6.4 Look-through

Q99

Q99 Section 6.4.1 Are there any comments on look-through that the IAIS should consider in the development of ICS Version 1.0? If "yes", please explain with sufficient detail and rationale.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
EIOPA	EIOPA	IAIS Member	No	Yes	EIOPA supports the provisions on look-through set out in the technical specifications. The look-through is an essential element of a risk-based supervisory regime. Insurers have to understand the underlying risk of indirect investment and insurance arrangements. In principle the scope of the look-through should be comprehensive. In case it can be ensured that no material risks are omitted the introduction of simplifications or thresholds could be considered. This avoids that significant costs are incurred where the additional information gathered has no material benefits in terms of better risk management.
BaFin	Germany	IAIS Member	No	No	

Financial Supervisory Service	Korea	IAIS Member	No	No	
KNF - Polish Financial Supervision Authority	Poland	IAIS Member	No	No	
National Association of Insurance Commissioners	USA	IAIS Member	No	Yes	MAV and GAAP Plus should have same definitions for consolidation of look-through entities otherwise stress results may be materially impacted.
Ageas	Belgium	Other	No	No	
Canadian Institute of Actuaries	Canada	Other	No	No	
Ping An Insurance (Group) Company of China Ltd.	China	Other	No	Yes	We have no disagreement with the look-through method. However, it is difficult to implement look-through method in practice in China, because it is difficult to obtain some market data (such as bond fund purchased in the open market). Therefore, we suggest provide a transition period for China to apply look-through.
AMICE, Association of Mutuals and CooperativesinEurope/ICMIF,International Cooperative and Mutual Insurance Federation.	Europe	Other	No	Yes	Full look through line by line is not always possible and is overly burdensome if not impossible in some cases when closing of accounts. Moreover, it goes beyond what is necessary to capture the underlying risks. Grouping of underlying lines according to homogeneous risk types capturing the significant risks should be sufficient. Groupings according to mandate limits of risks are not a good reflection of the underlying risks as those limits represent maximums that can be far from being used in practice. We suggest to

					allow groupings done at the calculation date and based on the real underlying assets not the mandate. Unit link products should be excluded from the look through as market risks are directly passed onto the policyholder and the insurer is not impacted. Only second order effects of market risks affect the insurer, so spurious accuracy based on full look through is not needed.
Insurance Europe	Europe	Other	No	Yes	Insurance Europe supports option 1, which proposes that the look-through approach applies to the extent possible on the basis of the underlying current exposures at a point in time inherent in the indirect investment or insurance arrangement. This option should also be allowed for partial look-through when full look-through is not possible. However, when no look-through is possible, this option proposed that the full investment should be considered as an asset belonging to the asset class with the highest risk charge.
Actuarial Association of Europe	European Union	Other	No	Yes	In case a look through is not possible but there is a defined asset allocation the fund has to follow, it should also be possible to use the underlying asset allocation to determine the risk charge.
Institut des Actuaires	France	Other	No	No	
Allianz	Germany	Other	No	Yes	In case a look-through is not possible but there is a defined asset allocation the fund has to follow, it should also be possible to use the underlying asset allocation provided that the granularity is sufficient to allocate the fund to the respective risk modules. In case of special funds that are set up explicitly for the insurance company the look through

					should always be available. In case an insurance company however is investing in mutual funds it receives the same information as all other investors because it cannot be treated in a favourable way. In case the information on holdings in the fund are not available in a timely manner or sufficient granularity for calculating the ICS capital requirements the application of the underlying strategic asset allocation (SAA) would give a more accurate picture than simply treating everything as equity. For example if a company would solely invest in mutual fixed income funds, with SAAs designed to target a certain duration, a mapping to non-traded equity would not reflect the economic situation adequately. Actually it would disadvantage the company twice by applying a high risk charge for non-traded equity and secondly by not taking into account the asset liability matching.
GDV - Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Other	No	No	
German Association of Actuaries (DAV)	Germany	Other	No	Yes	In case a look through is not possible but there is a defined asset allocation the fund has to follow, it should also be possible to use the underlying asset allocation to determine the risk charge.
Munich Re	Germany	Other	No	No	
AIA Group	Hong Kong	Other	No	No	
Dai-ichi Life Holdings, Inc.	Japan	Other	No	Yes	・It would not practically work if "look-through" is strictly applied. Hence, some sort of easing measures, such as

					availability of data before the reference date or assuming investment assets from benchmark index, should be considered. Particularly, with respect to the hedge fund, kindly be noted that there are some cases that it may roughly disclose investment policy and asset class but may not disclose the details of status of investment by individual stocks. ・Even in the case that look-thorough is not applied to Infrastructure investment and hedge fund, we believe that averaged risk charge of each asset class could be applied.
General Insurance Association of Japan	Japan	Other	No	Yes	In principle, option 1, a look-through approach on the basis of the underlying current exposure, should be applied. However, when no look-through is possible, it would be desirable for option 2 to be applied, which is a calculation based on the maximum extent allowed under its mandate. With regard to a specific approach for the partial look-through allowed under option 1, a simplified approach should be considered, e.g. applying average duration, rating etc. of the fund for bonds which are components of such funds, or utilising specified duration, rating, etc. for bonds whose detailed specifications are not available.
The Life Insurance Association of Japan	Japan	Other	No	Yes	・We would like the IAIS to carefully consider the case where the look-through approach is not possible for the calculation of the ICS requirement, in the light of the proportionality principle. Insurers might be forced to address both the complexity of the look-through approach and the significantly increased cost due to rigorous application of the approach. ・We believe the granular application of the look-through

					approach is practically impossible. Therefore, a simplified approach should be considered such as those that allow for the use of data before the reference date, and the estimation of risk exposures based on the benchmark index. ・In the case where the look-through approach is not applied for hedge funds or infrastructure funds, one possible approach would be the consideration of an average risk charge at each asset class.
Great Eastern Holdings Ltd	Singapore	Other	No	No	
Swiss Re	Switzerland	Other	No	Yes	Swiss Re does not believe that its risks would be appropriately assessed using a standard method. Look-through considerations require careful analysis of the specific situation. We do not believe a general answer should be given.
MetLife	United States	Other	No	Yes	The 2016 Field Test technical specifications request look through into collective investment vehicles such as mutual funds. Most mutual fund investments are within separate account products where the investment performance and all of the market risk (equity or interest rate, etc.) is passed onto the policyholder. Other than guarantees associated with separate accounts, there is no material market risk associated with separate accounts since the investment performance and all of the market risk (equity or interest rate, etc.) is passed onto the policyholder. Accordingly, with respect to separate account assets invested

					in mutual funds, in our opinion, look through into the mutual funds is not necessary, since the impact of market stresses on the guarantee liabilities can be separately assessed. We recommend that there be an option for separate account assets to be excluded from the market stress impact and propose look through is not necessary under such an approach. Should the IAIS feel compelled to require look through, we believe the following options should be considered in testing: 1. Full look through (evaluate the underlying bonds, equities and derivatives in mutual funds). 2. Mandate look through (evaluate mutual funds according to the investment mandate of the mutual fund. If a mutual fund has an investment mandate to invest up to 60% in equities and 40% in bonds, then use the investment mandate of the mutual fund). 3. Perform no look through, rather evaluate only the guarantees on separate account products that are recorded in the general account.
RAA	United States and many other jurisdicitons	Other	No	Yes	We believe a full look through should be used whenever possible and prefer option 1 over option 2 in the consultation paper.
Prudential Financial, Inc.	United States of America	Other	No	No	

MassMutual Financial Group	USA	Other	No	No	

End of Section 6.4