

6.8 Lapse risk

Q123

Q123 Section 6.8.2 Is the stress level for the level and trend component appropriate? Please explain. If “no”, please provide supporting evidence and rationale for a different stress level.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
China Insurance Regulatory Commission	China	IAIS Member	No	No	The lapse stress is too high for China. As the risk profile and claim experience could vary significantly across markets, we suggest calibrate the stress based on each market’s actual data and experience.
EIOPA	EIOPA	IAIS Member	No	No	EIOPA believes that a symmetrical approach for the up and down stress levels for the level and trend component is appropriate. However, former studies in European markets supported a higher stress level under the VaR 99.5% approach.
BaFin	Germany	IAIS Member	No	Yes	
Financial Supervisory Service	Korea	IAIS Member	No		It is difficult to assess the appropriateness of the stress level at the moment. Korean FSS plans to calibrate the stress levels based on Korean Insurance market in the near future and the appropriateness of the stress level can be assessed afterwards.

National Association of Insurance Commissioners	USA	IAIS Member	No	Yes	Based on U.S. experience, the stress levels for the trend and level components appear not unreasonable.
Ageas	Belgium	Other	No		We believe there is no benefit to justify such approach by including trend and level stress components for lapse risk. It is preferred to apply directly stress on the best estimate lapse rate tables, which is a more straight forward approach.
Canadian Institute of Actuaries	Canada	Other	No	Yes	Stresses have been studied in the Canadian environment and similar conclusions have been arrived at.
CLHIA	Canada	Other	No	No	<p>The calibration appears to be too high to meet the target.</p> <p>As multi-national portfolios consist of a variety of life insurance products sold via a number of distribution channels almost all over the world, a simple lapse shock (both the level and the mass lapse shock) as assumed in the ICS is not considered reasonable for their entire life portfolios. A large amount of geographic and socioeconomic diversification renders a shock as assumed in the ICS more unlikely.</p> <p>In general we would expect to see some diversification effects. As there is no diversification between different lines of business or for different regions whatsoever – in fact the proposed methodology might rather penalize higher diversity in the modelled business as it prohibits any netting effects.</p>
Ping An Insurance (Group) Company of China Ltd.	China	Other	No	No	We suggest doing the calibration based on China market data.
Insurance Europe	Europe	Other	No	No	The level of calibration (40%) expected for the lapse risk module in the ICS doesn't reflect the reality of the covered risk, and the IAIS should further investigate historical data on lapse risk across jurisdictions.

Institut des Actuaire	France	Other	No	Yes	
Allianz	Germany	Other	No	No	The shocks appear very high, in particular considering that dynamic lapses are already captured in the best estimate.
GDV - Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Other	No	No	<p>The application only to those policies which are adversely affected is not appropriate. In fact, lapses are mainly triggered by circumstances in the personal situation of the policy holder but not by their alleged financial advantageousness for the policy holder or the insurance undertaking. Thus, the stress should be applied to all surrenderable policies as proposed for the mass lapse risk.</p> <p>A further problem is that the stress is designed for a locally active European primary insurer. It is not adequate for a portfolio, which consists of a variety of life insurance products sold via a number of distribution channels almost all over the world. A simple lapse shock (both the level and the mass lapse shock) as assumed in the ICS cannot be considered reasonable for such a portfolio. A large amount of geographic and socioeconomic diversification renders a shock as assumed in the ICS more unlikely. In general, we would expect to see some diversification effects.</p> <p>As there is no diversification between different lines of business or for different regions whatsoever – in fact the proposed methodology might rather penalize higher diversity in the modelled business as it prohibits any netting effects. Furthermore, our analyses for life and health reinsurance business show that only a reduction of lapse rates close to 100% in the first year does trigger an (extreme) assumption change of -40% in future expected lapse rates. Consequently, while a reduction in lapse rates of 40% or more may occur in a single year, a lapse decrease scenario as considered in the ICS is hardly adequate. The instantaneous stress of +40% lapse rate for every other policy shifts the recurrence period of such an event far beyond 200 years.</p>
Munich Re	Germany	Other	No	No	The calibration appears to be too high to meet the target. Moreover, the ICS calibration is strongly aligned with the one given in the Solvency II Standard Formula, which is designed for a locally active European primary insurer. It is not adequate for Munich Re's portfolio.

					<p>As Munich Re’s portfolio consists of a variety of life insurance products sold via a number of distribution channels almost all over the world, a simple lapse shock (both the level and the mass lapse shock) as assumed in the ICS is not considered reasonable for Munich Re’s entire life portfolio. A large amount of geographic and socioeconomic diversification renders a shock as assumed in the ICS more unlikely. In general we would expect to see some diversification effects. As there is no diversification between different lines of business or for different regions whatsoever – in fact the proposed methodology might rather penalize higher diversity in the modelled business as it prohibits any netting effects.</p> <p>Furthermore, our analyses for life and health reinsurance business show that only a reduction of lapse rates close to 100% in the first year does trigger an (extreme) assumption change of -40% in future expected lapse rates. Consequently, while a reduction in lapse rates of 40% or more may occur in a single year, a lapse decrease scenario as considered in the ICS is hardly adequate for our reinsurance portfolio. The instantaneous stress of +40% lapse rate for every other policy shifts the recurrence period of such an event, in our opinion, far beyond 200 years.</p>
Global Federation of Insurance Associations	Global	Other	No	No	<p>We are concerned that the stress levels are overly high in some jurisdictions. We would like the IAIS to consider defining appropriate stress levels, with reference to the input from stakeholders including historical data of Volunteer IAIGs obtained from the results of Phase 2 + of 2016 Field testing.</p>
AIA Group	Hong Kong	Other	No	Yes	
International Actuarial Association	International	Other	No	No	<p>The 40% (one-directional) shock under ICS may be appropriate for a stress test given the level of aggregation at which the shock is applied. The level and trend shock is +/- 30% under the proposed Canadian framework (LICAT), applied at the policy level for every duration, therefore ensuring that the shocked assumptions are always adverse compared to the best estimate assumptions. Such a refinement could be considered.</p>

The Life Insurance Association of Japan	Japan	Other	No	No	<ul style="list-style-type: none"> • We believe the stress level for the level and trend component is overly high. • We would like the IAIS to consider determining an appropriate stress level by referring to the historical data of Volunteers, which will be obtained from the results of Phase 2 + of 2016 Field testing. • With respect to trend component shock, it is generally considered no medium and long term trend is observed in lapse rate. We believe such a shock should not be taken into account in the calculation of Lapse risk because even if the trend component of Lapse risk is observed, it may be more strongly impacted by management action of each insurer. • Additionally, we believe calibration methods should be disclosed to Volunteers so that they will be able to validate the appropriateness of the calibration by reference to the data collected from Volunteers.
Dai-ichi Life Holdings, Inc.	Japan	Other	No	No	<ul style="list-style-type: none"> • The publication of the data and method regarding the calibration of current stress level is essential in order to determine whether it is appropriate. It is necessary to consider the appropriate stress level by referring to the historical data of the volunteer companies in Phase 2+. • Generally, medium- and long-term trends don't seem to exist in lapse rate. Even if trends have been observed, trends should not be taken into account since they are strongly affected by business strategies of the company. • The calibration method should be published to the volunteer companies so that they are able to check the appropriateness of the calibration.
General Insurance Association of Japan	Japan	Other	No	Yes	
Great Eastern Holdings Ltd	Singapore	Other	No	Yes	NA

Swiss Re	Switzerland	Other	No	No	The stress levels seem to be calibrated too high for reinsurers. This issue can best be addressed by allowing the use of regulatory approved internal models
MetLife	United States	Other	No	No	Both Parameter (Trend) and Cat Lapse shocks should consider product features, and vary shock levels based on product features, not on a retail/non-retail category basis.
Prudential Financial, Inc.	United States of America	Other	No	Yes	
MassMutual Financial Group	USA	Other	No	Yes	

Q124

Q124 Section 6.8.2 Is the stress level for Mass Lapse risk appropriate? Please explain. If “no”, please provide supporting evidence and rationale for a different stress level.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
China Insurance Regulatory Commission	China	IAIS Member	No	No	We view that the current stress level is not too unreasonable for China, however, from a long term prospective, as the risk profile and claim experience could vary significantly across markets, we suggest calibrate the stress based on each market's actual data and experience.
EIOPA	EIOPA	IAIS Member	No	No	Compared to the Field Test 2015 a differentiation between policies with positive and negative surrender strains does not apply here. This is likely to lead to much lower capital requirements for the mass lapse risk component in the Field Test 2016. In case that practicality considerations lead to the decision not to differentiate between policies with positive and negative surrender strains EIOPA believes that the levels of the shock should be increased at the same time in order to achieve a comparable level in the capital requirement for the mass lapse risk. On the other hand, in case where the stress levels in the Field Test 2015 were considered too high IAIS should provide justification for lowering the requirements particularly because the stress levels in 2015 were based on expert judgement in existing solvency regimes.
BaFin	Germany	IAIS Member	No	No	It is not clear why the stress level differs for different types of policies. We would prefer to introduce a unique shock component for mass lapse risk.

Financial Supervisory Service	Korea	IAIS Member	No		It is difficult to assess the appropriateness of the stress level at the moment. Korean FSS plans to calibrate the stress levels based on Korean Insurance market in the near future and the appropriateness of the stress level can be assessed afterwards.
Ageas	Belgium	Other	No	Yes	
Canadian Institute of Actuaries	Canada	Other	No	Yes	Paragraph 381 suggests the lapse risk is applied to surrenderable policies only when they offer some form of value upon surrender or termination. Consideration should be given to those circumstances where policies are surrendered where there is no value, as in paragraph 377. This situation may apply to those policies where there is a deferred acquisition costs (DAC) asset, resulting in a net negative policy liability, or in Canada where negative liabilities are permitted, indicating a capitalization of future earnings that are in excess of margins. This type of scenario could also occur when the ratings of a company change.
Ping An Insurance (Group) Company of China Ltd.	China	Other	No	No	We suggest doing the calibration based on China market data.
Institut des Actuaire	France	Other	No	Yes	
Allianz	Germany	Other	No	No	Shock levels appear very high. Empirically even in default cases a 30% lapse rate did not occur.
GDV - Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Other	No	No	See answer to question 123.
Munich Re	Germany	Other	No	No	

AIA Group	Hong Kong	Other	No	Yes	
International Actuarial Association	International	Other	No	Yes	ICS shocks are 30% for retail and 50% for non-retail. These shocks seem appropriate for a stress test.
Dai-ichi Life Holdings, Inc.	Japan	Other	No	No	<ul style="list-style-type: none"> • It is difficult to evaluate whether the stress level for Mass Lapse risk is appropriate because the rationale of the Mass Lapse Event and Stress Level assumed by IAIS isn't clear. We would like the IAIS to let us know the rationale of the Mass Lapse Event and Stress Level. • To set the risk factors for Japan, we have some concerns in the availability and adequacy of the data. • In this way, in Japan, there are some concerns in availability of historical data and credibility of the model. The Mass Lapse risk should be monitored by each company's risk management system rather than measured as one of ICS submodule.
General Insurance Association of Japan	Japan	Other	No	No	<p>Since the scenario envisaged for mass lapse risk is not clear, we cannot comment on this issue. However, depending on the assumed scenario, the conclusion could change, as per our comment on Q129.</p> <p>Additionally, verification and adjustments should be made by referencing data gathered during the 2016 ICS Field Testing exercise including qualitative judgment by the IAIS based on the data.</p>
The Life Insurance Association of Japan	Japan	Other	No	No	<ul style="list-style-type: none"> • It is difficult for us to judge the appropriateness of the stress level for Mass Lapse risk as the IAIS's assumption for postulated events leading to mass lapse and the rationale for determining stress levels are not clear. We would like the IAIS to clearly describe the rationale.

					<ul style="list-style-type: none"> • If a risk factor is used in determining the stress level for Mass Lapse risk, there may be concerns about the availability and adequacy of the data collected from IAIGs in Japan. • With regard to Mass Lapse risk, we think it is more appropriate to observe such risk through the monitoring of each IAIG's risk management process (e.g. stress testing) ,as it may be difficult for IAIGs in Japan to obtain historical data or develop reliable model to calculate Mass Lapse risk.
Great Eastern Holdings Ltd	Singapore	Other	No	Yes	NA
Swiss Re	Switzerland	Other	No	No	The stress levels seem to be calibrated too high for reinsurers. This issue can best be addressed by allowing the use of regulatory approved internal models
Prudential Financial, Inc.	United States of America	Other	No	No	The mass lapse stress is significantly higher than any mass lapse event in U.S. or Japanese history, is unduly conservative, and inconsistent with the notional 99.5 VaR concept.
MassMutual Financial Group	USA	Other	No	Yes	
Northwestern Mutual Life	USA	Other	No	No	<p>No. The intensity of an actual lapse stress will differ by product type; and to be accurate so should the ICS requirement. Over the last several decades, our life insurance lapse rate for participating whole life policies has never exceeded 6%. For annuities, the maximum has been 17%. Life insurer run events in the US are rare which is likely in part due to the adverse tax and insurability consequences to the policy owner should they surrender. When they do occur, they typically involve capital market products like guaranteed investment contracts (GICs) or funding agreements and may involve the effect of poor investment decisions.</p> <p>From our perspective we would not expect to see the mass lapse stress for whole</p>

					life insurance products in the ICS to exceed 10%, and something higher for annuities.
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Q125

Q125 Section 6.8.2 Is the treatment of dynamic lapses appropriate? Please explain. If “no”, please suggest an alternative treatment.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
EIOPA	EIOPA	IAIS Member	No	Yes	Yes, EIOPA believes that the application of the shock to the base rate of a dynamic lapse function is appropriate.
BaFin	Germany	IAIS Member	No	Yes	
Financial Supervisory Service	Korea	IAIS Member	No	Yes	
National Association of Insurance Commissioners	USA	IAIS Member	No	Yes	The treatment of the dynamic lapses appears appropriate.
Canadian Institute of Actuaries	Canada	Other	No	No	It states that the adjustment is applied to the base rate of the dynamic lapse function. This may have unintended consequences in that it captures too much tail risk. It may be more appropriate to stress the element driving the dynamic lapse behaviour.
Ping An Insurance (Group) Company of China Ltd.	China	Other	No	Yes	We have no relevant supporting experience data. In addition to the market factor, lapse behaviors are also significantly influenced by sales practice, and it's difficult to split the effects of these two factors. Therefore, we have no comment for now.

Insurance Europe	Europe	Other	No	No	The treatment should be more precisely specified as the scope of application is unclear. As a part of dynamic lapses comes from market stresses, the treatment may introduce unintended double counting.
Institut des Actuaire	France	Other	No	No	Further clarifications are needed.
Allianz	Germany	Other	No	Yes	
AIA Group	Hong Kong	Other	No	Yes	
International Actuarial Association	International	Other	No	Yes	The approach seems appropriate. It is practical and fairly easy to implement.
Great Eastern Holdings Ltd	Singapore	Other	No	Yes	NA
Swiss Re	Switzerland	Other	No	No	This is difficult to say in general. Note that as a part of dynamic lapses comes from market stresses, care should be taken to avoid unintended double counting.
Prudential Financial, Inc.	United States of America	Other	No	Yes	
MassMutual Financial Group	USA	Other	No	Yes	

Q126

Q126 Section 6.8.2 Is the approach of taking the maximum of the level and trend components and the mass lapse component appropriate? Please explain.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
China Insurance Regulatory Commission	China	IAIS Member	No	Yes	
EIOPA	EIOPA	IAIS Member	No	Yes	Yes, this approach is the most sensible one. The current approach implies that either a mass lapse or a permanent increase of lapse rates will occur but not both of them. An alternative approach would require an aggregation of the capital requirements for the mass lapse and the level and trend component. This in turn, would require a correlation assumption between the two components which should be difficult to derive as mass lapse events are rather rare and none of them has been observed so far.
BaFin	Germany	IAIS Member	No	Yes	
Financial Supervisory Service	Korea	IAIS Member	No	Yes	
Canadian Institute of Actuaries	Canada	Other	No	Yes	

Ping An Insurance (Group) Company of China Ltd.	China	Other	No	Yes	We have no disagreement.
Institut des Actuaire	France	Other	No	Yes	
Allianz	Germany	Other	No	Yes	
GDV - Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Other	No	No	The consideration of the more adverse scenario on policy level is not only hard to implement but also results in a highly specific scenario that does not allow for any diversification effect between countries, products or even age wise.
Munich Re	Germany	Other	No	No	Cf. Q123 The consideration of the more adverse scenario on policy level is not only hard to implement but also results in a highly specific scenario that does not allow for any diversification effect between countries, products or even age wise.
AIA Group	Hong Kong	Other	No	Yes	
International Actuarial Association	International	Other	No	No	We believe that the results of the separate shocks (level/trend and mass) should be summed as they are independent risks. Capital should be held for both risks. One could consider the square root of the sum of the squares as an approach to reflect that these risks are not totally additive.
Dai-ichi Life Holdings, Inc.	Japan	Other	No	Yes	<ul style="list-style-type: none"> • Partially Yes. • But only level component should be included in lapse risk. Please refer to Q123 and Q124.

General Insurance Association of Japan	Japan	Other	No	Yes	
The Life Insurance Association of Japan	Japan	Other	No	Yes	<ul style="list-style-type: none"> • We believe the approach that takes the maximum of either component may be appropriate. • However, considering the comment(s) on Questions 123 and 124 above, we believe that taking only the maximum of level component should be considered in the approach.
Great Eastern Holdings Ltd	Singapore	Other	No	Yes	NA
Swiss Re	Switzerland	Other	No	No	Taking the maximum may indeed lead to an overly conservative calibration. Regulatory approved internal models calculate a distribution of lapse losses, based on various scenarios, including level and trend, and mass lapse. A similar approach could be used as well for ICS, ideally by directly allowing for the use of regulatory approved internal models.
New York Life	United States	Other	No	Yes	Dependent upon appropriate calibration of the shocks, this makes sense. Alternatively, lesser shocks could be developed with a correlation implying that with a time zero mass shock, residual impacts would be felt. Another important consideration in the stress that is not considered is what sort of lives are to remain post-shock. For the mass shock, it is assumed that a level cross-section of the population lapses. However, particularly for level and trend, it should be clarified as to whether or not the healthiest lives (worst case scenario for life) are assumed to lapse. Typically, post-shock mortality is more adverse. It may be assumed that this is captured via correlations with mortality charges.
Prudential Financial, Inc.	United States of America	Other	No	No	Mass lapse and lapse level and trend are distinct risks and should be aggregated, assuming independence, along with mortality etc at the life risk level. The potential drivers of a mass lapse are both different and independent from those of level and

					trend deviations. A mass lapse does not prevent level and trend deviations and level and trend deviations do not preclude the possibility of mass lapse. Therefore, it is unduly aggressive to only consider the larger of the two risks.
MassMutual Financial Group	USA	Other	No	Yes	

Q127

Q127 Section 6.8.3.1 Is there evidence to support the use of stresses for Lapse risk that vary by geographical region? Please explain and provide supporting evidence.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
China Insurance Regulatory Commission	China	IAIS Member	No	Yes	The lapse behaviour is highly related to the culture, policyholders, distribution channels as well as insurance regulations of the local market, therefore we believe the stress should be set by regions,
EIOPA	EIOPA	IAIS Member	No	No	EIOPA believes that the policyholder's behavior in the exercise of contractual options largely depends on the type of products and only to a lesser extent on the geographical area itself. Although types of products vary much across different countries EIOPA believes that the suggested grouping by geographical regions is not sufficiently granular to capture the differences in product types across countries. Only a sufficiently granular calibration of lapse stresses by product types or by countries could capture the differences adequately. However, this would end up in a burdensome calculation of the lapse level and trend component. That is why the same value of stress could be applied worldwide as a simple approach for the ICS standard method.
BaFin	Germany	IAIS Member	No	No	Although there might be factors like GDP or unemployment or any other socio-economic factor that vary across different geographical regions and might influence lapse risk, we would not expect that lapses differ across regions in a systematic manner.
Financial Supervisory Service	Korea	IAIS Member	No	No	

Ageas	Belgium	Other	No	Yes	1/ in the sense if life products are subject to market environment (interest rates movements), where there is single currency like the Euro zone. Countries belonging to the same currency zone should have the same stress levels. 2/ depending on the local regulations and type of products (e.g. annuities in UK and Spain) where policy holders would not lapse their annuity contract. Hence the lapse risk shock would not be meaningful and realistic.
Ping An Insurance (Group) Company of China Ltd.	China	Other	No	Yes	As lapse behaviors are closely related to local market environment, policyholder behaviours, sales channels and regulatory measures, we think the stress setting should vary by geographic region.
Institut des Actuaire	France	Other	No	No	Cf. Q108
Allianz	Germany	Other	No	Yes	Generally lapse rates have been observed to be much higher in some regions, so that it is likely that stresses vary from region to region.
AIA Group	Hong Kong	Other	No	No	Lapses are driven by the market, distribution system and product strategy, not by geography. Calibration by "region" is even more problematic for lapse risk than for mortality or morbidity risk.
International Actuarial Association	International	Other	No	No	We are not aware of evidence to support the use of stresses for lapse risk that vary by geographical region. The company's ORSA could be helpful in identifying any company-specific geographic variances.
Dai-ichi Life Holdings, Inc.	Japan	Other	No	Yes	Please refer Phase2+ historical data submitted by volunteer IAIGs.

The Life Insurance Association of Japan	Japan	Other	No	Yes	• We would like the IAIS to refer to the historical data of Volunteers, which will be obtained from the results of Phase 2 + of 2016 Field testing.
Great Eastern Holdings Ltd	Singapore	Other	No	No	NA
Swiss Re	Switzerland	Other	No	Yes	Stresses may indeed vary by region. The severity of a given stress and its impact on lapse rates will depend on the characteristics of local clients and the options available to them. However, the increased complexity associated with taking this into account may not be justified by the benefits in precision. Ideally, for groups for whom this effect is material, the IAIS should allow for the use of regulatory approved internal models.
MetLife	United States	Other	No	Yes	Please see response to Q.216 below
Prudential Financial, Inc.	United States of America	Other	No	No	Prudential does not believe the geographical segmentation is relevant when determining a Lapse risk amount. The stresses and methods should be consistent across all geographical areas; regional differences, if any, should be captured in best estimate assumptions.
MassMutual Financial Group	USA	Other	No	No	

Q128

Q128 Section 6.8.3.1 Is there a specific methodology and reference data that the IAIS should use to determine appropriate lapse stress levels by geographic region? Please explain.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
China Insurance Regulatory Commission	China	IAIS Member	No	Yes	
EIOPA	EIOPA	IAIS Member	No		See answer to question 127 above.
BaFin	Germany	IAIS Member	No	No	
Financial Supervisory Service	Korea	IAIS Member	No	No	
Ageas	Belgium	Other	No	No	
Ping An Insurance (Group) Company of China Ltd.	China	Other	No	Yes	We suggest doing the calibration based on lapse experience data of China market as well as the companies participating in the field testing in China.
Allianz	Germany	Other	No	No	

GDV - Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Other	No	No	
Munich Re	Germany	Other	No	No	
AIA Group	Hong Kong	Other	No	No	As mentioned earlier, "region" is an inappropriate categorization.
International Actuarial Association	International	Other	No	No	We are not aware of evidence to support the use of stresses for lapse risk that vary by geographical region.
Dai-ichi Life Holdings, Inc.	Japan	Other	No	Yes	Please refer Phase2+ historical data submitted by volunteer IAIGs.
The Life Insurance Association of Japan	Japan	Other	No	Yes	· We would like the IAIS to refer to the historical data of Volunteers, which will be obtained from the results of Phase 2 + of 2016 Field testing.
Great Eastern Holdings Ltd	Singapore	Other	No	No	NA
Swiss Re	Switzerland	Other	No	No	See response to Q 127 above.
MetLife	United States	Other	No	Yes	Please see response to Q.216 below
MassMutual Financial Group	USA	Other	No	No	

Q129

Q129 Section 6.8.3.2 Should the mass lapse stress be applied to all surrenderable policies, regardless of surrender strain? Please explain.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
China Insurance Regulatory Commission	China	IAIS Member	No	Yes	The lapse loss or gains of the insurers is often not visible to policyholders. In addition, the mass lapse commonly occurs when there are significant external or environmental changes, in which the policyholder behaviour is more affected by external factors rather than lapse gains/losses. Therefore we support the mass lapse be applied to all policies.
EIOPA	EIOPA	IAIS Member	No	No	EIOPA prefers an approach where the mass lapse stress is only applied to surrenderable policies with a positive surrender strain as also in a mass lapse event those policies are more likely to be terminated by policyholders. In case a mass lapse stress would be applied to all policies, the level of the stress should be increased adequately (see also our answer to question 124).
BaFin	Germany	IAIS Member	No	No	Mass lapse stress should only be applied to positive mass lapse strain.
Financial Supervisory Service	Korea	IAIS Member	No	Yes	The mass lapse stress should be applied to all surrenderable policies considering the nature of the event.
National Association of Insurance Commissioners	USA	IAIS Member	No	Yes	The experience during the Global Financial Crisis (GFC) and at other times appears to suggest that mass lapse bank-like runs on insurers, are rare, and did not occur in the GFC. Such events are less likely to be significantly related to product features

					than to psychological, economical and stay driven features. For instance, if there is a general loss of confidence in the insurance market, in a particular insurer, or a severe need for cash, policyholders may flee regardless of their surrender strain position.
Ageas	Belgium	Other	No	Yes	The stress level should be applied to all policies, regardless the surrender strain. However a selection of the policies that impact a decrease in own funds should be retained. Hence this approach does not allow cross subsidisation between policies with positive and negative surrender strain.
Canadian Institute of Actuaries	Canada	Other	No	Yes	Policyholder behaviour is often driven by external factors. Policy owners are generally indifferent to the impact of their behaviour on the insurer.
Ping An Insurance (Group) Company of China Ltd.	China	Other	No	Yes	We agree with the method in 2016FT. When companies face significant reputational risks, policyholders will not make the decision based on whether the policy surrender strain is positive or negative. Therefore, the loss impact to the company due to mass lapse should be considered at the company aggregate level, that is, allowing for the offsets between products.
Insurance Europe	Europe	Other	No	Yes	While reputation risk can be a highly likely trigger for mass surrenders, it is not linked to product features.
Institut des Actuaire	France	Other	No	Yes	Yes with the example of reputation risk which is not linked with product features
Allianz	Germany	Other	No	Yes	
GDV - Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Other	No	Yes	An application only to those policies which are adversely affected would not be appropriate. A mass lapse event may be triggered in particular by bad news / rumours in mass media / social media but not by the alleged financial

					advantageousness of the lapses for the policy holder or the insurance undertaking. Thus, the stress should be applied to all surrenderable policies.
AIA Group	Hong Kong	Other	No	Yes	We think mass lapse occurs due to policyholder behaviour e.g. panic out of economic uncertainty or a sudden change in the reputation of an IAIG. Whether a policy has surrender strain or not is not a factor considered by the policyholder.
International Actuarial Association	International	Other	No	Yes	Policyholders would be unaware of whether their policies would create surrender strain or not. Further, any act that causes loss of confidence (a sale, reputation risk, criminal conduct) would likely cause policyholders to flee regardless of their economic circumstances.
Dai-ichi Life Holdings, Inc.	Japan	Other	No	Yes	<ul style="list-style-type: none"> • Even in the event of the mass lapse, it is less likely for each policyholder to judge surrender on the basis of the comparison with surrenders strain and economic based value for ICS. So regardless of the surrender value, the mass lapse stress should be applied to any policies.
General Insurance Association of Japan	Japan	Other	No	Yes	The scenario of how a mass lapse occurs is not expressly stated, but the following can be said depending on the scenario: <ul style="list-style-type: none"> - If reputational issues and policyholder runs etc. based on insurer's credit uncertainty are assumed, a certain number of lapses can be expected to occur, whether the surrender strain is positive or negative. Therefore, the value of contracts with negative surrender strain should not be set at zero. Instead, net risk calculation should be conducted together with contracts with positive strain. - If external factors such as tax reforms, decline in product competitiveness, and rise in interest rates are assumed, the lapse rate could vary depending on factor or product. In such cases, different shocks which take into account respective causes of surrender could be applied to each product. For example, it is likely that the lapse rate would be lower for products with larger penalties for surrender or low cash surrender values. Products that explicitly state that the cash surrender value is low

					could at least be excluded from the range of mass surrenders as in the case of products with a zero cash surrender value.
The Life Insurance Association of Japan	Japan	Other	No	Yes	<ul style="list-style-type: none"> Assuming the situations where mass lapse occurs, the mass lapse stress should be applied to IAIG's all policies in force regardless of the positive or negative amount of cash surrender value as policyholders are not likely to surrender their policy based on the positive or negative amount of the value.
Great Eastern Holdings Ltd	Singapore	Other	No	Yes	As an objective measure, the framework should apply to all surrenderable policies. If the surrendering of a policy would result in 'better' results, this should also be recognised to the IAIG's credit.
MetLife	United States	Other	No	No	Mass lapse requirements should include policies with a negative surrender strain. Mass lapse requirements should allow for global offsets when negative risk charges are calculated. Certain policies are sold in the marketplace that are known as lapse-supported policies or when surrendered, provide a benefit to the risk profile of the company. These policies should be allowed to provide risk offsets to the reported results, as the real-world application of a surrender of a policy with a negative surrender strain would afford the company that benefit to the risk profile. Mass lapses represent a reputational risk or "run on the bank" risk, not economic decision-making by policyholders.
Prudential Financial, Inc.	United States of America	Other	No	No	The mass lapse stress should be applied only to policies with positive surrender strain. A zero surrender for policies with negative surrender strain is appropriate. Lapse drivers are product specific so lapses will not necessarily occur consistently across all products; therefore, we believe it is appropriately conservative to floor the mass lapse impact at zero.

MassMutual Financial Group	USA	Other	No	Yes	When a mass lapse occurs, policyholder behavior is NOT likely to consider whether it will harm the company or not.
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Q130

Q130 Section 6.8.3.2 Should the mass lapse stress be applied only to surrenderable policies with positive surrender strain? Please explain.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
China Insurance Regulatory Commission	China	IAIS Member	No	No	The lapse loss or gains of the insurers is often not visible to policyholders. In addition, the mass lapse commonly occurs when there are significant external or environmental changes, in which the policyholder behaviour is more affected by external factors rather than lapse gains/losses. Therefore we support the mass lapse be applied to all policies.
EIOPA	EIOPA	IAIS Member	No		See answer to question 129 above.
Financial Supervisory Service	Korea	IAIS Member	No	No	The mass lapse stress should be applied to all surrenderable policies considering the nature of the event.
KNF - Polish Financial Supervision Authority	Poland	IAIS Member	No	Yes	This approach is more conservative.
National Association of Insurance Commissioners	USA	IAIS Member	No	No	Please see our response to Q129.
Canadian Institute of Actuaries	Canada	Other	No	No	See Q129

Ping An Insurance (Group) Company of China Ltd.	China	Other	No	No	Please refer to Q129.
Institut des Actuares	France	Other	No	No	Cf. Q129
Allianz	Germany	Other	No	No	See response to Q 129.
GDV - Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Other	No	No	An application only to those policies which are adversely affected would not be appropriate. A mass lapse event may be triggered in particular by bad news / rumours in mass media / social media but not by the alleged financial advantageousness of the lapses for the policy holder or the insurance undertaking. Thus, the stress should be applied to all surrenderable policies.
AIA Group	Hong Kong	Other	No	No	See our response to Q129.
International Actuarial Association	International	Other	No	No	If there is a loss of confidence, policyholders will flee regardless of their surrender strain position.
Dai-ichi Life Holdings, Inc.	Japan	Other	No	No	Please refer to the answer for Q129.
General Insurance Association of Japan	Japan	Other	No	No	Please refer to our comments on Q129.
The Life Insurance Association of Japan	Japan	Other	No	No	• The reason for this comment is the same with the comment(s) on Question 129 above.
Great Eastern Holdings Ltd	Singapore	Other	No	No	See Q129.

MetLife	United States	Other	No	No	Please see response to Q. 129 above.
New York Life	United States	Other	No	No	The calibration here is an important factor. It would be reasonable to assume a higher level of lapse for products that are advantaged to do so than those which have in-the-money guarantees. For example, a variable annuity with in-the-money guarantees probably should not be assumed to lapse at the same level as a product with no guarantees and a high cash value even under a situation where an insurer's reputation is damaged causing widespread lapse of policies.
American Academy of Actuaries	United States of America	Other	No	No	When confidence is lost, policyholders will leave the company regardless of their surrender strain position. Furthermore, policyholders may not fully realize their current surrender strain position.
Prudential Financial, Inc.	United States of America	Other	No	Yes	Please see our response to question 129.
MassMutual Financial Group	USA	Other	No	No	
Northwestern Mutual Life	USA	Other	No	Yes	Yes. Our experience is that policy owners act in their own economic best interest. We believe stress tests designed to mimic policy owner behavior should assume the same. A surrender producing negative surrender strain, which is favorable to the insurer, implies that the policy owner is acting against their best economic interests and therefore does not make sense to us.

Q131

Q131 Section 6.8.4 Are there any further comments on Lapse risk 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
China Insurance Regulatory Commission	China	IAIS Member	No	No	
EIOPA	EIOPA	IAIS Member	No	Yes	The current specifications for the upward scenario within the level and trend component do not foresee any cap for the stressed rates. However, in the upward shock scenario the stressed lapse rates should be subject to a cap of 100%. Otherwise the capital charges for the level and trend component will exceed the losses that insurers would actually suffer if all policyholders with positive surrender strain terminated their contracts.
Financial Supervisory Service	Korea	IAIS Member	No	Yes	For level and trend component calculation, taking the maximum shock impact among the policyholder behaviours such as renewal, lapse and etc. seems more appropriate rather than combining all these risks together.
Ageas	Belgium	Other	No	No	
Canadian Institute of Actuaries	Canada	Other	No	No	

Ping An Insurance (Group) Company of China Ltd.	China	Other	No	No	
Insurance Europe	Europe	Other	No	Yes	The shock should apply at the level of group homogeneous risks, rather than at policy level, as the forecast deviation applies to the entire population, rather than to a subgroup.
Allianz	Germany	Other	No	No	
GDV - Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Other	No	No	
Munich Re	Germany	Other	No	No	
AIA Group	Hong Kong	Other	No	Yes	The technical specification requires the IAIG to aggregate the individual shocked lapse results into the IAIS geographic segmentation before considering if it is the level-and-trend or the mass lapse shock which is more adverse. We think that different countries' product portfolios have different sensitivities to the lapse assumption, therefore we strongly feel that the consideration of the maximum should be performed at the country level and within each country, on a homogenous product group level. The aggregate lapse risk will then simply be the sum of the "post-maximisation" risk charges of all the homogenous product groups of each country. There is no basis for distinguishing by geographic region as defined in the technical specifications. Why, for example, should we aggregate lapse risk in Malaysia and Thailand, or for that matter in Singapore, Hong Kong and Korea? This makes no logical sense whatsoever.

International Actuarial Association	International	Other	No	Yes	The increased lapse rates stress test will understate the liabilities needed as there is no provision for increased mortality on the persisting policyholders.
General Insurance Association of Japan	Japan	Other	No	Yes	Regarding level and trend components, the approach taken for the 2016 Field Testing is overly conservative, as it determines whether to apply an upward or a downward stress for each Homogeneous Risk Group (HRG), which means that for all HRGs the lapse rate will change adversely. The amounts of the decreased net asset value calculated on the group level under the lapse rate increase /decrease scenarios respectively should be aggregated independently.
Great Eastern Holdings Ltd	Singapore	Other	No	No	
Swiss Re	Switzerland	Other	No	No	
Aegon NV	The Netherlands	Other	No	Yes	Although Aegon believes that any ICS should be relatively simple and modestly calibrated, we acknowledge that Lapse risk is a challenging area due to the importance of policyholder behaviour in the economics of many products. At this stage, it is not clear to us that the proposed stress approach produces a superior outcome to a factor-based approach. Both depend on large amounts of expert judgment. This may be an area in which some complexity and sophistication is warranted, depending on the desired level of calibration.
MetLife	United States	Other	No	Yes	Modeling a volatility component on insurance risks could present significant challenges. MetLife proposes that the volatility component of the stress test is subjective and thereby not a component that adds to comparability and that it should not be included in specifications for the ICS. Lapse risk shocks are excessive at the individual level and are not product-specific.

					Please note, if economic contract boundaries were implemented into the IAIS model as we have requested, the lapse risk charges would significantly increase. This would be an appropriate economic result, reflecting the value of short term business and the risk to that business of increased lapses. As currently structured with a “legal” definition of contract boundaries, the value of short term business (that allows for renewals) is understated, as is the corresponding impact of increased lapses.
Prudential Financial, Inc.	United States of America	Other	No	Yes	<p>The mass lapse charge should be specified relative to the best estimate as opposed to as an absolute lapse rate. Regional and product idiosyncrasies are reflected in best estimate assumptions, and the mass lapse charge should be sensitive to them.</p> <p>This approach is more reflective of the risk. Under an absolute approach, products with high base lapse rates will have a minimal mass lapse charge (if any) while products with low lapse rates are unduly penalized. A relative stress impacts products more uniformly.</p>
MassMutual Financial Group	USA	Other	No	No	

End of Section 6.8