risk. In addition, penalties - including contractually defined, tax related, and other potential factors - will vary from policy to policy and would be impossible to for the industry or supervisors to measure in a consistent and timely manner. Further, one of the most important factors - the cost of forgoing insurance protection - cannot be measured. It is critical that such meaningful disincentives to surrender are taken into consideration, especially given the diminishing nature of surrender charges over time. Once the surrender charge period has ended, other disincentives such as the policyholder's value of the insurance coverage and insurability concerns play a major role in policy persistency.
MetLife, Inc.	USA	No	For longer term policies, MetLife recommends that the cost of replacement should be considered. This cost can be high due to additional distribution costs and the advanced age of the insured. In addition, policies designed with low surrender values are not likely to surrender due to disintermediation, as in this case a low surrender value relative to reserves reduces the value of early surrenders.
Northwestern Mutual	USA	No	In order to adequately assess economic disincentives to the policyholder, the approach must also reflect individual policyholder tax consequences, the economic cost of loss of insurance and product guarantees, including loss of insurability and the burdens associated with purchasing new insurance. As drafted, the proposal overemphasizes a desire for quantification and general applicability at the expense of a focus on the most determinative features explaining why insurance runs are extremely rare. Life insurance policyholders buy products to meet long-term insurance and financial security needs. The policyholder's purpose is fundamentally different than in the case of a bank depositor or mutual fund investor. Premiums pay for insurance - for mortality, morbidity or longevity - and the policyholder understands that any cash "account value" associated with a policy is only a portion of the value of the contract. Therefore, beginning an assessment of liquidity risk with a quantification of contractual delay features and consistently quantifiable economic penalties for withdrawing "account value" is a fundamentally inadequate approach.

8 - Do the proposed economic penalty thresholds appropriately capture the monetary disincentives to surrender?			
CLHIA	Canada	No	We believe the 20% is arbitrary and, within/past surrender charge period would be more pertinent. Regardless we suggest the IAIS document quantitative analysis to support any conclusions for specific economic penalty thresholds.
China Association of Actuaries	China	No	PLease referring to our feedback on question 6.
China Insurance Regulatory Commission	China	No	We suggest IAIS consider products with different level of surrender penalties by policy year, for example product with high penalties in initial years and low penalties in later years, and vise versa. We also suggest IAIS advise how to classify these products to the current proposed buckets.
Insurance Europe	EU	No	See response to question 6. This question implicitly assumes an acceptance of the level of concern of the IAIS about the risks associated with liquidity. In fact, Insurance Europe believes that the risks are greatly exaggerated in the consultation document. The factors mentioned do to some extent capture liquidity risk, but other considerations need to be taken into account. It would be more appropriate to consider insurers' ability to manage liquidity holistically. Insurance Europe would expect to see far more numerical analysis of the liquidity risk and of the impact of a proposal for economic penalty thresholds.
Allianz Group	Germany	No	There needs to be more clarity on what is the basis for the percentage limit. Economic penalties substantially below 20% should already be sufficient to induce policyholders to tap other sources of liquidity than an insurance contract - given the substantial economic disadvantages suffered by the policyholder on termination of the contract. We suggest a threshold of 10%.
GDV - German Insurance Association	Germany	No	As an explanation for the decision on these exact limits of the economic penalty ratings is missing, they seem rather arbitrary. Also the reference value for the economic penalties should be clarified. If the reference value is the best estimate of the contract obligations, a penalty of more than 20% is rather high. Penalties of this size are rather uncommon or are held only during the beginning of a policy period. Therefore, lowering the limit between the medium and high rating should be considered. The full range of monetary disincentives are only captured together with the "Ancillary factors" in § 3.2.1.3. For instance, in case of surrender the policyholder might also lose other benefits, such as a terminal surplus, guaranteed interest rates (for future premiums) or tax benefits.
Munich Re	Germany	No	The full range of monetary disincentives are only captured together with the "Ancillary factors" in § 3.2.1.3. For instance, in case of surrender the policyholder might also lose other benefits, such as a terminal surplus, guaranteed interest rates (for future premiums) or tax benefits.

Global Federation of Insurance Associations	Global	No	The IAIS document has insufficient quantitative analysis to support the level of risk attached to the economic penalties identified, and further analysis is required. The right level would depend on the nature of the product in question, the insurer´s risk management systems, the tax regime and so on. In general, the nature of insurance products is different from banking and investment products, and the risks of mass withdrawal much smaller. Alongside exit fees, there are a number of other disincentives to surrender that should be taken into account, including the loss of valuable benefits/guarantees, additional costs in securing alternative provision and tax implications. This measure also requires a careful balance to be struck with consumer protection. Exit penalties are not popular with consumers, and this measure is liable to incentivise insurers to raise exit penalties to this level.
Institute of International Finance/ The Geneva Association	Global	No	We would appreciate it if the IAIS could provide more clarity on the basis for the currently proposed economic penalty thresholds. Penalties below 20% already represent very significant losses for customers on their insurance or pension. We do not consider 20% to be representative of penalties applied within the industry; a lower threshold would be more appropriate.
AIA Group	Hong Kong	No	Any such classification is arbitrary, but we agree that the Low band should be restricted to no penalty. 20% is a reasonable value for the upper end of the medium band / lower end of the high band. We note that the classification presumes that the policy has an explicit account value. We believe that policies that have no such explicit account value should be classified in the "High" category because they are much less subject to liquidity risk than policies with an explicit account value. Also, policies with no surrender value are in the "High" category by default. If consideration is being given to classifying a company as a G-SII it may be worth reviewing the liability structure in more detail during Phase 3 to ascertain whether slightly different criteria would produce a materially different result.
on behalf of the European GSIIs, Aegon, Allianz, Aviva, Axa and Prudential	International	No	- We do not consider that 20% is representative of penalties applied within the industry. - Setting the threshold at the level proposed by the IAIS may incentivise insurers to increase surrender penalties which would be inconsistent with the fair treatment of policyholders as it would introduce an unreasonable barrier to exit - The IAIS should clearly set out its rationale for the level at which the thresholds are set - As noted in our answer to Question 7 above, there are many factors that may provide disincentives to policyholders to surrender policies, and it will not be straight forward for policyholders to evaluate these. Therefore, focusing only on surrender penalties does not provide an adequate assessment of the economic cost.
General Insurance Association of Japan	Japan	No	- As mentioned in our comment on Question 6, due consideration should be given to jurisdictional differences over liquidity risk according to relevant ancillary factors. - Even when insurance activities could expose the insurer to substantial liquidity risk and "economic penalties" were to be considered, it is unlikely that counterparties' decisions to surrender policies will significantly differ between when there is no penalty and when there is a very minor penalty. - Therefore, we suggest having two thresholds ("a penalty of more than 20%" or not) by removing the Low rating (no penalty). In addition, without being divided into the narrow and wider sets, ancillary factors should be comprehensively considered when the combination of delay and penalty ratings is not HH.
The Life Insurance	Japan	No	·The nature of insurance products is different from that of bank deposits or investment funds in that insurance products are based on the premise of long-term possession until the maturity and they are not withdrawn or traded frequently. Also, it should be noted that the surrender of insurance contracts would impose relatively high operational costs on the

Association of Japan			customers. ·Taking into account these features of insurance contracts, multiple assessments using the wider set of factors are needed, even when the combination of delay in access and penalties on surrender rating is LL (Low, Low), as we will explain in response to Question 9.
Swiss Re	Switzerland	No	From our experience, the 20% threshold seems excessively high. We would encourage the IAIS to liaise with multiple industry participants to determine a more appropriate threshold. The level of the threshold depends as well on the treatment of tax impacts (see our response to Question 9).
KPMG	UK	No	It is not clear what has driven the selection of a 20% penalty as the threshold, which appears to be an arbitrary figure. It is unclear how this compares with existing contract terms. Again, this should probably be weighted by assets invested with the penalties increasing with size. This can be an issue if there is a significant amount of money invested in contracts with no penalties.
Prudential plc	UK	No	We would appreciate it if the IAIS could provide more clarity on the basis for the currently proposed economic penalty thresholds. Penalties below 20% already represent very significant losses for customers on their insurance or pension; a lower threshold would be more appropriate.
Association of British Insurers	United Kingdom	No	As mentioned in our general comments, we would urge the IAIS to consider the broader set of incentives that the NTNI methodology would provide. For example, this section of the methodology could encourage policy design to incorporate very high withdrawal penalties. This needs to be weighed up against the objectives of conduct regulation, and public policy objectives more broadly. Turning to the thresholds proposed, we do not consider that 20% is representative of penalties applied within the industry, and believe that 5% would be a more appropriate threshold. It is not clear how the IAIS has arrived at these numbers. Setting the threshold at this level may incentivise insurers to increase surrender penalties. This would be inconsistent with the fair treatment of policyholders and introduce an unreasonable barrier to exit. In addition, as noted in our answer to Question 7 above, there are many factors that may provide disincentives to policyholders to surrender policies. Therefore, focusing only on surrender penalties does not provide an adequate assessment of the full economic cost.
Allstate Insurance Company	United States	No	Not exclusively. More specifically, because policyholder-specific considerations are excluded from the evaluation, the evaluation ignores the fact that a change in health status may cause a policyholder to either become un-insurable or only insurable at a very high cost. We believe this would represent a very real substantial economic penalty that commonly disincentivises surrender.
American Council of Life Insurers	United States	No	The proposed economic penalty thresholds are unrealistically high. They should be reduced significantly.

New York Life	United States	No	Recognizing that the proposed economic penalty thresholds are to be viewed as a starting point, we are concerned that the categories could lead to unintended consequences. As an example, as currently written, an insurer could add a very insignificant surrender charge and move from an LL (Low, Low combination of delay and penalty ratings) to a LM (Low, Medium combination of delay and penalty ratings) and thereby allow themselves a wider set of overriding ancillary factors. In our view, the second category, a Medium (M) rating for economic penalties between 0 and 20% is particularly broad and consideration should be given to further dividing based on jurisdictional data points around surrender charges.
American Academy of Actuaries	United States of America	No	It is difficult to assess the economic penalty thresholds, because it is unclear what is meant by a penalty that is "less than 20%" or "more than 20%." To what number will the percentage be applied, and how would this measure be adjusted from product to product, or to account for jurisdictional differences in products or markets? In addition, it is unclear whether these economic penalties are intended to take all tax impacts into account. Like other relevant factors, tax regimes also differ widely from jurisdiction to jurisdiction. We recommend an approach that is principle-based rather than prescriptive and that allows discretion to individual regulators to make calibration and other relevant decisions during implementation in order to take jurisdictional and company differences into account. While the presence and amount of any economic penalties are certainly relevant to the analysis, they should not be used to create a presumption of systemic relevance.
Prudential Financial, Inc.	United States of America	No	See responses to questions 6 and 7.
MetLife, Inc.	USA	No	We find the 20% penalty excessive. Even a substantially lower penalty would be a significant barrier to surrender and therefore we believe a lower amount would be more appropriate. Please also see our response to Question 7 above.
Northwestern Mutual	USA	No	To the extent they do not capture the personal tax consequences to the policyholder (understanding that these may be policy- or policyholder-dependent), the economic penalty thresholds fail to adequately capture the monetary disincentives to surrender.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	The 20% threshold, which is also used in the G-SII Assessment Methodology, appears to be a reasonable starting threshold for further discussion and testing.
9 - Are the above factors relevant to insurers' exposure to liquidity risk? How might these factors be objectively assessed and weighted, given the differences across jurisdictions and firms?			
Insurance Europe	EU	No	While the overall approach for assessing liquidity risk requires a better assessment of whether and to what extent product features can give rise to liquidity risk, Insurance Europe believes that the consideration of ancillary factors is very important in order to capture a wider range of factors that can in fact act to mitigate the potential for liquidity risk. The following elements should be reflected in the IAIS approach:

			- Guarantees and loss of guarantees should be included as a separate key element of the framework, and not as part of ancillary factors. Guarantees are valuable to policyholders and their perceived value increases strongly in bear markets, which will create a strong disincentive for policyholders to surrender. - It is not clear how surrender values relative to the market value of assets would be evaluated. - Supervisors' legal ability to lower surrender values should be considered. In particular, the bottom paragraph of page 19: "In addition, some supervisors are able to reduce the value of guarantees associated with in-force business, which could reduce the pressure on the firm's solvency" should be included in the narrow set of factors or at least in the wider set of factors on page 17. - The existence of management and/or supervisory actions should be included as a separate factor, as such actions can be used to minimise liquidity risk. More specifically, in many cases insurers have the contractual ability to delay surrenders and/or resolution authorities have the power to apply temporary stays. - The existence and design of fiscal policies targeting life insurance contracts can significantly change policyholder behaviour and incentives to surrender a product. The loss of qualifying status for tax benefits should be explicitly reflected. -- The presence of fiscal incentives can make life insurance a very attractive investment compared to other financial products. There is a real fiscal interest for a policyholder to remain invested in its life insurance contract. Loss of tax benefits discourage early surrenders. -- In addition, the taxation of amounts paid to the beneficiary on the death of the policyholder should be assessed. For example, it should be tested whether such amounts are part of the estate of the beneficiary and whether they support transfer duties on the death of the policyholder. - It is not clear how the IAIS will evaluate surrender values relative to the market value of assets. This is especially important in the case of products where there is low delay in access (less than 1 week) and no surrender penalties; such products will be deemed to have significant liquidity risk. The presence of guarantees should also be considered as an important factor in making this assessment. - In cases where insurers decide the asset allocation, there is more flexibility not to liquidate the illiquid assets, thereby exacerbating market movements. Insurance Europe welcomes the fact that the IAIS has identified in its consultation paper a number of elements that distinguish insurers from banks in terms of liquidity risk. The operational differences between banks and insurers should also be recognised. While bank depositors can access funds immediately through ATMs, bank branches or online banking, insurance policies cannot be surrendered in the same way. In addition, reference to bank deposits runs are made a number of times to explain he liquidity risk – it should however be noted that the banking methodology does not consider the size of retail deposits as an indicator in determining systemic riskiness.
Allianz Group	Germany	No	Supervisory judgement of the group supervisor should be applied to assess the wider set of factors
GDV - German Insurance Association	Germany	No	While the listed factors are all relevant to an insurer's exposure to liquidity risk, there is one which stands out from this list. The question whether the policy's purpose is protection or savings is a key issue and should be asked upfront. Protection policies are unlikely to be cancelled in a quantitative dimension which could lead to substantial liquidity risk. Therefore, a general rule should apply that the other factors are only relevant where a protection element is missing. This rule should apply without the need of additional judgment.

			The wider set of factors includes the ability to lower surrender values. This should include cases where supervisors by law have the power to lower surrender values: There is no difference in mitigation of a systemic liquidity crisis, whether the contract terms or the insurance law allows for a reduction of surrender values. Jurisdictions that have this tool available should not be discriminated - in fact the inclusion of this tool provides the right incentives for regulators to amend jurisdictions' legal framework. Specifically, we suggest the inclusion of the bottom paragraph of page 19: "In addition, some supervisors are able to reduce the value of guarantees associated with in-force business, which could reduce the pressure on the firm's solvency" in the narrow set of factors or at least in the wider set of factors on page 17.
Global Federation of Insurance Associations	Global	No	The IAIS should clarify whether this assessment of liquidity risk applies to the impact on the insurer, or to the impact on the asset markets in question, as different considerations apply. The question itself implies that the IAIS is here concerned with assessing the impact on the insurer. However, most of the material in Section 3 is focused on the exposure channel. This raises the question how the IAIS intend to assess the asset liquidation channel defined by the FSB. Any assessment of the impact on the asset markets of transmission through the asset liquidation channel will vary depending on the markets, and the nature of the stress that gives rise to a mass surrender event. The proceeds of surrenders are not lost to the financial system, and will appear somewhere. In any case, the assessment would benefit from a wider set of factors, and all the ancillary factors identified are relevant. The IAIS proposals for a methodology to identify and weight economic penalty and delay in access are already crude, and there is no reason why these ancillary factors cannot be weighted with equivalent accuracy, if that is desired.
Institute of International Finance/ The Geneva Association	Global	No	It is important that judgment of the group supervisor be applied to assess the wider set of factors. We appreciate the IAIS acknowledging the role of the factors in section 3.2.1.3 as they are exactly the types of nuances and critical elements we refer to in our response to question 7. Such factors are critical elements in the assessment of policy surrender risk. As with other key elements, the IAIS should be taking into consideration in their measures - such as risk management practices - that there will unlikely be an objective and consistent method for assessing and weighing these factors.
AIA Group	Hong Kong	No	With one exception we believe the factors listed are relevant, though some more so than others. We do not see the relevance of "surrender value relative to market value". Since the policyholder does not have access to the supporting assets in any case, there is no opportunity to "earn a premium". Moreover, this relationship changes with market conditions, leading to the perverse result that a product could be "NT" one year and "T" the next or vice-versa. We note that "purpose of the policy" may be difficult to define. In fact many policies are sold with a dual purpose of protection and wealth accumulation. Also, it would seem that "flexibility to lower policy surrender values" is already covered by the "economic penalty" quantitative measure.
on behalf of the European GSIIs, Aegon, Allianz, Aviva,	International	No	- Yes, in considering liquidity risk, we welcome that IAIS has included the consideration of ancillary (qualitative) factors in addition to the contractual time delay in access to funds and penalties levied on surrender to assess the liquidity risk associated with insurance products. However loss of guarantees is considered to be within the wider set of factors and given less importance. We believe that guarantees are valuable to policyholders and will be even more valuable when markets are down. This will therefore be expected to be a stronger disincentive for policyholders to surrender. There are

Axa and Prudential			additional factors that should be included, which we comment on in Question 10 - Protection against longevity (in addition to mortality and morbidity as acknowledged by the IAIS) is an element that clearly differentiates liquidity of insurance policies from bank deposits and should be properly reflected as excluding substantial liquidity risk. - The quantitative data collection should be expanded to reflect the wider factors that are relevant to determine exposure to liquidity risk
General Insurance Association of Japan	Japan	No	- These factors are relevant to insurers' exposure to liquidity risk. However, as for insurance activities, the wider set of factors, such as policyholder protection schemes, loss of guarantees, and replacement of cover, will also greatly affect incentives for surrender. Therefore, as mentioned in our comments on Questions 6 and 8, without being divided into the narrow and wider sets, ancillary factors should be comprehensively considered when the combination of delay and penalty ratings is not HH. - If the division into the narrow and wider sets were to remain unchanged, policyholder protection schemes should at least be included in the narrow set, rather than the wider set, because such schemes would greatly affect incentives for surrendering policies. Further, Japan's life insurance policyholder protection scheme is designed to keep as many policies as possible in the event of an insurer's failure, based on the premise that doing so contributes to policyholder protection when cover replacement is usually difficult to secure particularly for life insurance. Therefore, under the scheme, to maintain as many policies as possible and to prevent an outflow of assets caused by a sharp increase in surrenders, there are mechanisms to restrict an insurer's operations regarding surrenders for a designated period of time following the insurer's failure, and to lower policy surrender values to a specified degree even after such a period, depending on the situation. - In assessing the "purpose of the policy" (protection or savings), the "purpose of the purchase" (whether premised on surrender in the future or on holding to maturity) should be considered. Specifically, even products with a savings component will only expose the insurer to low liquidity risk as long as customers purchase these with an eye to holding to maturity. Such products should be treated in a similar way to products providing protection. The purpose of the purchase could be assessed based on the historical data on the lapse rate of the product.
The Life Insurance Association of Japan	Japan	No	·We believe that, in assessing the liquidity of insurance liabilities, at least these ancillary factors are relevant. We support the multiple assessments using these ancillary factors. ·Additionally, we believe that the careful assessment should be made using the wider set of factors, even when the combination of delay in access and penalties on surrender rating is LL (Low, Low). -Since it is unclear what effect mass surrenders by policyholders would have on the financial system during a stressed period, as pointed out in paragraph 3.10, the effect should be assessed carefully. The liquidity of insurance liabilities should be assessed from multiple perspectives and, in this context, we support the introduction of ancillary factors. -Also, we understand that each of the wider set of factors could affect the liquidity of insurance liabilities, independently from delay in access or economic penalty to account value. Therefore, we believe that it would not be reasonable to prohibit the use of the wider set of factors when the combination of delay in access and penalties on surrender rating is LL (Low, Low).
Swiss Re	Switzerland	No	The "wider set of factors" includes a reference to tax: "the imposition of variable tax penalties on surrender of tax advantaged products". This seems to suggest that the CD deems tax penalties an ancillary factor. However, footnote 12

			on page 16 suggests that the economic penalties comprise taxes. In our view, the CD should consistently classify all tax impacts as an economic penalty.
Aegon N.V.	The Netherlands	No	Yes, these factors are extremely relevant. In many instances these factors substantially mitigate the risks implied by the clinical approach set forth in the consultation based solely on contractual surrender penalties and delays. In order to avoid excessive subjectivity, we recommend further refinement of the framework to include as many of these elements within the quantitative dimensions of the framework as possible. For example, the potential loss of guarantees could be quantified using the valuation approach decided upon for the ICS. We interpret from the consultation that the "narrow set of factors" are exemptions from the potential classification of a product as NT, subject to a discretionary override based on the "wider set of factors." We recommend including products with in-the-money guarantees within this narrow set of factors, as the potential loss of such guarantees is likely to create a material disincentive for customers to surrender. In addition, we would point out that a large number of insurance products would fall into this "middle bucket" where ancillary factors would be used to assess whether the liability is NT. We recommend additional guidance in order to avoid introducing significant subjectivity and non-comparability into the G-SII assessment process.
KPMG	UK	No	Yes. A lot of these factors extend beyond insurance product features and should not be taken into account. They are externalities that do not necessarily impact on the NTNI classification of an insurance product/feature. Further, these wider factors are more likely to restrict the potential calls for surrender, so act to lessen the need for fire sales of assets during a significant crisis. In addition, as these influence policyholder decisions, the insurer can do nothing to influence them. The IAIS should consider only the product features that are significant. For a policyholder, accepting a loss of guarantees upon withdrawal may not be significant compared to potentially taking a substantial cut to the face value of assets.
Prudential plc	UK	No	In considering liquidity risk, we welcome that IAIS has included the consideration of ancillary (qualitative) factors in addition to the contractual time delay in access to funds and penalties levied on surrender to assess the liquidity risk associated with insurance products. The identified factors are relevant and we have listed additional considerations in our response to Q7. We suggest that these considerations can be built into the assessment process in one of the following two ways: - The IAIS, using the expertise of its members, identifies products in the various jurisdictions which may not have considerable liquidity risk based on the ancillary factors. The G-SII designation data collection should explicitly exclude products that are identified as such. - The IAIS provides clear guidance on which factors need to be considered when providing data for the liability liquidity indicator for the G-SII designation data collection. To ensure that insurers apply the guidance uniformly, the proposed Phase III of the designation process be used to discuss which product lines have been excluded by the insurer and the rationale for the exclusion. Changes to the data may be requested if the rationale is not satisfactory.
Association of British Insurers	United Kingdom	No	Before addressing the specific question, we have the following comments on the overall approach to assessing liquidity risk and whether this creates systemic risk.

			It needs to be clarified whether the systemic risk concern relates to the impact of asset liquidation (if any) on the asset markets, or to losses incurred by insurers where surrender values paid out are more than the value of the assets backing liabilities. The latter issue is a micro-prudential regulation issue and does not create systemic risk in itself. In considering the former issue, a broader systemic view needs to be considered: - In cases where policyholders have choice of asset allocation, the issue is not insurance sector specific. The same choices would be made if the investments were made via other intermediaries or directly. In the case of insurers, the presence of cover/guarantees would only reduce incentives to withdraw. Therefore, penalising insurers will not reduce systemic risk on this count. - In cases where insurers decide the asset allocation, there is more flexibility to not liquidate the illiquid assets. In such cases, insurers could potentially sell more liquid assets to fund any increased surrenders. - In any case, if there are increased surrenders, the monies will move from one part of the financial system to another part and it is important that the systemic risk is not exaggerated. We also note that reference to bank deposits runs are made a number of times to explain the liquidity risk - it should however be noted that the banking methodology does not consider the size of retail deposits as an indicator in determining systemic riskiness. There are additional factors that should be included, which we comment on in Question 10. In response to the specific question regarding the use of ancillary factors, we welcome the consideration as these are very relevant in assessing the risk of liquidity in insurance products. However, we believe that loss of guarantee is not given adequate importance in the analysis as it is included in the "wider set of factors", rather than the list of "narrow set of factors". We believe that guarantees are valuable to policyholders and will be even more valuable when markets are down. This will therefore be expected to be a strong disincentive for policyholders form surrendering. The quantitative data collection should be expanded to reflect the wider factors that are relevant to determine exposures to liquidity risk. We suggest that the identification of NTNI products and the level of systemic risk of NTNI products in each jurisdiction relies on the expertise of national supervisors based on the framework set out by the IAIS. It is also imperative that mechanisms are put in place to ensure consistency of application globally.
Allstate Insurance Company	United States	No	We believe the factors identified are relevant to assessing liquidity risk. In terms of objectivity and weighting the factors, we believe this would be difficult with the exception of early surrender penalties which reduce over time and can be attributed to specific contractholder account values.
American Council of Life Insurers	United States	No	We believe that the "ancillary factors' listed in paragraph 3.15 are material to assessing a life insurer's vulnerabilities to liquidity risk on a microprudential level. We suggest the macroprudential focus should extend beyond purely contract-related features to potentially systemically relevant exposures and their impact on the global financial system.

National Association of Mutual Insurance Companies	United States	No	Question 9. Issue being addressed: Policyholder Protection Schemes can be more than an ancillary factor in considering liquidity risk. And only a local supervisor is qualified to provide the objective assessment of the value. Rationale and Basis for Comment: In the U.S. while the Guaranty Funds are not a contractual right for policyholders. They are actually more than that - they are a legal right. Policyholders of most types of insurance have the legal right to have their claims (that are owed by an insolvent insurer) paid by the guaranty funds up to reasonable levels. This is not only an ancillary factor for consideration when assessing liquidity risk, but it is a backstop for policyholder protection that can have wide-ranging implications when considering the possible systemic risk. This approach puts the entire industry behind the promise to pay claims for policyholders - especially in personal lines products. Alternatives for Consideration: The differences between jurisdictions in the availability of policyholder protection schemes is one more justification for the use of the local prudential regulator in the application of any definition of NTNI.
New York Life	United States	No	We support the inclusion of ancillary factors. While we recognize the desire for an objective view that can be consistent across jurisdictions, a qualitative assessment is more likely to reveal whether or not an insurer has substantial exposure to liquidity risk. We believe that the proposed factors, though very relevant, are inadequate. In light of the emphasis placed on the NTNI category within the GSII Assessment process, a determination of a product as non-traditional based solely on contractual features and without due consideration of an insurer's liquidity risk profile is likely inappropriate. The presence or absence of a strong stress testing approach, for purposes of internal risk management and as a regulatory requirement, can lead to significant differences in how insurers manage underlying liquidity risk. Accordingly, we suggest that a regulatory regime that emphasizes liquidity stress testing be weighted favorably when compared to a product with similar features in a jurisdiction that lacks such an emphasis. In the United States, the regulatory requirement for Asset Adequacy Testing (AAT) is an example of such a requirement. Compliance with stress testing requirements, such as the AAT, supported by an actuarial opinion on liquidity risk, should be considered an ancillary overriding factor that can be objectively assessed and weighted.
American Academy of Actuaries	United States of America	No	Yes, these additional factors can play a significant, and sometimes decisive, role in determining how much liquidity risk an insurer faces. As with the other factors discussed in the Consultation, their precise nature and impact can vary significant across jurisdictions. Government protection plans, for example, can play a decisive role in preventing runs on financial institutions, but they differ in material ways from country to country. Depending on the jurisdiction, a regulator's ability to delay benefit payments also could be important in situations when markets are in short-term turmoil. The factors outlined should not be used to create rigid presumptions for uniform application internationally, but instead should inform broad principles that regulators can use when implementing the parts of their particular regulatory regimes that relate to the NTNI concept.
Prudential Financial, Inc.	United States of America	No	We appreciate the IAIS acknowledging the role of the factors in section 3.2.1.3 as they are exactly the types of nuances and critical elements we refer to in our response to question 7. Such factors are critical elements in the assessment of policy surrender risk. Questions such as this demonstrate the IAIS' acknowledgement of:

			+ the shortcomings of the framework, + the challenges of applying a one size fits all approach to assessing systemic risk in the insurance sector, and + the need for the IAIS to reassess their policy measures to ensure that they are aligned with the IAIS' goals, are consistent with and complementary to each other, appropriately recognize heterogeneity in insurance markets, and take a holistic approach to considering and measuring risk.
MetLife, Inc.	USA	No	While the broader factors listed are relevant, what matters most is the relative liquidity of the liabilities compared to the assets that back them. Considering the liquidity of the liabilities in a vacuum is not meaningful. Fully liquid liabilities that are matched by cash pose no liquidity risk. On the other hand, liabilities that are partially liquid could pose a lot of risk if they are backed with entirely illiquid assets
Northwestern Mutual	USA	No	Yes, we assert that not only are these factors relevant, they are more important and should be considered before the delay and penalty tests in explaining why insurance company runs are extremely uncommon. Fundamentally, our policyholders buy insurance products to meet long-term insurance and financial security needs. Contractual rights to delay withdrawals and economic penalties are merely a reflection of this purpose - a purpose that is fundamentally different from the short term deposit and investment relationships to which insurance is implicitly being compared. Put another way, a well-designed analytical framework should not be dependent on "ancillary factors" in order to reach the conclusion that whole life insurance and disability insurance products do not present a systemically relevant liquidity risk (see footnote 15). In order to avoid this anomaly and potential for harmful confusion, the IAIS should implement the preliminary step we suggest in response to Question 2 in order to identify those insurance products that are presumptively traditional, and apply the analytical framework to determine whether the remaining nontraditional products do or do not have potential systemic relevance.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	These factors appear to be relevant. However it is not transparent why certain factors are allocated to the "Narrow set of factors", while others are allocated to the "Wider set of factors." Clarification is needed to explain how these factors which reduce risk for the firm also serve to reduce systemic risk to the global financial system.
10 - What other considerations might be relevant to insurers' exposure to liquidity risk? Should these be incorporated into the framework as ancillary factors? To this end, how might these factors be objectively assessed and weighted, given the differences across jurisdictions and firms?			
Financial Services Commission (FSC)	British Virgin Islands	No	´Any other combination´ should be expanded to indicate whether this is considered to be MM for medium risk given that LL and HH exist within the table.

China Insurance Regulatory Commission	China	No	We suggest use more determinative quantitative factors, and less ancillary factors, to avoid subjective judgments. Moreover, we view that only to use surrender value payment period and surrender penalties may not be sufficient to assess the liquidity risk. For example, two companies sell same products with low surrender penalties and short surrender value payment period, one of the companies has sufficiently allowed for potential surrenders and has properly done risk managements, the liquidity risk of this company should be lower than the other one.
Insurance Europe	EU	No	Insurance Europe agrees with the statement made in 3.11 that it is "more likely that a complex interaction between contract features, the state of the insurer, the market environment, individual characteristics and other dynamics will determine the extent to which counterparties have an incentive to surrender". Therefore, a framework designed based on only two factors is too simplistic and it is therefore important to consider other elements that can impact liquidity risk, including insurers' ability to manage liquidity risk. Liquidity risk is managed through proper liquidity management and risk appetite policies, including investments in high quality and liquid assets, adequate derivatives strategies (caps, swaptions) and stress tests. Liquidity management is often a requirement embedded in the micro-prudential supervisory framework (this is the case for Solvency II). Beyond being a regulatory requirement, the implementation of sound liquidity management policies is an accepted good practice across insurance companies. Where liquidity management is part of a company's risk management approach, the insurer is unlikely to be confronted with immediate liquidity shortfalls. Portfolio diversification can act as a significant liquidity risk-mitigation tool. Most large insurers have a diversified mix of business that offers a first level of mitigation of the liquidity risk, with a significant part of insurance liabilities being non-callable, notably those related to P&C business and health and protection business. The potential liquidity risk emerging from the savings and retirement business is mitigated by the possibility to mutualise cash resources, at a minimum at the level of a given legal entity, or even within a group of several legal entities. Insurers can also use financial techniques to mitigate lapse risks and/or their consequences. Especially in the current low interest rate environment, insurers can use swaptions to hedge the risk of a sudden increase in interest rates and its potential consequences. The possibilities that such a strategy offers to insurers can be either to generate additional investment yield if the threshold of the swaption is triggered (and therefore the option of the swaption is exercised) or to sell the swaption, thus offsetting potential losses realised on bonds.
Allianz Group	Germany	No	The wider set of factors includes the ability to lower surrender values. This should include cases where supervisors by law have the power to lower surrender values: There is no difference in mitigation of a systemic liquidity crisis, whether the contract terms or the insurance law allows for a reduction of surrender values. In fact the inclusion of this tool provides the right incentives for regulators to amend jurisdictions' legal framework to address systemic risk. Concretely we suggest to include the paragraph at the bottom of page 19: "In addition, some supervisors are able to reduce the value of guarantees associated with in-force business, which could reduce the pressure on the firm's solvency" in the narrow set of factors or at least in the wider set of factors on page 17. Further we suggest to include in the narrow set of factors which exclude substantial liquidity risk the ability of supervisors to order temporary or permanent suspensions of termination rights.

			Longevity risk should be included in the definition of protection elements that exclude substantial liquidity risk under the framework.
GDV - German Insurance Association	Germany	No	See answer to question 9. In particular, we suggest the inclusion of the bottom paragraph of page 19: "In addition, some supervisors are able to reduce the value of guarantees associated with in-force business, which could reduce the pressure on the firm's solvency" in the narrow set of factors or at least in the wider set of factors on page 17.
Munich Re	Germany	No	Regarding the liquidity features we want to emphasize, that liquidity risk can also arise in (re)insurance business due to forced commutation, clean cut arrangements or downgrade clauses.
Global Federation of Insurance Associations	Global	No	Further factors to be taken into account depend on the products in each jurisdiction, but will include management and supervisory action, and the cost of switching.
Institute of International Finance/ The Geneva Association	Global	No	As a general comment, we believe that the assessment of liquidity risk in the context of insurance is disproportionate. We welcome that the IAIS has included consideration of a set of factors wider than surrender charges and delay in surrender in assessment of liquidity risk, and that the IAIS includes the option of ancillary factors in the proposed method. We deem several factors to be relevant for the method: - While it is correct that guarantees lead to insurers taking on risks from their customers, increasing their exposure to market risk, the presence of guarantees and insurance coverage reduce the likelihood of surrender in stress scenarios. By doing so, there is less of a requirement for insurers to sell assets especially in weak markets, when the guarantees are likely to be in the money for policyholders. The policyholder would have to forgo the guarantee benefit when surrendering the policy. This should be better reflected in the liquidity risk analysis. - The ability to lower surrender values. In some instances, supervisors by law have the power to do so. Inclusion of this tool would provide the right incentives for regulators to amend jurisdictions' legal framework to address systemic risk. Consequently, we suggest to include the paragraph at the bottom of page 19: "In addition, some supervisors are able to reduce the value of guarantees associated with in-force business, which could reduce the pressure on the firm's solvency" in the narrow set of factors or at least in the wider set of factors on page 17. - In many cases, insurers will also have the contractual ability to delay surrenders. - Operational differences between banks and insurers should also be recognized. Where bank depositors can access funds immediately through ATMs or mobile or online banking, insurance policies cannot be surrendered in the same immediate way. - Most insurers do not manage their liquidity at the product level but rather via liquidity pools. Recognition of available liquidity resources and analysis of the covering assets' liquidity features should become an explicit determinative factor for NTNI designation. - Products such as unit linked products or separate accounts, where the policyholder entirely bears the investment risk, do not expose the company to liquidity risk if the investments are clearly allocated to the policyholder, no investment guarantees exist or guarantees expire fully in case of surrenders. As with all insurance products, the presence of a vulnerability should only be addressed by systemic risk regulation if its order of magnitude warrants it and it links to a transmission channel of systemic risk.

AIA Group	Hong Kong	No	Whether the policy is an individual policy or a group policy is relevant. In general group policies can be assumed to be more subject to liquidity risk because group policyholders tend on average to be more sophisticated than individual policyholders.
on behalf of the European GSIIs, Aegon, Allianz, Aviva, Axa and Prudential	International	No	- Other considerations that are relevant include: o The loss of qualifying status for tax benefits should also be explicitly reflected in addition to tax penalties For example, specific regime for inheritance (exemption or free choice of legatee, attractive yields compared to other financial products (based on guaranteed rates of tax relief) result into predictable policy holders behaviours. It increases the certainty of timing and helps to protect the insurer against losses arising from the forced sale of assets o Fiscal incentives for long term held contracts make life insurance a very attractive investment compared to other financial products. There is a real fiscal interest for policyholder to stay invested in its life insurance contract. Loss of tax benefits discourage from early surrenders. o The upfront cost of advice to the customer for advice on replacement insurance/pension accumulation fund transfers o The flexibility to adjust fund values so that policyholder surrender/maturity values reflect their fair share of the asset pool and do not disadvantage other policy holders, e.g. MVA for UK With Profits funds. o An additional factor that should be reflected in the point of loss of guarantees is the loss of final bonus payable on maturity as this will provide a disincentive to surrender Regulatory intervention - as noted in our answer to Question 7 o Pension accumulation product fund transfers - as noted in our answer to Question 7 o Impact of charges to policyholders funds when taking a replacement product as referred to in Question 7 o In focusing on liquidity risks it is necessary to consider the underlying asset pool, not just the policy benefits. This should take account of the level of liquidity held, the liquidity of other assets in the pool, the ability to call on other asset pools, and expected (stressed) cash flow from new business. It is therefore important to focus on liquidity management. - The quantitative data collection exercise should reflect these factors which the group supervisor should assess alongside the insurers SRMP (where insurers are required to prepare one). These should be discussed with the insurer to ensure a consistent understanding. - Differences between jurisdictions may be objectively justified given the characteristics of different products and markets. The IAIS should adopt a peer review process to achieve consistency in the application of assessments. - Where supervisors by law have the power to lower surrender values this should be considered as one of the narrow factors. There is no difference in whether the contract terms or the insurance law allows for a reduction of surrender values. In fact the inclusion of this supervisory tool in the narrow set of factors provides the right incentives for regulators to amend jurisdictions' legal framework.
General Insurance Association of Japan	Japan	No	- As mentioned in our comment on Question 9, the "purpose of the purchase" (whether premised on surrender in the future or on holding to maturity) will significantly affect liquidity, and therefore should be considered in assessing the "purpose of the policy". - In addition, investment in assets that are realisable even in a stressed environment is unlikely to contribute to systemic risk. Hence, not only the liquidity of liabilities but also the liquidity of assets should be considered.

The Life Insurance Association of Japan	Japan	No	·One of the examples might be the case where the surrender value is less than the total premium paid (i.e. loss of principal), for products whose most significant component is saving.
Institute and Faculty of Actuaries	UK	No	The existence of mortality guarantees (e.g. in guaranteed annuity rates) is also relevant and should be considered. This is likely to be a subset of the category described "surrender value relative to market value'.
KPMG	UK	No	Considerations such as policyholder loyalty schemes and discounts might be relevant, but only to the extent that similar features (such as guaranteed interest rates) are deemed relevant to assessment of liquidity risk for banks. These ancillary points are probably not as important from an extreme scenario perspective.
Prudential plc	UK	No	Please see our response to Q7. We also have the following comments regarding the ancillary factors: - Loss of guarantees is considered to be within the wider set of factors and given less importance. We believe that guarantees are valuable to policyholders and will be even more valuable when markets are down. This will therefore be expected to be a stronger disincentive for policyholders to surrender. - Where there is low delay in access (less than 1 week) and no surrender penalties, the product will considered to be NTNI unless there is a mortality/morbidity benefit attached or if surrender value is lower than market value of assets. Presence of guarantees should also be considered as an important factor in making this assessment. - It is not clear how the IAIS will evaluate surrender value relative to market value of assets. Moreover, the policyholders will not necessarily be aware of the market value of assets backing liabilities, especially for non-unit-linked business. - In many cases, the insurers will have a contractual ability to delay surrenders. If resolution authorities also have the power to apply temporary stays, it can be used to manage this perceived risk. This should be a factor that is considered in the analysis. The operational differences between banks and insurers should also be recognised. While bank depositors can access funds immediately through ATMs, bank branches or online banking, insurance policies cannot be surrendered in the same way.
Association of British Insurers	United Kingdom	No	In considering liquidity risk, we welcome that IAIS has included the consideration of ancillary (qualitative) factors in addition to the contractual time delay in access to funds and penalties levied on surrender to assess the liquidity risk. We would like to suggest the following additional considerations: - An additional factor to be reflected as part of loss of guarantees is the loss of final bonus payable on maturity as this will provide a disincentive to surrender. - In many cases, the insurer will have a contractual ability to delay surrenders. If resolution authorities also have the power to apply temporary stays, this would also help to mitigate risks, and should considered in the analysis.

			- Another relevant consideration is the flexibility to adjust fund values so that policyholder surrender/maturity values reflect their fair share of the asset pool and do not disadvantage other policy holders, e.g., MVA for UK With-Profits funds. - The operational differences between banks and insurers should also be recognised. While bank depositors can access funds immediately through ATMs, bank branches or online banking, insurance policies cannot be surrendered in the same way. - The upfront cost of advice to the customer for advice on replacement insurance/pension accumulation fund transfers. - The loss of qualifying status for tax benefits should also be explicitly reflected in addition to tax penalties. - Pension accumulation product fund transfers - as noted in our answer to Question 7. - Impact of charges to policyholders funds when taking a replacement product as referred to in Question 7. - In focusing on liquidity risks it is necessary to consider the underlying asset pool, and not just the policy benefits. This should take account of the level of liquidity held, the liquidity of other assets in the pool, the ability to call on other asset pools, and expected (stressed) cash flow from new business. It is therefore important to focus on liquidity management. The quantitative data collection exercise should reflect these factors which the group supervisor should assess alongside the insurer's SRMP (where insurers are required to prepare one). These should be discussed with the insurer to ensure a consistent understanding. The IAIS should adopt effective mechanisms, including a peer review process to achieve consistency in the application of assessments globally.
Allstate Insurance Company	United States	No	We believe it would be useful to consider other activities that produce liquidity risk such as securities lending and commercial paper programs if they are not managed appropriately.
American Council of Life Insurers	United States	No	See ACLI response to Q9.
National Association of Mutual Insurance Companies	United States	No	Question 10. Issue being addressed: Other considerations related to liquidity risk could also include the local prudential regulatory limitations on investments by insurers. Rationale and Basis for Comment: Such rules and restrictions differ by jurisdiction, but they can have a significant impact on the insurer's exposure to liquidity risks Alternatives for Consideration: The differences between jurisdictions in the applicability of laws including investment limitations is one more justification for the use of the local prudential regulator in the application of any definition of NTNI.
New York Life	United States	No	It should be noted that firms often have discretion in navigating adverse economic conditions. As an example, when considering a scenario of a spike in interest rates, an insurer offering participating products, or some other products with

			savings components, has the option to pass its investment experience through in the policyholder crediting rate. Because the crediting rate would typically be lower than prevailing market rates in an interest rate spike scenario, the insurer's decision to pass through its investment experience could generate liquidity pressures. Alternately, the insurer could elect to pay a crediting rate higher than indicated from its investment experience, in order to discourage surrender. That could effectively mitigate liquidity risk but likely move the product or supporting activity from the liquidity risk spectrum to one where market risk should be analyzed. Two insurers could have significantly different approaches in managing the same underlying risk and the result could be either risk mitigation or risk exacerbation, depending on the desired outcome over the short and long term. In the assessment of product features, contractual flexibility in an insurers' response to expected policyholder behavior should be included as an ancillary factor and, we believe, it can be objectively assessed across jurisdictions. We also suggest consideration of contractual features that allow an insurer to delay payments as a determinative ancillary factor. As an example, insurers can have contractual rights embedded in a policy that gives them an option to delay payments on any surrender by as much as six months if the firm faces financial difficulties. Although such provisions would typically be invoked only in extraordinary circumstances, they do provide an important lever in managing liquidity issues and preventing runs, and they should be considered as a potential overriding ancillary factor.
American Academy of Actuaries	United States of America	No	The nature of a product's target customer could, in some cases, be a relevant consideration in the NTNI determination. Retail consumers and sophisticated institutional buyers tend to behave differently, have different appetites for transparency and complexity, and have different incentives that may be relevant when evaluating the potential impact of a product or activity in a time of market stress. In some cases, though not all, simpler retail products may be less likely to be systemically relevant. While this factor may not be determinative, it could be a relevant consideration for regulators.
Prudential Financial, Inc.	United States of America	No	See responses to questions 6 and 7. In addition, we request that the IAIS provide clarify how they intend to incorporate ancillary factors into the framework, particularly in the absence of a method to objectively assess and weigh the factors.
MetLife, Inc.	USA	No	A surrender to reserve ratio as an indicator of susceptibility to surrender may be useful. However, exposure would still need to be assessed against the liquidity of assets as described in Question 9 above.
Northwestern Mutual	USA	No	Experience shows that products sold into the capital markets are far more likely to experience "runs" than products sold to individuals and businesses who are seeking to meet an insurance or long-term financial security need. This should be factored explicitly into the analysis.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Other considerations relevant to the insurers' exposure to liquidity risk could include the size of the portfolio assessed as having significant liquidity risk relative to the insurers' total portfolio, and the availability of unallocated or excess liquid assets.

11 - For those products with both protection and savings components, how should the distinction most clearly be drawn between those that resemble deposits and those that do not? Which considerations should be included in the narrow and the wide sets of ancillary factors?

Insurance Europe	EU	No	Products that combine protection and savings components are fairly common in some markets. In principle, one can draw a distinction between term life insurance, which is a protection product, and some unit-linked or participation products which have a protection element, but whose purpose is mainly savings. There is no substitute for analysing the purpose of each product and a crude limit would not be effective.
Allianz Group	Germany	No	Where the contract includes protection such that it cannot be separated from the rest of the contract, the contract is very unlikely to be perceived as a pure deposit by policyholder. In particular in a systemic crisis the policyholder will cancel other financial contracts first, while keeping the insurance policy as a safe harbor. Therefore under market wide stressed conditions insurance contracts offering mortality or longevity protection provide stability.
GDV - German Insurance Association	Germany	No	Where the contract includes protection features that cannot be separated from the savings components, the contract is very unlikely to be perceived as a pure deposit by the policyholder. In particular, in a systemic crisis the policyholder will cancel other financial contracts first, while keeping the insurance policy as a safe harbor. Therefore, we would expect that under market-wide stressed conditions insurance contracts offering mortality or longevity protection provide stability rather than exacerbation.
Munich Re	Germany	No	Where the contract includes protection features that cannot be separated from the savings components, the contract is very unlikely to be perceived as a pure deposit by the policyholder. Therefore, we would expect that under market-wide stressed conditions insurance contracts offering mortality or longevity protection would not be cancelled first by policyholders.
Global Federation of Insurance Associations	Global	No	Disentangling the savings and protection elements of products which contains both elements will depend on the nature of each product. The IAIS should take care to ensure that the long term nature of these products is taken into account. Protection features may not rank high in a policyholder´s mind for long period of the product´s duration, but may rank very highly in time of stress.
Institute of International Finance/ The Geneva Association	Global	No	In the majority of jurisdictions, savings products require a protection component to be considered insurance products and for an insurance company to sell them. If a jurisdiction permits the selling of savings products without a protection component, this product will be assessed as the rest in terms of liquidity and market risk, etc. and will fall in the appropriate category. A priori, whether a product has a protection component or not should not be a determinant of higher or lower risk.
AIA Group	Hong Kong	No	In general, products with no explicit account value should be considered protection. For products with an explicit account value a test could be developed based on the ratio of net amount at risk to face amount. Also, as mentioned above, we do not see the relevance of a criterion that compares the surrender value with the market value of the supporting assets.
on behalf of the European GSIIs, Aegon, Allianz, Aviva, Axa and Prudential	International	No	- Where the contract includes protection such that it cannot be separated from the rest of the contract, the contract is very unlikely to be perceived as a pure deposit by policyholder. In particular in a systemic crisis the policyholder will cancel other financial contracts first, while keeping the insurance policy as a safe harbour. Therefore under market wide stressed conditions insurance contracts offering mortality, morbidity or longevity protection provide stability rather than exacerbation. These products should be considered as providing protection under the framework.

			- Consideration should be given to the combination of how product features are packaged with the ability and capabilities to support good risk management. The robustness of risk management strategies in stressed conditions is vital.
The Life Insurance Association of Japan	Japan	No	·One of the possible ways would be to make a judgment taking into account the method of premium payment (i.e. single premium or level premium). -As for products with both protection and savings components, the portion of savings components tends to be larger for products with single premium compared to those with level premiums. Therefore, it is possible to consider single premium products with both protection and savings components as the savings type products and level premium products as the protection type products. -We would like to note that whether a product is deemed as a savings products or not is one thing and whether its liquidity is equivalent to that of deposit is another. "Purpose of the policy" is merely one of the factors in the liquidity assessment and the multiple assessments including other factors are needed.
Swiss Re	Switzerland	No	The ancillary factors in 3.2.1.3 are sufficient for evaluating the liquidity risk associated with these products.
Institute and Faculty of Actuaries	UK	No	We believe the existence of protection benefits is a factor to consider in identifying the penalty of surrendering, but the extent of this will be dependent on many other factors relating to the individual (including existence of other protection contracts or the ability to access new contracts). There is also the longer term impact of anti-selection, which can result in a longer term downward spiral, as those retaining the cover need it most.
KPMG	UK	No	The distinction can be drawn by determining whether the product (savings or protection) has any surrender value payable to the policyholder upon policy withdrawal or any maturity value. Savings products would have a lesser level of protection, are more easily replaceable in the marketplace and usually incur low surrender charges; protection products sometimes have higher values, are not as easily replaceable and have high surrender charges or little/no surrender value. This is important from a liquidity perspective. If applicable, the surrender value can be used as a basis for assessing liquidity risk.
Prudential plc	UK	No	We would suggest that assessment for each jurisdiction be made whether products have significant insurance cover or not. This could be based on comparison of the death (or health benefit) relative to surrender values. E.g., if death benefit / surrender value >x, there is a sufficient protection component. We believe guarantees are as important as protection and should be a narrow factor. Consideration should also be given to the combination of how product features are packaged with the ability and capabilities to support good risk management. The robustness of risk management strategies in stressed conditions is vital.
Association of British Insurers	United Kingdom	No	We would suggest that assessment for each jurisdiction be made whether products have significant insurance cover or not. This could be based on comparison of the death (or health benefit) relative to surrender values. E.g., if death benefit

			/ surrender value >x, there is a sufficient protection component. We believe guarantees are as important as protection and should be a narrow factor. Consideration should also be given to the combination of how product features are packaged with the ability and capabilities to support good risk management. The robustness of risk management strategies in stressed conditions is vital.
Allstate Insurance Company	United States	No	The relative value of the insurance protection should be considered; if insignificant, then the liquidity exposure would not be mitigated, but if significant the liquidity exposure of the product would be mitigated.
American Council of Life Insurers	United States	No	We urge again, as we have above, that this premise is deeply flawed. The life insurance business model is not analogous to banking. Assuming that it is leads to poor public policy without material benefit. It will not contribute materially to global financial stability and will have substantial societal cost in discouraging the availability of retirement security products.
Prudential Financial, Inc.	United States of America	No	The IAIS' analysis of liquidity should focus on deposits, withdrawable non-policy related liabilities, and asset liquidity. If insurance liabilities are considered a distinction must be made between instances where the policyholder rather than the insurer bears the market or liquidity risk for the funds. In addition, it is important to note that the following point included in the consultation ignores the fact that life insurance products with savings components are generally subject to the same set of factors that would discourage policyholder surrender as pure protection products and in some cases more so (for example the tax-free accumulation of value granted to certain life insurance contracts in the U.S.): "Purpose of the policy: policies offering protection to holders serve a different economic purpose than products used as a vehicle for saving, which makes them less likely to be seen as deposits. They therefore do not have the same incentives for surrender."
MetLife, Inc.	USA	No	The above considerations add a degree of complexity to the evaluation of liquidity risk that may be unnecessary if the IAIS considers the approach proposed by MetLife described in our response to Question 17. However, should the IAIS pursue this method, we would suggest that one "High" is sufficient to indicate low liquidity risk as there is an ability to defer payment for at least three months or a haircut on the payment of at least 20%. Either one indicates a low liquidity risk. Requiring both is unnecessary.
Northwestern Mutual	USA	No	In our view the attempt to distinguish between protection and savings components risks putting theoretical purity ahead of practical meaning. While many traditional life insurance products have cash value components, the consumer's fundamental purpose to meet long-term insurance and financial security needs is the overriding consideration explaining why incidences of insurance company runs are extremely uncommon. The more important question is whether the product is sold to meet an insurance need, not the extent to which the product may have cash value features. In order to avoid the uncertainty and confusion that could result from this type of analysis, we recommend that the IAIS implement the preliminary step we suggest in response to Question 2 above.

National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Many insurance and annuity products contain both protection and savings components. In order to promote greater consistency across jurisdictions, one option would be to assess products along two-dimensions: a) richness of benefits, and b) surrender penalties. Using these categories, insurance savings products would be those with limited protection value (i.e., cheap/easy to replace coverage) and limited penalty on surrender (i.e., low fees and tax liability). On the other hand, insurance protection products would be those that offer rich benefits (i.e., difficult to replicate/replace coverage) and punitive surrender fees and taxes (e.g., total penalties exceeding 20% of the contract value).
12 - How should the IAIS think about the liquidity risk of products that combine savings and protection benefits? Does the proposed approach appropriately reflect the potential liquidity risk on such products or would there be a better way to address this?			
China Association of Actuaries	China	No	We would suggest IAIS to introduce more quantitative approach in rating delay and penalty, as most insurance products in China at current stage will fall into category other than LL or HH, thus whether a product is categorized as NTNI depends solely on the ancillary factors, which are rather subjective and lack of comparability.
China Insurance Regulatory Commission	China	No	Based on the current approach, almost all insurance products in China Mainland market will be rated MM (Delay in access = M and Economic Penalty = M), so need judgments based on ancillary factors. It will be very difficult to implement and non-comparable to other countries.
Insurance Europe	EU	No	In order to better tailor the framework, Insurance Europe believes that the factors should not be assessed in the case of policies with a purely protection purpose. Where the contract includes savings and protection benefits that cannot be separated, the contract is very unlikely to be perceived as a pure deposit by a policyholder. In particular, in a systemic crisis the policyholder will cancel other financial contracts first, while keeping the insurance policy as a safe harbour. Therefore, under stressed market conditions, insurance contracts offering mortality or longevity protection provide stability rather than exacerbation. In fact, the protection element of a joint protection/savings product can be a valuable long-term component for the customer. It therefore reduces the liquidity risk to the insurer, as there is a benefit to the policyholder of holding on to the product. For the insurer, the consequence is that the protection element of these policies is a benefit in terms of reducing liquidity risk.
Allianz Group	Germany	No	see Q11
GDV - German Insurance Association	Germany	No	See answer to question 11.
Munich Re	Germany	No	See answer to question 11.

Global Federation of Insurance Associations	Global	No	The liquidity risk of the savings and protection elements will need to be considered separately. Any assessment will be heavily dependent on the nature of the product.
Institute of International Finance/ The Geneva Association	Global	No	Where the contract includes protection such that it cannot be separated from the rest of the contract, the contract is very unlikely to be perceived as a pure deposit by policyholder. In particular, in a systemic crisis, the policyholder will cancel other financial contracts first, while keeping the insurance policy as a safe harbor. Therefore, during market wide stressed conditions, insurance contracts offering protection provide stability rather than exacerbating of these conditions.
AIA Group	Hong Kong	No	It is not clear on what the "proposed approach". The general framework of considering the combination of delay in access and economic penalty seems sound.
on behalf of the European GSIIs, Aegon, Allianz, Aviva, Axa and Prudential	International	No	- For savings products which have protection benefits, it should be considered that this protection is a valuable long term component for the customer and therefore reduces the potential liquidity risk as there is a benefit of holding on to the product. I.e. adding protection benefits to savings products can be a liquidity risk benefit to firms.
The Life Insurance Association of Japan	Japan	No	·"Purpose of the policy" is merely one of the factors in the liquidity assessment and the multiple assessments including other factors are needed.
Swiss Re	Switzerland	No	In our view, the proposed framework is sufficiently general to ensure that it applies to products with both savings and protection benefits.
Institute and Faculty of Actuaries	UK	No	We believe the existence of protection benefits is a factor to consider in identifying the penalty of surrendering, but the extent of this will be dependent on many other factors relating to the individual (including existence of other protection contracts or the ability to access new contracts). There is also the longer term impact of anti-selection, which can result in a longer term downward spiral, as those retaining the cover need it most.
KPMG	UK	No	See point made above
Prudential plc	UK	No	For savings products which have protection benefits, it should be considered that this protection is a valuable long term component for the customer. It therefore reduces the potential liquidity risk, as there is a benefit of holding onto the product. I.e., adding protection benefits to savings products can be a liquidity risk benefit to firms. Further, if there is no insurance protection but investment guarantees, the guarantees should be seen as a disincentive to surrender.
Association of British Insurers	United Kingdom	No	For savings products which have protection benefits, it should be considered that this protection is a valuable long-term component for the customer. It therefore reduces the potential liquidity risk, as there is a benefit of holding onto the

			product. I.e., adding protection benefits to savings products can be a liquidity risk benefit to firms. Further, if there is no insurance protection but investment guarantees, the guarantees should be seen as a disincentive to surrender.
Allstate Insurance Company	United States	No	The relative value of the insurance protection should be considered; if insignificant, then the liquidity exposure would not be mitigated, but if significant the liquidity exposure of the product would be mitigated.
American Council of Life Insurers	United States	No	Insurers' exposure to liquidity risk resulting from policyholder runs is extremely low, and we respectfully observe that an insurer's liquidity risk, including that associated with savings and protection benefits, needs to be analysed through a loss-given-default lens. We recommend further work on the global insurance industry's potentially systemically relevant exposures and the channels through which those exposures might have a globally systemic impact on the financial system.
American Academy of Actuaries	United States of America	No	We are concerned that the proposed approach does not adequately take into account the strong mitigating role that protection benefits play in the reduction of market and liquidity risk that a product's savings component might otherwise generate. The prospect of losing protection can substantially reduce consumer incentives to access the savings component of an insurance product, particularly when an array of other products are available from banks and similar institutions to serve the market's need for pure liquidity and savings products. Tax liabilities triggered by surrender also can create a meaningful check on liquidity. To address this concern, regulators should be able to take the mitigating role of protection benefits and tax impacts into account when applying the NTNI framework in a particular jurisdiction.
Prudential Financial, Inc.	United States of America	No	Please see our response to question 11.
MetLife, Inc.	USA	No	Please see our response to Question 9.
Northwestern Mutual	USA	No	Please see response to Question 11.
13 - Recognising that they are not determinative, what other factors might influence insurers' exposure to market or liquidity risk?			
CLHIA	Canada	No	We believe that distribution channels could be given some level of consideration from the perspective of assessing the extent of encouraging vs. discouraging policy surrenders.
Insurance Europe	EU	No	A clear distinction needs to be drawn between whether the systemic risk concern relates to the impact of liquidation of assets (if any) on the asset markets or if it relates to losses incurred by insurers where surrender values paid out are more than the value of assets backing liabilities. The latter issue is a micro-prudential regulation issue and will not create

			systemic risk in itself. In considering the former issue, a broader systemic view needs to be considered: - In cases where policyholders have a choice of asset allocation, the issue is not insurance-sector specific. The same choices would be made if the investments were made via other intermediaries or directly. In the case of insurers, the presence of cover/guarantees will only reduce incentives to withdraw. Therefore, penalising insurers will not reduce systemic risk. - In cases where insurers decide the asset allocation, there is more flexibility not to liquidate the illiquid assets, thereby exacerbating market movements. In such cases, insurers could potentially sell more liquid assets to fund any increased surrenders. - In any case, if there are increased surrenders, the money will move from one part of the financial system to another and it is important that the potential for systemic risk emerging from these surrenders is not exaggerated.
GDV - German Insurance Association	Germany	No	See answer to question 10.
Munich Re	Germany	No	See answer to question 10.
Global Federation of Insurance Associations	Global	No	The IAIS has identified a full set of factors which might potentially lead to systemic risk. However, as stated earlier the role of mitigating actions and factors in the transmission channels is systematically understated, with the consequence that the chances of systemic risk arising are exaggerated.
Institute of International Finance/ The Geneva Association	Global	No	Please refer to our answers to questions 4, 5 and 10.
AIA Group	Hong Kong	No	As mentioned earlier, whether the policies are group or individual has an impact. For reasons explained earlier we do not believe that market risk in the absence of liquidity risk is relevant to the issue of systemic risk.
Swiss Re	Switzerland	No	The IAIS should take into account that insurers do not manage their liquidity at the product level but rather via liquidity pools. The IAIS recognizes this in section 4.1: "to the extent that an insurer has invested in liquid assets, this may mitigate some of the effects of a forced asset liquidation." However, recognition of available liquidity resources should become an explicit determinative factor, at minimum in jurisdictions that have defined regulatory liquidity requirements, such as China and Switzerland. The IAIS should carry out an industry-wide assessment of the adequacy of liquidity sources versus requirements for each of the potential NTNI products. Products with sufficient liquidity to cover requirements would not subject the respective insurer to significant liquidity risk and are therefore not systemically risky. Moreover, no products, for which

			the individual insurers holds sufficient liquidity, are NTNI. This would also make the framework more adequate in terms of measuring potential transmission channels for systemic risk.
KPMG	UK	No	The following factors are additional considerations that may have an impact on an insurer's liquidity or market risk: - Asset Concentration toward a specific asset class or counterparty - Net exposure to risky asset classes such as alternative asset classes or derivatives - Exposure to illiquid markets such as property or unlisted investments - Market volatility of specific asset classes - Available liquid or readily convertible assets - Elements of the overall portfolio ring-fenced for specific policyholders - Collateral held (for example against derivative positions) - Size of the portfolio being reviewed to assess liquidity risk compared to the overall portfolio
Allstate Insurance Company	United States	No	We believe the orderly wind-down of insurers in the U.S. and other jurisdictions where relevant should be considered. The relevance of orderly wind-down is that policyholders are more likely to keep their policies in-force which reduces any potential liquidity exposure.
American Council of Life Insurers	United States	No	Life insurers are not homogeneous, and the factors that affect the market, liquidity, and other risks that each undertakes will vary. Vulnerabilities will vary. Microprudential supervision should address those varying vulnerabilities. We do not believe that a product-by-product analysis as proposed in this paper leads to a useful understanding of the global insurance industry's potentially systemically relevant exposures and the channels through which those exposures might have a globally systemic impact on the financial system.
National Association of Mutual Insurance Companies	United States	No	Question 13. The issues raised in earlier responses would be relevant in this response as well. The insurer's enterprise and product risk management including mitigation, transfer and diversification need to be considered as important factors. The laws and regulations in the domiciliary jurisdiction applicable to investments need to be considered as well. Finally, the legal right that many policyholders have to claims payment by the guaranty funds is a factor.
New York Life	United States	No	As noted in the response to Question 9, an enterprise risk management program and a regulatory regime that emphasizes liquidity stress testing should be weighted favorably. In the United States, the regulatory requirement for Asset Adequacy Testing is an example of such a requirement.
American Academy of Actuaries	United States of America	No	There are other risk mitigation and management strategies that can reduce potential systemic risk substantially and therefore should be considered. Specifically, government reinsurance mechanisms and collateral requirements that are designed to mitigate or eliminate market or liquidity risk should be taken into account. In addition, some products may be quasi-governmental in nature, such that the insurer acts only as a servicer for a government social program, with the government absorbing any market or liquidity risk. The governmental support should be considered as a relevant factor.

Prudential Financial, Inc.	United States of America	No	Please see our response to question 2.
MetLife, Inc.	USA	No	Please see our responses to Questions 9 - 11.
Northwestern Mutual	USA	No	No comment.
Property Casualty Insurers Association of America (PCI)	USA	No	The quality of a company's risk management processes and its regulation should be recognized as significant mitigating factors.
14 - Should these factors be taken into account as determinative in the NTNI classification? To this end, how might these factors be objectively assessed and weighted, given the differences across jurisdictions and firms? To what extent, if any, do these factors allow for the consistent application of the NTNI concept across jurisdictions?			
Insurance Europe	EU	No	The factors should not be considered as determinative in the NTNI classification. National supervisors should assess and weight the factors, and comparability should be tested in the recalibration of the BCR and the HLA.
Allianz Group	Germany	No	We suggest to include the paragraph at the bottom of page 19: "In addition, some supervisors are able to reduce the value of guarantees associated with in-force business, which could reduce the pressure on the firm's solvency" in the narrow set of factors or at least in the wider set of factors on page 17.
GDV - German Insurance Association	Germany	No	We suggest including in the Ancillary factors (§ 3.2.1.3) the last paragraph at the bottom of page 19: "In addition, some supervisors are able to reduce the value of guarantees associated with in-force business, which could reduce the pressure on the firm's solvency." With the exception of the above, the listed factors should not be taken into account as determinative in general. They are not definitely measurable and highly dependent on interpretation. In cases where these factors might influence the NTNI classification, the respective national supervisors should decide on the application of these factors. They know their market's products best and are able to assess the dimension to which the factors apply to them.
Munich Re	Germany	No	We suggest to include in the Ancillary factors (§ 3.2.1.3) the last paragraph at the bottom of page 19: "In addition, some supervisors are able to reduce the value of guarantees associated with in-force business, which could reduce the pressure on the firm's solvency". The listed factors should not be taken into account as determinative in general. They are not definitely measurable and highly dependent on interpretation. In cases where these factors might influence the NTNI classification, the respective

			national supervisors should decide on the application of these factors. They know their market's products best and are able to assess the dimension to which the factors apply to them.
Global Federation of Insurance Associations	Global	No	GFIA has struggled to grasp the implications of a factor being relevant to systemic risk but non-determinative in the classification of a product as NTNI. Is it the case that these ancillary factors are non-determinative because the IAIS has focused on the contract features of the products undergoing assessment for NTNI status? Many of the factors that mitigate systemic risk, in particular insurers´ risk management systems and the existing supervisory framework, will be left out of the assessment, leading to a distorted outcome. GFIA therefore believes that whether these ancillary factors should be considered as determinative should be assessed based on further analysis of each factor´s appropriateness. GFIA has some reservations about the factor labelled "lack of suitable assets for fixed benefit policies, which requires further elaboration. Much will depend on the interpretation of the word "suitable," which is open to subjective reading. The inclusion of these ancillary factors in no way diminishes the need for supervisors to co-operate to ensure consistent application of the definition of NTNI.
Institute of International Finance/ The Geneva Association	Global	No	Yes, these factors should be taken into account as determinative. Factors that cannot be measured objectively should not be taken into account as determinative, but rather be included for supervisory judgment.
AIA Group	Hong Kong	No	As written, the guidance is subject to wide variations in interpretation. If ancillary factors are to be considered, their application needs to be better defined. We feel this is a big issue and worthy of a much more elaborate exposition.
on behalf of the European GSIIs, Aegon, Allianz, Aviva, Axa and Prudential	International	No	- The use of derivatives should not be considered determinative - while it may be an indication of NTNI activity, this cannot be objectively assessed across jurisdictions and firms which have differing hedging capabilities.
General Insurance Association of Japan	Japan	No	- "Other relevant but non-determinative factors" should not be taken into account as directly determinative in NTNI classification. - However, "liquidity of assets" vastly affects liquidity risk, and therefore should be added as an ancillary factor. - If "other relevant but non-determinative factors" were to be used in the Phase III analysis of the G-SII assessment process, their influence on systemic risk should be considered according to the principle of substance over form.
The Life Insurance Association of Japan	Japan	No	·At least, interest rate guarantee provided by fixed benefit policies would not be sources of systemic risk. ·The lack of suitable assets for fixed benefit policies should not be included in the factors for Phase III. -This is because sharp risk-off would not be needed for fixed benefit products even during a stressed period. As for life insurance products with fixed benefit, especially those with long-term guaranteed interest rates, it is true that those products bear interest rate risk because of the insurance liabilities based on the premise of long-term coverage, but it is not until the reinvestment phase far in the future that this risk becomes relevant and consequently, in general, it is

			considered that this risk would not threaten insurers' solvency in the foreseeable future. This risk can be addressed over medium to long periods of time and there is no need for fire sales of assets in the short term. European Solvency II also allows for maximum of seven years of recovery period, which enables insurers to avoid fire sales of risky assets. -Another rationale is stability of life insurers' cash flow position. Generally, the insurance benefits are paid from the well-scheduled redemption at maturity of government bonds, etc. and from the insurance premiums periodically paid under long-term level premium insurance policies. Therefore, the payment of benefit is hardly considered to affect the life insurers' cash flow position directly, even during a stressed period. -Indeed, Japanese life insurers, whose sales has historically been focused on fixed benefit life insurance products, did not execute sharp risk-off even in the middle of the Lehman crisis around 2008. Rather, they continued to provide stable funding to the capital market even during the financial crisis, and thereby contributed to the stabilization of the financial system.
Swiss Re	Switzerland	No	The IAIS should consider derivative use as non-determinative in the NTNI classification. The IAIS seems to assume that derivative positions must be rolled over, exposing an insurer to market risk in stressed market conditions, e.g. if derivatives that need rolling over would become unavailable. In many cases, derivatives do not need rolling over as the maturity of the derivative matches the expiration of the risk so that the hedge remains in place in all market conditions. Moreover, exchange-traded and collateralized derivatives do not expose an insurer to substantial counterparty risk. The IAIS should consider this explicitly. Regarding liquidity, the liquidity adequacy assessment suggested in our response to Question 13 should consider the liquidity provided or consumed by collateralized hedges to the extent they are dedicated to the identified products. As we mention in our response to Question 2, the IAIS should consider the use of derivatives for cash flow matching, since insurers are often able to replicate behavior of longer-term liabilities using derivatives. Therefore, the IAIS should not consider the second point as determinative. The third point should be determinative (as a wider factor), especially if tested in the market. The IAIS should consider for each product feature, product-by-product and for each jurisdiction, whether tools are available to mitigate the market risk. The fourth point on liquidity adequacy should be determinative at the minimum in jurisdictions that impose minimum liquidity requirements and possibly for all jurisdictions (see our response to question 13). The final point on regulatory adaptive measures should be non-determinative - otherwise this could potentially lead to regulatory arbitrage and associated moral hazard.
Aegon N.V.	The Netherlands	No	In order to promote the consistent application of the NTNI concept across jurisdictions, we believe that the quantitative framework should be enhanced to include as many of these factors as possible in the objective assessment of activities. This would also provide insurers with the confidence to take specific actions to reduce their perceived systemic footprint. With respect to specific listed factors, we have the following comments: - As discussed elsewhere, we do not agree that "substantial market risk" is a reliable indicator of systemic risk. We therefore do not agree that "derivative usage could be an indication of NTNI activity." Derivatives, when used for hedging and risk management (which is almost always the case), optimize an insurer's risk profile. Derivatives generally

			allow risks to be more efficiently transferred within the financial markets, rather than creating new risks. There is a potential systemic impact only when collateral processes are weak or when companies engage in risk taking via derivatives. - While it is true that insurers have the tools to mitigate the impact of market risk, and while it is also true that some supervisors may be able to reduce the value of guarantees associated with in-force business, this is a micro-prudential consideration, not a macro-prudential consideration. - We agree that an assessment of asset liquidity should be taken into account within the framework. In particular, as we explain in our response to the G-SII assessment consultation, the G-SII Assessment Methodology should explicitly incorporate an analysis of asset liquidity and the relationship of the asset and liability liquidity profiles.
KPMG	UK	No	Not really as, apart from the ability to amend premium terms when guarantees are in the money, they are not relevant in assessing insurance products and their features. The intention of this consultation is to deal with insurance product features that can be used to assess if an insurance product or activity can be classified as NTNI. Certainly, how an insurer chooses to invest its assets is relevant from a market/liquidity risk perspective, and the G-SII assessment, however, this is not relevant is deciding whether a product feature gives rise to an NTNI product or activity. The one factor noted above that could be a feature of insurance contracts does not appear to us to be one which would have an obvious impact on policyholder choice regarding whether or not to surrender a contract early.
Prudential plc	UK	No	The use of derivatives should not be considered determinative - while this may be an indication of NTNI activity, this cannot be objectively assessed across jurisdictions and firms which have differing hedging capabilities. Please also refer to other points we have made previously on derivatives for questions 2,3, and 4.
Association of British Insurers	United Kingdom	No	The use of derivatives should not be considered determinative - while this may be an indication of NTNI activity, this cannot be objectively assessed across jurisdictions and firms which have differing hedging capabilities. Please also refer to our responses to questions 2 and 4 for a discussion of insurers' use of derivatives.
American Council of Life Insurers	United States	No	ACLI strongly supports the IAIS's commitment to continue to devote resources to refining and improving its concepts about systemic risk in the insurance industry. While we recognize that IAIS as an institution has committed to the NTNI classification in the short term, we urge that it must in the near-term extend its analysis beyond assessing the probability of failure to assessing the impact of that failure on the financial system as a whole.
National Association of Mutual Insurance Companies	United States	No	Question 14. Issue being addressed: Consistency in the application of factors should not necessarily be the goal. Rationale and Basis for Comment: The goal should be reduction of systemic risk. If that is partially accomplished through local jurisdictional laws and regulations, regulatory oversight, insurer risk management and the existence of guaranty fund obligations that the insurance industry must financially support, then those mitigating factors should be taken into account in making the analysis of NTNI. The idea of consistency in factors at the global level is improbable no matter how the factors are determined.

			Alternatives for Consideration: The work at the IAIS should be limited to principles that provide value to supervisors globally to address the charge of systemic risk. The local supervisors should determine the products, the factors and the mitigation that should be applied to assess NTNI.
New York Life	United States	No	As the IAIS has noted in the NTNI consultation, the notion of NTNI activities and products, and the classification of a list of insurance products, features and activities from across all jurisdictions, forms an integral aspect of those policy measures related to the assessment and policy measures for global, systemically important insurers (G-SIIs). However, as approached in the consultation, a simple binary evaluation of whether a product exhibits certain features and whether there is a presence of a definite set of overriding ancillary factors is very unlikely to result in an acceptable and prudent measure of potential systemic risk. As noted above, we respectfully urge the IAIS to take an analytical view of not just whether risk is undertaken, but also whether such risk is effectively managed, especially in light of the impact of an NTNI determination in the GSII assessment process.
American Academy of Actuaries	United States of America	No	If a product can be made non-systemic via an appropriate risk mitigation strategy or other factor, then the existence and deployment of such a strategy or other factor should be taken into account, and should be considered to be determinative, as doing so creates an incentive to reduce systemic risk. If, instead, these strategies and other factors are not taken into account, or if they are not treated as determinative despite a decisive impact, there may be a disincentive to reduce systemic risk. For example, a risk mitigation strategy may have a cost, and those who do not employ the strategy would not have to bear that cost, potentially giving them a competitive advantage over those insurers that follow the strategy. A flexible, principle-based approach is best suited to the challenge of assessment, weighting, and consistent application. Because of differences among jurisdictions, local regulators will require a significant level of discretion. The public would not be well served by a rigid, prescriptive approach that does not sufficiently account for prudent risk management strategies or meaningful differences among product lines or jurisdictions. Such an approach could create unneeded costs for the marketplace and may not provide jurisdictions with sufficient incentive to regulate systemic risks out of their marketplaces.
Prudential Financial, Inc.	United States of America	No	As with question 9 this questions demonstrates the IAIS' acknowledgement of: + the shortcomings of the framework, + the challenges of applying a one size fits all approach to assessing systemic risk in the insurance sector, and + the need for the IAIS to reassess their policy measures to ensure that they are aligned with the IAIS' goals, are consistent with and complementary to each other, appropriately recognize heterogeneity in insurance markets, and take a holistic approach to considering and measuring risk.
MetLife, Inc.	USA	No	As previously stated MetLife strongly supports an absolute value approach to assessment and suggests a thorough consideration, on an absolute basis, of what is required for an insurer to be systemically relevant. In this case therefore, "NTNI" or PSRE Weightings should be reconsidered based on this form of assessment

Northwestern Mutual	USA	No	We encourage the IAIS in reviewing these and other factors to focus on those vulnerabilities that truly present a risk for the broader financial system as opposed to a risk of failure to the insurer and losses to its policyholders.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Some of the factors enumerated in section 4.1 should be determinative for NTNI identification - Use of Derivatives: See our answer to question 16. - Potential Duration Gaps: This speaks to the ability to cash flow match which has previously been stated to be a determinative factor. - Contractual Ability to Adjust Premiums: The ability to adjust premium can mitigate market risk and should be considered - Extent to which the insurer is invested in liquid assets: This is relevant consideration but may be more appropriate for the G-SII assessment.
15 - Is the list of products and activities set out in Annex 1 representative of the insurance activities and products that are conducted in the listed jurisdictions? Are there other products and activities that should be added to the list, for example because they have similar features as those in Annex 1? To what extent, if any, will the analysis of the products and activities in Annex 1 allow for the consistent application of the NTNI concept across jurisdictions? Also, are there additional or alternative terms for the listed products and activities that should be added to improve the completeness and clarity of the list?			
ABIR Association of Bermuda Insurers & Reinsurers	BERMUDA	No	The Association of Bermuda Insurers and Reinsurers (ABIR) represents the public policy interests of Bermuda's international insurers and reinsurers that protect consumers around the world. With headquarters and operations in Bermuda and with operating subsidiaries in the United States and Europe, these carriers do business in more than 150 countries. We appreciate the opportunity to provide comments on the IAIS Non-Traditional Non-Insurance (NTNI) and Products Public Consultation Document (CP) and we note that the IAIS describes this Consultation as the "first step' in a three step process to clarify the NTNI concept and as such much work will be needed to reach any conclusions on the determinant nature of what constitutes a NTNI. The NTNI principles included in Annex 2 will require testing and ABIR supports the IAIS' commitment to assess and classify NTNI products and activities and then identify gaps and the necessary modifications to the framework and existing principles with input from stakeholders as appropriate. GFIA would like to underscore that it is paramount that the relevant stakeholders be part of this process in order to achieve the best possible outcomes in this regard. ABIR notes that the paper does not describe how property and casualty insurance is to be treated by the NTNI framework. Annex 1 lists "certain types of property and casualty/liability insurance" as a product category for potential review which is broad. Broad references to property and casualty insurance for review does not make sense in light of the IAIS's prior statements. In its November 2011 insurance and financial stability (IFS) paper, the IAIS stated that, "based on information analysed to date, for most lines of business there is little evidence of traditional insurance either generating or amplifying systemic risk within the financial system or in the real economy. Of course, empirical assessments about the systemic importance of insurers and insurance groups may change over time." ABIR cannot find any evidence that the IAIS has subsequently changed the classification of property and casualty insurance generally from "traditional."

			Finally, there is ample evidence following the Great Recession that as AIG reduced its market share under pressure from financial regulators that other carriers willingly entered markets and took advantage of opportunities to expand their market shares. (ABIR provided data on this point to the IAIS working group in 2012.) This demonstrates the ready substitutability of insurance carriers in property and casualty insurance markets. Given regulatory freedom on forms and rates property and casualty insurance markets are self-correcting over time. Systemic risk remedies such as capital add-ons tied to certain market segments would stifle or lengthen market corrections since the new carriers would be penalized with higher capital charges in the event they chose to grow in the target business class.
CLHIA	Canada	No	We note that both P&C and Health have a more limited scope (i.e. "certain"), but there is not the same restriction for life products and hence all product types should be limited to "certain" to avoid scoping in more than the systemically risky activities.
Insurance Europe	EU	No	Insurance Europe suggests that "Certain types of Property and Casualty/Liability Insurance" is removed from this list. Property and casualty insurance policies are policies of indemnity and do not give policyholders rights to surrenders or other withdrawals. Consequently, they do not give rise to either market or liquidity risk and cannot therefore be classified as NTNI. There would be no benefit in including such products in the analytical review. Equally, unit-linked products without guarantees should be removed from the list. Based on the IAIS' own analysis and the decision tree illustrated in figure 2, unit-linked products without guarantees pose no market risk. Unit-linked products where policyholders entirely bear the investment risk do not expose the company to liquidity risk if the investments are clearly allocated to the policyholder, no investment guarantees exist or guarantees expire fully in case of surrenders. In cases where policyholders have the choice of asset allocation, the issue is not insurance sector specific and one can argue that the same investment choices would've been made via another intermediary or directly by customers. To the extent that the IAIS wants to analyse unit-linked products without guarantees to inform its understanding of unit-linked products with guarantees it would help if the IAIS made the statement explicitly.
GDV - German Insurance Association	Germany	No	It is impossible to compile a complete list of products with all their particularities. The assessment of the NTNI classification should be based on product features and the level of risk they entail. It should not be taken from a set list of products.
Global Federation of Insurance Associations	Global	No	The list in Annex 1 is too vague to comment on meaningfully. What does "certain types of Property and Casualty/Liability insurance" mean? GFIA suggests that the IAIS should focus its resources on products more likely to fall within the definition of NTNI, rather than pledging to review lines that the IAIS itself has categorised as "traditional" and not likely to generate systemic risk.
Institute of International Finance/ The Geneva Association	Global	No	Annex 1 of the NTNI consultation document includes "certain types of property and casualty/liability insurance'. This categorization of insurance products is quite broad and therefore does not really help the sector understand which products are regarded as systemic by the IAIS. We would appreciate if the IAIS could provide specific examples of these products. Annex 1 of the NTNI consultation document also includes "certain types of health insurance." This categorization of insurance products could vary greatly merely by name and jurisdictional interpretation. We would appreciate if the IAIS could provide specific jurisdictional examples of health insurance that will be subject to the IAIS's analytical review as

			the second step of a three step analysis. We cannot think of any health products that could be classified as NTNI based on the proposed analytical framework. A classification of Credit Insurance/Financial Guarantee products should be carried out based on individual product features at the most granular level feasible, in order to account for significant differences between products (even of the same type) both within and between jurisdictions.
AIA Group	Hong Kong	No	Yes, at a high level the list is representative.
on behalf of the European GSIIs, Aegon, Allianz, Aviva, Axa and Prudential	International	No	Universal life is missing from the list, and perhaps some consideration should be given to product packaging, secondary benefits and riders.
Swiss Re	Switzerland	No	The list appears to be appropriate and comprehensive. Swiss Re welcomes that the NTNI assessment is performed for each product with different features and each jurisdiction separately - please see our remarks in the general comments. Else, the categories in the list would be much too broad to capture the features of the products and activities adequately.
Aegon N.V.	The Netherlands	No	We support efforts to develop an approach that is consistent across jurisdictions. Individual insurers may be active in various markets with similar products and should not be faced with situations where similar products are treated in a materially different manner within the G-SII framework. Recognizing that this may take time, we recommend a careful jurisdiction-by-jurisdiction review of each of the material product types sold in each of the list of FSB jurisdictions.
KPMG	UK	No	Could potentially include salary replacement policies that provide a fixed benefit each month as a replacement for an individual's salary.
Prudential plc	UK	No	Consideration should be given to product packaging, secondary benefits and riders.
Association of British Insurers	United Kingdom	No	Universal life is missing from the list, and perhaps some consideration should be given to product packaging, secondary benefits and riders. "Certain types of property and casualty/liability insurance" is a rather wide category, and it is not clear what the IAIS thinking on this is. Paragraph 5.2: In the conclusion, it is stated that "Product features that have a guaranteed benefit and for which the insurer does not have the ability to invest in assets that will yield sufficient cash flows to pay off expected claims (ignoring derivatives), could expose the insurer to substantial market risk and therefore be classified as NTNI." We reiterate that assuming market risk in itself does not create systemic risk. It is important to consider transmission mechanisms and when considering transmission mechanisms, it is important to consider whether insurers expose

			counterparties to risk or are exposed to risk from counterparties. Such conclusions, without drawing the attention to transmission mechanisms, can exaggerate the perception of systemic risk created by insurers.
Aflac	United States	No	1) Accident & Health products should be classified as "traditional" American Family Life Assurance Company of Columbus (Aflac) is neither a G-SII nor an IAIG. Even so, as a leading provider of Accident & Health (A&H) products in the United States and Japan, we appreciate the opportunity to comment on the Non-Traditional Non-Insurance Activities and Products Consultation Document (Consultation Document) in the interest of providing perspective and clarity with respect to the nature of A&H products offered by life insurance companies such as Aflac. We understand that "selected activities/products/features" listed in Annex 1 of the Consultation Document will undergo the IAIS's analytical review as Step 2 of a three-step process. According to the Consultation Document, Step 2 is designed to ensure consistency in application of the NTNI analytical framework across jurisdictions. "Certain types of Health Insurance" are among the "selected activities/products/features" listed in Annex 1. It is not clear whether our types of A&H products are included under "Certain types of health insurance." However, in order to facilitate IAIS's analytical review process, we would like to clarify that A&H products do not meet the criteria of Non-Traditional Non-Insurance (NTNI) and therefore should remain classified as traditional, consistent with the July 2013 G-SII Policy Measures Paper, which classified health and disability insurance as "traditional" insurance activities. 2) A&H products differ substantially from major medical coverage In the United States and Japan, life insurance companies, such as Aflac, underwrite A&H products whose policy provisions do not consist of reimbursement for actual medical expenses but rather pay a fixed amount based on an event or an occurrence. Additionally, our fixed-indemnity A&H products are considerably different in nature from major medical products underwritten by health insurance providers in the United States. Additional differences include the following: - Coverage cannot be canceled as long as the policyholder pays the premiums - Policy cannot be cancelled or benefits reduced. - Policy can be re-rated only under extreme circumstances, as opposed to health insurance which can be annually re-rated. - Policyholder aging is built into pricing and based on lifetime projected morbidity - Typically annual premium amounts are level for during the policy's lifetime - Benefits do not vary based on actual expenses This description is consistent with how A&H products are addressed in the IAIS's development of a Global Insurance Capital Standard (ICS), which established the "Protection–Accident & health" segment, defined as "policies which: - Provide the policyholder with a benefit upon a health (or health related) or accident event to the insured person,

			provided that the event occurs within a certain specified time period. - Are not "participating' - Have no or small (immaterial) surrender values." (See Annex 5, Risk-based Global Insurance Capital Standard Public Consultation Document) (Note: Some A&H products have cash surrender values. These products are addressed in the "Protection–Other" segment, defined as "policies" which - Provide a defined benefit upon the insured person's death, provided that the death occurs within a certain specified time period - Are not "participating' - Have material surrender values that are contractually specified and that do not depend on investment performance or other experience) 3) A&H products do not expose the insurer to substantial market risk or liquidity risk According to the Consultation Document, product features that expose the insurer to substantial market risk or liquidity risk may be classified as NTNI. As demonstrated below, A&H products such as those underwritten by Aflac do not meet either criterion. Market risk To assess exposure to market risk, the Consultation Document outlines a two-step analytical framework: (1) "Does the product/activity provide a guaranteed payment stream to the policyholder?" and (2) "Is the insurer contractually able to invest in assets that match the cash flows of the guaranteed payments (ignoring derivatives)?" This framework is then applied to a series of benefit combinations in Section 3.6. A&H products would likely be classified under either "indemnity" or "fixed benefit" in the chart in Section 3.6. Our A&H policies pay a fixed amount based on an event or an occurrence. As the chart in Section 3.6 points out, "indemnity events are generally uncorrelated with markets." In addition, the liabilities associated with our A&H products are cash-flow matched as the assets supporting these liabilities are primarily held to maturity, which reduces our exposure to market risk dramatically. As the chart in Section 3.6 states, "the resulting correlation of our liabilities with the market in tail events" is not of a scale that would disrupt markets. Therefore, our types of A&H products do not expose us to any substantial market risk. Liquidity risk In evaluating substantial liquidity risk as outlined in Item 3.2 of the Consultation Document, three factors are under review - (1) "delay in access," (2) "economic penalty relative to account value" and (3) "ancillary factors." Typically, A&H products have no surrender, withdrawal or termination provisions that would require some sort of "quick" asset sales as they have little to no accumulated cash value. Generally speaking, the benefits in our A&H products can

			only be accessed by filing a claim. Due to the low or non-existent cash values in our A&H products, the policyholder is very unlikely to lapse due to economic conditions, which makes disintermediation an immaterial concern for our A&H products. Accordingly, the immaterial cash value of A&H policies means that the insurer is not exposed to significant liquidity risk (i.e., delay in access and economic penalty relative to economic value are not relevant considerations). In addition, the United States and Japan - the only countries in which Aflac operates - have well-established policyholder protection schemes (i.e. guarantee funds), which provide policyholders with the "confiden[ce] that they will be paid if an insurer is placed in disorderly run-off." We welcome the opportunity to continue this discussion with the IAIS and are more than willing to assist in any way possible to facilitate the IAIS' review of the NTNI analytical framework.
American Council of Life Insurers	United States	No	ACLI believes that a near-term focus on features of specific contracts and products is likely to consume supervisory and industry resources without illuminating a path to global financial stability. We urge that in the longer-term the IAIS extend its analysis to include assessing the global insurance industry's potentially systemically risky exposures and the channels through which those exposures might have a globally systemic impact on the financial system. A reasonable bridge from the near-term to a longer term analysis is to introduce some reliance on jurisdictions' expertise in assessing systemically relevant exposures within that jurisdiction. A partnership between the global and local supervisory communities in the process of identifying potentially systemically risky exposures would likely be fruitful for supervisors and serve to promote global financial stability.
National Association of Mutual Insurance Companies	United States	No	Question 15. Issue being addressed: The list of lines of business is very general and leaves open the possibility of significant changes in the findings in the consultation document. Rationale and Basis for Comment: Changes in the NTNI definition and/or products impacted will significantly impact the insurers subject to capital requirements that use NTNI as a basis for additional charges. Alternatives for Consideration: Any change in the products or lines of business included as NTNI should be required to be part of a new consultation that is open for public comment for at least 45-60 days before it is adopted as a change to the NTNI definition. NAMIC urges the IAIS to delete Annex 1 altogether at this point in the discussions. There is no value in leaving the door open to the addition of several products that are not mentioned or assessed in the consultation draft.
American Academy of Actuaries	United States of America	No	The references to "certain types" of "property and casualty/liability" and "health" insurance are vague and quite broad. Many disparate, individual product types are subsumed within these categories. As such, it is unclear what specifically will be evaluated in these areas.

			We also note, as in Question 5, that in many cases, dividend-paying participating life insurance products in the United States will include minimum guaranteed cash values, but typically will not include a guaranteed dividend payment.
American Insurance Association	United States of America	No	The IAIS has included an illustrative annex, which provides examples of products and activities that could be assessed under the NTNI analytical framework. Importantly, the annex includes references to "[c]ertain types" of property-casualty insurance (without specifying any particular lines) and, more generally, refers to credit and financial guarantee insurance. The purpose of this annex is unclear and creates the impression that these identified lines of business may be sources of systemic risk. AIA would appreciate a more narrow delineation of those property-casualty insurance lines that are at issue. The IAIS has asked whether the list of products/activities in Annex 1 is "representative of the insurance activities and products that are conducted in the listed jurisdictions." AIA respectfully recommends that the IAIS further narrow those products/activities based on jurisdictional definitions. Care needs to be taken to appropriately evaluate similarly-named products from different jurisdictions that have different risk characteristics. For example, surety has been cited in some IAIS documents as falling under the heading of credit and financial guarantee insurance. Yet, surety products as written in the U.S. are not viewed as having any systemic risk potential. Equally important, as AIA has pointed out in footnote 1, an assessment of indemnity products (like the vast majority of property-casualty insurance products) may make little sense if there is no substantial market risk involved and no general correlation with markets or macro-economic events. If there is a different purpose for this annex - for example, it could be a list of products that will be used in a cross-jurisdictional analysis to find common elements - then further clarification is requested.
Prudential Financial, Inc.	United States of America	No	We agree that the exposure channel and asset liquidation channel underpinning the proposed framework have the potential to transmit risk to the financial system however; the analysis of an insurer's exposure to these transmission channels should take place within the assessment methodology. We recognize the IAIS' interest in purely quantifiable metrics to better allow for the consistent application of concepts across jurisdictions; however the heterogeneity of the insurance sector - which the IAIS has acknowledged - does not easily lend itself to such measures. Taking a more direct approach to assessing an insurer's exposure to these transmission channels - accomplished through enhancements to the G-SII assessment methodology - would offer a more transparent, consistent, and objective approach.
MetLife, Inc.	USA	No	We reiterate our suggestion in Question 17 below (and in our response to the related consultation on the IAIS proposed updated assessment methodology) that the most effective approach is the development of a quantitative assessment of systemic risk based on systemic risk transmission channels. We also believe that the Interconnectedness and Asset Liquidation categories should incorporate appropriate risk management tools that can objectively be shown to diminish or eliminate the impact of failure. One benefit of this approach is that it would avoid the complicated challenges associated with developing a list of NTNI products and activities that would need frequent revision.
Northwestern Mutual	USA	No	No comment.
Property Casualty Insurers	USA	No	We do not understand why "certain types of Property and Casualty/Liability Insurance" are listed in the Annex as meriting further consideration. Indemnity products are properly judged to subject insurers to no significant market or liquidity risk and therefore no systemic risk.

Association of America (PCI)			
16 - In light of your response to this Consultation, to what extent, if any, should the IAIS revise the existing NTNI Principles to allow for the consistent application of the NTNI concept across jurisdictions? To what extent do the three Principles help inform the IAIS' common understanding of what products and activities should be classified as NTNI? Please explain your answer.			
CLHIA	Canada	No	We believe it may be premature to revisit the Principles, but we do recommend the IAIS keep this question open. When reviewing the Principles the IAIS must ensure that only items contributing to systemic risk or loss given default are captured rather than the probability or vulnerability to default.
Insurance Europe	EU	No	A consistent application of the NTNI concept across jurisdictions requires a clear understanding and assessment of the expected impact of failure, the probability of default and the systemic risk potential that is embedded in interconnectedness, liquidity risk and the use of derivatives. Insurance Europe believes that the NTNI methodology should focus on activities/products that are not socially/economically desirable and/or are not properly managed. For the scope of macro-prudential regulation, supervisors must look at residual risks that are not already captured by existing micro-prudential and other regulation.
Global Federation of Insurance Associations	Global	No	On the basis of this consultation document, it is premature to suggest revision of the NTNI principles. However, further consideration of the principles has demonstrated that NTNI is an elusive concept, difficult to determine with any certainty. GFIA suggests that the IAIS re-consider the validity attached to this concept before pursuing further the process set out in the consultation process.
Institute of International Finance/ The Geneva Association	Global	No	Principle 1 states that "Products that provide credit guarantees to financial products such as securities, mortgages and other traded or non-traded instruments - whether principal or interest - can be considered NTNI." We believe this principle should be reconsidered in light of the framework. There is a wide array of products that fit the above description, not all of which contribute to systemic risk or would meet the classification of NTNI as given in this consultation. We propose to add the explanation "when credit guarantee or coverage is short-term in nature then the exposure to systemic events is limited" to the principle. Principle 2 states that "Policies or products that expose the insurer to substantial market and liquidity risk and require more complex risk management practice by the insurer in order to hedge those risks and may require substantial, complex, and dynamic use of derivatives, can be considered NTNI." We believe that Principle 2's focus on market and liquidity risks, and the use of derivatives to identify products that may contribute to systemic risk is inaccurate, and that the Principle would therefore require revision. At this moment, it remains mostly unclear from the NTNI framework how vulnerabilities such as market and liquidity risks link to transmission channels of systemic risk (asset liquidations and inter-institutional exposures). As we have elaborated in

			our answer to question 11 of the G-SII assessment methodology consultation, it is equally unclear in most instances how and why the use of derivatives would be a defining characteristic of insurance products being systemically important. Derivatives are an essential tool for risk management for insurers, and risks associated with their use are often managed through measures such as counterparty exposure limits, collateralization and central clearing.
AIA Group	Hong Kong	No	The general thrust of focusing on product features as a first step is appropriate. The current consultation is a good first step in that direction, but the major flaw of focusing on "substantial market risk" needs to be fixed.
on behalf of the European GSIIs, Aegon, Allianz, Aviva, Axa and Prudential	International	No	A consistent application of a NTNI concept suppose that a clear distinction is made between impact upon failure, probability of default, and a sound economic assessment of the systemicity embedded in interconnectedness, liquidity risk, recourse to derivatives. NTNI methodology should focus on activities/products that are not socially / economically desirable and/or not properly managed by firms as well AIG like non insurance activities. Supervisors must look at residual risk after giving due consideration to actual residual risks not captured elsewhere, risk management framework firms, micro prudential put in place. Any massive systemic event (yet to be evidenced on a massive scale in the insurance sector) would primarily be a national market issue. If an activity/product is deemed systemic then all players carrying out such activity should be subject to the same regulation.
Swiss Re	Switzerland	No	Swiss Re urges the IAIS to sharpen Principle 1. The explanation states: "When credit guarantee or coverage is short-term in nature then the exposure to systemic events is limited." This point materially qualifies the principle. Therefore the IAIS should make it part of Principle 1 explicitly.
Association of British Insurers	United Kingdom	No	Consistency among supervisors can be the focus of IAIS peer review. NTNI principles should focus more on transmission channels and less of vulnerabilities. It is important that the assessment of systemic risk be consistent across different participants in the financial system, while recognising the unique characteristics of each type of participant. We believe further work is required to achieve this.
Allstate Insurance Company	United States	No	We would re-define NTNI in terms of what it is intended to represent (i.e., potentially systemically relevant activities), as opposed to what it is not intended to represent. In addition, we would include more explicit consideration of risk mitigation activities and conditions as these are both relevant in the consideration of the existence and magnitude of systemic risk.
American Council of Life Insurers	United States	No	Further discussion of the Principles could be useful. Concepts of liquidity transformation within Principle 3, for example, should be discussed.

National Association of Mutual Insurance Companies	United States	No	Question 16. NAMIC believes that the goal should be to achieve a reduction in systemic risk instead of consistency. 1. First this is because a consistent application is not truly achievable as each country has a different set of non-traditional products and product features, different transmission elements/channels/ vulnerabilities, and different regulatory solutions and tools to mitigate or reduce these vulnerabilities. 2. Second, the IAIS enforcement mechanism to mandate change in each country is limited. While the peer review and IMF assessments provide incentives, there is no true enforcement mechanism. The only methodology that will be effective in reaching levels of consistency is maintaining strong communication between regulators about the application of the IAIS ICPs and other guidance in each country. A project that presumes it is capable of achieving consistency will either never be concluded or will ultimately fail in reaching the goal of reducing systemic risk. The best approach for the IAIS is to communicate the basic intent, provide principles worthy of achieving and allow local supervisors to implement in the manner that is consistent with their basic regulatory and political framework. If this approach is followed by frequent communication through supervisory colleges and through the IAIS then the goal of minimizing systemic risk and a level of consistency is possible.
American Academy of Actuaries	United States of America	No	While we believe that the IAIS has identified a useful group of principles that are relevant to the evaluation of market and liquidity risks associated with insurance products, we are concerned that these principles may be used to develop overly prescriptive presumptions, linked to specific product labels and features, for implementation across disparate jurisdictions. Insurance markets around the world differ considerably from each other. There is wide variation among product lines, tax regimes, consumer behavior, policyholder protection schemes, and many other relevant factors. As such, local regulators should be afforded discretion to apply the Consultation's principles flexibly, making exceptions and other adjustments as relevant for their individual jurisdictions.
Prudential Financial, Inc.	United States of America	No	Principle 2 should be revised to focus on potential systemically relevant exposures (PSREs) that, following an assessment of risk management activities, expose an insurer to substantial market and liquidity risk to a degree that jeopardizes the stability of the global financial system and real economy.
MetLife, Inc.	USA	No	Consistent with its proposal of an alternative means of assessing insurers for potential systemic risk, MetLife suggests that the IAIS reorient their focus on "NTNI" and adopt principles that align with interconnectedness and asset liquidation and assess risks on a loss-given-default basis. See our answer to Question 17 for more details.
Northwestern Mutual	USA	No	No comment.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	The Principles and the revised NTNI framework should be better aligned. In addition, the consequences of the framework should be carefully considered to ensure that they do not dis-incentivize appropriate use of derivatives or other prudent risk management practices that serve not only to reduce risk to the insurance firm, but also (via the transmission channels) reduce risk to the financial system. Moreover, the NTNI framework should not discourage product offerings that are socially desirable, for instance, products that facilitate retirement savings and provide retirees confidence that they can participate in the markets, yet enjoy the security of principal and/or income protection. The use

			of derivatives, in a controlled environment, ought to not be discouraged. Consistent application of the NTNI concept could be enhanced if: - Further clarification is provided on the salient determination points such as cash flow matching (currently step 2 in the market risk assessment) and the application of ancillary factors. - A mechanism is established whereby products/product features flagged by different jurisdictions could be submitted for review to the IAIS on an on-going basis.
17 - Comments:			
CLHIA	Canada	No	The Canadian Life and Health Insurance Association Inc. ("CLHIA") is a voluntary trade association whose member companies account for 99 percent of Canada's life and health insurance business. Our industry provides a wide range of financial security products such as life insurance, annuities and supplementary health insurance to about 26 million Canadians. The CLHIA actively follows and responds to developments from the International Association of Insurance Supervisors ("IAIS"). We appreciate the opportunities to provide input to the IAIS. For example, the CLHIA was pleased to make submissions in 2012 on both the (initial) Assessment Methodology (inclusive of comments on NTNI) and the Policy Measures consultations. We are appreciative of the IAIS's efforts to improve the NTNI methodology, including seeking stakeholder input. Recognizing the challenge faced by the IAIS in creating an effective NTNI construct, we believe the IAIS has made some progress with this Draft, but we still have considerable concerns. Above all, we urge the IAIS to ensure the NTNI construct does not result in the undesirable, unintended consequence of discouraging insurers from offering appropriate protection and savings products. From a conceptual perspective, we also encourage the IAIS to acknowledge in the NTNI document that the identification of NT products and their contributions to systemic risk is highly complex and nuanced, given the global diversity of features, policyholder behaviour and business practices. As such, we believe the NTNI process should be viewed only as providing a reasonable initial screen as input into Phase II of the Assessment Methodology, with heavy reliance on later phases to adequately reflect company management of risks and product nuances to ensure GSII designations are limited to only those insurers posing significant systemic risk, without an objective of having an arbitrary number of insurers designated as GSIIs each year. From a technical perspective, we have trouble comprehending how the conclusions of market risk (chart in section 3.6) and liquidity risk (chart in section 3.17) feed into the scoring for the NTNI category (45% weight) and its indicator subcomponents (proposed 7.5% weightings). An example would be helpful.
China Association of Actuaries	China	No	We reckon it might not be enough to identify NTNI (and set corresponding capital requirement) simply based on the liquidity features of products. To illustrate it further, assume both two insurers own large proportion of business of short delay in access and low economic penalty products, however, one insurer has done some thoughtful experience study, carried out sophisticated ALM and risk management, and considered the related liquidation cost in the financial market,

			thus the liquidation risk for this company will be much lower than the other one. As for a further comment, we reckon that current HLA scheme is a size-orientated approach (setting economic penalty for predetermined risky activities based on the business volume), which would not effectively reduce the true risk and may discourage product diversity in insurance market. We suggest that risk and ALM management evaluation as well as financial market concerns and etc can be considered, besides the product features, in the HLA formula in the future.
Insurance Europe	EU	No	Insurance Europe would like to highlight following key messages for the NTNI consultation: - Insurance Europe welcomes the opportunity to contribute to the IAIS work on the identification of non-traditional, non-insurance (NTNI) activities and products. It appreciates that the consultation document proposes a multi-stage process which is required in order to arrive at an appropriate assessment of activities that have an actual potential of systemic risk. - The identification of vulnerabilities and the inclusion of an assessment of transmission channels is important to recognise that vulnerabilities will, in many cases, not result in actual transmission of systemic risk. Such an outcome is sensible when the vulnerabilities have the potential for a too small impact on the financial system and the real economy or/and because the transmission channels do not exist or simply do not lend themselves to propagation of vulnerabilities. - However, as with the development of any framework, appropriate design and calibration of the framework are key, including a focus on not overestimating the vulnerabilities by ignoring risk-mitigation tools and management and supervisory actions. Insurance Europe can see how a framework correctly developed from this starting point could provide global supervisors and regulators with the assurance that they have correctly identified and can monitor any increases in such activities. - It is important that the macro-prudential nature of systemic risk is more adequately recognised by the IAIS and reflected in its approach to defining measures targeting systemic risk. A clear distinction between macro- and micro-prudential tools should be made in the framework. In the current proposal, some elements are in many cases already addressed by micro-prudential regulation and supervision. For example, the existence of institution-specific vulnerabilities in itself does not create systemic risk and vulnerabilities are addressed by robust micro-prudential regulation. The vulnerabilities identified by the IAIS (ie market and liquidity risk) can and are in many cases already addressed by the micro-prudential framework, so the IAIS work on NTNI should only focus on residual risk, which is not addressed by the micro-prudential framework and which can lead to systemic outcomes with a potentially significant impact on the economy. What is missing is a global sector-wide, or possibly a financial system-wide, view of vulnerabilities and contagion channels, and a systemic risk framework to address them. In addition, Insurance Europe does not support the IAIS approach on derivatives as it believes that the risk identified by the IAIS, ie the loss of derivative hedging in a stressed market, will lead to a balance sheet risk for the insurer but that this should be addressed by a risk-based micro-prudential framework and not by regulation of systemic risk. - While it is sensible that the identification of NTNI products and the level of systemic risk of NTNI products is led by the national authorities, this exercise should be based on the framework set out by the IAIS. It is imperative that national supervisors work closely together to ensure full consistency in the establishment and application of the internationally defined framework. Consistency in application and implementation should be further tested by the IAIS in the

			recalibration of the Basic Capital Requirement (BCR) and the Higher Loss Absorbency (HLA). Insurance Europe welcomes the IAIS approach of creating an analytical framework for NTNI, including principles based on which insurance products across jurisdictions should be classified. It believes that the identification of products and features that can give rise to systemic risk should be left to national supervisors, as they have the knowledge and understanding of their own markets. The national and regional market knowledge must be shared globally through the IAIS to establish a common international framework and ensure its consistent application. The consistent application of the analytical framework across jurisdictions should be tested in the process of recalibrating the BCR and the HLA. - The analytical framework does not sufficiently emphasise the role and importance of both management and supervisory action in reducing the systemic impact of NTNI. This element should be separately included and considered as part of both the analysis of both vulnerabilities and transmission channels. The systemic consequences should be assessed only based on residual risks. For example, supervisors can intervene to prevent a liquidity problem arising from mass surrenders and avoid transmission of risks to the financial systems. - The proposed approach for assessing liquidity risk is incomplete and does not fully capture the interaction between contractual features relating to surrender options and other elements such as management and/or supervisory actions; policyholders' assessments of costs and consequences of surrender; and the presence of guarantees. The existence of the possibility for supervisory and/or management actions should be included as a separate factor, as such actions can be used to minimise liquidity risk. More specifically, in many cases insurers have the contractual ability to delay surrenders and/or resolution authorities have the power to apply temporary stays. In fact, it is no coincidence that in market where products have flexible surrender options supervisors have the power to intervene. The decision to surrender is not straightforward for policyholders and this can create a significant disincentive to surrender. Policyholders are in fact faced with uncertainty as they will need to weigh up whether they are ready to lose valuable benefits/guarantees that are only payable at specified contractual events, to be faced with tax implications that they had not planned for, to incur additional costs in securing alternative provisions, to require advice which may be difficult to find and costly, etc. In addition, the existence of guarantees will create an extra disincentive for policyholders to surrender and guarantees should in fact be considered when assessing liquidity risk. - The design of the framework seems to over-weigh the importance of liquidity risk, but capital is not a tool to manage liquidity risk in the insurance sector. Over-weighing liquidity risk in the NTNI identification would lead to a capital add-on (ie the HLA) largely targeting liquidity. In the insurance sector capital may be an answer to a solvency issue, but not to liquidity, so the framework should avoid an implicit capital charge for liquidity risk.

			- The liquidation of assets can have an impact on both the financial position of the insurer and financial markets overall. The former should be dealt with under micro-prudential regulation and should not be part of the systemic risk framework. The assessment of the latter should be refined to reflect both whether policyholders have the choice of asset allocation and the liquidity management by the insurer. Insurance Europe supports the IAIS assessment that unit-linked products without guarantees pose no market risk and should therefore be removed from the list. In addition, unit-linked products where policyholders entirely bear the investment risk do not expose insurers to liquidity risk if the investments are clearly allocated to the policyholder, no investment guarantees exist or guarantees expire fully in case of surrenders. In cases where policyholders have the choice of asset allocation, the issue is not insurance-sector specific and one can argue that the same investment choices would have been made via another intermediary or directly by customers. Therefore, penalising insurers will not reduce systemic risk. In cases where insurers have discretion over the asset allocation, and where micro-prudential risk-based supervision foresees liquidity management requirements, the exposure to forced sales of assets will be significantly reduced. - Insurance Europe objects to the IAIS approach on derivatives and it believes that the use of derivatives for risk management and hedging should be taken into consideration. The IAIS should recognise that systemic risk concerns linked to derivatives have already been addressed by the derivatives reform launched by the G-20 in 2009 and there is therefore no macro-prudential justification for considering the use of derivatives as a source of risk. The IAIS assessment is based on the case where, in stressed market conditions, derivatives that need rolling over would become unavailable. While this is a possible scenario, further considerations are needed to appropriately capture the risk of derivatives. Such considerations include: i) the emerging regulatory framework for derivatives ensures, through its design and calibration, that collateral is available to offset losses caused by the default of a derivatives counterparty; ii) if the derivative cannot be rolled over and the insurer has an unhedged balance sheet risk, this should be dealt with by the micro-prudential supervisory framework and not by the systemic risk framework; iii) in many cases derivatives do not need rolling over as the maturity of the derivative matches the expiration of the risk, so the hedge remains in place in all market conditions (unless, of course, default of the counterparty occurs, which should also be part of micro-prudential supervision).
AXA	France	No	To Mr. Yoshihiro Kawai Secretary General International Association of Insurance Supervisors Re: IAIS Public Consultation Documents: Global Systematically Important Insurers: Proposed Updated Assessment Methodology Non-traditional Non-insurance Activities and Products

			Dear Mr. Kawai, AXA appreciates the opportunity to provide comments on the two consultation papers released by the IAIS on November 25, 2015, respectively addressing a Proposed Updated Assessment Methodology for Global Systematically Important Insurers (G-SIIs), and Non-traditional Non-insurance Activities and Products (NTNI). AXA actively contributed to the preparation of the two answers to these consultations that are filed, separately from this letter, on behalf of all European G-SIIs: please refer to these answers, which we fully and strongly support, and which provide a comprehensive set of comments and responses to the consultation papers. While we believe that all aspects of these comprehensive answers deserve careful attention, we would like nevertheless to highlight the following points. 1. Overall, we do not believe that the approach of designating individual institutions is an efficient tool to address possible systemic risk in the insurance sector. Such an approach gives too much weight to political considerations (cf. discussion regarding reinsurers, opacity about why firms get on or off the list, treatment of pension funds, etc.) at the detriment of economic foundation and misses out on developments affecting the sector as a whole. 2. We also think that the "Non Traditional" terminology is per se very confusing and too simplistic to address effectively where insurance activities may potentially give rise to systemic risk. It may refer to very "traditional" activities/products which address fundamental policyholders" needs, with a variety of characteristics specific to the Insurance business model, and which have never caused any threat to financial stability even at the worst peak of financial crisis. It would as well be misleading to link complexity, and innovation in insurance product design, to systemicity. 3. The two IAIS consultation documents provide an opportunity to identify how Insurance products /activities may be exposed to system vulnerabilities, in particular market and liquidity risks, and how there may be transmission channels of firms vulnerabilities to the system. This analytical framework still requests some significant further work and improvements, as in its current state the distinctions between vulnerabilities and transmission channels, as well as between micro-prudential supervision and systemic risks, are too often blurred. We believe that a sound and appropriate framework should much more clearly separate the analysis of the way the insurer manages its risks in the first instance, and then the way the possible residual risk not kept by the insurer might be transmitted to the rest of the market, at which stage only there might be potential systemic risks. 4. As illustrated by the previous point, as well as in other instances in the two consultation papers, we find the importance of Asset Liabilities Management and of Enterprise Risk Management more widely, to be systematically and significantly underestimated. We urge the IAIS to work on a drastic evolution of the proposed frameworks in that respect. Without such work, the IAIS would miss out on two key areas, and its framework would provide results that do not correspond to the reality in financial institutions and markets. 5. In particular, both frameworks should much more clearly acknowledge the fact that the use of derivatives by the insurers, all the more in relation with products that have a strong social utility such as the provision of retirement coverage, is unlikely to create significant systemic risk, notably given the relatively small exposure of insurers to

			derivatives compared to other sector players such as banks. A typical systemic investment bank will hold about 100-200 times more derivatives than a systemically important insurer; these orders of magnitudes should be considered in the assessment of systemic risk in the financial system. We therefore fundamentally challenge the figure 2 (paragraph 3.5) of the NTNI consultation paper, that gives reward exclusively to the ability of the insurer to invest in assets that match the cash flows of the guaranteed payments, with no consideration given to alternative risk management tools including the use of derivatives. This binary approach is technically unjustified and represents a significant flaw of the currently proposed NTNI framework as it is substantially demonstrated in the European G-SIIs answer. 6. With respect to the Proposed Updated assessment Methodology, while we welcome the intent to use more absolute reference values as well as the introduction of a Discovery Phase aiming at better capturing qualitative factors, we would like to encourage IAIS to go significantly further in extending the number of indicators where the score would give full consideration to the comparison of the relevant measure of such indicator for a given insurer with the corresponding measure for the global economy, and in clarifying the way qualitative factors will be duly reflected in the final assessment. This Discovery Phase may also provide an opportunity for supervisors to appreciate whether a potentially systemically relevant activity, depending upon the way the risk is managed and mitigated, really poses a systemic threat to the system. 7. Finally, with reference to the link made in paragraph 52 of the Proposed Updated assessment Methodology consultation paper with the application of HLA, we would like to stress that capital is not a tool to manage liquidity risk. Rather, we believe that liquidity risk can be appropriately addressed only by risk management considerations such as the ones embedded in the Liquidity Risk Management Plan (LRMP), and potentially also the Systemic Risk Management Plan (SRMP), that have already been shared with the relevant supervisors. As a further illustration, we note that the management of liquidity risk in the Banking industry is also largely independent of considerations on capital needs. We hope that the common answers provided by the European G-SIIS as well as this letter will be helpful to the IAIS in order to further improve the proposed frameworks, and thank you for your attention to these issues. Yours sincerely, Christian Thimann Group Head of Strategy and Public Affairs
Allianz Group	Germany	No	We welcome the opportunity to comment on the IAIS's proposal of an analytical framework for the identification of non-traditional insurance activities. In general we refer to the separate consultation feedback and answers provided by the group of European Global Systemically Important Insurers. In addition we want to highlight some specific points above.
GDV - German Insurance Association	Germany	No	The German Insurance Association (GDV) welcomes the opportunity to comment on the updated assessment methodology and would like to make the following key comments:

			- The approach of basing the classification into NTNI on product features and in how far they could amplify systemic risk seems to be a step in the right direction. - The paper gives reason to presume that fixed interest rate guarantee products are not to be classified as NTNI. Yet, the vague wording leaves room for interpretation and a clear disqualification is missing. We are strongly convinced that fixed benefit and profit participation products are not exposed to substantial market risk (or liquidity risk) and do therefore not qualify for being classified as NTNI. This should be explicitly clarified in the NTNI definition paper. - Additional relevant considerations regarding particular products should be made by the group supervisor where necessary. The final decision on the classification of particular products as NTNI should be at the discretion of the responsible group supervisor.
Munich Re	Germany	No	We appreciate the opportunity to comment on the consultation paper on NTNI. In this context, Munich Re supports the CRO positions as stated in NTNI-paper of the CRO-Forum in 2013 (see CRO Forum: NTNI from a CRO Forum perspective (February 2013)). In the course of this consultation we had also discussions within the German insurance industry, initiated by the German Insurance Association (GDV), and we have contributed to the GDV positioning. This explains the use of the same wording in some of our responses.
Global Federation of Insurance Associations	Global	No	Summary: The Non-traditional Non-insurance Activities and Products (NTNI) principles set out in the GSII Policy Measures document have given rise to a wide range of interpretations, and the IAIS was right to attempt to clarify the NTNI concept. However, the process proposed by the IAIS in this consultation for assessing NTNI status manages to be at the same time complex and arbitrary. The reason for this is that, on closer examination, the factors that lead to NTNI status are difficult to assess simply. This raises questions about the validity of the NTNI concept, and GFIA suggests that the IAIS should reflect further on this before pursuing further the process set out in the consultation document. GFIA is also concerned that, once the NTNI category is affirmed, regulators across the globe might misunderstand the concept and develop restrictive rules for NTNI products (eg ring-fencing), leading to the penalisation of these products. If this happens, then the crude classification process described in Section 3.17 will not be adequate. In addition, uncertainty about the scope of NTNI makes the consequences for policyholders and savings levels difficult to determine. The IAIS has so far analysed the issues entirely from the standpoint of financial stability. GFIA believes that a balance needs to be struck with consumer protection and the social impact on savings levels. The NTNI concept should not end up discouraging insurers from offering appropriate protection and savings products. GFIA notes that the IAIS describes this consultation as the "first step" in a three step process to clarify the NTNI concept and as such much work will be needed to reach any conclusions on the determinant nature of what constitutes a NTNI. The NTNI principles included in Annex 2 will require testing and GFIA supports the IAIS' commitment to do so with input from stakeholders as appropriate. GFIA would like to underscore that it is paramount that the relevant stakeholders be part of this process in order to achieve the best possible outcomes in this regard. The document is silent on the question of the authority responsible for making the assessment, and this needs to be clarified. The expertise of local regulators is essential, as they understand the products and their historic performance. Given the wide variety of products/business practices globally, the NTNI document and methodology might, in practice serve as an initial screen, with local regulators applying supervisory judgment and further robust analysis in phases 3

			and 4 of the G-SII Designation methodology. On the other hand, GFIA expects regulators to work together to ensure a consistent approach to the assessment, and to ensure that the scope of NTNI does not inevitably expand, leaving insurers and their policyholders open to regulatory uncertainty about the status of new, emerging or changed products. The document overstates, and in some instances improperly concludes, systemic risk associated with designated products, possibly as a consequence of the IAIS' focus on the contractual elements of NTNI. It is right to draw a distinction between vulnerabilities and transmission channels, but the logic of this distinction need to be followed through. Vulnerabilities only lead to systemic risk if they are transmitted to the financial system and the wider economy. The transmission channels themselves can be blocked or slowed down by supervisory or management action, and this needs to be taken into account. We also note that exposure to economic downturns (a microprudential issue) should not be confounded with causes of systemic risk. Specifically, the IAIS has taken an over-doctrinaire approach to the use of derivatives. Like any financial market, the derivatives market has frailties. Many of these have been addressed by the waves of regulation since the financial crisis. However, the IAIS insistence on ruling out any contribution that derivatives make to delivering the benefits of the policy effectively eliminates from the assessment the support of other participants in the market for those guaranteed benefits. It cannot be the case that policyholders are in exactly the same position as they would be if relying on the insurer´s balance sheet alone. Finally, GFIA notes that the paper is vague on how property and casualty insurance is to be treated by the NTNI framework. Annex 1 lists "certain types of property and casualty/liability insurance" as a product category for potential review - this is rather broad. Moreover, broad references to property and casualty insurance for review does not make sense in light of the IAIS's prior statements. In its November 2011 "Insurance and Financial Stability" (IFS) paper, the IAIS stated that, "based on information analysed to date, for most lines of business there is little evidence of traditional insurance either generating or amplifying systemic risk within the financial system or in the real economy. Of course, empirical assessments about the systemic importance of insurers and insurance groups may change over time." GFIA has no reason to believe that the IAIS has subsequently changed the classification of property and casualty insurance generally from "traditional."
Institute of International Finance/ The Geneva Association	Global	No	General comments Before responding to the questions of the consultation documents, we would like to make some important comments of more general relevance. We appreciate that the IAIS is proposing revisions to the G-SII methodology as well as its core component, the definition of non-traditional, non-insurance (NTNI) products and activities. As indicated in the past, we believe the framework for systemic designations should be significantly revised in order to conclusively address systemic risk in a way that is compatible with the distinctive characteristics of insurance. On the whole, we think that the general intent of the proposed changes in both the G-SII and the NTNI methodologies proposed by these consultations is directionally appropriate. In particular, we note the following improvements in the proposals: - In the G-SII methodology proposal, we generally support the application of absolute reference values as opposed to the current relative, sample-based reference values. The relative ranking of insurers among the sample of approximately 50 firms is not representative enough to determine the potentially systemic nature of an insurer. Taking system-wide indicators would enable the methodology to measure the contribution of insurers to systemic risk in the context of the financial system as a whole.

			- The introduction of a qualitative phase to the assessment methodology provides an opportunity for the IAIS and supervisors to learn about critical elements of an insurer's business model that may be difficult to capture quantitatively at this point in time. Knowledge gained from the qualitative phases will provide the IAIS and supervisors relevant information to refine a firm's score in the quantitative assessment and provide insurers clarity on the basis for their consideration or designation as a G-SII and, thereby, how they can avoid or shed designation(1). - The introduction of a quantitative threshold in Phase II of the designation methodology, if transparent and provided to the firms submitting the data, can provide additional clarity to firms on the entry and exit criteria from the G-SII list. The formalization of engagement between regulators and candidate G-SIIs in Phase IV of the assessment procedure is also welcomed as a positive development. - We believe that the proposed NTNI framework offers more transparency primarily by structuring the thought process behind the categorization of products and activities as non-traditional. However, we believe that major flaws in both the designation methodology and the NTNI concept are unfortunately not yet being addressed by the currently proposed changes. Below we highlight the major areas where we believe further work is required. Distinguishing between risk and systemic risk We believe the current G-SII assessment methodology and the underlying NTNI framework does not appropriately distinguish between macroprudential and microprudential risk. Both must better distinguish between the probability of default and the loss-given default; and between a firm's own risk profile or exposure to risk on the one hand and the potential for a firm to transmit or amplify risks to the system. Systemic risk, by nature, is macroprudential, and concerns loss-given default: the potential damage of an institution's failure on the financial system(2). In contrast, the likelihood of an individual institution's failure in itself is a microprudential issue, which is accounted for in microprudential regulation and supervision. The systemic risk framework should focus on system-wide and cross-sectoral risks beyond single institutions, propagating to the system through the identified transmission channels within the insurance sector, the financial system and the real economy. As of today, the IAIS has not demonstrated the link between these vulnerabilities and the transmission mechanisms of systemic risk. In line with academic research on systemic risk, the IAIS identifies two transmission channels of systemic risk in its NTNI consultative document: inter-institutional exposures and asset liquidations. Unfortunately, it remains unclear exactly how these relate to NTNI products and activities. While the liquidity and market risks identified in the proposed non-traditional insurance (NT) methodology are indicative of the risks on an individual insurer's balance sheet, they are not necessarily indicative of the risks its activities pose to the financial system at large. As such, the analysis does not clearly articulate how vulnerabilities translate through identified transmission channels to systemic risk. Nor does the analysis distinguish between:

			- origination, contagion and amplification channels, and - macroprudential and microprudential considerations. As with all insurance products, the presence of a vulnerability should only be addressed by systemic risk regulation if its order of magnitude warrants it and it links to a transmission channel of systemic risk. Incentives for risk management We strongly advocate a more prominent role and incentives for tractable components of insurance risk management in the assessment methodology. A firm's asset-liability management (ALM), diversification of assets and liabilities, hedging strategies and collateralization policies are crucial determinants of its risk profile and any potential risk it may pose to the financial system at large. - Indicators and risks, i.e. market and liquidity risk, should be viewed net of related risk management tools. For example, derivatives should be netted with collateral, technical provisions should be net of reinsurance ceded, liability liquidity should consider the liquidity of the assets backing the liability, and the probability of surrender should be net of all considerations that influence such policyholder behavior (forgoing coverage, ability to secure replacement coverage, tax ramifications, etc.). In that way, indicators would better reflect the actual size of risks exposures to the financial system. For example, in the case of derivatives, collaterals reduce exposure to the financial system and thus reduce the impact of a potential default on the system. - Derivatives are not adequately represented in the framework. Derivatives can be held to maturity, in turn minimizing rollover risks (the inability of a firm to roll over derivatives would present a microprudential rather than a macroprudential problem). Derivatives can also help hedge nonlinear exposures without the need for complex hedging strategies such as dynamic hedging. We therefore propose that the derivatives indicator in the G-SII assessment method would exclude derivatives held for risk management purposes and be corrected for the use of master netting agreements and the transfer of collateral. - While the NTNI framework reflects some aspects of ALM(3) , this does not create incentives for good risk management for the individual insurer, as it is only used for the general designation of products as NTNI. The qualitative Phase III of the G-SII assessment method should better take applied risk management into account, like ALM, collateralization, and hedging using derivatives and other strategies. Appropriately measuring the contribution of insurance to systemic risk in the wider financial system The G-SII designation methodology should better reflect the systemic risk contribution of the insurance sector to the wider financial system. The introduction of absolute reference values in the methodology is a step forwards; however absolute reference values need to be implemented in the G-SII methodology in a way that will actually have an impact on the designation or (non-designation) by reflecting system-wide developments. The introduction of absolute reference values can lead to some practical problems in the G-SII assessment

			methodology's quantitative assessment, as it leads to an implicit change in the indicator weights. This issue is currently not addressed by the IAIS in the G-SII methodology consultation document. For any indicator, changing reference values reflecting a sample of firms to one reflecting the entire financial system (or, where appropriate, the entire insurance sector) will increase the denominator. As the individual insurer's score for this indicator will now be divided by a larger denominator, the outcome value of the indicator will decrease in size. Since not all indicators in the G-SII assessment are being changed to absolute reference values, indicators with sample-based references will have a relatively larger impact on the total G-SII score, because their denominator is likely smaller. This issue illustrates the importance of the IAIS making clear choices on how to implement absolute reference values in the methodology. Yet the current proposal leaves open a possibility of (some) relative scoring, even using absolute reference values(4). We advocate that the IAIS implements absolute reference values in a way to reflect "absolute', system-wide reference values. Only in that way can the contribution of the insurance sector to systemic risk in the financial system be measured. It is thus crucial for the IAIS to carefully assess the impact of the introduction of absolute references on the relative impacts of all the indicators, category weights, and on the total G-SII score. While the proposed introduction of a quantitative threshold and of absolute reference values for some indicators may increase the clarity and stability of an insurer's score in the G-SII assessment methodology, the scoring method remains largely relative and the intent of introducing these elements is not clearly explained in the consultation document. When a firm's designation and bucket allocation is determined not only by its own activities, but by the ranking of those activities relative to those of other firms, de-risking of the individual firm may not lead to a decrease of its score in the assessment procedure. Therefore, the use of absolute measures should be extended to include other indicators; we would advocate for the IAIS to find appropriate reference values for these indicators (please see our answer to question 2 of the G-SII designation methodology consultation). Asset liquidations and procyclicality In the NTNI consultation, the IAIS identifies the "asset liquidation' channel and the related problem of procyclicality in investment behavior as a transmission channel of systemic risk. In this regard, designing an insurance policy framework that promotes stability in the valuation of insurer's balance sheets is important. Without any stabilizing arrangements, the market-adjusted valuation used by the IAIS in the BCR and HLA could have a procyclical impact on the valuation of insurer's balance sheets, potentially incentivizing fire sales when asset prices collapse in a market shock, as it will be more difficult to "look through' cycles. The qualitative assessment in Phase III We support the inclusion of a qualitative assessment phase in the G-SII assessment methodology, given the heterogeneity of the insurance sector and the difficulties in quantitatively measuring key elements of an insurer's business model, provided that the IAIS does not default to a qualitative assessment which reduces the comparability of G-SII assessments. The qualitative assessment under Phase III should assess both the quantitative data collected and relevant ancillary factors including the manner in which risk is managed within the insurer, for example utilizing the Systemic Risk

			Management Plan where available, to ensure that the data is representative of potential systemic risk. The qualitative assessment should ensure that quantitative outputs for each indicator that are not indicative of systemic risk are discounted from the assessment score, especially given the link between the score and the bucketing for HLA. Any adjustments to rank or score must, however be subject to a framework that would ensure consistent, comparable and transparent treatment of all GSIIs, such as described under this section paragraph 2 below. Should the IAIS choose to include in Phase II's quantitative assessment an indicator with no link to the financial system, we recommend that the qualitative assessment ensure that an insurer's ranking and score are commensurate with the potential of its failure to impact the financial system in a systemic manner(5). With the information available in the consultation document, it is hard to estimate the influence and role of Phase III in the process. Too large a role for supervisory judgment could make the G-SII process subjective and result in uncertain and inconsistent designation outcomes. In general, a qualitative assessment should be set up in such a way as to ensure consistent, comparable and transparent treatment of potential G-SIIs. The BCBS criteria and instructions for supervisory judgment in the G-SIB designation methodology, tailored for insurance as appropriate, may offer a starting point for parameters to guide the Phase III process. Guidelines should include a non-exhaustive list of elements to be considered and potentially a requirement for peer review of the effort. Given the necessary focus on risk management within an insurer, the group supervisor will be best placed to perform the qualitative assessment. We advocate that insurers are fully involved in Phase III to explain the features of their firm identified in the qualitative assessment. At the moment, it is hard to understand the underlying rationale for the IAIS to choose whether indicators are part of Phase II (Quantitative Assessment), Phase III (Qualitative Assessment) or of both phases (e.g. reinsurance). It is imperative that a consistent rationale underlies the distribution of indicators across Phases II and III. Transparency, entry and exit The designation process should not only provide a solid assessment of a companies' potential systemic impact, but provide them with a clear "off ramp" from G-SII status. For that reason, it is important that the entire designation process be transparent towards the companies. All firms participating in the G-SII designation exercise should know their individual score to allow them to make an informed decision on how to de-risk. They should be actively involved in the entire process. We recommend the IAIS consider inclusion of an appeal process in Phase V of the proposed updated methodology, such that insurers selected for recommendation to the FSB for G-SII designation are afforded the opportunity to appeal the grounds of their designation with the FSB independently of the IAIS. Such an appeal would presume that G-SIIs will have been able to engage with the IAIS and their group-wide supervisors in meaningful discussions of the reasons for their proposed designation. Meaningful discussions would include information on individual indicator and aggregate scores, rank and how the quantitative threshold was computed. Implementation of the G-SII assessment methodology and NTNI concept It seems unclear which regulatory or supervisory body (national regulators, supervisory colleges or the IAIS) will be responsible for the designation of insurance activities as non-traditional in the current NT revision process. We would

			appreciate if the IAIS could clarify this. In our opinion, the most appropriate body here is the group supervisor with accompanying peer review, made in consultation with the insurer. We request further clarification from the IAIS on the process of implementing the changes in the G-SII assessment and NTNI methodologies in time for the 2016 G-SII assessment exercise. The consultations provide no guidance on the potential for future consultations or further stakeholder engagement on these critical topics. Instructions for the data collection and related definitions We welcome the periodic review process of the G-SII assessment methodology by the IAIS but note that whatever the changes and improvements, the quantitative and qualitative assessments must rest on unambiguous instructions and definitions. The data collection informing the 2016 G-SII designations will be the fourth. Accordingly, we request that the IAIS make a major improvement in regard of the instructions and definitions that are relevant for the data collection. To give some specific examples: - The scope of third party reinsurance is not fully defined yet. It is not clear whether firms are expected to report business volume originated through fronting under the reinsurance indicator or not. - As for life insurance, the 2015 data instructions suggest assessing surrender values under normal economic conditions and stressed market conditions. However, the IAIS fails to define the stressed market conditions to establish a robust comparison among the sample firms. This is of particular relevance in regard of the applicability of stays on surrenders, their ultimate duration, and hence the pay-out pattern. While the ability of authorities to suspend surrenders is codified in various markets, it is situational and fraught with rational and behavioral considerations. Insight in the methodology The G-SII consultation proposes a range of punctual changes - process and quantitative assessment/indicators. The consultation paper does not articulate well how these changes interrelate, if they do at all, and what the overall expected impact and improvements are. All in all this makes it hard to fully grasp the overarching rationale behind this update. For example, it is difficult for stakeholders to give suggestions on how to improve the responsiveness, or address the normalization, of indicators without detailed knowledge of the underlying issues the IAIS is aiming to address. Estimating the ultimate and combined effect of these changes on the methodology is also difficult because the methodology is tightly interlinked with other parts of the G-SII framework, such as the bucketing approach in the Higher Loss Absorbency Capacity (HLA). The industry can currently only make general comments and formulate theoretical considerations about many of the proposed changes. For example, while the industry supports the trend towards the use of absolute reference values, the amendment of only some indicators to absolute reference values may produce results that are more difficult to judge. These results could contradict outcomes based on an assessment approach relying solely on absolute indicators, rather

			than a hybrid construct. Also, details of the determination of absolute reference values are not clear. The IAIS' G-SII assessment methodology consultation document mentions that "For indicators with absolute reference values, the absolute reference value will either replace the sum of responses from the sample insurers in the denominator of the indicator score calculation or add a factor to the indicator score calculation that reflects market developments(7)." We discuss our position on the application of absolute reference values into detail in the response to G-SII assessment consultation question 2. FOOTNOTES 1) We understand the IAIS intends, in Qualitative Phase III, to better evaluate the quantitative results of Phase II assessment in order for the heterogeneous nature of the sector to be adequately accounted for. As it stands Phase III could alter an insurer's ranking but not alter its score. We welcome a qualitative assessment, subject to criteria as described in our section "qualitative assessment in Phase III" and elsewhere in this response. In footnote 5 we address an apparent incongruity that arises when Paragraphs 39 and 40 of the Updated Methodology are read with current HLA guidance, which proposes that GSIIs will be assigned to buckets on the basis of their overall assessment score. 2) This conclusion was reached, for example, by the BCBS in its July 2013 report on the updated assessment methodology for banks: "The Committee is of the view that global systemic importance should be measured in terms of the impact that a bank's failure can have on the global financial system and wider economy, rather than the risk that a failure could occur. This can be thought of as a global, system-wide, loss-given-default (LGD) concept rather than a probability of default (PD) concept." Source: Basel Committee on Banking Supervision, "Global systemically important banks: updated assessment methodology and the higher loss absorbency requirement," July 2013. [Emphasis added by the IIF and the GA.] 3) Cash flow matching is reflected in the NTNI framework (see NTNI consultation, table on p. 10). 4) As the G-SII assessment consultation document states in paragraph 15, p. 9: "For indicators with absolute reference values, the absolute reference value will either replace the sum of responses from the sample insurers in the denominator of the indicator score calculation or add a factor to the indicator score calculation that reflects market developments" (emphasis added by IIF/GA). The proposal thus leaves open the possibility of (some) relative scoring in the methodology. 5) There is an apparent incongruity that arises when Paragraphs 39 and 40 of the Updated Methodology are read with current HLA guidance, which proposes that G-SIIs will be assigned to buckets on the basis of their overall assessment score. Paragraphs 39 and 40 together suggest that a potential G-SII's rank could be altered by considerations that take place in the qualitative Phase III but that Phase III considerations will not alter Phase II scores unless there are "substantive errors" in data analysis. It would be only logical to bring an eventual HLA charge in line with a potential G-SII's final rank (ie, corrected with Phase III's inputs). 6) See 2015 data instructions, paragraph 4.10 on "Liquidity' 7) See IAIS, "Global Systemically Important Insurers: Proposed Updated Assessment Methodology - public consultation document," 25 November 2015, paragraph 15, p. 9.
AIA Group	Hong Kong	No	AIA Group is pleased to and appreciates the opportunity to participate on the consultation on "Non-traditional Non-insurance Activities and Products".

on behalf of the European GSIIs, Aegon, Allianz, Aviva, Axa and Prudential	International	No	Non-traditional Non-insurance Activities and Products The European Global Systemically Important Insurers (E-GSIIS), Aegon, Allianz, AVIVA, AXA, Prudential, appreciate the IAIS' on-going dialogue with the industry in the development of an analytical framework to identify Non-Traditional Non-Insurance Activities and Products (NTNI) via the consultation document dated November 25, 2015. Setting out an analytical objective framework to identify NTNI activities is an important step. We have with the IAIS a common understanding that the objective of the NTNI is to capture those insurance activities, which contribute to or amplify systemic risk such that they could result in a systemic impact to the global financial system. Such an analytical, product-oriented framework should rely upon a sound economic foundation in order to make it workable and effective, and allow a reliable anticipation of whether activities (products) will be classified as potentially systemic. We understand, that, an additional objective of the IAIS is to capture, through the concept of NTNI, those insurance activities or products that in particular include features that give rise to risk that is correlated with the market, create asymmetry between the risk and how it is managed, and risk that cannot be contained within an insurer. Such an approach is susceptible to different subjective interpretations, may give room to arbitrariness in product identification and therefore must carefully consider whether such risks are necessarily transmitted to system. If it is determined that these risks are transmitted to the system, there should be a consideration of how the risk of transmission is managed and if there is any material residual risk. We note that non-insurance banking like activities, "with the potential to create immediate liquidity stresses, due to maturity transformation combined with large leverage" which have indisputably this characteristic, are not the object of the consultation. Non-insurance activities are likely to be the most relevant in assessing potential systemic impact and should clearly receive greater scrutiny. We have more detailed answers to the NTNI framework as proposed in the consultation paper provided separately below. However we would like to specifically highlight more general observations as follows. 1. Systemic risk and micro-prudential supervision role as well as "System-to-firm" risks and "Firm-to-system" risks must be clearly distinguished We appreciate that IAIS analysis is broken down by vulnerabilities ("System-to-firm" risks) and transmission channels ("Firm-to-system" risks) that could lead to a systemic risk to the global financial system from the distress or failure of an insurer undertaking some kind of activities. We infer from FSB approach that systemic regulation should focus primarily on areas where risks may be transmitted to the financial system . We however believe that, in the consultation paper, the distinction between the two is often blurred. On one side vulnerabilities are addressed by existing and robust micro-prudential regulation, which are designed to address the risk of failure of insurers. We also note that the existence of vulnerabilities in itself does not create systemic risk. Systemic risk is created only if there are transmission mechanisms. Hence it is important to ensure that systemic risk regulation does not overlap with micro-prudential regulation.

			On the other side the characteristics of the insurance business model allow for orderly resolution which by its nature would not pose a systemic risk to the global financial system. As well, trading volumes of accessible markets, volume of activities, substitutability, and timing in settling policyholders' obligations are key elements that should be considered when assessing the systemic effects of insurance failure. 2. Transmission channels are key to determine whether a risk is systemic or not. As characterized by the IAIS they seem to overlap with micro-prudential considerations. The analysis of transmission channels as characterized by the IAIS seems to overlap with micro-prudential considerations. It is asserted that NTNI activity could allow a shock to spread more easily to other financial institutions or markets. It is not clear whether the IAIS believes that NTNI activities increase the likelihood of failure of an insurer or whether it is believed that NTNI activities create more linkages with other financial institutions and therefore have a more material impact if a failure was to occur. The likelihood of failure for an individual firm is a matter for micro-prudential regulation and should not be confused with systemic risk. The Industry and IAIS had agreed in the observation that there is little evidence of the bulk of insurance activities either generating or amplifying systemic risk. We see as a potential risk that the transmission channels characterized by the IAIS may result in many of the life insurance business activities being seen as potential source of systemic risk, depending on the conclusion of the upcoming IAIS product testing. For the Industry the NTNI concept, in the on-going process to build up a systemic supervisory framework, must be limited at targeting Insurance activities, products which have really a potential to create systemic risk. 3. Systemic risk assessment and measures should be based on the residual risk remaining after micro-prudential measures that also serve to reduce systemic risk Assessment of potential transmission channels and capacity to transmit risk to the global financial system should be done in terms of actual risks that remain after accounting for risk management practices and not be based on theoretical possibilities. The identified transmission channels need to be viewed in the context of the firms risk management and of the micro-supervisory tools to determine whether any material residual systemic risk remains, which cannot be contained within the insurer. This could indicate that particular product lines may have the potential to be deemed NTNI. Ideally the residual risk identification might adopt a through-the-cycle view on market vulnerability. Introducing an NTNI framework that targets market vulnerability on the top of a market based valuation basis for the BCR/HLA while ignoring risk management practices, may harm the traditional contribution of the Insurance business model to the stability of the financial system. Therefore products/activities giving rise to potential market risks should be assessed after giving due consideration to actual residual market risks that may be transmitted to the system and not already captured elsewhere, e.g. by use of collaterals to manage counterparty exposures, micro-prudential capital requirements, and risk management frameworks (SRMP, LRMP, RRP). They provide a more sophisticated way to assess the degree of residual risk and should therefore be taken into account in determining whether any of firms' products expose it to a heightened residual risk that might

lead to their classification as NTNI.

As well market risks related to the use of derivatives/CDS must be identified in terms of residual risk not already covered by any existing laws and regulations. Existing risk management, mitigating factors regulatory frameworks, collateralization and clearing, (e.g. under EMIR/Dodd Frank) should therefore be fully acknowledged.

4. Systemic risk measures should be targeted at all players in the insurance industry conducting systemically risky activities, not only large institutions

If an activity/product is deemed systemic then all players carrying out such activity should be subject to the same regulation in order to ensure that the total systemic risk that exists in the system is appropriately monitored and managed. Systemic risk measures cannot be efficient if targeting only a few players in a much larger market.

5. Further factors should be considered in the liquidity risk assessment

We believe that the assessment of liquidity risk in the context of insurance is exaggerated within the consultation paper. We welcome the fact that the IAIS has included consideration of a wider set of factors than surrender charges and delay in surrender in its assessment of liquidity risk. However we believe that the provision of guarantees is also a disincentive for surrenders, especially in weak markets, as the guarantees are likely to be in the money for policyholders. We also believe that other factors such as tax disincentives, surrender payment adjustments and economic cost disincentives should be considered. These factors should be applied to determination of NTNI activities as well as the designation methodology.

6. Capital is not a tool to manage liquidity risk in the Insurance sector

A consequence of an activity to be deemed NTNI is to determine the basis of the capital surcharge. In the Insurance sector capital may be an answer to solvency issue, never to liquidity risk. It is therefore essential to ensure that capital surcharge (HLA) is not applied to products that may be deemed to be NTNI on account of liquidity considerations.

7. The identification of NTNI products and the level of systemic risk of NTNI products in each jurisdiction should be led by national authorities based on the framework. It is also imperative that mechanisms are put in place to ensure consistency of application globally.

The analytical framework for NTNI must be principles based. The ultimate identification of products and features across jurisdictions that can give rise to systemic risk should be led by national supervisors, as they have the knowledge and understanding of their own markets. The consistency of the application of the analytical framework across jurisdictions should be checked by peer review through testing exercises. Consistency is important for firms, since individual insurers may be active in various markets with similar products and should not be faced with situations where such similar products are treated materially different within the G-SII framework.

8. Cross-sectorial consistency

			It is important that the assessment of systemic risk be consistent across different participants in the financial system, while recognising the unique characteristics of each type of participant. We believe further work is required to achieve this. It is not immediately apparent to us, for instance, why asset management activities conducted within insurance groups might attract a "systemic risk surcharge' whereas those in other (considerably larger) asset managers do not.
Swiss Re	Switzerland	No	Swiss Re would like to thank the IAIS for the opportunity to respond to this Consultation Document (CD) on Non-traditional Non-insurance (NTNI) Activities and Products. We are pleased to submit our response, which we hope will prove useful for the IAIS going forward. In particular, we have sought to provide constructive suggestions for multiple aspects of the proposed NTNI definition. We also provide critical commentary on specific aspects of the methodology where we have serious concerns that proposed changes may not be complete or reflective of the characteristics of specific products and/or their potential to transmit risk to the wider financial system. We are happy to elaborate on any of our responses in a dialog with the IAIS. We consider the framework largely appropriate for identifying sources of risk for individual insurers. However, while an insurance product's implied market and liquidity risks have consequences for the risk profile of the individual insurer, they do not necessarily pose risk to the financial system as a whole. Rather, this depends on two elements: - The insurer's NTNI interconnectedness with the financial system, i.e. on transmission channels that propagate systemic risk. - The financial systems susceptibility to the respective risk. This is a truly macro-prudential aspect. Micro-prudential measures will not capture it. Significant further work is necessary in this respect and we believe that this should be a focus area for the IAIS. The IAIS should differentiate between risk transmission channels that propagate systemic risk and those that do not, e.g. reinsurance. Moreover, the IAIS should analyze which risks are truly systemic, i.e. to which risks the financial system is vulnerable. Swiss Re understands from IAIS' response during the Stakeholder Meeting in Basel on 20 January that the NTNI assessment is performed separately for each product with different features and each jurisdiction. Swiss Re welcomes this clarification. A category like "Credit Insurance/Financial Guarantee" would have been too broad to enable a meaningful assessment.
Aegon N.V.	The Netherlands	No	Aegon NV welcomes the opportunity to respond to the IAIS Public Consultation Document, Non-traditional and Non-insurance Activities and Products. Aegon's mission is to help people achieve a lifetime of financial security. We fulfill this mission by providing insurance protection, lifetime income, and other financial services products to customers across the globe. Based in the Netherlands, Aegon's largest operations are in the United States, where we operate under the Transamerica brand. We also have significant operations in Europe and Asia.

			We appreciate the many opportunities that the IAIS provides for stakeholders to provide input into the IAIS's standard-setting process. Aegon participated in the development of the response submitted by the group of European-based Global Systemically Important Insurers and supports the viewpoints expressed in that response. In our response, we highlight issues of particular importance to us. We are not persuaded that individual insurance products generate systemic risk, nor do we believe that the term "non-traditional" is inherently meaningful. We do, however, support the goals of the Consultation Document. Specifically, if certain activities and products are to be identified as possessing elevated systemic risk, we welcome efforts to provide a clear conceptual framework to underlie the identification process. We would also support a coherent and consistent application of the "NT" concept across a wide variety of products sold in different jurisdictions. Unfortunately the Consultation Document falls short of meeting these worthy goals: - The discussion of "substantial market risk" conflates risks to the insurer ("system-to-firm" risks) with risks that the insurer might pose to other institutions ("firm-to-system" risks). We continue to see as missing a sound conceptual basis for classifying certain products as NT and recommend a clearer focus on the underlying drivers and transmission channels of systemic risk. - We believe that the Consultation Document inappropriately suggests that derivatives are an unsound instrument for insurers. In our view, derivatives facilitate effective risk management and allow risks to be absorbed by other participants in the financial system. They also allow socially-beneficial products with long-term guarantees to coexist with market-adjusted valuation approaches. Derivatives should therefore be regarded as useful risk management tools that, when well understood and managed, contribute to the safety and stability of the financial system. We therefore fully support the E-GSII views on derivatives as explained in the E-GSII response to question 4 of the consultation. The use and exposure of insurers to the derivatives market is relatively small compared to banks and practically all activity is for risk management purposes rather than trading. With regard to embedded guarantees, in addition to providing financial security, we believe that such guarantees promote financial stability by facilitating the transfer of market risk from consumers to financial institutions, where it can be managed and diversified. Therefore, while such guarantees clearly have a type of social and systemic "relevance," they do not necessarily generate systemic risk. The macro-prudential tools that are adopted in the G-SII framework should recognize this differentiation to prevent unintended consequences. - The Consultation Document can be interpreted to propose a scope of systemically relevant products that is vastly increased from the current scope. This is despite the fact that IAIS representatives have indicated during stakeholder meetings that they do not consider that many insurance products generate systemic risk. As we discuss in our response to question 4 below, the consultation's description of "substantial market risk" could be interpreted in a manner that would be inclusive of the vast majority of products sold by life insurers. We are persuaded that such an extreme broadening was not the intent of the authors of the Consultation Document. It does suggest, however, that the Consultation Document may not provide an adequate framework to assess objectively which products have systemic relevance. - The Consultation Document provides minimal additional clarity as to how "significant liquidity risk" would be assessed. As we understand the document, only products with an extraordinary large penalty of at least 20% and a delay in access

			of more than 3 months would be exempt. Most products would be subject to classification on the basis of a host of "ancillary factors," applied judgmentally. Therefore, we believe that additional work needs to be done to identify a clear, coherent, and consistently applied framework to determine what products or activities should be viewed as having systemic relevance.
American International Group (AIG)	U.S.	No	January 22, 2016 Yoshihiro Kawai, Ph.D. International Association of Insurance Supervisors Bank for International Settlements CH-4002 Basel Switzerland Re: Public Consultations on Assessment Methodology for Global Systemically Important Insurers (G-SIIs) and on Non-Traditional Non-Insurance (NTNI) Activities Dear Dr. Kawai: American International Group, Inc. (AIG) appreciates the opportunity to offer comments on the International Association of Insurance Supervisors' (IAIS) public consultations on Assessment Methodology for Global Systemically Important Insurers (G-SIIs) and on Non-traditional Non-insurance (NTNI) activities. In assessing macroprudential regulatory initiatives and standards such as the G-SII and NTNI assessment methodologies, AIG believes that the paramount policy consideration should be whether the proposed standard appropriately identifies, deters, and disincentivizes the build-up of demonstrable systemic risks within the financial system. In AIG's view, the following themes are vital to meeting this objective: Explicit and impactful recognition of risk mitigation. Both the G-SII and NTNI methodologies focus primarily, if not exclusively, on the attributes that are accretive to the IAIS's assessment of systemic risk. We believe that, both to promote the credibility of the assessment process and to incentivize de-risking actions, the G-SII and NTNI methodologies should each formally embed a consideration of a diverse and evolving array of risk mitigants, including sound risk controls and governance, stress testing, and hedging strategies, as well as other information that places quantified measures into a broader context. Modest initial calibration as framework develops. Achieving an effective systemic risk mitigation framework requires a range of tools, including risk-sensitive consolidated capital ratios, group-wide stress testing, robust enterprise risk management practices, and liquidity management. It is essential that this suite of tools be developed in a way that considers their potential interplay, complementarity, and, in certain cases, potential redundancy or excess. The potential

			for a still nascent policy framework to pose adverse, unwarranted consequences to the insurance market and to the provision of socially-valuable products is the prime reason why AIG continues to urge the importance of a capital calibration that is initially modest. System-wide perspective beyond insurance. Systemic risk is, fundamentally, a set of vulnerabilities that stem from risk factors that are present across the financial system. While the G-SII and NTNI methodologies focus specifically on insurer activities and their potential for posing systemic risk, AIG believes that this assessment should be aligned with, and reconcilable to, risk dynamics across the financial system. AIG directionally supports the aspects of the G-SII assessment methodology that seek to address some of the clear shortcomings of the current approach. In particular, AIG views the following as important progress in moving the G-SII process towards providing greater transparency for insurers to understand the drivers in their designation, establishing a clearer path for insurers to reduce their quantified systemic risk footprint, and enhancing the credibility of the overall designation process: - Moving to the use of absolute benchmarks rather than relative peer scoring, a necessary shift which is incremental within the proposal and needs to be expanded considerably to better recognize broader trends in insurance industry de-risking and, in turn, incentivize insurers to take instrumental actions to reduce their systemic risk footprint; - Reducing the reliance on a formulaic approach, by incorporating a specific stage in the process to weigh qualitative factors, contextual information, and potential mitigants; - Establishing a more defined cut-off point for G-SII scoring, promoting transparency and greater comparability across bank and non-bank financial institutions, which we are confident would illustrate the substantially lower degree of systemic risk posed by G-SIIs and other large global insurers; and - Promoting greater dialogue and engagement between potential G-SII candidates and the supervisory authorities leading the designation process. Regarding the NTNI proposal, AIG agrees with the spirit of the IAIS's application of a "first principles" lens on the attributes that might potentially engender or transmit financial risks across the system. However, we are concerned that the principles as framed could inadvertently scope in a panoply of Life and Retirement products that are valuable to customers and already, especially in more recent vintages, feature important embedded or contractual liquidity and market risk mitigants. We urge the IAIS to pursue an iterative engagement and further consultations as the process commences for identifying the particular products that would be scoped in. Additionally, we note the binary "all or nothing" practical application of an NTNI concept, which by only applying to G-SIIs (either through the designation process or HLA) creates an adverse incentive for the provision of these products to migrate to smaller, less diversified carriers or less well or unregulated market participants. We suggest that, akin to the proposed incorporation of a new qualitatively-oriented stage in the G-SII process, the IAIS also consider a qualitative dimension to assess the contractual mitigants and broader risk management that can significantly reduce the systemic vulnerabilities of products classified as NTNI under these new

			criteria. Very truly yours, Daniel L. Rabinowitz cc: Paolo Cadoni Chair of the Field Testing Working Group International Association of Insurance Supervisors Victoria Saporta Chair of the Executive Committee International Association of Insurance Supervisors John Maroney Head of Financial Stability International Association of Insurance Supervisors Lauren Hargraves Senior Vice President Federal Reserve Bank of New York Hampton Finer Vice President Federal Reserve Bank of New York Patrick Brady Deputy Senior Supervisory Officer Federal Reserve Bank of New York Thomas Sullivan Associate Director, Division of Banking Supervision and Regulation Federal Reserve Board Linda Duzick International Negotiator, Policy for the Insurance Sector Federal Reserve Board Matti Peltonen

			Supervising Insurance Analyst Federal Reserve Board Shirin Emami Acting Superintendent of Financial Services New York State Department of Financial Services Michael McRaith Director, Federal Insurance Office U.S. Department of the Treasury A. Thomas Finnell Jr. Deputy Director, Federal Insurance Office U.S. Department of the Treasury Steven Seitz Deputy Director, Federal Insurance Office U.S. Department of the Treasury Elise Liebers Senior Director National Association of Insurance Commissioners Ramon Calderon Director, Center for Insurance Policy and Research National Association of Insurance Commissioners
Center for Economic Justice	U.S.	No	The Center for Economic Justice is unable to submit comments by tonight´s deadline due to unforeseen circumstances. We request the opportunity to submit comments by end of day tomorrow 26 January.
Prudential plc	UK	No	We have contributed to industry responses on this consultation, including a European G-SII response, and this response should be read in conjunction with these other responses. We are very happy to discuss these points of feedback with you at your convenience. Our key observations are: - We regard the IAIS' decision to develop an analytical framework to identify NTNI activities as an important step forward. We welcome this and the fact that vulnerabilities and transmission channels are considered separately within the proposed framework. However, we consider the distinction between the two is often blurred in the consultation paper itself. In general, we believe that vulnerabilities are best addressed by micro-prudential regulation. It is important to ensure that systemic risk regulation does not become conflated with micro-prudential regulation but rather is focussed on capturing the negative externalities of firm failure on the wider financial system.

			- We believe that the assessment of liquidity risk in the context of insurance is exaggerated within the consultation paper. We welcome the fact that the IAIS has included consideration of a wider set of factors than surrender charges and delay in surrender in its assessment of liquidity risk. However, we also believe that provision of guarantees is also a disincentive for surrenders, especially in weak markets, as the guarantees are likely to be in the money for policyholders. - Another overarching point that goes wider than responding to the detail within the Consultation Papers is that we believe it is important that the assessment of systemic risk be consistent for the same activity across different sectors within the financial system. It is not immediately apparent to us, for instance, why asset management activities conducted within insurance groups might attract a "systemic risk surcharge' whereas those in other (considerably larger) on-insurance asset managers do not. - It is also important to consider the potential impact of classification of certain products as NTNI on the provision of products to consumers. The types of products caught by the current proposals can play an important economic role, and provide policyholders with the safety of protection against future events, be it an accident or retirement. Any unintended consequences for the provision of these products therefore need to be carefully evaluated in advance. It is therefore important that the methodology only capture products and activities that present true systemic risk. Further, we wish for this response to be private between the IAIS and us and not be made public.
Allstate Insurance Company	United States	No	Thank you for the opportunity to comment on G-SII and NTNI Proposals. We appreciate that both of the consultation documents are part of the International Association of Insurance Supervisors' (IAIS) effort to develop a global framework against which systemic risk can be identified and measured for the purpose of allowing jurisdictional regulators to come together with a common set of facts and measures to identify and manage emerging and existing systemic risks that threaten the global financial system. Systemic risk for insurers is that which has the ability to impact the entire market or a substantial market segment. Systemic risk manifests itself by way of restricting liquidity or impairing capital and surplus through the recognition of losses. Historical examples of systemic risk in the insurance industry include derivatives with exposure to contingent collateral requirements, mortgage and financial guarantees supporting the issuance of mortgage-backed and other securities, long-term care insurance with direct exposure to mortality improvements and the cost and impacts of treatment advances, traditional life insurance exposure to pandemics, and annuity products exposure to mortality improvements. In addition to insurance products originated, purchased reinsurance also carries with it systemic risk generated by assuming reinsurers that may grow to such a size that their failure could create systemic risk as it could impact the entire insurance market or a substantial market segment. We believe the dialogue should focus on those activities that create or amplify systemic risk. For insurers the focus is on activities that systemically strain liquidity or systemically impair reported capital and surplus. Systemic strains on liquidity most often arise from funding mechanisms that allow lenders to put instruments to the insurer with little or no penalty involved. This could involve short-term funding mechanisms such as commercial paper programs as well as institutional funding agreements and retail annuities where surrender penalties are low or have otherwise expired. In contrast, activities or actions that may systemically impair reported capital and surplus include reinsurance concentrations, writing credit derivatives, and engaging in business activities that expose the insurer to fair value accounting in situations where asset-liability positions are not sufficiently matched to protect the erosion of capital and surplus.

			To manage reinsurance exposures market participants typically look to collateralize reinsurer obligations. While this is prevalent in the U.S., the world's largest market for reinsurance, it is not as common outside the U.S.; therefore, when assessing the existence and magnitude of systemic risk, regulators should evaluate reinsurers as well as the terms upon which reinsurance activities are executed. As stated in our detailed response to the G-SII proposal, efforts to reduce or eliminate collateral requirements for reinsurance treaties and contracts executed with assuming reinsurers not domiciled in the same jurisdiction as the ceding company may produce systemic risk upon failure of an assuming reinsurer of sufficient size and scope as it could reduce and potentially impair the capital and surplus of ceding reinsurers that would be required to pay direct claims and unable to obtain cash reimbursement from the assuming reinsurer. In this situation in the U.S. currently, the assuming company could draw on a letter of credit or from funds held within a collateral account supporting the assuming reinsurer's obligations, however, this is contemplated to be removed in connection with the Covered Agreement negotiations intended to begin in early 2016. The importance of the G-SII Proposal is in its identification of G-SIIs based on their ability to produce or amplify systemic risk, as described above, for the purpose of applying additional capital charges to reduce the likelihood that a designated G-SII will fail and cause a systemic risk event to occur. The increased capital requirements placed on G-SIIs reduces returns on equity and otherwise serves as a constraint to growth and other actions and activities that an insurer may otherwise seek to pursue. Accordingly, the G-SII designation is one that most firms would seek to avoid if possible. As such, we believe it is critical that the designation framework and process remain both simple and transparent to provide firms who desire to avoid the G-SII designation a clear understanding of the steps to take to avoid such designation. The importance of the NTNI Proposal is that the principal activities considered to create systemic risk in insurers are non-traditional insurance activities (i.e., traditional insurance has been determined not to produce or amplify systemic risk) and non-insurance activities (e.g., writing credit derivatives). Our principal concern with the NTNI proposal is that it has yet to achieve a level of clarity necessary to allow insurance and reinsurance entities to run their business and make decisions with a clear understanding of the capital consequences of their actions. We believe there needs to be more robust discussions among the IAIS, jurisdictional regulators and regulated insurers to better define, identify, and measure those activities considered to produce or amplify systemic risk. In addition, we believe the term NTNI may be confusing in that it attempts to identify activities in terms of what they are not as opposed to what they are. As such, we believe it would be helpful to consider replacing the notion of NTNI with Potentially Systemically Relevant Activities (PSRAs) which is a direct identifier. In general, we view the NTNI Proposal as a positive step, although we believe that much more work must be undertaken between the IAIS, jurisdictional regulators, and regulated insurers to more comprehensively identify and measure activities that produce or amplify systemic risk. For example, we believe more work must be done in the area of reinsurance. Specifically, as it relates to ceding companies, we believe that reinsurance tends to reduce systemic risk as it diffuses otherwise concentrated risks throughout the insurance and other financial markets. In contrast, assuming reinsurers can both diffuse as well as produce systemic risk depending on the size of the assuming reinsurer. That is, spreading reinsurance risk between many moderately sized assuming reinsurers around the globe diffuses systemic risk whereas the concentration of reinsurance in very large, global assuming reinsurers can produce or amplify systemic risk upon the failure of one of these mega reinsurers.

			Responses to specific questions in the G-SII and NTNI Proposals have been submitted on-line. We hope you find our responses and observations helpful and would be available for any questions or further clarification you may have.
American Council of Life Insurers	United States	No	(1/25) The American Council of Life Insurers (ACLI) is a Washington, D.C.-based trade association with approximately 300 member companies operating in the United States and abroad. ACLI advocates in federal, state, and international forums for public policy that supports the industry marketplace and the 75 million American families that rely on life insurers' products for financial and retirement security. ACLI members offer life insurance, annuities, retirement plans, long-term care and disability income insurance, and reinsurance, representing more than 90 percent of the U.S. industry assets and premiums. Learn more at www.acli.com ACLI supports sound supervision. We believe that IAIS has an important role in articulating the principles of sound supervision and in serving as a forum for supervisory colleges and peer reviews. We also believe that IAIS's goal of contributing to global financial stability is a worthy aspiration. We do not believe, however, that the current NTNI approach serves that aspiration. We appreciate the opportunity to offer comments on the current approach and hope they will assist IAIS in clarifying a path toward that goal. The life insurance business model is to assume long-term risks–including market and liquidity risk–and to manage them. Each life insurer manages its asset-side exposure with its liabilities; that is properly subject to prudential supervision. If the management fails, a life insurer's capital may be eroded. That is a microprudential concern. The macroprudential question is the impact of that erosion on the global financial system. We believe that the current NTNI approach conflates the micro- and macroprudential questions. ACLI supports reorienting the NTNI toward potential systemically relevant exposures by realigning the indicators to distinguish between probability of failure and the impact of that failure on the financial system as a whole. Further work is needed to clarify how vulnerabilities to market and liquidity risks are transmitted to the financial system in such a way as to create or amplify a systemic event. We believe the need for that clarity will become apparent as IAIS tests the proposed framework. ACLI is also concerned that the current NTNI definition excludes both non-insurance and recognized product and balance sheet risk management. Including them both would contribute to developing a meaningful proxy for measuring what impact an insurer's failure could have on the financial system and ensuring that the measure is based on residual as distinguished from inherent systemic risk. We respectfully suggest that testing a framework without these critical elements is testing only a portion of the picture and could produce false-positive and false negative results. This is of particular concern if outcomes will inform the 2016 GSII assessment. Our products serve a valuable and important societal role in promoting the financial and retirement security of 75 million American households. They provide substantial benefit to society. That benefit must be considered in any public policy discussion.

Americans for Financial Reform	United States	No	January 25, 2016 International Association of Insurance Supervisors c/o Bank for International Settlements Basel, Switzerland Re: Public Consultation, Non-Traditional, Non-Insurance Activities and Products To Whom It May Concern: Americans for Financial Reform ("AFR") appreciates this opportunity to comment on the above-referenced Public Consultation on Non-Traditional Non-Insurance Activities and Products (the "Consultation') by the International Association of Insurance Supervisors (the "IAIS"). AFR is an American civil society organization coalition of more than 200 U.S. national, state, and local groups who have come together to advocate for reform of the financial industry. Members of AFR include consumer, civil rights, investor, retiree, community, labor, faith based, and business groups. AFR was created as a response to the financial crisis of 2008. Insurance companies played a significant role in this crisis, both directly and indirectly. American International Group (AIG), the world's largest insurance group at the time, was at the epicenter of the crisis, and of course collapsed and required the largest government bailout in U.S. history. Monoline financial guaranty (bond) insurance companies and mortgage insurance companies also played a major role in the crisis and in some cases also collapsed. While these links between the financial crisis and the insurance industry were well publicized, it is less well known that life insurance companies offering large amounts of variable annuities also took heavy losses and came under enormous financial pressure due to market-linked liabilities and the failure of their hedging strategies in stressed markets. In some cases these pressures, and their intersection with regulatory capital requirements, led to fire sales that increased losses in distressed markets. The overall issues around insurance regulation are of course complex. As holders of long-dated liabilities that are in some cases naturally diversified, insurance companies can potentially play an important financial stability role as a natural purchaser of assets in illiquid markets. Whether these benefits are realized depends on the details of insurance regulation, especially capital and reserving rules. But the nature of insurance company liabilities is also a critical factor, and can result in insurance activities that create financial stability risks, not benefits. The financial crisis experience demonstrates that insurance companies that take on non-diversifiable systemic risk linked to the performance of the financial sector or of key financial assets can create significant risks to the financial system. When insurers provide financial guaranty products, they can both fuel the growth of asset price bubbles and also be among the most exposed to asset price declines when such bubbles deflate. We believe that improvements in insurance company regulation, especially the regulation of the largest international insurance groups, are necessary to address such systemic risks. While the traditional U.S. system of state based insurance regulation has many strengths, the end of traditional legal (Glass-Steagall) separations between insurance and other forms of financial activity in the U.S. has contributed to an increase in the size of insurance companies and the complexity of insurance activity. The end of Glass-Steagall, the provision of financial guaranty products directly linked to asset prices, and the increasingly globalized nature of insurance, raises broad systemic issues that local

			regulators may not always be fully equipped to address. In this light, we welcome the IAIS initiative to highlight Non-Traditional, Non-Insurance (NTNI) activities and to coordinate global efforts to provide better oversight of such activities. We believe the conceptual framework laid out in this Consultation (as well as previous IAIS documents such as Insurance and Financial Stability and the G-SII Policy Measures) is a helpful one and likely to highlight insurance company activities most linked to systemic risk. Among the strengths of this framework are: 1) A clear focus on the dangers of non-diversifiable market risks created by financial guarantees. These risks are not reduced by the law of large numbers in the way that naturally diversified non-market risks (e.g. property and casualty losses) are. 2) The application of the framework to both institutional financial guarantee products, and to individual consumer products such as life insurance annuities directly linked to market or asset price indices. 3) Highlighting liquidity features of insurance products (such as generous surrender policies) that may expose insurance companies to run risk. 4) The recognition that hedging strategies that depend on derivatives (as opposed to clear ownership of underlying assets whose returns are being tracked) may fail in stressed markets. The dependence of regulatory action on potential hedging strategies is still an area of potential weakness in the framework. We would caution that activities which involve taking on large amounts of non-diversifiable financial risk should not be excluded from NTNI oversight simply because of claims regarding hedging of these risks. The actual time structure and nature of liabilities, the nature and liquidity of the assets matched to those liabilities, and the reliability of matched asset liquidity assumptions in stressed market conditions must all be carefully investigated. It is in this light that we strongly support the IAIS exclusion of derivatives-based hedges. Many such hedges were shown to be inadequate when life insurance variable annuities came under pressure in 2008-2009. We do not have specific responses to most of the specific questions in the Consultation at this time. However, we would like to respond to Question 1, regarding the appropriateness of the term "Non-Traditional, Non-Insurance' for systemically risky activities. We do not believe this term is appropriate. The identification of systemically risky activities should not depend on whether an activity is "traditional' in a jurisdiction or is new. Monoline bond insurers were arguably "traditional' in the United States prior to the financial crisis but turned out to be quite systemically risky. Although the question does not inquire as to the appropriateness of the "non-insurance' label, we also do not believe this term should be used. Financial guaranty products, including covered credit default swaps, may be seen as insurance products and in some cases have been in the United States. Yet they are still systemically risky. We would prefer that the IAIS use a term for these types of products that refers directly to the reasons why they pose systemic risks. These risks are generally related to financial guaranty risk and/or liquidity risk. In general, analysis of activities should not depend on static "classifications' into traditional or non-traditional activities, but on a regularly updated analysis of the actual underlying activities and the risks it poses.

			Thank you for the opportunity to comment on this Consultation. Should you have any questions, please contact Marcus Stanley, AFR's Policy Director, at marcus@ourfinancialsecurity.org or (202) 466-3672.
National Association of Mutual Insurance Companies	United States	No	General Comments This submission represents the collective comments of the membership of the National Association of Mutual Insurance Companies (NAMIC) in the United States. NAMIC is the largest property/casualty insurance trade association in the U.S., serving regional and local mutual insurance companies on main streets across America as well as many of the country's largest national insurers. NAMIC's 1,300 property/casualty insurance company members write $208 billion in premium and serve more than 135 million policyholders in the U.S. NAMIC members serve 48 percent of the personal lines (automobile/homeowners) market and 33 percent of the business insurance market. Over 200,000 people are employed by NAMIC member companies. NAMIC supports the IAIS's continued focus on activities and products of systemic importance. Non-traditional non-insurance (NTNI) activities are an important area of focus. And we provide herein several ways that the definition provided in the consultation can be improved and clarified by addressing factors and features contributing to systemic risk and even renaming the category of activities. The IAIS correctly stated in its November 2011 paper entitled, Insurance and Financial Stability, "for most lines of business there is little evidence of traditional insurance either generating or amplifying systemic risk within the financial system or in the real economy." Consequently the effort of the IAIS to focus much of the attention in the Basic Capital Requirement and the Higher Loss Absorbency applicable to GSIIs on NTNI is appreciated by NAMIC. NAMIC also agrees that the time was right to attempt to provide more information and definitional guidance to the industry related to NTNI to assure that it only encompassed those activities that actually did contribute to "amplifying systemic risk within the financial system or in the real economy." Finally, NAMIC agrees with the IAIS analysis that concludes that most property/casualty lines of insurance show no connection to systemic risk, no substantial market risk and no correlation with the movements of the market. Despite our basic agreement with the goal of the IAIS in the consultation document we have recommendations that we propose to render the definition clearly directed to the actual activities of concern. We will provide more information in these comments relating to the following: 1. Clarifications. There are other aspects of the NTNI definition that require clarification, especially which authority will be responsible for making the determination of whether a product line is a non-traditional insurance product (e.g. groupwide supervisors; supervisory college; local prudential regulators etc.); 2. Prudential Regulators. There are steps included within the definition that will benefit from further recognition of the role of local prudential regulators and consideration of prudential legal requirements, especially in the area of investment restrictions, assessment of what is non-traditional/systemic-risk causing and existing oversight of activities; 3. Insurers. There are factors included within the definition that will benefit from added recognition of the role of the individual insurer's enterprise risk management including liquidity and product risk management; 4. Guaranty Funds. There is language in the definition that will benefit from a more complete discussion of the role of policyholder protection plans like the guaranty funds in the U.S. 5. Process for Added Lines. Notwithstanding the IAIS general view of property/casualty insurance, there continues to be an open door in Annex 1 to reconsideration of property/casualty lines as well as other lines of insurance. We urge a focus on establishing a methodology and definition of NTNI in this consultation and the deletion of Annex 1 as it just

			raises unnecessary concerns. NAMIC has participated in the comments submitted by the Global Federation of Insurance Associations and those of the U.S. Chamber of Commerce and supports these comments. We will focus our attention in the comments below on important areas of emphasis and areas of concern for our membership not addressed in the GFIA remarks.
American Academy of Actuaries	United States of America	No	Thank you for the opportunity to provide feedback to the IAIS on its NTNI Consultation document. If you have any questions or would like to discuss these issues in more detail, please contact Nikhail Nigam, the Academy's policy analyst for risk management and financial reporting, at +1-202-785-7851 or nigam@actuary.org.
American Insurance Association	United States of America	No	AIA COMMENTS ON IAIS' PROPOSED NTNI ANALYTICAL FRAMEWORK The American Insurance Association (AIA) appreciates the opportunity to submit comments on the International Association of Insurance Supervisors (IAIS) November 25, 2015 Public Consultation Document, entitled "Non-traditional Non-insurance Activities and Products [NTNI]" (NTNI Consultation). AIA represents approximately 325 major U.S. insurance companies that provide all lines of property-casualty insurance to consumers and businesses across the United States and around the world. AIA members write more than $127 billion annually in U.S. property-casualty premiums and approximately $225 billion annually in worldwide property-casualty premiums. AIA's membership includes U.S. insurers that write insurance only within the U.S., U.S. insurers that write insurance inside and outside the U.S., and the U.S. subsidiaries of multi-national insurers. This diversity gives AIA the ability to analyze issues from many perspectives and enables us to draw on the global experience and expertise of our companies with many forms of insurance regulation. We have member companies that have been designated Global Systemically Important Insurers (G-SIIs), as well as members that are considered internationally-active insurance groups (IAIGs). Therefore, AIA and its members have a strong interest in ensuring that an appropriate analytical framework is developed for evaluating activities that can become a source of systemic risk. Our interest is particularly compelling with respect to the definition and accurate consideration of NTNI activities, which carry a 45% weighting factor within the assessment methodology for G-SIIs. BACKGROUND This NTNI Consultation constitutes the first of three steps, each of which will be open to public comment. This Consultation establishes the analytical framework for assessing whether products and/or activities should be considered NTNI based on their features and the ability to transmit risk to the broader financial system. The second step will apply the framework to catalogue products based on the NTNI assessment, and the third step will review the process yet again for gaps and needed modifications to the principles and framework. The analytical framework is illustrated in figure 1 of the NTNI Consultation (page 8) and the elements of the analysis are described in Sections 2.1 through 2.3. In brief, the framework seeks to individually scrutinize insurer products and activities, and evaluate whether they create exposure for the company or group, which can be transmitted to the broader financial system. According to the NTNI Consultation, products and activities are to be assessed for their NTNI potential based on their benefit and liquidity features, and whether those features expose the insurer to substantial market or

			liquidity risk. That exposure is further assessed to determine whether it can be transmitted through three different channels (exposure/counterparty; asset liquidation/market; and critical function/service [substitutability]) to destabilize the financial system. The NTNI Consultation also contains two annexes: (1) describing representative products and activities for IAIS assessment using the analytical framework; and (2) excerpting relevant NTNI principles from the G-SII Policy Measures document. It is worth noting that the NTNI Consultation only provides a framework for assessing "non-traditional" insurance products; while non-insurance products and activities are referenced, there is no extended discussion of such products/activities. SUMMARY OF RECOMMENDATIONS As discussed in more detail below, AIA respectfully recommends that the IAIS consider the following concerns as it determines how to consider NTNI activities in the broader context of the G-SII Assessment Methodology: - The Appropriate Consideration of a Product/Activity's Systemic Risk Potential. The proposed analytical framework is insurance-centric, rather than cross-sectoral, resulting in an artificial ranking of insurers and stigmatization of some insurance products as NTNI, which is used in this document to suggest systemically risky. The appropriate analysis should consider the insurance business model, correlation of risk, substitutability of the insurer and its products, as well as the proposed benefit/market risk/liquidity risk analysis proposed in the NTNI Consultation. - Purpose of NTNI Analytical Framework. The focus of the proposed framework should always be on identifying activities that can create systemic risk, and not on artificial classifications of "non-traditional" and "non-insurance". Indeed, the IAIS should consider changing the terminology from "non-traditional" to avoid confusion. The NTNI Consultation presents a reasonable approach for identifying sources of systemic risk, which should be applied to all activities of the insurance group - including those activities that were excluded from this consultation as "non-insurance" activities. For property-casualty insurers, the proposed framework correctly acknowledges that indemnity products, including surety, are not a source of systemic risk. - The Annex 1 List of Representative Products Needs Clarification and Definition. While we understand that the IAIS's inclusion of Annex 1 is meant to be illustrative of products and activities to be assessed, we are concerned by the broad references to "[c]ertain types of Property and Casualty/Liability Insurance" and "Credit Insurance/Financial Guarantee." AIA recommends clarifying the scope of products that would undergo NTNI assessment. (F/N 1) Further, statements in Annex 1 acknowledge that there may be differences in products among the various country-specific markets. It is our experience that there are insurer-specific differences in products even within the same country. Accordingly, if the IAIS chooses to assess "certain types" of property-casualty insurance despite their general classification as indemnity products without systemic risk potential, given the importance of the categorization of activities/products, it is equally important that the IAIS provide specific definitions for these activities/products so that insurers can determine whether their product offerings (regardless of the name or label) are in scope as part of the assessment. (F/N 1: Our understanding is that the IAIS has included Annex 1 as a means of reinforcing the point that there may be product differences by jurisdiction, so reliance on a product/activity name or label should not be determinative. While AIA agrees with this point, the IAIS has also stated that property-casualty lines provide indemnity coverage "for a

			specific loss, not a guaranteed value, and thus do not expose the insurer to substantial market risk." NTNI Consultation, p. 13 (Table 3.6). The IAIS goes on to note that "[i]ndemnity events are generally uncorrelated with markets." These statements reinforce the view that, normally, property-casualty insurance products and activities cannot be a source of systemic risk that would qualify them for NTNI consideration.) AIA CONCERNS WITH THE NTNI CONSULTATION The Appropriate Consideration of a Product/Activity's Systemic Risk Potential AIA's primary concern with the G-SII assessment methodology (and the policy measures that flow from that process) is that an insurance-centric analysis of systemic risk will result in a systemic "ranking" of insurers, rather than a determination of which financial products or activities are the source of instability across the financial system. AIA favors a broader, cross-sector analysis. Under the current methodology, a 45% weighting is applied to NTNI, so that any product or activity that falls into this category will be stigmatized. This stigmatization is particularly true of insurance products or activities that are labeled as "non-traditional." The IAIS tries to diffuse this issue by noting that "classification as "NTNI' is unrelated to the amount of time for which a product feature or activity has existed in a particular jurisdiction." (F/N 2) While this clarification is marginally informative, a more appropriate approach for evaluating insurance product would consider (1) whether the product follows the insurance business model, (2) whether the product poses risks to the financial system rather than absorbing risk, (3) whether the risk of product failure is correlated with macro-economic events, and (4) whether the firm providing a financial product critical to the functioning of the financial system cannot be replaced in the market. (F/N 2: See NTNI Consultation, p. 9 (Section 2.5)). Consideration of a product's benefit and liquidity features necessarily relies on the underlying assessment of whether the product follows the insurance business model. The insurance business model and the insurance products and activities that flow from that model do not inherently pose a systemic threat to global financial stability. To the contrary, the insurance business model possesses features that enhance financial market stability, not the least of which is the fact that property-casualty insurance operations are funded by upfront premiums, which therefore reduces the need to access the credit markets. This low leverage environment of property-casualty insurers is a key element of stability. In the vast majority of situations, and particularly for property-casualty insurance products, an insurer provides coverage for risk of loss that is wholly unrelated to external financial events, other financial sectors, or the broader economy. Importantly, in those circumstances, only a loss covered by the insurance policy will trigger a "demand" (claim) for insurer payment. Therefore, an insurer is typically not prone to a customer "run" on the company's assets and consequently, can better control its outflows. During the financial crisis, property-casualty insurers clearly demonstrated their ability to maintain steady capacity and business volume. Further, the concept of "substitutability" is a key component, but it must be viewed in the proper context. For assessing systemic importance, the product or activity must be essential to the stability of the financial system and the company offering the product or engaged in the activity must be the only one capable of doing so. Both the elemental macro-

			economic function of the product and the provider's role in the marketplace should be considered across financial sectors, not solely within the insurance sector. Purpose of NTNI Analytical Framework The NTNI Consultation is drafted to singularly focus on identifying "non-traditional" insurance products and features. However, this focus may inadvertently divert attention from the fundamental objective of both the NTNI Consultation and its companion Updated G-SII Assessment Methodology Consultation document, which is the identification of activities that may result in harm to the greater financial system. Labeling a product or feature as "non-traditional" or "non-insurance" is not helpful; in fact, such labels are misleading and in the absence of empirical data, may create the incorrect assumption that products deemed to be NTNI somehow create systemic risk. Because the misleading "NTNI" label carries over into the G-SII designation process and the calculation of the Basic Capital Requirement (BCR) and Higher Loss Absorbency (HLA) capital add-on for G-SIIs, the veracity of the entire IAIS capital framework may be compromised because of the unsubstantiated assumption that NTNI activities create systemic risk. The NTNI Consultation asks whether the IAIS should consider changing the terminology from "non-traditional" to avoid confusion. AIA recommends dropping the traditional/nontraditional distinction, and focusing on whether the product feature or activity causes "systemic risk." Identifying sources of systemic risk must be the fundamental goal of the proposed analytical framework. Figure 1 on page 8 of the NTNI Consultation is a useful starting point for determining whether any given insurance feature has the potential of creating systemic risk. Rather than continuing the NTNI nomenclature, a more straight-forward analysis of systemic potential would be more meaningful. Referring again to Figure 1, the initial step in the systemic risk analysis is to identify the relevant features, which would come from the catalogue of product features that the IAIS plans to develop. Each of these features would be evaluated to determine if there are any vulnerabilities and transmission channels for passing those vulnerabilities to the broader financial system. After applying other relevant, but non-determinative factors, the analysis should produce a group of activities that could be characterized as "source activities of systemic risk". Another reason to move away from the NTNI terminology is the IAIS' failure to develop a suitable approach for defining and evaluating "non-insurance" products and activities. It was disappointing that the NTNI Consultation opted to ignore "non-insurance" rather than determine an appropriate framework for assessing whether "non-insurance" products or activities create systemic risk. The incongruity of this situation is that the NTNI Consultation has, nevertheless, developed a suitable framework in Figure 1. By putting all activities of the insurance group through the same analytical framework, the IAIS will have a consistent approach for determining those activities that may give rise to systemic risk. Since the ultimate goal is to identify sources of systemic risk, the IAIS should neither ignore nor make assumptions about any activities of the insurance group. Finally, in sections 2 and 3, the NTNI Consultation provides examples for analyzing product features in order to evaluate the potential to create systemic harm. The analysis process involves identifying features of the product and determining if the feature creates a vulnerability that can be transmitted to the broader financial system. AIA notes that the NTNI Consultation correctly acknowledges that indemnity products "do not expose the insurer to substantial market risk" and "are generally uncorrelated with markets." (F/N 3) This recognition is important for property-casualty insurers, in that the IAIS had at one time characterized surety insurance, which is an indemnity product designed to ensure performance of

			a contractual obligation, as non-traditional for BCR purposes. AIA believes the analysis in sections 2 and 3 is correct and expects the IAIS to clarify the treatment of surety and other indemnity products as products that do not create systemic risk. This clarification should not only be reflected in the NTNI proposed analytical framework, but should also be reflected in the future formulations of the BCR and HLA. (F/N 3: NTNI Consultation, p. 13 (Table 3.6)). Recommended Annex 1 Assessment As noted, the IAIS has included an illustrative annex, which provides examples of products and activities that could be assessed under the NTNI analytical framework. Importantly, the annex includes references to "[c]ertain types" of property-casualty insurance (without specifying any particular lines) and, more generally, refers to credit and financial guarantee insurance. The purpose of this annex is unclear and creates the impression that these identified lines of business may be sources of systemic risk. AIA would appreciate a more narrow delineation of those property-casualty insurance lines that are at issue. In particular, the IAIS has asked whether the list of products/activities in Annex 1 is "representative of the insurance activities and products that are conducted in the listed jurisdictions." AIA respectfully recommends that the IAIS further narrow those products/activities based on jurisdictional definitions. Care needs to be taken to appropriately evaluate similarly-named products from different jurisdictions that have different risk characteristics. For example, surety has been cited in some IAIS documents as falling under the heading of credit and financial guarantee insurance. Yet, surety products as written in the U.S. are not viewed as having any systemic risk potential. Equally important, as AIA has pointed out in footnote 1, an assessment of indemnity products (like the vast majority of property-casualty insurance products) may make little sense if there is no substantial market risk involved and no general correlation with markets or macro-economic events. If there is a different purpose for this annex - for example, it could be a list of products that will be used in a cross-jurisdictional analysis to find common elements - then further clarification is requested. CONCLUSION Thank you again for the opportunity to comment, and AIA looks forward to participating in the IAIS consultation process on these and other critical regulatory issues. Respectfully submitted, J. Stephen ("Stef") Zielezienski Phillip L. Carson Senior Vice President & General Counsel Associate General Counsel & Director szielezienski@aiadc.org of Financial Regulatory Policy pcarson@aiadc.org
Prudential Financial, Inc.	United States of America	No	Prudential Financial, Inc. (Prudential) would like to thank the International Association of Insurance Supervisors (IAIS) for the opportunity to comment on the November 25, 2015 Non-traditional Non-insurance Activities and Products consultation document.

Prudential continues to remain committed to the further development of global regulatory standards for insurance and believes such standards are important for promoting effective and appropriate supervisory and regulatory practices. Such standards will contribute to our shared goals of effective policyholder protection, financial stability, sound regulatory outcomes, and more vibrant insurance markets.

However, the evolution of global regulatory standards, including the refinement of the IAIS' Non-traditional Non-insurance (NTNI) activities and products concept, must be carried out in a measured and comprehensive manner. Further, it is critical that the IAIS consider the potential for their policy measures to adversely impact the ability of insurers to continue to offer socially necessary products to consumers and a steady flow of long term capital investment to financial markets. Every effort must be made to avoid such unintended consequences. We offer the following general comments on the consultation and request the IAIS review the comments we have provided in conjunction with those we submitted on the separate Global Systemically Important Insurers: Proposed updated Assessment Methodology consultation.

+ In the United States and Japan, which are the world's two largest life insurance markets, long duration life and income protection products - tailored to meet the needs of consumers in these markets - are critical to overall financial security and have been supported and incentivized through decades of responsible public policy and legislative / regulatory decisions. The IAIS' classification of products vital to these and other markets as systemic has the potential to drive G-SIIs to increase rates or exit product lines, resulting in an increase in market share for less capitalized insurers or market-based financing schemes (i.e. shadow insurance market). Such an outcome would prove to be a great disservice to the real economy and governments that face longevity challenges both today and into the future.

+ The IAIS must use this consultation as an opportunity to alter the future course of the consideration of systemic risk in insurance and corresponding G-SII designations. This begins by eliminating the artificial delineation of insurance activities / products between "non-traditional" and "traditional". This terminology has only led to confusion, inappropriate conclusions, and negative bias against specific products and their unproven / unjustified tie to the transmission of systemic risk to the global financial system. Notwithstanding the lack of facts or justification - in the eyes of many stakeholders including industry analysts, media, insurance consumers, policy makers and some insurance supervisors - the moniker non-traditional insurance activities has become a proxy for systemic risk in insurance. Going forward the IAIS should focus its efforts on assessing a broad array of activities, regardless of their current categorization (i.e. non-traditional versus traditional), that may create potential systemically relevant exposures (PSREs). PSREs should be empirically assessed through an appropriately modified G-SII assessment methodology that analyses the residual risk that certain activities undertaken by insurers pose to the global financial system through clearly identified and justified transmission channels.

+ The IAIS continues to conflate micro-prudential / probability of default issues with macro-prudential / systemic risk issues in the various policy measures under development, and in particular in the proposed framework for assessing activities and products. We believe the IAIS must focus on an insurer's transmission of risk to the global financial system as a first order concern, not the probability of or vulnerability to default. Such a blending of issues is most prevalent within the sections of the consultation that discuss substantial market risk exposures. These passages fail to provide clarity or demonstrate how an insurer's market risk exposures ultimately result in the transmission of risk to the broader

			financial system. Further, the consultation makes no attempt to draw a clear, or even implied, tie between market exposure vulnerabilities and the two identified transmission channels. These elements must be clearly articulated in the next version of the paper. + While Prudential supports the IAIS' effort to provide more clarity around the concept of potential systemically relevant exposures, we believe the framework introduces unnecessary complexity to the IAIS' policy measures. We agree that the market exposure channel and asset liquidation channel underpinning the proposed framework have the potential to transmit risk to the financial system however; the analysis of an insurer's exposure to these transmission channels should take place within the assessment methodology itself. Directly assessing an insurer's potential to transmit risk through the exposure and asset liquidation channels as part of the G-SII assessment process would result in a more transparent, consistent, and objective approach. + We believe the exposure channel component of the proposed framework for assessing activities and products is already captured in the G-SII assessment methodology through the interconnectedness category. Including the exposure channel in the NTNI category of the assessment methodology (assuming it remains as currently proposed by the IAIS), coupled with the interconnectedness category, results in a double count of an insurer's exposure. Such a double count could be eliminated by replacing the NTNI category of the assessment methodology with a category focused on an insurer's exposure to the asset liquidation channel. This would eliminate the apparent double count as well as the unnecessary complexity that accompanies the proposed framework for assessing activities and products while enhancing the transparency, consistency, and objectivity of the assessment methodology. + Should the IAIS move forward with their proposed framework for assessing activities and products and the proposed assessment methodology it is imperative they consider the following points: - The proposed framework does little to address how potential activities and products impact transmission channels. The IAIS must provide greater clarity on this critical element. - Given the significance of the activity and product assessment process, the IAIS should not set or be beholden to overly aggressive and arbitrary due dates but rather conduct the activity and product assessments through an ongoing and transparent exercise to ensure the results are fit for purpose. Regular, constructive stakeholder engagement should be a fundamental component of the assessment process however, the consultation provides no insight on if or how such engagement will occur. - The consultation correctly notes "policyholder runs are a somewhat uncommon phenomena", a statement that industry data and Prudential's experience throughout history and various economic crises supports. We believe strong liquidity management is a tenet of running a sound insurance company and are supportive of an appropriately designed liquidity framework to compliment appropriately designed capital standards. The IAIS' consideration of product design and contractual features that help mitigate policy surrender risk (i.e. penalties and delay mechanisms) is a step in the right direction. Further refinement and development - such as differentiating between policyholder surrenders of retail clients versus institutional clients - is necessary for the proposed framework to address the IAIS' macro-prudential goal of preventing the transmission of systemic risk to the global financial system. In addition, just as the proposed framework recognizes tools for mitigating liquidity risk it should also recognize tools - such as derivatives - for mitigating market

			risk. - Properly managed insurance groups do not pose a systemic risk to the global financial system or real economy. We further note our disagreement with the IAIS' prevailing belief and focus on variable annuities with guarantees as the most systemic insurance product in the market. While it is true that many of the guarantees associated with such products accrue greater value to the policyholder when financial markets decline, the associated liability is long term in nature and the value of the guarantee cannot be accessed by the policyholder via policy surrender. In addition, the long term nature of such products allows time for markets to recover and firms to take measures to ensure they are able to deliver on the promise they have made when the benefit comes due. Further, should a policyholder surrender a contract when the guarantee has value, the capital position of the insurer would improve as the reserve supporting the guarantee would be released thereby freeing up assets to absorb potential losses. In addition, derivatives used to hedge against a market downturn would be in the money. - The IAIS' framework must be holistic and take the following points into consideration when assessing the likelihood of an activity or product to cause an insurer to experience distress or a disorderly failure that gives rise to a significant disruption to the financial system and economic activity: > the long term nature of life insurance and the reality that risks - including exposure and asset liquidation - manifest themselves over time, not all at once, > a firm's ability to manage their solvency and asset liquidation risk through product design and other risk mitigation techniques, > tools local supervisors and the group-wide supervisor could deploy to contain the transmission of risk to the global financial system and real economy, > the existence of policyholder protection schemes, and > distinguishing between solvency risk and systemic risk, or an orderly versus disorderly failure. History has demonstrated that large insurers can fail without disrupting the global financial system. > The proposed framework does not account for the key elements noted above. Incorporating such elements in a consistent, objective, and transparent manner will prove to be a significant challenge. For this reason we reiterate our call to eliminate the unnecessary complexity the framework introduces and instead assess an insurer's market exposure and asset liquidation risk directly through the G-SII assessment methodology - through refinements to the Phase II categories and indicators and information exchanged during the Phase III qualitative stage. + The IAIS must not lose sight of the fact that the framework for assessing activities and products and related measures and standards, as designed, will only apply to a limited portion of the insurance industry and therefore, the benefit to financial markets and the real economy is questionable. If the IAIS continues to levy capital surcharges against activities and products they deem systemic it must address how covering a subset of the market - certain products of certain insurers - rather than the market as a whole, will preserve financial stability and prevent adverse impacts to the real

			economy. If the IAIS is convinced such activities and products increase the potential for a firm to experience distress or fail in disorderly manner to a degree that impacts the global financial system, how does it view the potential distress or disorderly failure of a smaller firm, collection of smaller firms, or domestic only firm with sizeable portfolios of such activities / products? Could they not give rise to contagion or systemic impacts?
U.S. Chamber of Commerce	United States of America	No	January 25, 2016 International Association of Insurance Supervisors c/o Bank for International Settlements CH-4002 Basel Switzerland Re: Consultation Regarding Non-traditional Non-insurance Activities and Products To Whom it May Concern: The U.S. Chamber of Commerce ("Chamber") is the world's largest business federation representing the interests of more than three million companies of every size, sector, and region. Our members include purely U.S. domestic, as well as international and globally active insurance companies headquartered both in and outside of the United States. Perhaps more importantly, we have member companies that rely both on insurance products as well as the larger role insurance plays as an investor in our globally interconnected economy. Therefore, we are broadly supportive of the goal of safeguarding against systemic risk. However, we continue to have concerns about the process by which the IAIS identifies potential systemic risks, which includes the process identified in this Consultation Paper with respect to non-traditional insurance activities and products. Specifically, the Chamber believes that the focus on "non-traditional" activities and products continues to mistake the potential for default of a particular insurer versus whether the offering of certain products or engagement in certain activities poses a systemic risk to the financial system or the broader economy. Moreover, in its current state, we fear that the IAIS' evaluation of what products or activities are "non-traditional" may stifle innovation in the insurance industry while also penalizing certain insurers for offering products that have been long been used and purchased by policyholders. We are also concerned that these changes will harm the ability of insurers to continue to be active investors in corporate bond markets, harming the growth of the global economy. Our comments center specifically on whether the definition of "non-traditional" activities and products is useful for identifying a systemic risk in an insurer or group of insurers that could spread to the financial system and broader economy. For the reasons listed below, we believe that the approach taken by the IAIS is inappropriate and unfairly penalizes many insurers that do not likely pose a systemic risk. Discussion The Chamber appreciates the IAIS' elaboration on what products and activities are considered "non-traditional"

			insurance and pose a systemic risk to markets. In particular, the use of the "substantial market risk" and "substantial liquidity risk" methodologies help further explain the reasons why the IAIS believes that certain products and activities are risky, requiring an insurer engaged in non-traditional activities or offering non-traditional products to hold more capital. However, we believe that these tests incorrectly identify products and activities that do not pose a systemic risk to the financial system and the broader economy. The IAIS defines a systemic risk according to the definition used by the Financial Stability Board, the International Monetary Fund, and the Bank of International Settlements: whether there is a "disruption to the flow of financial services that is (i) caused by an impairment of all or parts of the financial system; and (ii) has the potential to have serious negative consequences to the real economy." Given this definition, the Chamber believes that the approach used by the IAIS in this consultation to address the systemic risk issue is flawed. While the NTNI consultation states that the metrics used - market risk and liquidity risk - are designed as transmission channels from the insurer to the financial system, often during the analysis the consultation improperly substitutes vulnerability analysis. While vulnerability analysis can help predict whether there may be a risk that a particular insurer may fail, this analysis alone does not on its own demonstrate a broader connection to the financial system as a whole, let alone a significant threat to the real economy. Instead, the metrics chosen to determine non-traditional activities often rely on the probability of default and the vulnerability of a particular insurer, rather than whether such a default would cause a disruption to the flow of financial services or have serious negative consequences to the economy. These are important questions to address, but we believe that insurance supervisors are already addressing the insurer solvency risk in the context of current solvency requirements (including current capital requirements). Given this analytical flaw, we believe that the IAIS should refocus its analysis and determine whether certain activities and products could cause risk to be transmitted through the financial services system and whether such risk is or could be mitigated through other means. We believe that this approach would more appropriately narrow the scope of activities and products to be considered "non-traditional" insurance for purposes of a systemic risk analysis. For example, under this approach, property and casualty insurance would not be included as a "non-traditional" insurance product given that the failure to pay claims from such policies does not pose a systemic risk to the financial system or the broader economy. This approach is also supported by policymakers tasked with identifying and mitigating potential systemic risks in the financial system. For example, Federal Reserve Governor Daniel Tarullo recently gave a speech distinguishing products and activities that pose a systemic risk and those that do not. In his view, the liabilities of a financial intermediary may suggest potential systemic risk, but deciding capital requirements on the basis of a "nontraditional" definition can be inappropriate. Tarullo further notes that a nontraditional activity could include activities as different as derivatives trading to "very sedate businesses outside the financial sphere entirely." This approach necessarily excludes certain products and activities contained in Annex 1 of representative products and activities for IAIS assessment. Finally, the Chamber believes that the focus on whether a product is "traditional" or "nontraditional" has the strong potential to discourage innovation in the insurance market, particularly given the heavy capital requirements associated with NTNI products and activities for potential G-SIIs. The insurance market is dynamic and evolves to meet the needs

			of insurance consumers. In the United States, state insurance regulators have a successful track record in evaluating the innovation of new insurance products and coverages, ensuring that regulation is appropriately tailored in each circumstance. Additionally, the risks posed by non-insurance operations in a group have or are being addressed through the collaboration of state insurance regulators and other financial regulators. It is important for policymakers to achieve an appropriate balance that provides protection for policyholders while preserving open and competitive insurance markets. The IAIS must also consider whether its decisions on whether a product is traditional or nontraditional will impact the ability of policyholders to purchase the types of policies that they require for financial security. In addition, it is important to recognize not only the important role that insurance companies play in handling the risks of policyholders but also as prudent investors in the corporate bond market. Insurers are substantial investors in the corporate bond markets, which allow them to compensate policyholders quickly and efficiently while also providing a ready source of capital for growing companies. Capital charges associated with offering or engaging in non-traditional insurance products and activities may reduce the amount of capital available for investment, reducing opportunities for additional growth in the economy. Conclusion The Chamber appreciates the opportunity to comment on the IAIS' non-traditional insurance activities and products consultation paper. We strongly believe that the IAIS should reconsider its analysis and determine whether certain activities and products could cause risk to be transmitted through the financial services system and whether such risk is or could be mitigated through other means. The Chamber would be pleased to continue this dialogue and work with you on ways to improve the non-traditional insurance products and activities definition.
MassMutual Financial Group	USA	No	MassMutual is supportive of the IAIS's mission to promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders and to contribute to global financial stability. We believe that these efforts to assure confidence, strength, and stability within the insurance industry align with our corporate values, namely helping our customers achieve their financial objectives. While we view the IAIS's proposed updates within the G-SII and NTNI Consultations as positive steps towards an improved framework for assessing potential systemic risk within the financial system, we remain concerned about the lack of transparency within the assessment process, the definition of activities that are systemically risky, and the proposed methodology's disincentive to prudently manage risks associated with long-term insurance products.
MetLife, Inc.	USA	No	MetLife thanks the IAIS for this opportunity to comment on the important Non-traditional Non-insurance Activities and Products consultation document (NTNI CD). An important preface is to reiterate our view that more fundamental research is needed to establish to what extent the insurance sector poses systemic risk. In addition, we continue to believe that, to the extent systemic risk is identified, any policy measures to address those risks should be applied on an industry-wide basis. This said, we would like to express our appreciation for the thought and effort that has contributed to developing a completely new analytical framework for the definition of NTNI, which we view the IAIS uses as a proxy for systemic risk. The significance of this analysis cannot be overstated. NTNI is a major component of G-SII assessment, and assessment and NTNI together play a critical role in determining the level of HLA proposed for G-SIIs. Therefore, the

			IAIS NTNI CD proposal must be viewed as a formula that will apply in at least two critical instances in the G-SII assessment and management process. The FSB and IAIS have made it clear that their concern in assessment and management of systemic risk is with impact of default as opposed to probability of failure. Our assumption is that the same holds for NTNI as well. MetLife has invested considerable effort in seeking to improve the means of identification of potential systemic risk in the insurance sector, including the definition of NTNI. In keeping with the FSB and IAIS focus on impact of default, our efforts focused on an analysis of systemic risk as loss-given-default through known transmission channels and have resulted in the development of what MetLife believes may be a more effective and transparent approach. In addition to filtering the components of NT activity through the lens of systemic risk transmission channels, our proposal would also incorporate product and balance sheet risk management measures that can be objectively measured and that would reduce the impact on the financial system in the case of default or financial distress of the individual company. Essentially, MetLife suggests that instead of defining NTNI, the IAIS develop an appropriate, meaningful quantitative assessment of systemic risk based on transmission channels, including Interconnectedness and Asset Liquidation categories. Insurer activities that are potential sources of system risk will see those risks quantified using appropriate indicators and indicator metrics for Interconnectedness and Asset Liquidation, such as those spelled out below, which have the added advantage of incorporating appropriate risk management tools, recognized as effective in diminishing or eliminating impact of failure. This transparent approach that focusses on systemic risk and incents good risk management has the advantage of diminishing risk and promoting financial stability. MetLife suggests that NTNI as it stands and as proposed does not achieve this goal as it is more a measure of vulnerability to market stress (or probability of default) than a measure of the impact of failure given default. Furthermore, it is a flawed measure of vulnerability, focusing only on certain types of risk, and failing to consider risk mitigation activities. 1. INTERCONNECTEDNESS Interconnectedness is the linkage between a firm and other components of the financial system. Systemic relevance could arise when the failure of an insurer causes counterparty losses by other financial sector participants. Guiding Principle: Systemic relevance from interconnectedness arises through the financial system's exposure to failure of the individual firm. Indicators proposed are intra-financial liabilities, reinsurance assumed, derivative liabilities to financial institutions, and credit facilities (new indicator). These indicators would measure the counterparty exposure and potential losses of the financial sector to an insurance group. Indicators excluded are intra-financial assets, level 3 assets and turnover ratio. The Intra-financial assets indicator is excluded on grounds that a firm's holding of certain asset types and related counterparty exposure does not transmit systemic risk to the broader financial system. This rationale would also apply to "large exposures," which the IAIS

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<tr><td></td><td></td><td></td><td>suggests moving to the Phase III qualitative assessment. As mentioned above, we support consideration of an institution's vulnerability in Phase III, which could consider "large exposures
The level 3 assets indicator is captured through the asset liquidation category. As regards turnover ratio, we suggest it has no direct link to systemic relevance.

1.1 INTERCONNECTEDNESS INDICATORS

1.1.1. Intra-financial liabilities
Intra-financial liabilities measure the degree to which failure or distress of an insurer could be transmitted to other financial market participants through counterparty losses on exposures. The manner in which exposure of financial participants to the firm is measured will depend on the type of liability as follows:

- Non-collateralized commercial paper (CP), loans and notes (non-collateralized obligations) and certificates of deposit
o Exposure measured as debt outstanding
- Federal Home Loan Bank advances, repurchase agreements and securities lending (collateralized by securities)
o Exposure mitigated by underlying collateral, using the collateral haircut methodology
- CP, loans and notes backed by insurance contracts (collateralized by insurance contracts)
o Exposure measured as debt outstanding less collateral
- Financial Guarantees and other exposures held by financial market participants
o Exposure measured as Probable Maximum Loss or Potential Future Exposure as dictated by the type of guarantee, less any collateral

Factors influencing level of systemic importance will vary by collateralization and the seniority of the exposure on the balance sheet.

CP, loans and notes

- Systemic relevance arises from outstanding debt due to the potential counterparty exposure to the firm in the event of default. Collateral, including insurance contracts, can mitigate potential counterparty losses.

- Level of systemic relevance influenced by collateralization because collateral offsets any potential counterparty losses.

- Indicator metric: Systemic relevance equals liabilities outstanding net of collateral, including insurance contracts, adjusted for expected loss.

Securities Lending

- Systemic relevance arises through counterparty exposure in the event of default. Collateral can mitigate potential counterparty losses.</td></tr>
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- Level of systemic relevance influenced by margins posted (overcollateralization of cash received vs. security lent), collateral type (type of securities lent), and counterparty (influences the ability to net exposures across transactions).

- Indicator metric: MetLife's methodology proposes the Basel haircut approach, which is an established approach to determine counterparty exposure from security financing transactions. Thus, systemic relevance equals margin posted x notional x supervisory haircut. .

1.1.2 Reinsurance Assumed
Assuming reinsurance could create systemic relevance by exposing the ceding insurer to counterparty losses. Therefore, this indicator measures the losses that can occur from both existing liabilities and contingent liabilities that may correspond to the severe stress that causes the failure of a large reinsurer.

Level of systemic importance would be influenced by the following factors:
- Amount of reinsurance assumed
o Existing liabilities - measured on gross technical provisions
o Contingent liabilities - measured as probable maximum loss
- Collateralization
o Collateral offsets any potential counterparty losses

Indicator Metric
Systemic relevance equals reinsurance assumed, net of collateral.

1.1.3 Derivatives
This indicator measures the potential counterparty losses in the event of default on uncollateralized derivative obligations. Interconnection arises from counterparty losses to uncollateralized derivative obligations in the event of default.

Level of systemic importance would be influenced by the following factors:
- Derivative type
o Role of firm (payer v payee) and nature of underlying influence counterparty risk
- Collateralization
o Collateral offsets any potential counterparty losses

Indicator Metric
Potential future exposure (PFE) is an accepted metric* to quantify counterparty risk for derivatives. So, systemic relevance would equal PFE to financial institutions net of collateral for derivative liabilities to financial institutions.

*See "International Convergence of Capital Measurement and Capital Standards BIS (2006): 216 777(vii).

Calculation can occur at either:
- Firm level (recommended) using PFE methodology, which computes PFE by simulating the value of the portfolio at a

			counterparty level for each future date. The PFE is the peak replacement cost in a "worst case" scenario, measured using a minimum 10-day holding period at a 99th percentile, one-tailed confidence interval; or - Industry level applying a series of factors based on derivative type to notional amount. Initial field testing/QIS would be required to parameterize factors or Basel III factors could apply. Collateral would be netted from the gross PFE to determine the systemic relevance for this indicator. The systemic factor could be differentiated to encourage certain practices, such as use of centrally cleared transactions. VA Liabilities (embedded derivatives) are excluded as these are liabilities to individuals. 1.1.4 Credit Facilities (new indicator introduced to fully account for exposure of financial sector participants to an insurer). This is a new indicator proposed to account for the systemic risk that could arise from the potential for default on the draw portion of a credit facility. No factors influence the level of systemic importance. Indicator Metric Systemic relevance would equal gross amount of committed credit facilities. 2. ASSET LIQUIDATION Asset Liquidation is the timing over which losses play out following the failure of a firm. It could create systemic risk if the solvency of other financial institutions is impacted by a decline in asset values resulting from an increased volume of asset sales required to meet insurer liquidity demands. Guiding Principle: indicators should directly link to the asset liquidation transmission channel. Indicators Proposed: Deposits and other withdrawable non-policy liabilities (replaces non-policyholder liabilities and non-insurance revenues), short-term funding, insurance liabilities liquidity and asset liquidity (new indicator). Proposed indicators would measure the liquidity of an insurer's liabilities and the availability of assets to meet those obligations. Indicators Excluded: Non-policyholder liabilities and non-insurance revenues, replaced with deposits and other withdrawable non-policy liabilities, which are more targeted indicators; derivatives trading, replaced within the interconnectedness category by derivatives outstanding to financial institutions, which is a better measure of systemic relevance; financial guarantees, and variable annuities. Both of the latter indicators are eliminated because provision of guarantees does not transmit risk to the broader financial system. We have not considered intragroup commitments as the IAIS suggests moving intragroup commitments out of the quantitative assessment, but we note that we do not believe such commitments are linked to systemic risk. 2.1 ASSET LIQUIDATION INDICATORS

			2.1.1 Deposits and other withdrawable non-policy liabilities (potential for liquidity demands from non-insurance liabilities, a new indicator better identifies liabilities that contribute to systemic relevance). Deposits and withdrawable non-policy liabilities could contribute to systemic relevance of an insurer by creating the risk that it may be forced to sell assets to meet increased withdrawals in the event of distress. Level of systemic importance would be influenced by the following factors: - Liability Type o retail vs. wholesale - Source of Wholesale Funding o small business vs. non-financial corporate vs. financial corporate - Insured vs. non-insured liabilities - Available short term and liquid assets Indicator Metric Systemic relevance would equal the deposit balance multiplied by a factor. Factors would be based on the Liquidity Coverage Ratio (LCR) factors endorsed by the FSB. 2.1.2. Short term funding Short term funding could be systemically relevant through adverse impact of asset liquidation to satisfy liquidity demands if funding cannot be rolled-over in periods of distress. Quantification of asset liquidation and factors influencing systemic relevance will depend on the source of funding as follows: - Short term borrowing o driver of systemic risk - volume of maturing instruments by maturity - Commercial Paper o driver of systemic risk - volume of commercial paper by maturity - Repurchase Agreements and Securities Lending o driver of systemic risk - As cash borrowings are reinvested, systemic risk is driven by the liquidity profile of the reinvestment portfolio 2.1.2.1 Short term borrowing The inability to roll over short term borrowing may lead to liquidity demands that require an insurer to rapidly sell assets. This sub-indicator measures the amount of outstanding borrowing subject to roll-over in a 3 month window. Level of systemic importance would be influenced by the remaining maturity defined as the amount of time remaining until short-term funding matures. Indicator Metric: systemic relevance would equal short-term borrowing with less than 3 months' remaining maturity. Factor applied to systemically relevant borrowing would be 100%. 2.1.2.2 Securities Lending

			The need to repay cash borrowed in securities lending transactions may lead to liquidity demands that require an insurer to rapidly sell assets. This sub-indicator measures the potential liquidity needs arising from securities lending transactions. Level of systemic importance would be influenced by the following factors: - Security Type o Type of security collateralizing borrowing - Concentration of legal Entity Exposure o Securities lending liabilities as a percentage of the legal entity balance sheet Indicator Metric: systemic relevance would equal a series of factors applied to notional securities loaned. If the legal entity concentration exceeds a threshold, an entity uplift factor is applied to increase gross total exposure. 2.1.3 Insurance Liabilities Liquidity: this indicator measures the adverse market impact of asset liquidation that could occur if a large number of policy surrenders force the insurer to sell assets to meet liquidity demands. MetLife's proposal excludes separate account assets. Level of systemic importance would be influenced by the following factors: - Segregation of assets o No direct credit exposure to insurer o Most similar to mutual funds or other assets under management - Withdrawal penalty o Economic penalty (surrender fees, taxes, etc..) incurred at surrender greater vs less than 20% of account value - Time to access o Greater vs less than 3 months. Indicator Metric: systemic relevance would equal liability surrender values x a factor representing a plausible surrender rate under distress. Notably each of these three indicators measures a potential "liquidity need." MetLife does not believe that a measure solely of "liquidity need" can be used to measure the systemic relevance on an institution via the Asset Liquidation criteria without an attendant measure of "liquidity sources." The "liquidity source" measures are described in section 2.1.4. 2.1.4 Asset Liquidity (new) The liquidity of an insurer's investment portfolio determines its ability to meet liquidity demands through sales of assets. Therefore this new indicator measures the liquidity of an insurer's investment portfolio based on its asset composition. This new indicator would be compared to the "liquidity needs" measures defined in the previous section. Level of systemic importance would be influenced by asset class/type as a measure of the ability to raise cash without causing a materially adverse price impact on markets.

			Indicator Metric: systemic relevance would equal unencumbered asset balance multiplied by a factor dependent on the liquidity of the asset class (ability to sell the asset without an adverse price impact on markets). The asset liquidity indicator, which measures the resources available to meet liquidity demands (liquidity sources), serves to offset the potential liquidity needs captured in the other indicators. More detail on all of the above indicators and exposure metrics will be found in the slide deck shared with IAIS principles prior this submission. In the interests of being constructive, we provide responses to key questions posed in the NTNI CD. However we emphasize that we believe a more accurate and meaningful identification of systemic risk would be obtained through a loss-given-default analysis based on the indicators and indicator metrics outlined in this answer to Question 17.
Property Casualty Insurers Association of America (PCI)	USA	No	The Property Casualty Insurers Association of America (PCI) welcomes the opportunity to comment on this consultation paper. PCI's nearly 1,000 member property/casualty insurers and reinsurers represent over one-third of the U.S. non-life insurance market and conduct business all over the globe. PCI agrees with the Consultation Paper's recognition that the indemnity features of property/casualty insurance and reinsurance products do not create either market or liquidity risk. We note that the Annex mentions that "certain types" of property/casualty insurance will be included in the IAIS assessment process. U.S. property/casualty insurance and reinsurance products should not be included, as the analytical framework in this paper demonstrates they do not generate systemic risk. PCI also endorses the comments filed by the Global Federation of Insurance Associations (GFIA).
Financial Services Roundtable	Washington, DC	No	Re: IAIS Consultation on Updated G-SII Methodology and Proposed NTNI Framework Ladies and Gentlemen: The Financial Services Roundtable ("FSR") welcomes the opportunity to submit these comments to the International Association of Insurance Supervisors ("IAIS") in connection with two consultative documents, the first addressing the methodology and process for the designation of global systemically important insurers (the "G-SII Consultation"), and the second addressing the conceptual framework for non-traditional insurance / noninsurance ("NTNI") products (the "NTNI Consultation") (together, the "Consultations"). The IAIS has promulgated the Consultations to obtain stakeholder input on (i) reforms to the IAIS's methodology for determining whether a firm is a G-SII and (ii) the IAIS's definition of a NTNI product or activity. In our submission, we first comment on the fundamentals of the IAIS's approach to G-SII designation. We then comment on areas where we believe the IAIS could make further refinements to the proposed phased approach to G-SII designation. We then share our concerns with the NTNI Consultation which we believe should be altered or even discarded so that the IAIS framework will focus more specifically on the channels by which firms may transmit systemic risk. We conclude by commenting on the broader impact that the proposed methodology may have on consumers of insurance products, and insurance markets more generally.

			I. Fundamental Comments on G-SII Designation Methodology and Process A. G-SII Designation Approach We begin with a fundamental comment on the IAIS's overall approach to the G-SII designation methodology. The FSR supports the IAIS's efforts to continue to refine their suite of policy measures and in particular the G-SII assessment methodology. The Consultations address key topics, including some important concepts that must be analyzed and assessed over the next three years, which could be seen as incremental steps toward a more appropriate insurance methodology. If the IAIS feels obligated to implement changes to its methodology in 2016, it should also commit to further refinements more frequently than every three years. These refinements should be done between 2017 and 2019 as a serial exercise that more accurately focuses on the externalities of systemic risk from the insurance sector. The G-SII Consultation represents a step towards greater transparency in the G-SII designation process. While we applaud the IAIS for this shift, we believe the assessment methodology must better reflect the IAIS stated mission of preventing the insurance sector from adversely impacting the global financial system. First, the relative ranking of insurers among the population sampled remains a core underpinning of the assessment methodology. Such an approach overstates the risk that the insurance industry presents to the global financial system and does not achieve the IAIS's stated mission. In addition, an insurer should have the ability to manage their G-SII designation status by orienting their business and risk management practices in ways that reduce systemic risk. While we support the introduction of absolute reference values, their limited and nuanced use in the current proposal poses barriers to firms seeking to control or reduce their systemic footprint. Second, the proposed framework for assessing NTNI activities and products and proposed assessment methodology should focus solely on the propensity of a firm to transmit systemic risk to the financial system. The current proposals include undue emphasis on analyzing the micro-prudential risks that a firm faces, while failing to account for risk management practices (e.g., hedging of duration and interest rate risks, asset-liability matching, or other liquidity strategies and protocols) or the existence of regulatory systems which already supervise non-traditional activities and products. For example, the current NTNI definition only considers products that raise liquidity concerns while failing to consider how insurers who sell these products assess the liquidity of their portfolios. Third, the broad nature of the IAIS's stated mission calls for taking a holistic approach to analyzing firms under consideration for designation - one that takes full account of risk management practices as well as relevant regulatory policy, including the consideration of the risk mitigation that occurs through the use of derivatives or the presence of industry sponsored guaranty funds. Failure to sufficiently account for these and other types of risk management practices will lead to an over- or under-statement of a firm's potential to cause a disruption to the global financial system. Fourth, the concept of proportionality is often discussed in the context of determining the population of insurers to which the measures of the IAIS should apply. We believe proportionality is a critical element of regulation and, in particular, the calibration of standards. In this context, the threshold or cut-off point for determining the recommended list of G-SIIs - and calibration of all G-SII Policy Measures - should reflect the widely acknowledged fact that the nature of insurance products and the insurance market results in only nominal systemic risk. B. The G-SII Designation Methodology

			The FSR offers the following comments regarding the indicator-based examination methodology. First, we believe the interconnectedness category - which receives a 40% weighting in the assessment methodology - captures all aspects of the exposure channel put forward in the proposed framework for assessing NTNI activities and products. Because including the exposure channel in a separate NTNI category of the assessment methodology, in addition to the interconnectedness category, results in a double count of an insurer's exposure to external market forces, we believe that the framework should dispense with using NTNI as a factor within the framework. Instead, the IAIS should replace the NTNI category with a sole focus on the asset liquidation channel, which will measure the extent to which the possible failure of an insurance group will affect the broader financial system. Second, it is important to note that "size" and "global activity" - which account for 10% of the G-SII assessment methodology on a combined basis - do not directly create or increase systemic risk. As such we would suggest that reliance on these factors be reduced or omitted as part of the final framework. The IAIS has acknowledged that "in an insurance context size is a prerequisite for the effective pooling and diversification of risks". Such pooling of risk and diversification can be further achieved through global diversification. II. Further Refinements to the G-SII Designation Process The FSR appreciates the introduction of the five phase process put forward in the G-SII Consultation. Phase III: Discovery Phase and Phase IV: Exchange with Prospective G-SIIs, provide opportunities for the parties involved in a review to partake in a transparent and constructive dialogue to, as the G-SII Consultation rightly points out, "better understand and assess the heterogeneity of the insurance industry, differences in business mixes and product attributes across jurisdictions, and differences in data quality reported across insurers and across jurisdictions". With respect to Phases III and IV, the proposed updates to the assessment methodology could and should go further. In particular, we believe it is critical that the information gained from Phase III be incorporated into a firm's assessment methodology score. Failure to do so will insufficiently assess a firm's potential risk to the financial system and risks the application of an inappropriate HLA capital charges. Further, the information exchange in Phase IV should include a synopsis of the IAIS's interpretation of the data submitted for Phase I, a review of the assessment score -indicator by indicator, and a review of the results of the Phase III qualitative assessment - including the rationale for changing, or not changing, the assessment methodology score of the firm. Such transparency is critical in order for a firm to have sufficient clarity on the basis for their consideration and designation as a G-SII, and so they can pursue measures to either avoid or exit a G-SII designation. Finally, the publication of information should be limited as much as possible. Further, the publication of any information related to the G-SII Policy Measures should be delayed until the measures are final and adopted by jurisdictional supervisors. Given the developmental nature of the measures, we believe it is far too premature to publicly share information, which has the potential to negatively impact firms, regulators, standard setters and financial markets before all factors pertinent to a designation can be considered. III. NTNI Consultation We appreciate the NTNI Consultation's examination of a wider array of potential products and services as NTNI. That being said, we disagree with the fundamental premise of the NTNI framework, namely the IAIS's continued focus on "non-traditional" products, which may result in negative consequences for insurance markets. With respect to the inclusion of NTNI within the designation methodology, as discussed above, the IAIS should revise its

			framework and replace the NTNI category with a sole focus on the asset liquidation channel. Even if the IAIS partially retains the NTNI framework as a component of the designation methodology, the FSR believes that the credibility of the framework would be greatly enhanced if it was altered to focus more on the asset liquidation channels associated with the risk areas identified within the NTNI framework. As a result, the assessment methodology would take a more direct approach to assessing an insurance group's exposure to these transmission channels to determine the effect of a firm's failure on the broader financial system. Removing an NTNI analysis based on specific products would also eliminate the unnecessary complexity that accompanies separate assessment on the likelihood that certain activities and products will impact either the exposure and asset liquidation channels. IV. Impact of the G-SII Designation Framework on Insurance Markets and Consumers In conclusion, we urge the IAIS not to lose sight of the potential impacts of insufficiently tailored G-SII measures on consumers and insurance markets. Inappropriate regulatory burdens, including those burdens that spring from admirable goals, may reduce the incentives for insurance groups to provide essential products and services to consumers. A hasty decision based on incomplete information or an incorrect understanding of the issues at stake could have myriad unintended consequences that could harm the very people the regulations were designed to protect. A continued focus on large, globally active firms may unwittingly give rise to the very systemic risk issues the IAIS is attempting to prevent. The G-SII Policy Measures have the very real potential to push activities that could give rise to systemic risk to less capitalized insurance groups or into less regulated market-based financing schemes. This should not be an outcome that the IAIS endorses and will not benefit the real economy and governments that face longevity challenges both today and in the future. For these reasons, we urge the IAIS to continue to carefully examine the designation framework, and as part of this process, to actively consider and account for stakeholder views. Important regulatory reform should develop through a good-faith dialogue between all interested parties. Thank you for your consideration of our comments. If it would be helpful to discuss this matter further, please contact me via telephone at: +1 (202) 589-2424 or e-mail at: Richard.Foster@FSRoundtable.org or my colleague Robert Hatch at Robert.Hatch@FSRoundtable.org or +1 (202) 589-2429. Sincerely Yours, K. Richard Foster Senior Vice President & Senior Counsel for Regulatory and Legal Affairs Financial Services Roundtable