IAIS

INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

PUBLIC

G-SII Methodology Consultation Document – Resolution to Comments

About this slide deck

1. Comments from both Members and Stakeholders are provided
2. Due to the large number of responses, Stakeholder comments are presented on a thematic basis.
3. Comments sent on a confidential basis are not included

Please note, a full list with all (non-confidential) comments grouped by question is also available on this website!

Absolute reference values Q1 - 6

Question 1. Is the use of Absolute Reference Values appropriate for the indicators for reinsurance, financial guarantees, and derivatives trading (CDS sold)?

Question 2. Should the IAIS consider measuring other indicators by absolute reference values? If yes, identify the indicator, explain the absolute reference value that can be used and explain why the use of the absolute reference value would improve the Proposed Methodology in the future?

Question 3. What information or data could be used as an absolute reference value for the financial guarantees indicator

Question 4. Is structured finance bonds insured an appropriate denominator or should the denominator reflect the notional value of bonds guaranteed by the broader financial sector via non insurance products.

Question 5. Are BIS statistics on the global CDS market an appropriate absolute reference value for the derivatives trading indicator? If so, how should this absolute reference value be used by the IAIS? What other information or data could be used as an absolute reference value for the derivatives trading indicator?

Question 6. Are total global reinsurance premiums written an appropriate absolute reference value for the reinsurance indicator? If so, how should this absolute reference value be used by the IAIS? What other information or data could be used as an absolute reference value for the reinsurance indicator?

Absolute reference values – Member Comments

Member comments:

CIRC: We agree that, in terms of reflecting the overall market movements, absolute reference values are appropriate and feasible. However, we have the following concerns:

1) It is very unclear how the absolute reference values will be applied, so it is difficult to assess its accuracy and effectiveness. We suggest IAIS provide more details of the proposed calculation approach, ideally with numerical examples.
2) Simply replace the sum of sample with absolute reference values, in denominators of selected indicators, it may virtually reduce the sensitivity of these indicators to the overall score (i.e. the total score will be very insensitive to these indicators); also, the sample insurers' scores will not add up to 1.
3) The approach should be consistent with how the quantitative threshold is determined in Phase II. If indicators are scored with absolute reference values, so should be the threshold. Otherwise, if the threshold is set based on the relative values at the end, it is less effective to reflect absolute reference values in indicators.

We suggest use absolute values in Size, NTNI, Substitutability and Derivatives, but with the same concerns as we responded in Question 1.

Q5) BIS data is appropriate, we suggest use for example, the number of financial derivatives, the historical position and transaction amounts, held by insurance companies. We also suggest IAIS consider use potential credit default losses of CDS products, as absolute reference values.

Q6) We view that global reinsurance premiums written is appropriate. Moreover, for reinsurers, other than Size, Global Activity and Substitutability are both key indicators of their interconnectedness to the global insurance market, and therefore system relevance. We suggest IAIS consider increase the weightings for Global activity and Substitutability (5% each currently) from reinsurance prospective.

Absolute reference values – Member Comments (2)

Member comments (cont'd):

EIOPA: EIOPA acknowledges some of the technical issues which derive from the 2013 Methodology highlighted in the Consultation document (e.g. sample bias). The introduction of absolute reference values may be a workable solution to mitigate the impact of those issues, as long as it is implemented in a technically sound manner, especially in cases, where the absolute reference value is a good proxy of the total market value of a certain activity. This means, for example, that: - The scope of the absolute reference value should be aligned with the activities that are captured under the indicator for which it is applied. - The reference date used for the absolute reference value should be consistent with the reference date of the data collected to support the assessment exercise, to the maximum extent possible. Any material lag may introduce significant distortions in the outcome of the methodology and generate relevant concerns about its validity; It is fundamental to ensure the technical soundness of the final solutions agreed by IAIS, to avoid that absolute reference values are perceived by stakeholders and the public in general as a mechanism used to lower the scores of prospective G-SIIs in selected areas. In particular, EIOPA does not fully support one of the arguments presented against the current methodology, in Paragraph 16 of the Consultation document. At least to some extent, systemic risk is a relative concept, as the systemic importance of any given institution will depend not exclusively of its own actions, but also of the behaviour of its peers and the broader economy. Therefore, conceptually it is desirable that the score of a prospective G-SII would increase in the situation where it maintains a systemic level of a certain activity, whereas the volume of the market as a whole is decreasing (meaning that its market share is increasing). From our point of view, this is a desirable feature of the Methodology, which should be retained even after the introduction of absolute reference values. As highlighted in our previous comments, EIOPA is of the opinion that the data underlying absolute reference values should be reviewed annually, to be as up-to-date as the indicators against which they are being used. If this is not the case, the IAIS should detail how absolute reference values will be updated, on a regular basis, to avoid significant distortions in the outputs of the methodology. The use of historical data points for the adjustment (the size of the particular market during a year in the past), as suggested in Paragraph 18, would be inappropriate, from our point of view. Fixing the absolute reference values using historical figures, potentially obtained during market peaks, would severely limit the responsiveness of the whole methodology to market developments and lead to artificial results which could be largely under- or overestimated.

Absolute reference values – Member Comments (3)

Member comments (cont'd):

EIOPA: Q2) In theory, any indicator can be subject to an adjustment based on the application of an absolute reference value. However, EIOPA believes that such solution should only be implemented in cases where it is technically justifiable due to problems such as sample bias, where these are material and cannot be corrected through other means, such as the addition of a limited number of relevant insurers to the data collection exercise.

Q3) EIOPA believes that any absolute reference value which is used should comply with the technical quality requirements put forward in our response to Question 1 (timeliness and consistency). In this case, it should capture the total market value of the variables included in the relevant indicators as closely as possible: Sum of: (a) Gross notional amount of debt securities including structured finance insured for financial guarantee. Not including CDS protection sold or surety bonds, and (b) Risk in force for mortgage guarantee insurance, which is the gross mortgage default amount covered by all mortgage insurance policies issued.

Q4) The fundamental issue is the necessary alignment between the absolute reference value and the indicator to which it applies. In this case, the absolute reference value should capture the total market value of insured debt securities including structured finance (excluding CDS protection or surety bonds), as these are the securities captured by the indicators included in the methodology.

Q5) EIOPA believes that BIS statistics could be a readily available source with sufficient quality to be used as the starting basis for the determination of this absolute reference value. Regarding how it may be used, we believe the absolute reference values should introduce in the calculation an adjustment based on the comparison between the size of the activities carried within the sample with the overall market, using appropriate data. Where justifiable, the size of the activities within the sample could be replaced by the size of the activities within the entire insurance market. This will lower the score which is obtained for each insurer, as intended, reflecting the smaller dimension of the sample when compared to the broader market for the relevant financial product.

Q6: EIOPA believes that total global reinsurance premiums could be an acceptable source with sufficient quality to be used as the starting basis for the determination of this absolute reference value.

Absolute reference values – Member Comments (4)

Member comments (cont'd):

NAIC: Yes, the use of an absolute reference value for credit default swaps (CDS sold) and financial guarantee is preferred to the current relative ranking approach which produces the same scores even if there has been a significant market wide decline/de-risking in the activity. Another related benefit of absolute reference values is that the value can reflect the size of the overall market for all financial institutions that engage in a particular activity rather than just limiting the comparison to other insurers within the scope of the G-SII exercise who engage in an activity. This comparison provides additional needed perspective for assessing the systemic footprint of insurance firms included in the analysis. In addition, as it relates to CDS and financial guarantees, consideration should be given to combining these indicators given that they provide economically similar financial coverage. Absolute reference values may also be beneficial for reinsurance, but the impact will depend on the degree to which the sample of insurers that are already included represent a significant portion of the total market. In addition, the use of absolute references values should help to address any major shifts in the size of the overall reinsurance market going forward. The benefits of using absolute reference values can be better assessed once it is determined more precisely how such value will be used to adjust the existing indicators and how those adjusted indicators will be integrated within a formula that remains predominately based on a relative ranking.

Q2) For the same reasons articulated above (capturing the total market and shifts in the market over time), many of the indicators would benefit from the use of absolute reference values, except perhaps those indicators that are expressed as ratios e.g. Level 3 Assets/Total Assets. Priority should be given indicators that measure activities in areas where there have been significant market wide changes in the overall level of activity, and to indicators for which the sample of insurers included in the analysis represents a small portion of the overall market for that activity. In the absence of readily available market-wide figures for determining absolute reference values, comparisons to the banking sector (eg the lowest bucket of the global systemically important banks) would provide additional insights assuming that they are also engaged in a particular activity. Additionally a review of other methodologies for determining systemic importance may provide further insights for establishing absolute thresholds e.g. the thresholds established by the Financial Stability Oversight Council in the US for non-bank financial institutions to enter Stage 2 of the analysis. For example, absolute references values for G-SII intra-financial liabilities, Level 3 assets and intra-financial assets, short-term and gross notional amount of derivatives could be informed by considering the GSIB methodology and/or FSOC thresholds for similar indicators. Paragraph 15 of the consultation document notes the use of absolute reference values to either replace the sum of the values from the sample of insurers in the denominator of the indicator score calculation or to add a factor to the indicator score calculation that reflects market developments. As the methodology is refined over time, and to the extent it shifts away from a relative ranking, consideration should be given to using absolute reference values to narrow the scope of insurers included in the analysis. This would necessarily involve, however, determining appropriate cut-offs.

Absolute reference values – Member Comments (5)

Member comments (cont'd):

NAIC: Q3) The absolute reference value for financial guarantee should consider the exposure of other products that provide similar economic benefits e.g. CDS. A potential absolute value benchmark such as notional value of bonds guaranteed or peak financial guarantee plus CDS exposures before the financial crisis.

Q4) Non-insurance products that provide similar coverage such as CDS should also be considered in the denominator. Consideration should be given to establishing separate indicators for muni and structured finance bonds.

Q5) This will depend on the portion of the overall market captured by BIS statistics. If BIS statistics capture only a portion of the much larger CDS market, academic studies that estimate the size of the market could be used to inform an adjustment to BIS statistics.

Q6) The current reinsurance indicator is in the interconnectedness category and is based on gross technical provisions. (Net) Technical provisions are a measure of the liability of the firm and thus are an appropriate measure for assessing impact given failure. While premiums could also be used as a proxy, premiums may be better suited for considering substitutability issues rather than interconnectedness. To the extent that the companies in the scope of the analysis currently do not represent the substantial majority of the market, an adjustment to this indicator could be based on premium data for the market which may be more readily available.

Absolute reference values stakeholder comments

Stakeholder comments:

Q1

- Generally supportive of the use of ARVs for those three indicators
- Some concern regarding the implications of different approaches across indicators within Methodology

Q2

- Generally, comments supported ARVs for a larger number of indicators.
- In particular, absolute reference values should be applied to several indicators related to size, interconnectedness and NTNI activities.
- Some indicators specifically mentioned are: level 3 indicator, turnover, intra-financial liabilities and derivatives.

Q3

- It should capture the total market value of the variables included in the relevant indicators as closely as possible: Sum of: (a) Gross notional amount of debt securities including structured finance insured for financial guarantee. Not including CDS protection sold or surety bonds, and (b) Risk in force for mortgage guarantee insurance, which is the gross mortgage default amount covered by all mortgage insurance policies issued.
- Expected loss and net exposure

Absolute reference values stakeholder comments (2)

Stakeholder comments:

Q3 cont'd

- Encourage the IAIS to define the indicator for Financial Guarantees in a manner consistent with the counterparty exposure to other financial markets participants.
- The absolute reference value for financial guarantee should consider the exposure of other products that provide similar economic benefits e.g. CDS.

Q4

- The absolute reference value should capture the total market value of insured debt securities including structured finance (excluding CDS protection or surety bonds), as these are the securities captured by the indicators included in the methodology.
- All financial guarantees, not just structured finance bonds, should be included in the denominator e.g. any loans of guarantees which are not classified as structured finance bonds. The requirement should apply to the nature of the financial guarantee rather than the form. This would reduce the likelihood of packaging similarly structured finance transactions in different forms to avoid falling within the Financial Guarantees Indicator.
- We believe the focus must be on expected loss and net exposure - relative to the entire market.
- Non-insurance products that provide similar coverage such as CDS should also be considered in the denominator. Consideration should be given to establishing separate indicators for muni and structured finance bonds.

Absolute reference values stakeholder comments (3)

Stakeholder comments:

Q5

- It would make sense to build a ratio between the CDS sold by the sample insurer and the overall global CDS market.
- Where justifiable, the size of the activities within the sample could be replaced by the size of the activities within the entire insurance market. This will lower the score which is obtained for each insurer, as intended, reflecting the smaller dimension of the sample when compared to the broader market for the relevant financial product.
- Total derivatives traded and/or held is not a measure of potential systemic risk exposure. For example, some CDS are used purely for hedging or replication. Net potential future exposure minus collateral would be an appropriate starting point for the analysis.

Q6

- For the assessment of interconnectedness, reinsurance premium alone may be an insufficient reference point given the growth in capital markets instruments, such as side cars and cat bonds.
- Consider the primary insurer's exposure to reinsurance and the "share of wallet" of the reinsurer regarding the ceded risk from the primary insurer.
- While not a perfect measure, it is probably the best measure available. It should include all premiums on reinsurance assumed, including retrocessions.
- To measure e.g. the systemic risk mitigating effect of reinsurance interconnections, the numerator for this indicator should be gross technical provisions for reinsurance assumed business less the effect of sustainable risk mitigation.

Absolute reference values stakeholder comments (4)

Stakeholder comments:

Q6 cont'd

- "Gross technical provisions for insurance assumed business aggregated over the entire market" would be a suitable denominator, but difficult to obtain on a regular basis.
- Suggest that the denominator for this indicator should be the written premium of the primary insurance market, since the ratio of total technical provisions and total written premium is presumably very stable over time.
- The aim should be to have an indicator that relates to the likely systemic impact on the financial system. Using separate premium indicators for proportional and non-proportional reinsurance should be considered: a combined premium number could be dominated by proportional quota share premiums; thus, masking potential interconnections via excess of loss covers.
- The IAIS should use a combination of gross written premiums and technical provisions instead of technical provisions on a stand-alone basis to measure and understand the interconnections between an insurer's third party reinsurance activities and other primary insurers and reinsurers. Only the combination of both gross written premiums and technical provisions will capture current and run-off business.
- Approach needed that measures the absolute loss that may be transmitted via counterparty exposure to other insurance forms, specifically a measure that includes:
  - Gross technical provisions for reinsurance assumed (to capture exposure on existing liabilities)
  - Probable maximum loss for contingent liabilities (to capture exposure that would arise under an extreme stress event)
  - A reflection of any collateral held against the reinsurance liabilities

IAIS

Absolute reference values - IAIS response

IAIS Response:

The use of absolute reference values make the 2016 Methodology more responsive to changes in the insurance industry's systemic profile. It also helps adjust for sample bias.

The absolute reference values for these three indicators are based on the following:

- Financial Guarantees: This absolute reference value is the ratio of the current par value of structured finance bonds insured relative to the average annual total from 2005 – 2007.
- Derivatives trading (CDS or similar derivatives instrument protection sold): This absolute reference value is the ratio of the total current global CDS market to the total global CDS market in 2007. Further analysis will include a Phase III consideration of developments of exposure in the insurance sector and a cross-sectoral evaluation of the growth of the credit default swaps sold in the insurance sector as compared to the banking sector.
- Reinsurance: This absolute reference value equals the net premiums for the third-party reinsurance premiums of those reinsurers who complete the reinsurance supplemental assessment (see paragraph 67) divided by global third-party reinsurance sector net premium.

At the next scheduled three-year review, the Methodology may move toward using more absolute reference values, where appropriate, to assure that the indicators adequately capture changes in the industry's systemic footprint and the potential threat to global financial stability posed by insurers as compared to other financial firms.

Phase III indicators Q7 - 10

Question 7. To what extent are large exposures an appropriate indicator of an insurer's interconnectedness with the financial system? What is the appropriate way to measure or understand the interconnections between an insurer's large exposures and the financial system?

Question 8. To what extent, if any, are intra-group commitments an appropriate measure of a potential G-SII's systemic relevance

Question 9. To what extent is the derivatives trading (excluding hedging and replication) in economic terms indicators an appropriate indicator of NTNI activities? What is the appropriate way to measure or understand the systemic importance of speculative derivatives trading.

Question 10. The weightings in Phase II of the Proposed Methodology emphasise the insurer's NTNI activities (45%) and its interconnectedness (40%). Are there any developments or trends in the global insurance market that warrant further refinements to the 2013 Methodology, potentially including changes to the category weightings? Please explain your answer.

Phase III indicators – Member Comments

Member comments:

EIOPA: Conceptually, it is reasonable to expect that an insurance group with highly concentrated asset exposures will pose higher systemic risk to the financial markets and the broader economy. This is because such insurer will not benefit from the effect of diversification of exposures and will face substantial difficulties in case of default of any of its significant counterparties. Therefore, its role in the transmission of systemic risk can be expected to be higher than a firm with a more diversified investment portfolio. Against this background, EIOPA believes that there are technical grounds to support the maintenance of this indicator as one of the measures of an insurer's interconnectedness, not only with the financial system but more generally with the broader economy. One possible avenue of refinement could be to enhance the methodology to identify and further penalize large exposures where these have a bi-directional nature (the counterparty is also a substantial source of financing to the insurer). This is because, under such circumstances, the failure of such counterparty would create a double issue to the insurer in question: not only would it lose the value of its large exposure investments, but would also lose one significant source of capital (which it would need to balance the losses faced on the asset side). This would also help to address the identified issue of probability of default vs. impact upon failure. By looking at the degree of concentration of investment of third parties in financial instruments issued by the insurer, the IAIS would be able to assess the impact of the failure of the insurer on such counterparties (due to its inability to repay such assets).

Q8: As a matter of principle, EIOPA believes that indicators should not be dropped or moved to the qualitative part of the assessment due to the observed lack of data quality in the reporting by prospective G-SIIs (as that would not solve the underlying issue). If the indicator is perceived to have inherent merit, additional efforts should be developed to increase the quality and consistency of data reporting, rather than abandoning the collection of the information. In the case of intra-group commitments, the relevance of the indicator to the assessment of the impact upon failure of the insurer may be questioned given that the assessment is performed at group level. At the same time, a group which exhibits a higher degree of intra-group commitments is more likely to fail as a whole following problems affecting one of its subsidiaries, making the variable relevant for the assessment of systemic risk. The IAIS should better clarify what reasons, besides data quality, justify the proposal to move the indicator out of Phase II.

Q9) EIOPA is of the opinion that engagement in speculative investment in derivatives may be a significant source of systemic risk for prospective G-SIIs. However, EIOPA acknowledges the practical difficulties that are usually associated with the identification of derivatives not used for hedging purposes by insurers. Against this background, EIOPA would prefer that efforts are developed to clarify the reporting criteria and the indicator is maintained within Part II of the methodology. This would create clearer incentives for insurers to abstain from entering into such risky activities.

Phase III indicators – Member Comments (2)

Member comments (cont'd):

EIOPA: Q10 EIOPA is not aware of any fundamental changes in the nature of insurance business which would justify a change to the weightings agreed for the 2013 Methodology.

CIRC: Q8 From the past assessments, we view that Intra-group commitments is very critical to the systemic importance, and we suggest keep it as a quantitative indicator. The fall of AIG in 2008 was mostly about the intra-group commitment from AIG group to AIG FP. This indicator represents the connectedness between entities, which is exactly the most important risk transmission channel within a group. Moreover, this is the only indicator in the current methodology reflecting a group's business complexity, and the interconnectedness between insurance and non-insurance, so we suggest not remove it. From the AIG lesson, we also recommend IAIS consider including more indicators on the risk interconnectedness between insurance and non-insurance entities, for example whether they are ring fenced or separately regulated. Ring fencing is proved to be effective in reducing systemic risks in banking regulation system in both US and UK. For the data issues raised in the consultation, we suggest IAIS consider provide more data collection guidance and more clear data definitions to improve the data quality.
Q9: We view derivatives trading (excluding hedging and replication)appropriate for NTNI activities. Speculative derivative trading exposes the insurer to significant market risks, therefore as according to the NTNI principles, it would cause systemic consequences through market exposures. For the data issues raised in the consultation, we suggest IAIS consider provide more data collection guidance and more clear data definitions to improve the data quality..

NAIC: Large asset and liability exposures are useful in assessing concentrations of risk in particular financial counterparties but may be better assessed in Phase III rather than as an indicator. To some extent, large exposures may be captured by other indicators e.g., intra-financial assets and liabilities.
Q8) Intra-group commitments would also best be assessed in Phase III of the analysis as it is difficult to assess meaningfully across firms using an indicator and the relative ranking framework.
Q9) Given the lack of uniformity as to what firms consider speculative derivatives and the fact that most jurisdictions do not allow insurance companies to engage in such activities, data is not likely reliable for an indicator and relative ranking. Thus, such activities are best addressed through Phase III analysis or using an indicator based on over-the-counter derivatives.

Phase III indicators – Member Comments (3)

Member comments (cont'd):

NAIC: Q10) Non-traditional, non-insurance activities receive the highest weight in the G-SII assessment methodology. However, the IAIS is still in the process of more clearly defining non-traditional insurance with sufficient clarity for there to be consistency in its application across jurisdictions. The IAIS should consider whether additional consistency can be achieved by referencing accounting guidance e.g., for embedded derivatives, which bi-furcate the macro-economic guarantee from the host insurance policy. However, accounting differences between jurisdictions in the treatment of embedded derivatives would need to be adjusted. Non-insurance ranges from asset management to industrial activities, but the FSB and IOSCO have not yet completed the assessment methodology and potential designation of non-bank, non-insurance global systemically important financial institutions. Once completed, this work should also further inform the G-SII analysis for non-insurance risks.

Phase III indicators - Stakeholder comments

Stakeholder comments:

Q7

- It is important to distinguish between size and concentrations when considering a large exposure as it is the latter that is the potential source of vulnerability.
- Large exposures management is a micro prudential issue, as large exposures do not create linkages that result in the transmission of risk to the system. Consequently, the large exposures indicator cannot provide relevant information for the purpose of systemic risk assessment.
- Refinement could be to enhance the methodology to identify and further penalise large exposures where these have a bi-directional nature (the counterparty is also a substantial source of financing to the insurer). By looking at the degree of concentration of investment of third parties in financial instruments issued by the insurer, the IAIS would be able to assess the impact of the failure of the insurer on such counterparties.
- An insurer's interconnectedness with the financial system is properly captured by the intra-financial assets indicator and the intra-financial liability indicator. Considering the large exposures indicators in addition to the above two indicators could result in double counting of the interconnectedness.
- It is more important to understand net exposure levels, both in terms of net exposures to individual counterparties and whether set-off arrangements are in place and also net of any asset protection mechanisms in place.

Phase III indicators - Stakeholder comments (2)

Stakeholder comments:

Q8

- Recommendation not to remove intra-group commitments from Phase II, as it is the only indicator in G-SII methodology measuring the connectedness among insurance, non-insurance and other entities of the group. Intra-group commitment is one of the crucial indicators reflecting the vulnerability of risk spreading across different entities of the group (and subsequently across external financial system).
- Though intra-group commitments or transactions may certainly affect the financial condition of an insurer, there is no reason to consider this risk systemically relevant.
- The use of intra-group commitments may or may not in itself be indicative of overreliance of entities within a group and, possibly, inappropriate risk and capital management. It could also be reflective of efficient capital management. Without further analysis, the indicator does not provide the insights sought by the IAIS in its qualitative assessment.
- Despite data responsiveness and data quality concerns, the importance and appropriateness of the intra-group commitments indicator were made clear during the 2008 financial crisis. For this reason, the IAIS should consider the continued use of the indicator in Phase II.

Phase III indicators - Stakeholder comments (3)

Stakeholder comments:

Q9

- Exclude derivatives exposure for traditional hedging and risk mitigation.
- IFRS 9 (effective after 1 January 2018) incorporates new hedge accounting requirements which requires the information disclosure of derivatives trading for hedging purposes. This might be useful separating speculative and hedging derivatives trading activities.
- Focus on net fair values.
- In jurisdictions that have implemented the G-20 derivatives reform systemic and counterparty risk concerns have already been addressed by regulation.
- The analysis should also consider structures where the risk isn't materially offset.
- An appropriate indicator would include: 1) compared to the total stressed liquidity capacity, how much financial guarantees are provided for financial products sold by other financial institutions or put options sold on financial instruments; and 2) how much "naked" derivatives positions on financial assets vs. the market size of the underlying financial assets.
- Use potential future exposure (PFE) to quantify counterparty risk for derivatives. The contribution to systemic relevance for derivatives would equal the aggregate derivative PFE net of collateral.

Phase III indicators - Stakeholder comments (4)

Stakeholder comments:

Q10

- The interconnectedness weighting has been unnecessarily over-emphasised.
- Remove turnover and short term funding indicators, since their contribution to systemic risk is unclear.
- The criteria for global activity is too blunt an instrument This criterion should be removed or refined to identify the materiality of systemic exposure a firm has in the country or countries it operates in.
- If adjustments were to be made to the indicator weightings following the movement of the two indicators, these adjustments should involve not only the indicators in the relevant categories but also those in other categories.
- Apply the "interconnectedness" category to measure the NTNI-interconnectedness of insurance groups with the financial sector (including but not limited to insurance companies).

Phase III indicators - IAIS response

IAIS Response:
The IAIS moved consideration of an insurer's large exposures, intra-group commitments, and derivatives trading (excluding hedging and replication) from Phase II to the Phase III analysis. As explained in the consultation document, while containing useful information, this indicators were not well designed for inclusion in the quantitative (Phase II) methodology.
Category and indicator weightings: The new indicator weightings are the result of the adjustment of the number indicators and in the Phase II Methodology. That means, a reduction in the number of indicators in the previous categories "NTNI" and "interconnectedness" led to a pro rata adjustment of the remaining indicators in those categories. The indicators are now allotted to the respective new categories.

Revisions and Improvements to other indicators Q11 - 12

Question 11. Will the responsiveness of the derivatives indicator in the interconnectedness category be improved by using other data such as an appropriate net fair value figure (either positive or negative)? If so, what are more appropriate data and what is the appropriate way to use such data to measure or understand the interconnectedness caused by derivatives transactions? Should the IAIS measure interconnectedness with respect to derivatives transactions in the same manner as the BCBS? Please explain your answer.

Question 12. How can the reliability and responsiveness of any indicator be further improved, modified or revised for the Proposed Methodology?

Revisions and Improvements to other indicators - Member comments

Member comments:

CIRC: We suggest, other than notional values, IAIS analyse the potential losses of various derivative types. The potential losses are more appropriate to reflect the expected financial impact to the market.

EIOPA: A methodology consistent with the BCBS methodology for G-SIBs could be adopted, for the sake of cross-sector consistency (avoid regulatory arbitrage). However it should be noted that the BCBS methodology also captures notional amount outstanding of OTC derivatives in their Complexity category. To ensure an alignment, attention needs to be given to the BCBS approach on both these areas (Interconnectedness and Complexity).
Q12) EIOPA believes that the reliability and quality of the data submitted to IAIS by prospective G-SIIs could be largely improved through the introduction of a market discipline element in the designation framework, as proposed in our answers to the relevant questions. Prospective G-SIIs (above a certain threshold) should be required to disclose publicly the results of their calculations for all the indicators which compose Part II of the IAIS methodology.

NAIC: Insurance firms engage significantly in interest rate swaps which may be more meaningfully measured using negative fair value rather than gross notional amount which is currently used in the methodology. In this case, gross derivative liabilities may be preferred as netting is inconsistent. However, fair value may understate the risk for other derivatives e.g., credit default swaps protect from principal default and total return swaps from principal and interest loss. For these instruments, gross notional is preferred to fair value. The IAIS may consider these additional options which can be gleaned from other regulatory approaches: BCBS uses the over-the-counter notional value of derivatives as an indicator. The U.S. Financial Stability Oversight Council uses a fair value of $3.5 billion of derivative liabilities as one of the thresholds for Stage 2 analysis.
Q12) Reliability should be improved each year as the instructions are clarified and reflect lessons learned, data elements collected stabilizes, firms become more efficient over time in providing the data and the assessment methodology is subject to a detailed review every three years.

Revisions and Improvements to other indicators - Stakeholder comments

Stakeholder comments:

Q11

- Where risk is offsettable, it should be netted.
- A Methodology consistent with the BCBS approach should be adopted.
- To measure a possible counterparty default, implement a Credit Equivalent Exposure method.
- Net fair value is not the best indicator as it is very volatile and can swing between positive and negative radically.
- The notional value of derivatives does not reflect the true underlying risks. Instead, the IAIS should consider the current exposure to a derivative counterparty, adjusted to reflect legally enforceable netting (e.g. via ISDA agreements) and collateral arrangements.
- Insurance firms engage significantly in interest rate swaps which may be more meaningfully measured using negative fair value rather than gross notional amount which is currently used in the methodology.

Revisions and Improvements to other indicators - Stakeholder comments (2)

Stakeholder comments:

Q12

- The short-term funding indicator should be improved to focus on potentially systemic activity related to securities lending rather than measuring all securities lending.
- Regarding liability liquidity, there needs to be a distinction between the theoretical possibility of surrender and actual expected behaviour as the policyholders will have other associated benefits which are valuable (eg insurance cover, guarantees).
- The level 3 asset indicator should be removed as it does not take into account the asset-liability management or insurers' long-term investment role.
- The reliability and appropriateness of all indicators could be further improved by taking account of the role they play for the firm.
- The use of 3 to 5 year averages for items such as revenue or other "Size" indicators may better account for the fluctuations resulting from large, unpredictable, transactions.

Revisions and Improvements to other indicators – IAIS response

IAIS Response:

The IAIS regards Phase III due to its nature as an appropriate area to assess further developments and possible future improvements of the Methodology. It should be noted that the IAIS is committed to a three-yearly review of Methodology, in line with other standard setters.

Phases I and II – Q13 - 15

Question 13. What criteria, other than those listed, should the IAIS consider when determining whether to include an insurer in Phase I data collection?

Question 14. What are the strengths and weaknesses of consistency and relative annual stability as a guiding principle for establishing the quantitative threshold in Phase II? For purposes of establishing the quantitative threshold, what other principle(s), if any, should the IAIS consider?

Question 15. For purpose of establishing the quantitative threshold in Phase II, what other approaches, if any, should the IAIS consider? What are the strengths and weaknesses of the alternative approaches, as listed, to determining the quantitative threshold?

Phases I and II - Member comments

Member comments:

EIOPA: As previously mentioned, one possible criteria could be the fact that the inclusion of such insurer would mitigate some of the perceived issues in the existing methodology, such as sample bias.

Q14) EIOPA supports the introduction of a quantitative threshold in the quantitative component of the methodology, to enhance its predictability for prospective G SIIs. The qualitative components of the methodology could then be applied, on a mandatory basis, to all insurers above the threshold and, on a voluntary basis (decision by the relevant Group-wide Supervisor), to all insurers below the threshold. This is consistent with the proposals currently included in the Consultation Document, that insurers below the threshold would most likely not be proposed for designation as G-SIIs and would also contribute to alleviate the burden of the execution of the full steps of the methodology to all prospective G SIIs, relieving resources from both supervisors and insurers. EIOPA supports the use of the principles of consistency and stability to guide the development of the quantitative threshold. In addition, the technical soundness of the methodology is also an important element to take into account. The quantitative threshold should be publicly disclosed by the IAIS.

Q15) EIOPA believes that the 6 options listed provide a sufficient diversity of methodologies. The IAIS should test the different options against real data to conclude on which one delivers an outcome more consistent with the principles previously identified.

Phases I and II - Member comments (2)

Member comments (cont'd):

CIRC: The threshold should be set consistently with how the indicators are assessed (use absolute or relative values). If the threshold will be set based on the relative ranking of participants, the use of absolute values in indicators will not be very effective. Moreover, the consistency and stability principles will make the assessment results comparable, but may not effectively reflect any market or company changes. A stable approach may not accurately and reliably reflect the true systemic important when there are significant changes in a year. G-SII assessment's primary purpose is to objectively identify insurers with significant systemic risks, not a stable G-SII list.
A recommend list of principles:
- Accuracy
- Reliability
- Risk sensitiveness, i.e. effectively identify systemic risks
- Objectivity, i.e. with sufficient data and analysis support
- Consistency with the market, i.e. reflect the overall market movements
- Q15)

Q15) The approaches listed (natural cliff, cluster analysis, mean plus standard deviation) considered the data structures / characteristics, but seems not sufficiently addressed the risk sensitivities and objectivity principles.

Phases I and II - Stakeholder comments

Stakeholder comments:

Q13

- Large insurers with limited exposure to systemically risky activities are investigated, whereas theoretically if a smaller insurer would engage in a large number of such activities, it would avoid scrutiny.
- The assets metric only covers on balance sheet exposures and consideration should also be given to how significant off balance sheet exposures (for example in relation to guarantees and commitments) can be incorporated.

Q14

- The establishment of the quantitative threshold should be flexible when absolute reference values are used only for a limited number of indicators.
- Consistency is important in the application of the G-SII methodology to insurance companies. Annual stability, however, should not be a guiding principle for the G-SII regime - the methodology should most appropriately identify systemic risk in the insurance sector.
- The threshold should be set at a level consistent with the expected characteristics of a minimum G-SII.
- The threshold should reflect any shift in the level of systemic risk of the insurance industry as a whole compared to other financial sectors.

Phases I and II - Stakeholder comments (2)

Stakeholder comments:

Q15

- Comparisons to G-SIBs should be considered for determining the quantitative threshold.
- Many approaches mentioned - natural cliff, cluster analysis, mean plus standard deviation - are focusing too much on the numeric structure (thus relative risk) instead of absolute risk.
- A qualitative element should be maintained regardless of the method chosen.
- The threshold should be absolute not relative.

Phases I and II - IAIS response

IAIS Response:

Determination of Insurer Pool: As indicated in paragraph 29 of the updated G-SII Methodology, the IAIS collects data based on size (total assets) and having regard to the ratio of premium from jurisdictions outside the home jurisdiction. In exceptional circumstances that are analytically supported, the IAIS and relevant authorities may annually determine to collect data from any insurer that may allow a more representative Insurer Pool for systemic risk analysis.

The IAIS intends annually to review and, if necessary, revise the data call instructions and template to collect better data for Phases II and III.

Determination of threshold for companies to go into Phases III - IV: The IAIS establishes a quantitative threshold that preliminarily divides the Insurer Pool into two groups. The two groups are:

- Group 1: This group contains insurers scoring above the quantitative threshold. This group will be analysed further in Phase III.
- Group 2: This group contains insurers scoring below the quantitative threshold. This group will not be subject to further evaluation in Phases III unless added by discretion of the IAIS and the relevant authorities on analytically defensible grounds.

The approaches to establish the threshold are described in paragraph 38. Together those approaches will support the establishment a threshold.

Phase III - Q16 - 23

Question 16. While the majority of the Proposed Methodology will be based on quantitative outputs, what specific qualitative aspects of a potential G-SII should be considered in Phase III that are not captured in Phase I and II?

Question 17. What constraints should be imposed on the use of non-quantitative analysis of the potential systemic importance of insurers in the Proposed Methodology? To what extent, if at all, can qualitative analysis enhance the IAIS's understanding of the systemic importance of potential G-SIIs?

Question 18. What other indicators, if any, could be considered by the IAIS to inform the supervisory judgment aspects of the Proposed Methodology?

Question 19. How can the additional information collected in the supplementary reinsurance-specific questions as part of the data collection be relevant to better assess the potential effects of a reinsurer's failure on other reinsurers or primary insurers? Should the IAIS set a threshold amount of third-party reinsurance activities that must be exceeded by an insurer in order to be required to complete the supplementary reinsurance-specific questions in Phase I? If so, what should be the level of the threshold?

Phase III - Q16 – 23 (2)

Question 20. Are gross written premiums, technical provisions or exposures an appropriate way to measure and/or understand the interconnections between an insurer's third part reinsurance activities and other primary insurers and reinsurers.?

Question 21. How could the information collected be used to evaluate the extent to which an insurer's third party reinsurance activities disperse or concentrate risk in the global insurance market?

Question 22. Are an insurer's third party reinsurance activities interconnected with the financial markets and, if so, how? What additional data measures could be useful to understand the extent of which an insurer's third party reinsurance activities are interconnected with other parts of the financial markets (e.g. banks or asset managers)?

Question 23. What other data points would be relevant for the IAIS to consider in the Proposed methodology when evaluating the extent to which the potential geographic risks (i.e. the risk that a reinsurer or insurer may be overly concentrated in one area) or the global reinsurance market are dispersed or concentrated among certain reinsurers or insurers?

Phase III - Member comments

Member comments:

EIOPA: EIOPA supports a methodology which is primarily designed around a quantitative element, but which allows for a qualitative component, in recognition of the fact that the complexity and specificities of large insurance institutions cannot be appropriately captured only on the basis of a Quantitative assessment.

As mentioned in previous questions, EIOPA is of the view that the Qualitative elements of the methodology should not apply to all prospective G-SIIs but only to those above the quantitative threshold (on a mandatory basis) or to others which are added at the discretion of the relevant supervisory authorities.

The Qualitative phase should be built around two fundamental pillars:

- Ancillary indicators: A defined set of quantitative indicators relating to specific aspects of the systemic importance of an institution that may complement the indicator-based measurement approach.
- Qualitative criteria: A defined set of credible and verifiable qualitative criteria, which could be used to inform and potentially adjust the outcome of the Quantitative Phase for specific institutions (supported by appropriate justification and documentation). Exclusive focus on a specific activity (e.g. reinsurance) should be avoided.

Some examples of possible Qualitative criteria:

- Growth pattern of the institution including future strategic plans (with focus on NTNI activities)
- Relevant changes in business profile (e.g. acquisition, re-structuring)
- Assessment of risk mitigants (e.g. LAC)
- Risk/Exposure concentration analysis on both Asset and Liability side
- Degree of Matching between Assets and Liabilities

Phase III - Member comments (2)

Member comments (cont'd):

EIOPA: Q17) As mentioned in our response to the previous question, EIOPA believes that the Qualitative analysis is an important element of the G-SII methodology.

However, to ensure the credibility of the methodology and its outcomes, it is important to set clear requirements for the elements considered in this context. As previously stated, qualitative criteria should be credible and verifiable, and its use should be supported by appropriate justification and documentation. This is broadly consistent with the principles presented in paragraph 40 of the Consultation Document.

As mentioned in previous responses, EIOPA supports the fact that this phase is mandatory only for insurers above the threshold (and those which are added at the discretion of the relevant supervisory authorities).

Q18) EIOPA supports that indicators excluded from Phase II are considered as part of Phase III. Please note that, as stated in previous responses, EIOPA does not support the exclusion of the full range of indicators which are part of IAIS' proposal.

We do not have further suggestions for additional indicators, at this time.

Q19) EIOPA believes that the specification of the reinsurance supplemental assessment which is included in the Consultation Document is rather vague and, for that reason, it is difficult to comment on it. Further details would be needed to form a more concrete view on the proposal.

As a matter of principle, EIOPA believes that the G-SII methodology should be consistently applied across all insurance activities and prospective G-SIIs, without the need to add or remove some components, tailored to specific activities or types of entities.

For this reason, EIOPA does not support the inclusion of an explicit supplemental assessment focussing on reinsurance activities as part of the updated G-SII Methodology. The additional information which is sought should be incorporated in the general Qualitative (or Quantitative) phase(s) of the Methodology as part of a single common methodology applicable to all prospective G-SIIs.

Q20) One issue the IAIS should consider is the extent to which the additional information envisaged actually adds value when compared to the information which is already collected in Phase II (reinsurance technical provisions).

Q21)One issue the IAIS should consider is whether the geographical distribution of premiums (which seems to be the main proposed variable to be collected) reflects accurately the geographical distribution of the risks to which the prospective G-SIIs are exposed. This will depend on the basis on which information will be collected.

Q23) One issue the IAIS should consider is whether the fact that a (re)insurer has a high market share in a certain region is, in itself, an exacerbating factor for the purpose of systemic risk identification.

Phase III - Member comments (3)

Member comments (cont'd):

NAIC: Q16) Paragraph 42 contains a number of important qualitative aspects that should be considered in Phase III. A key aspect to consider is if a firm is increasing or decreasing its systemic activities to the extent this is not reflected in the quantitative (Phase 2) assessment.

Q17) The qualitative assessment should be based on sound reasoning and avoid hypotheticals.

Q19) The reinsurance data can help inform the extent of reliance of insurers on reinsurers and on the extent of market concentration in particular areas or lines of reinsurance business. Although a threshold for completing the supplementary analysis is desirable, the cut off should be a function of the methodology used to incorporate that data into the rest of the analysis. i.e., if a relative ranking is to be used, the cut off should be low enough to allow for a sufficient sample.

Q20) Establishing net exposures could provide insight on concentration of risk, but such information is difficult to ascertain and translate across firms. Gross assumed premiums can be used as a proxy, and may be useful for addressing concentration and substitutability concerns. Gross technical provisions for re-insurance assumed may be best for measuring impact given failure based on current obligations.

Reinsurance premiums should be collected for specific lines of business where concentration /substitutability might be of concern, e.g., for aviation and marine insurance. Collecting premium data for cat coverage may not be that meaningful given the different risks covered. Finally, premium for power plant coverage and export credit coverage may be too country specific to collect but should be considered as part of the more tailored/qualitative analysis.

Q22) Reinsurers can be systemic for the same reasons insurers can be systemic (e.g., as a result of NTNI activities) but the actual underwriting of reinsurance general involves interconnections with other companies within the insurance sector. Since reinsurance may involve the use of Letters of Credit, there is some additional interconnectedness with other financial counterparties.

Q23) Besides geography, re-insurance can be examined by business line. Another measure of re-insurer concentration is the Herfindahl-Hirschman Index. The large exposure information collected as part of the G-SII assessment may also be relevant when reviewing inter-connections between insurers and banks as well as between insurers and re-insurers.

CIRC: Q20) The definition of gross written premiums and technical provisions is clear, we think they could be considered as indicators of interconnections. But the definition of exposure are not so clear.

Phase III - Stakeholder comments

Stakeholder comments:

Q16

- There are some risk management practices, such as liquidity management, collateralisation, and separate accounts that can limit the impact on other financial institutions if the insurer were to fail. Insurers should get full credit for that.
- The qualitative assessment should take account of regulatory frameworks applicable in the jurisdictions of the G-SII-candidates.
- Phase III should include a robust assessment of data consistency of reported data across insurers in order to ensure a sound basis for developing a list of potential G-SIIs.
- The IAIS should seek to understand the insurer's reasons for derivatives trading.
- As part of Phase III, consideration should be given to the governance and risk management frameworks that are currently in place within the organisation.

Q17 and 18

- To ensure the credibility of the methodology and its outcomes, it is important to set clear requirements for the elements considered in this context.
- Phase III may give the process too much of a discretionary character. This could harm the consistency of application of the methodology across different jurisdictions.
- Produce guidance on the application of the qualitative phase and include this within the program of peer reviews to ensure consistency of application.

Phase III - Stakeholder comments (2)

Stakeholder comments:

Q19

- Clarity is needed on how the reinsurance supplemental assessed will be applied.
- Reinsurance measures should be designed to recognise the proportion of business ceded but also the proportion of business ceded to any one reinsurer.
- An absolute threshold should be set for the determination of whether a (re)insurer will be subject to completing any supplementary reinsurance-specific questions.
- It is unclear why a reinsurer's exposure to cedants is captured within the assessment, when insurers' exposure to other financial sectors through their insurance contracts is not.
- If exposures are measured based on reserves/reinsurance receivables held by a cedent, the analysis will significantly prejudice reinsurers with long tail exposures as compared to short term catastrophe exposures and other types of risks being ceded to non-traditional reinsurance markets.

Q20 - 21

- Gross written premiums are an appropriate way to measure the interconnections between an insurer's third-party reinsurance activities and other primary insurers and reinsurers.
- The correct measure for the impact of failure of a (re)insurer on other insurers are third-party reinsurance exposures to the given (re)insurer.

Phase III - Stakeholder comments (3)

Stakeholder comments:

Q20 - 21 cont'd

- Reinsurance exposures should be considered based on geographic concentrations and the relative value of the reinsurance to the ceding company's capital/surplus which measures the risk of insolvency if the reinsurer were to fail.
- We propose an indicator that measures 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 (re)insurer.
- Establishing net exposures could provide insight on concentration of risk, but such information is difficult to ascertain and translate across firms. Gross assumed premiums can be used as a proxy, and may be useful for addressing concentration and substitutability concerns. Gross technical provisions for re-insurance assumed may be best for measuring impact given failure based on current obligations.

Q22

- Such interconnections can only lead to system-wide losses if (1) the failure of a reinsurer leads to problems regarding the ARTs issued by the same; and (2) the losses of the respective ART investors lead to further losses to be propagated through the system.
- Third party reinsurance activities can result in interconnectedness with other parts of the financial markets. For example, letters of credit are a type of collateral that can be used to secure a reinsurer's payment obligations. If the reinsurer were to fail this risk would transfer to the letter of credit provider (e.g., a bank) thereby transferring the systemic risk from the insurance market to the bank market.

Phase III - Stakeholder comments (4)

Stakeholder comments:

Q23

- Some reinsurance transactions can involve non-reinsurer third parties; e.g. a bank offering some form of financing for a longevity swap, which is trigger exposure to the non-insurance financial sector. An understanding of all parties involved in the reinsurance activities and the consequent net position would therefore be needed as they could be complex.
- Addition to the Size Category of a new business concentration indicator to replace Global Activity indicators because diversified group is less likely to transmit systemic risk to its markets than a firm of similar size concentrated in fewer markets.

Phase III - IAIS response

IAIS Response:

The 2016 Methodology is based on quantitative outputs that are complemented by an assessment phase (Phase III) in which additional information, including qualitative and quantitative considerations, will be taken into account. Phase III will assess the heterogeneity of structures, activities, products, exposures and global activities within the insurance industry, and differences in data quality reported across insurers and across jurisdictions.

During Phase III, the IAIS and the relevant authorities will gather and analyse additional quantitative or qualitative information that is not captured in Phase II indicators. For these purposes the IAIS may request additional information from the insurer. The level and extent of analysis conducted in Phase III for Prospective G-SIIs will be determined by the relevant authorities and the IAIS.

Phase III allows for identification and analysis of incomplete or inaccurate outcomes from Phase II, if necessary.

Additionally, Phase III is intended to allow for a more nuanced assessment that, for instance, takes into account idiosyncratic elements of the insurer's business model (cf. para 48 of the Updated G-SII Assessment Methodology).

Reinsurance supplemental assessment: It complements the other components of the 2016 Methodology and allows the IAIS to assess risks associated with an insurer's third- party reinsurance activities. The reinsurance supplemental assessment forms part of Phase III and allows for a data and fact-driven analysis of insurers with significant third-party reinsurance activities (cf. paras 67 – 72). In particular, the IAIS evaluates the reinsurance activities of an insurer included in Phase III if the insurer has reinsurance activities that generate EUR 10 billion or more in annual gross written premium.

Phases IV and V – Q24 – 25

Question 24. What types and forms of information exchange with prospective G-SIIs should the IAIS consider?

Question 25. Is it reasonable for Phase II of the Methodology to be the basis for applying HLA to G-SIIs? Please indicate any alternative methods that the IAIS should consider for this allocation process. What constraints, if any, should be applied to Phase III's effect on the allocation of HLA?

Phases IV and V - Member comments

Member comments:

CIRC: We suggest IAIS provide participants with assessment methodologies, detailed assessment process, indicator results, Phase III analysis result, and a result distribution of the sample, so that each participant can understand their relative positions in the sample and how to improve.
Q25) Phase II score is a key element in HLA allocation, however we view that it is not complete and comprehensive based on the proposed methodologies. As according to IAIS, Phase I and II are for a standardized data collection and scoring only, any insurer specific assessment (e.g. reinsurance assessment) are included in Phase III. Phase III results, if not more, are the same important as Phase II scoring, by reflecting any individual group's systemic importance. So we strongly recommend Phase III results be included in the HLA allocation. For example, at least for any quantitative analysis in Phase III, the results can be incorporated into Phase II scores to do the HLA bucket allocation.

EIOPA: As long as due consideration to confidentiality requirements is ensured, the IAIS should explore different forms of exchange of information which allow for a timely exchange of views which is beneficial for both the supervisors and the prospective G-SIIs.
Q25) EIOPA believes that the process of HLA bucketing linked to the G-SII quantitative scores is a simple and effective manner of introducing a risk sensitivity element to the application of HLA (the higher the G-SII score, which is expected to measure systemic importance, the higher the HLA). Regarding the criticism that prospective G-SIIs cannot calculate their own score, this could be overcome by the public disclosure of certain data elements by the IAIS:

- The quantitative threshold
- The denominators used in the calculations of the scores
- Other necessary information (such as absolute reference values, etc).

To ensure full consistency between the outcome of the G-SII Methodology and HLA, the final scores should be used, reflecting in full the effects of the Qualitative phases of the Methodology.

NAIC: It is important to ascertain (during Phase III and IV) the extent to which the firm may have de-risked year over year.

Phases IV and V - Stakeholder comments

Stakeholder comments:

Q24

- The IAIS should provide participants with information that allows them to understand their relative positions in the sample and how to improve.
- The Systemic Risk Management Plan (where an insurer has been required to prepare one) should be taken into account.
- The information exchange in Phase IV should include a synopsis of the IAIS' 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 the assessment methodology score of the firm.
- To improve transparency and objectivity with respect to the assessment methodology, the prospective G-SII should receive the following details of the discussions about it in Phases II and III. (1) Its full score and figures for each indicator (2) The denominators in each indicator score calculation (the sums of responses from the sample insurers and the absolute reference values) (3) The quantitative threshold and how it was established in Phase II (4) Whether (and how) adjustments were made in Phase III.
- The insurer should have the opportunity to present its own analysis and argumentation regarding its systemic importance.
- Establishing a transparent and coherent process will be important to maintaining the legitimacy of G-SII assessments.

Phases IV and V - Stakeholder comments (2)

Stakeholder comments:

Q25

- Consider the impact of the introduction of absolute reference values on HLA bucketing.
- Phase III results should be included in the HLA allocation.
- Even if liquidity forms part of the basis for G-SII designation, it is not appropriate or relevant to use HLA as a policy measure to address liquidity-related systemic risk. This is the function of the liquidity risk plan.
- If any products or activities are deemed to be systemically risky, capital add-ons should apply to all firms engaging in those activities. If, however, the IAIS continues with regulation of firms (and not activities), the Phase II score will be a more preferable basis for allocating G-SIIs to buckets.
- Since Phase II produces an initial indication, but not a final determination, of an insurer's systemic risk, Phase II alone should not be the basis for the HLA allocation

IAIS

Phase IV and V - IAIS response

IAIS Response:

Before the Phase IV exchange of information between the IAIS, the Prospective G-SII and the relevant authorities, the IAIS will inform the Prospective G-SII of (1) the insurer's score on each of the Phase II indicators, including the data elements received from that insurer that were incorporated into the indicator, (2) for each Phase II indicator, descriptive statistics including the median scores and the distribution of scores within the Insurer Pool (unless such disclosures could reveal confidential information regarding another insurer given the size of the Insurer Pool for a specific indicator) (3) the insurer's overall score and the Phase II quantitative threshold set by the IAIS, and (4) the data and analysis that was considered by the IAIS when evaluating the insurer in Phase III and the outcome of that analysis.

During this exchange, the Prospective G-SII may ask questions and present additional information relating to any aspect of the 2016 Methodology. The Prospective G-SII also will have the opportunity to share with the IAIS its perspective and views on the application of Phases I – III to that Prospective G-SII and any accompanying explanatory statements submitted to the IAIS.

HLA and the 2016 Methodology: may be used to assist the IAIS with the determination about the application of HLA to the G-SIIs. There is no longer a direct nexus between the empirical phase of the Methodology and the application of HLA to a G-SII. The IAIS work on the 2016 Methodology and the NTNI consultation will be evaluated in the context of HLA. The changes in the 2016 Methodology and the NTNI consultation will lead to a change in HLA design and calibration.

IAIS

Entry and Exit – Q26 Member Comments

Question 26. What factors, such as stability in the G-SII list, should the IAIS consider when determining the appropriate presumption period for G-SII status?

Member comments:

CIRC: We suggest considering the level of market development. Different markets have very different level of development and speed of growth. "Stability" can be very different for different markets.

EIOPA: EIOPA believes that stability is an important consideration when defining the criteria for entry and exit of the G-SII list, given the implications for prospective G-SIIs (the need to comply with all G-SII Policy Measures). However, stability needs to be weighted against the issue of the incentives which are embedded in the methodology. Presumption periods should not be too long, in order not to remove the incentives for newly designated G-SIIs to immediately implement measures aiming the reduction of their systemic footprint (and the consequent removal of the G-SII status).
The proposed two years could constitute an appropriate balance.

NAIC: The IAIS should allow for a clear exit ramp for G-SII status. This needs to be addressed in the future considerations of the G-SII process. That said, the IAIS may require that certain policy measures be maintained during a phase out period.

Entry and Exit - Stakeholder comments

Stakeholder comments:

- The IAIS should be cognisant of the transformational trends affecting the traditional (re)insurance industry particularly with respect to the way in which (re)insurers respond or adapt to the disruptions along the traditional insurance value chain as a result of the emergence of advanced technologies and distribution systems.
- If a minimum timeline is deemed necessary, then symmetry is recommended to allow adequate time for de-risking before designation rather than assuming de-risking would occur after designation.
- If a G-SII drops below the threshold after Phases I-III it should be immediately removed from the list, just as the first G-SII-designation would be instantly effective without granting transitional periods.
- If the IAIS is concerned about changes to the G-SII list caused by short term variations such as accidental underestimation of systemic risk following market fluctuations, etc., it will be reasonable to appropriately consider whether such changes are permanent in Phase III.
- Changes to the G-SII list due to currency movements should be considered.

Entry and Exit - IAIS response

IAIS Response:
Identification as a G-SII by the FSB will then create a two-year minimum presumption of G-SII status during which the IAIS will recommend the identification be maintained even if the insurer's score drops below the threshold after Phases I through V. The IAIS' valuation of an insurer's continuation as a G-SII will focus on changes in the insurer's risk profile and whether changes in the insurer's qualitative or quantitative assessments are likely to be permanent.

Transparency – Q27 - 29

Question 27. How and, if so, to what extent should conceptual aspects of the Proposed Methodology, including the data instructions, the data template, and the detailed formulae used for the calculation of indicator scores be made publicly available? If made publicly available, who should disseminate this information? What factors should the IAIS consider in this respect?

Question 28. How and, if so, to what extent should the resulting score be communicated to the prospective G-SII?

Question 29. How and, if so, to what extent should the data used for the calculation of the scores and the resulting scores be made transparent to the public? If made publicly available, who should disseminate this information? What factors should the IAIS consider in this respect?

Transparency - Member comments

Member comments:

CIRC: We suggest not publicly disclosing these figures. Systemic risks and corporate risks are of very different focuses and assessment approaches. The systemic risks are focuses of global and local regulators. To publicly disclose them may confuse the investors and analysts (who focus more on corporate risks).
Q28) We agree to communicate the quantitative results with G-SII candidates, including overall score, and each indicator score. The communication should also focus on explaining any supervisory judgment in detail.
Q29) cf. Q27

EIOPA: EIOPA supports an improved transparency of the methodology and the designation process. The abovementioned elements should be publicly disclosed by the IAIS.
The IAIS should publicly disclose all the elements necessary to allow each prospective G-SII to calculate its own score. If that approach is followed, there would be no need for the IAIS to communicate the scores to prospective G-SIIs (it could be done only as a validation measure).

Q29) EIOPA supports the public disclosure by IAIS of all elements necessary for prospective G-SIIs to calculate their own scores. In addition, EIOPA supports the introduction of the requirement for prospective G-SIIs (potentially above a certain threshold) to disclose publicly the results of their calculations for all the indicators which compose Part II of the IAIS methodology. This would introduce a strong element of market discipline in the overall G-SII designation process.

Transparency - Member comments (2)

Member comments (cont'd) :

NAIC: The instructions and the data template should be made available by the IAIS in order to give supervisors, the companies, and the public some understanding of the data supporting designation. Some elements of the formulas should also be made available in order to publicly identify the factors that are driving designation. However, any release of the formulas must take into consideration the commitment to keep firm specific data confidential. Also, the drivers of the firm's systemic designation should be communicated to the firm in order to facilitate a path to exit G-SII status. Further, all firms within the scope of the analysis should be provided their scores on each indicator as well as their ranking relative to other firms.

Q28) The drivers of the G-SII designation could be communicated to each company in order to facilitate a path towards an exit ramp.

Q29) The FSB should be encouraged to disclose some information to the companies and to the public as to the basis of their designations. Any non-public data and data used for the calculations that was submitted voluntarily under a promise of confidentiality should be kept confidential. Commitments made to companies and supervisors by the IAIS, the BIS and the FSB should be taken into consideration as should the impact disclosure may have on the companies and supervisors.

Transparency - Stakeholder comments

Stakeholder comments:

Q27

- Once instructions, templates and formulas are in a final format including all changes based on consultations, they can be made public for transparency purposes. The results from data calls including data submissions, scores, supervisor analysis, etc. should not be communicated publically.
- The IAIS should be as transparent as possible with insurers and reinsurers regarding the process, parameters, and results of the G-SII assessment.
- The indicator scores should not be made publicly available at this time as the process is only in its initial stages and will need to mature before public dissemination of information would be appropriate for consideration.

Q28

- The quantitative results, including overall score, and each indicator score should be communicated. The communication should also focus on explaining any supervisory judgment in detail.
- We support full transparency of the system.
- There are clear benefits on reporting the resulting score to the prospective G-SII, as it may aid the G-SII's internal risk management processes.
- It is unlikely that disclosing the score would lead to any gaming of the system, as the methodology is transparent.
- It would also be useful to all firms to understand where on the scale they sit relative to other firms.

Transparency - Stakeholder comments (2)

Stakeholder comments:

Q29

- The data used for the calculation of the scores and the resulting scores should not be made publicly available.
- Public disclosure would introduce a strong element of market discipline.
- It is too early to publicly disclose the data used for the calculation of the scores. We are concerned that publication of those data could cause misunderstanding.
- It is appropriate to be transparent in relation to the scoring methodology; however individual scoring, which is likely to include some element of subjectivity, should only be shared with the G-SIIs. This could lead to unintended and inappropriate benchmarking in the market.

Transparency - IAIS response

IAIS Response:

For insurers that participate in Phases I and II that are not subject to Phases III – V, the IAIS shall, upon request of the insurers and through the relevant authorities, inform the insurer of (1) the insurer's score on each of the Phase II indicators, including the data elements received from that insurer that were incorporated into the indicator, (2) for each Phase II indicator, descriptive statistics including the median scores and the distribution of scores within the Insurer Pool (unless such disclosures could reveal confidential information regarding another insurer given the size of the Insurer Pool for a specific indicator), and (3) the insurer's overall score and the overall Phase II quantitative threshold set by the IAIS. This information will be shared after the annual publication by the FSB of a G-SII list, if any.

A list of data that will be made publicly available is provided in paragraph 83.

The IAIS will move toward a more transparent process for the identification of G-SIIs, including to the public. As the 2016 Methodology is further refined in the coming years, the IAIS commits to further developing public disclosure. While considering all five phases of the 2016 Methodology as integral parts to a robust final outcome, the IAIS will look to disclose Phase II outcomes and Phase III analysis and outcomes as part of its next review which it intends to complete in 2019.