INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

Summary of main comments received on Section 3 (Supervisory Policy Measures) of the consultation document Holistic Framework for Systemic Risk in the Insurance Sector and their resolution

Introduction

- The IAIS received numerous comments from both Members and Stakeholders that provided valuable input for further improvements to the draft revisions to the supervisory material.
- With this document the IAIS provides responses to the main comments received on Section 3 (Supervisory Policy Measures) of the November 2018 consultation document Holistic Framework for Systemic Risk in the Insurance Sector and their resolution, with the aim to provide background on the draft revisions to the ICPs and ComFrame that are now presented for public consultation.

Reference	Summary of comments received	IAIS response
Macro prudential surveillance	In some responses, it appears that there might have been some confusion on the ultimate addressee of ICP 24, whether it is the supervisor or the insurance sector. Also there appeared to be some confusion about the role of the IAIS, where some stakeholders were concerned about additional data collections by the IAIS.	The ICP 24 is addressed at the supervisor, not the insurers. For instance, when discussing stress testing, it refers to stress testing activities by the supervisor, not the insurer as part of its ERM. Another example, when discussing data collection, it refers to data collection by the supervisor within its jurisdiction. It does not refer to data collection by the IAIS.
	There was a suggestion by some stakeholders to use ORSA as the basis for the supervisor's assessment.	The ORSA serves a different purpose, which is for the insurer to have better insight in its own risks and solvency, as part of enterprise risk management. ORSAs also vary from insurer to insurer, so they may not provide the necessary information for a supervisor's macroprudential surveillance. Having said that, the ICP 24 Guidance does refer to the efficiency of data collections, noting that the supervisor should examine costs and benefits and should make use of already available data sources.

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	There was support for the principle of stress testing but concern about its potential scope.	The Guidance on stress testing is worded such to address this concern. Also, stress testing is mentioned in Guidance only (as a recommendation) and not at the Standard level (as a requirement).
	Several comments were received on liquidity risk, with a number of supportive comments, although there was no uniform view across stakeholders. With regard to this, there was also a request to distinguish between insurance business models.	The comments were noted and reflected when drafting the Guidance paragraphs related to liquidity risk.
	Comments received indicate broad support for the development of an application paper on macroprudential surveillance	Noted, but work on this will not start before finalisation of the holistic framework in November 2019.
	While several stakeholders noted the advantage of the ICS as a risk-sensitive measure for the purpose of surveillance, many stressed that it should (if at all) not be used before it is formally implemented as a PCR in 2019.	There may have been a confusion, but there is no intention of the IAIS to establish a link between the ICS and the macroprudential surveillance activities under ICP 24.
Ongoing supervisory policy measures; general	Various comments were received that relate to the general proportionality principle and that raised a concern on the level of prescriptiveness. Also there were questions for clarification.	The draft revisions to the Guidance material respond to these comments by including references to the proportionality principle, and by providing additional clarification in Guidance. This additional background is for instance provided to supervisors in deciding whether it is necessary to extend certain requirements in ComFrame to other insurers, referring to the proportionality principle as well as to the specific risk exposure that may lead to increased vulnerability to systemic risk.
Ongoing supervisory policy measures; Liquidity risk	Comments on the proposed modifications for liquidity risk were generally positive, However, many commenters expressed concerns that the draft application paper, which was presented in an annex as a preview of a future consultation document, was too prescriptive.	The support is noted and appreciated. A draft application paper will be published for consultation in November 2019; stakeholders will have an opportunity to comment on it then.
	While some commenters agreed with the proposed scope in the consultation document, there were also reservations expressed, as well as requests for additional clarity about scope and proportionality. Some suggestions were received on changing the scope, for instance by de-emphasising international exposures or	See above in response to the general comment. The draft revised Guidance material in ICP and ComFrame puts great emphasis on the nature, scale and complexity of the insurer's activities that lead to increased liquidity risk exposure as well as

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	size, and increasing the focus on the activities of insurers (the latter came mostly from commenters from the P&C business who were of the opinion these requirements should not apply to them).	the risk amplification effects related to the size of the insurer, by also giving concrete examples of such activities.
	Several commenters were of the opinion that the standard in the consultation document was vague and would lead to international inconsistencies.	This is addressed by making concrete in the draft revisions what is meant with “more detailed requirements” for IAIGs and other insurers as necessary (See draft ICP 16.9 and ComFrame integrated therein).
	While some commenters supported additional liquidity risk disclosures, various commenters were opposed. Where a rationale was given for this opposition, companies generally cited a concern about how such disclosures could “foster mass withdrawals” or “lead to unpredictable policyholder behaviour.” Others that were more supportive, suggested that basic liquidity disclosures can encourage cost-effective liquidity risk management by internalising some of the expected costs of liquidity shortages.	The rationale provided by some stakeholders seems in tension with prior comments on the potential for such behaviour. The IAIS proposes to proceed with liquidity disclosures as proposed. Additionally, disclosures may actually help to prevent or alleviate a loss of confidence caused by the absence of reliable information.
Ongoing supervisory policy measures; Macroeconomic and counterparty exposure	There were comments received on the fact that the IAIS should not be too prescriptive on the ORSA, but at the same time many commenters also generally agreed with the proposed proportional application of supervisory measures related to macroeconomic and counterparty exposure.	The IAIS recognises the character of an own risk assessment and does not intent to prescribe the contents, nor its form. The IAIS only provides recommendations of items that are of specific relevance. Also, the draft revisions proposed related to the holistic framework build on the existing supervisory material in ICP 16 on ORSA.
	There were concerns about references to the ICS and role of ICS.	There is no intention to link ICP or ComFrame material that is related to counterparty and macroeconomic exposure to the ICS ratio or how that is calculated.
Powers of intervention	Various commenters expressed fear that the proposed changes would allow supervisors to circumvent existing safeguards on policy measures without adequate due process. Commenters wanted additional clarity about when supervisors could invoke macroprudential tools and assurances that macroprudential interventions would be limited to specific circumstances and using	The IAIS has addressed this concern by placing the revisions in ICP 10.2 and thereby reinforcing that preventive or corrective measures would only occur when in the event of (likely) breaches of regulatory requirements.

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	the least intrusive means necessary. Commenters worried that failing to do this would result in unintended consequences and could undermine financial stability.	
	Commenters requested clarity about whether macroprudential responses would be applied on an insurer-by-insurer basis or broadly across the sector.	Even when a concern may be sector-wide, based for instance on the macroprudential surveillance as laid out in ICP 24, preventive or corrective measures would necessarily have to be invoked at the level of an individual insurer or a group of insurers.
	Several commenters said the potential for some policy responses (e.g. requirement of a systemic risk management plan) was not needed because existing ERM requirements adequately addressed this.	The IAIS disagrees. In ERM, insurers consider their inward risk and vulnerabilities rather than how these vulnerabilities may affect others. Additional supervisory responses and requirements may be needed over and above to the limits an insurer places on itself through ERM because of potential externalities or because the supervisor may have more information available, or a different assessment of risk.