Holistic Framework for Mitigating Systemic Risk in Insurance

David Leifer

ACLI Vice President & Associate General Counsel

Robert Neil

ACLI Vice President, International & Government Relations

IAIS Stakeholder Event   January 15, 2019

About ACLI

The ACLI advocates on behalf of 280 member companies dedicated to providing products and services that promote consumers' financial and retirement security. 90 million American families depend on our members for life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, dental and vision and other supplemental benefits. ACLI represents member companies in state, federal and international forums for public policy that supports the industry marketplace and the families that rely on life insurers' products for peace of mind. ACLI members represent 95 percent of industry assets in the United States.

ACLI High-Level Observations

- ACLI supports a properly developed holistic and rational approach for the identification and mitigation of systemic risk.
- A holistic approach should serve as a definitive replacement for the Entities Based Approach (EBA) that emerged in the immediate aftermath of the financial crisis.
- We note that the draft consultation retains elements of the EBA such that the end result could in effect be an Activities Based Approach (ABA) and an EBA. We appreciate the desire to overcome the ABA and EBA labels. We hope a proportionate holistic approach can achieve this.
- There should be a clear focus on those limited activities that may present systemic risk coupled with an identified systemic risk transmission channel that spreads that risk to the financial system or the overall economy.

MPI & the Holistic Framework

- The NAIC is working diligently on its own Macro-Prudential Initiative (MPI), and we hope to see consistency between MPI and the framework.
- The four (4) elements of MPI (liquidity, resolution and recovery, counterparty risk exposure, and group capital stress testing) broadly align with the objectives of the holistic consultation.
- We are encouraged that the MPI is looking for targeted data sets that directly enhance the assessment of systemic risk, and we urge a similar focused approach be undertaken here.
- As one example, enhancements have already been made to the amount of publicly available information relevant to liquidity.

ACLI Concerns & Recommendations

- The consultation contains an overly broad set of policy recommendations and measures. As a consequence, micro and macro regulatory tools are intermixed. ACLI urges a clear demarcation between macro and micro regulation with the consultation devoted exclusively to macro regulation.
- ACLI supports the leveraging of existing ICPs and the anticipated use of application papers.
- We urge that the framework not be overly prescriptive, and that there is ample room for local jurisdictions to apply appropriate tools and measurements.
- There are many places within the consultation where greater clarity is needed. For example, many terms are not adequately defined.

ACLI Concerns & Recommendations

- ACLI supports the move to a more absolute approach to the assessment of systemic risk.
- We also support the concept of cross-sectoral analysis.
- We <u>do not support</u> the drive to incorporate or mirror banking analysis and measurements, unless an entity within the group is engaging in what are unquestionably banking activities.
- Proportionality and deminimus thresholds should also be featured and expanded upon.

ACLI Concerns & Recommendations

- The consultation contains several references to the ICS, which we believe is inappropriate. Capital levels do not address macro level concerns regarding asset liquidity, counterparty exposure and other factors.
- "Materiality" is a core concept that is absent from the consultation. We believe materiality must be identified so that some parameters (triggers) can be established for intervention.
- The intervention tools are far too numerous, vaguely defined and broad to be useful. For example, a number of the regulatory measures are drawn from recovery and resolution materials.
- Finally, there are a number of specific issues in the consultation we hope will be addressed. For example, "geographic diversity" is identified as a risk—we view it as clearly a de-risking measurement.