INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

PUBLIC

Resolutions to Public Consultation Comments on Development of Liquidity Metrics: Phase 1 – Exposure Approach

9 November 2020 – 9 February 2021

Introduction

- The IAIS had to postpone the Individual Insurer Monitoring (IIM) 2020 data collection as a consequence of the Covid-19 outbreak. In the absence of the IIM 2020, IAIS could notably not conduct the planned Insurance Liquidity Ratio (ILR) sensitivity analysis and finalisation of its calibration. Therefore, some comments received during the public consultation will be considered as a part of the remaining work on the ILR to be finalised in Phase 2, utilising the IIM 2020 and IIM 2021 data.
- As previously described, during Phase 2, the IAIS will develop other liquidity metrics. This includes but is not limited to the development of a company projection (CP) approach and further refinement of the ILR.

Organisation	Jurisdiction	Confidential	Answer / Comment	Resolution of comments
Q1 Do you agree with the IAIS' plan for the development of liquidity metrics for monitoring? If not, please explain what changes you recommend and why.				
1. Insurance Europe	Belgium	No	**Answer:** No **Comment:** Insurance Europe is supportive of the Holistic Framework for Systemic Risk, which represents a significant improvement on the previous entity-based approach. It is noted that the development of an exposure-based liquidity metric is intended as an ancillary indicator as part of the Individual Insurer Monitoring (IIM). However, given that it is a simple factor-based measure, Insurance Europe considers that the nature of the proposed Insurance Liquidity Ratio (ILR) would have limited value as a reliable ancillary indicator that would achieve the IAIS's stated aims, i.e. to facilitate the monitoring of potential vulnerabilities, risk drivers, and trends in the global insurance industry's liquidity risk. In particular, it would be inappropriate to apply the ILR beyond the Global Monitoring Exercise (GME) for the purposes of micro-prudential regulation. As the IAIS has itself noted in its Application Paper on Liquidity Risk Management, liquidity risk is company and scenario specific. The weaknesses of the proposed "exposure approach" include a loss of information on mismatches between liquidity needs and sources as well as being less risk sensitive. A thorough understanding of liquidity sources and needs is required to understand insurers individual liquidity risk profiles which a blunt factor-based ILR would fail to do. Liquidity risk is important for insurers and accordingly, it is well managed due to the business model (ie an inverted production cycle), existing regulatory provisions and insurers' integrated approach to liquidity and risk management. Further, insurance groups have established liquidity risk management practices and liquidity frameworks tailored to the characteristics and nature of their business. These internally developed frameworks have already considered the actual liquidity profile of the business and provide better accuracy than a crude bucketing of assets and, more notably, liabilities. While a standardised liquidity ratio may make sense in the banking industry given its business profile and heightened liquidity risk, it is inappropriate for the insurance sector given that there is much lower liquidity risk and the dependence on individual liquidity profiles of different businesses and the scenarios where they may be	Comments and reservations are noted and will be considered and resolved in the project's Phase 2. As previously described, during Phase 2, the IAIS will develop other liquidity metrics. This includes but is not limited to the development of a company projection (CP) approach and further refinement of the Insurance Liquidity Ratio (ILR) that was presented in the public consultation in 2020. IAIS had to postpone the IIM 2020 data collection as a consequence of the Covid-19 outbreak in 2020. In the absence of the IIM 2020, IAIS could not conduct the planned ILR sensitivity analysis and finalisation of its calibration. The remaining work on the ILR is thus planned to be finalized in the Phase 2. IAIS acknowledges the simplicity of the ILR. The Phase 1 ILR presents intentionally a simplified factor-based measure aimed at monitoring of liquidity risk developments without creating additional reporting burden for insurers participating in the GME (IIM). The IAIS will consider whether additional granularity is needed in Phase 2.

			vulnerable. Because of this liquidity risk needs to be supervised and assessed as part of an insurer's wider ERM framework. The IAIS's application paper on Liquidity Risk Management sets out guidance to supervisors on the assessment of insurers' liquidity risk management processes and the effectiveness of their implementation. This should help supervisors arrive at an informed view of the liquidity risk of an individual insurer. In anticipation of Phase 2 of the IAIS work on developing liquidity metrics, Insurance Europe highlights that many of the issues raised in this response will be relevant a liquidity metric which use companies' cashflow projections. Furthermore, standardising cashflows for comparability purposes may produce results not considered economically relevant for participants and would likely result in a disproportionate operational burden relative to the objective of the ancillary indicator. To avoid an unjustified increase of burden on firms, either directly through Phase 2, or indirectly if Phase 1 leads to inaccurate conclusions, Insurance Europe proposes that the IAIS instead leverages on existing internal liquidity framework and promote industry best practices. Please note that, our specific responses to Q2-Q27 are not an endorsement of the ILR. As explained in response to Q1, we consider the proposed ILR to have limited value as an appropriate indicator.	With regards to the suggestion to rely on industry-best practices in the place of global monitoring, the IAIS has decided that monitoring of liquidity risk is necessary.
2. Canadian Institute of Actuaries	Canada	No	**Answer:** Yes **Comment:** We agree that liquidity can be a key risk, both in relation to individual insurers and systemically. We support the IAIS's plan to develop liquidity metrics that reflect characteristics of liquidity sources and requirements and that can be used by supervisors to show the systemic environment in their jurisdictions. We believe that a single liquidity metric, as proposed in this consultation paper, can be a useful and expedient tool for sector wide liquidity monitoring. However, we believe an ILR should also be useful for individual insurer monitoring, but the current design has shortcomings in identifying potential liquidity problems and liquidity sources in any particular insurer. Each insurer's circumstances are different and should be examined individually by its supervisor. The proposed ILR has a prescriptive methodology that may not be adequate for supervisors to use for	Answer/comment is noted and will be considered and resolved in the project's Phase 2. Different circumstances that could trigger liquidity problems for insurers will be analysed in the Phase 2.

			each insurer. A key consideration that we believe should receive more emphasis is that there are different circumstances that could trigger liquidity problems for insurers. A liquidity problem that is a result of an insurer's idiosyncratic circumstances can create financial effects that might be mitigated by a range of available remedies. However, a more systemic liquidity crisis might result in insurers having fewer potential remedies. Understanding the type of liquidity crisis is key to assessing what liquidity needs might arise and what liquidity sources might be available. Additional specific comments are made in response to some of the questions later in this document.	
5. HUATAI INSURANCE GROUP CO., LTD.	China Banking and Insurance Regulatory Commission	No	**Answer:** Yes	Answer noted.
6. CBIRC	CN	No	**Answer:** Yes	Answer noted.
7. Global Federation of Insurance Association	Global	No	**Answer:** No **Comment:** GFIA welcomes the opportunity to engage with the IAIS on its work on liquidity metrics. GFIA is not convinced that the nature of the proposed Insurance Liquidity Ratio (ILR) would prove to be a reliable ancillary indicator that would achieve the aims the IAIS has stated, i.e. to facilitate the monitoring of potential vulnerabilities, risk drivers, and trends in the global insurance industry's liquidity risk. While the metrics developed for Phase 1 could potentially provide a simplified "early warning" system to identify liquidity risks at the macro-prudential level, they should not be used to identify liquidity risks at the micro-prudential level where company specific liquidity risk management practices and monitoring are relevant. The contemplated Phase 2 Approach, which will include company projections, is in GFIA's view could be more valuable as a risk-sensitive exercise. We urge that the Phrase 1 Approach concentrates on a simple metric that supervisors can calculate using publicly available information. This will provide consistency and predictability	Answer/comment is noted and will be considered and resolved in the project's Phase 2. Please see previous answers.

			without imposing unnecessary burdens on insurers. As the IAIS have noted in its Application Paper on Liquidity Risk Management, liquidity risk is very much company and scenario specific. The weaknesses of the proposed “exposure approach" include a loss of information on mismatches between liquidity needs and sources as well as being less risk sensitive. A thorough understanding of liquidity sources and needs is required to understand insurers individual liquidity risk profiles which a blunt factor-based ILR as proposed would fail to do. Liquidity risk is important for insurers, but it is well managed due to the business model, existing regulatory provisions and insurers’ integrated approach to liquidity and risk management. Further, insurance groups have established liquidity risk management practices and liquidity frameworks tailored to the characteristics and nature of their business. These internally developed frameworks have already considered the actual liquidity profile of the business. This has better accuracy than a crude bucketing of assets and, more notably, liabilities. The IAIS’s application paper on Liquidity Risk Management sets out guidance to supervisors on the assessment of insurers liquidity risk management processes and the effectiveness of their implementation. This should help supervisors arrive at an informed view of the liquidity risk of an individual insurer.	
9. Treasury Markets Association	Hong Kong	No	**Answer:** Yes **Comment:** Why I support IAIS plan to develop liquidity metrics for monitoring? 1. Insurance industry is a US$6trillion business - a significant industry within global economy 2. Liquidity weakness can jeopardise the ability of insurers to honour their obligation to pay claim 3. Failure to develop liquidity risk mitigation measures can result in fire sale of invested assets creating systemic risk to financial system 4. Insurers capture significant amount of national savings. Bankruptcy due to failure to manage liquidity risk will result in significant social cost	Answer/comment is noted and will be considered and resolved in the project’s Phase 2.
10. International Actuarial Association	International	No	**Answer:** No **Comment:** The IAA does not agree with the use of an enterprise-wide approach to IIM, as it assumes perfect fungibility and zero transaction costs (including no local income taxes) associated with the movement of funds across entities and jurisdictions. Presumably an IIM would allow the IAIS to focus on the largest entities	Answer/comment is noted and will be considered and resolved in the project’s Phase 2.

			within a jurisdiction, rather than having to evaluate groups that cross jurisdictions. In evaluating liquidity, the location of the funds matters. While a focus on cash flows and investments will likely make the variations in regulatory reporting less of an issue (as “cash" is cash, and most regulatory reporting systems have access to the fair value of invested assets), the IAA acknowledges that current inconsistencies in insurance accounting across jurisdictions may make the use of SWM data difficult. Therefore, the recommends a focus on cash flows (where the data problems hopefully will be minimized) rather than a focus purely on insurance exposure data (where the data problems may be greatest). It is recommended that some guidance be provided to those providing this information with regard to how to deal with different local accounting systems. In short, the IAA recommends a focus on the largest individual entities within a group/jurisdiction (rather than group-wide totals) and a larger focus on cash flow data rather than a pure “exposure" method.	Fungibility aspect of the liquidity metrics calculation will be considered in the Phase 2.
11. The Geneva Association	International	No	**Answer:** Yes **Comment:** We support the implementation of the Holistic Framework for the assessment and mitigation of systemic risk in the insurance sector (Holistic Framework) and appreciate the consultative approach the IAIS is taking in the development of liquidity metrics. While we acknowledge its limitations, we recognise the IAIS’ desire to develop and use the ILR as an ancillary indicator for monitoring the potential build-up of systemic risk at the global level. Given the relatively simple nature of the metric, and factor-based liquidity frameworks in general, we do not believe it would be appropriate or insightful to analyse ILR results from a micro prudential perspective. Further, we strongly believe that the supervision of liquidity risk at the individual insurer and jurisdictional level is the sole responsibility of the jurisdictional supervisor and the IAIS’ work on liquidity metrics – should recognize the substantive work underway at jurisdictional level. Considering the role the ILR is intended to play in the Holistic Framework, it is important – as the IAIS does in the consultation paper - to keep characteristics that make the insurance business model substantially different from business models pursued by other financial service firms and large institutional investors, in mind. As recognized in the IAIS paper, insurers are not affected in the same way by liquidity risks as other financial institutions. Just to underline and build on the IAIS’s own statements, insurers generally do not rely on short-term market funding and, therefore, are not subjected to the kind of liquidity risk affecting banks. As the IAIS	Answer/comment is noted and will be considered and resolved in the project’s Phase 2.

			is of course well aware, insurers receive premiums up-front and pay out claims later. In general, pay-outs do not depend on the will of the policyholder but are driven by unexpected events such as death, disability or a natural disaster.	
12. General Insurance Association of Japan	Japan	No	**Answer:** No **Comment:** As stated in our general comments, we agree that calculating the Insurance Liquidity Ratio can be viewed as meaningful and we support Exposure Approach as a simple “early risk indicator" to assess the liquidity of the whole insurance sector. However, in its use as an early risk indicator, using detailed internal data of individual companies should be avoided, and publicly disclosed information should be used as much as possible. We believe that this will ensure evaluation objectivity while avoiding unnecessary burden on insurance companies.	Answer/comment is noted and will be considered and resolved in the project’s Phase 2.
13. The Life Insurance Association of Japan	Japan	No	**Answer:** No **Comment:** - The Life Insurance Association of Japan (hereafter the “LIAJ") appreciates the opportunity to submit public comments to the International Association of Insurance Supervisors (or the “IAIS") regarding the Development of Liquidity Metrics Phase 1 – Exposure Approach. - We, however, do not agree with many points in this consultation document. - Since the systemic risk of the insurance sector is relatively low, the application of regulatory measures for liquidity risk should not extend beyond what is required and should be based on the risk. - The LIAJ believes the assessment of liquidity should not only focus on liabilities, but also consider the liquidity of assets. The current proposal on the Development of Liquidity Metrics has aspects of the liquidity metrics assessment that are too simplified, and the IAIS should consider the reality of life insurers’ businesses when developing these metrics.	Answer/comment is noted and will be considered and resolved in the project’s Phase 2. The liquidity metrics project focuses equally on liquidity of assets and also liabilities (in comparison to the current IIM absolute methodology that includes only liquidity of liabilities).
16. Swiss Financial Market Supervisory Authority FINMA	Switzerland	No	**Answer:** Yes **Comment:** FINMA supports that the IAIS intends to develop different liquidity metrics, aiming at examining and monitoring different aspects of liquidity risks for the sector. These different perspectives on liquidity risk can support a holistic supervisory assessment and monitoring. The introduction could benefit from a clarification that the ILR is only meant to	Answer/comment is noted and will be considered and resolved in the project’s Phase 2.

			monitor the liquidity of insurance groups in the context of the GME/IIM. While it is explicitly excluded for the ILR to become a binding requirement, a statement that the ILR is not meant to become a monitoring tool for individual insurers either, seems to be missing.	
17. Association of British Insurers	United Kingdom	No	**Answer:** Yes **Comment:** The ABI welcomes the opportunity to comment on the IAIS's plans for the development of liquidity metrics as part of the Holistic Framework for Systemic Risk. As a representative for the fourth largest insurance market in the world and the largest in Europe, the ABI is highly supportive of this framework which represents a significant step forward, in particular where the focus is placed on potentially systemic activities rather than entities. UK insurers recognise the importance of liquidity risk management, both for firms' safety and soundness and in the context of identifying and mitigating potential systemic risk. While noting the intention of the Insurance Liquidity Ratio (ILR) as an ancillary indicator as part of the Individual Insurers Monitoring (IIM), the nature of the indicator is such that it would not be suitable for use beyond the IAIS's Global Monitoring Exercise, and in particular would not be appropriate for use by supervisors at the micro-prudential level. As the IAIS has noted in its Application Paper on Liquidity Risk Management, liquidity risk is very much company and scenario specific. The weaknesses of the exposures approach as noted in the consultation paper include a loss of information on mismatches between liquidity needs and sources as well as being less sensitive to risk. A thorough understanding of liquidity sources and needs is required to understand insurers' individual liquidity risk profiles, which a blunt factor based ILR as proposed would fail to do, and worse may provide false signals as to the liquidity strength or weakness of individual insurers. A further limitation of the proposed approach is that the ILR only considers liquidity at group level, rather than the legal entity level and therefore would not effectively recognise potential liquidity gaps within a group. This could drive behaviour which may be sub-optimal. Many insurers will manage liquidity considering the different liquidity needs of entities within a group with the recognition that liquidity is not entirely fungible across the group since there may be extreme scenarios where intra-group support is not fully available. Where the group aims to centralise cash, group support would also need to be considered. This again underlines the importance of company and scenario specific risk management capabilities as	Answer/comment is noted and will be considered and resolved in the project's Phase 2.

			opposed to a blunt and insufficiently risk sensitive liquidity ratio applied at the group level.	
19. American Council of Life Insurers	United States	No	**Answer:** Yes **Comment:** ACLI supports the IAIS' efforts to implement the Holistic Framework for the assessment and mitigation of systemic risk in the insurance sector. To that end, we support the development of an "early warning" system that can identify material directional changes in industry liquidity risk at the global level. However, ACLI opposes an approach that provides for a direct comparison of the systemic footprint of insurers with that of banks. The nature of insurance use and structure of liabilities is significantly different than banks and the liquidity analysis should account for these differences. While a simplistic tool like the ILR can provide a signal of directional changes in industry-wide liquidity that may warrant further analysis, it is essential that the shortcomings of the simplified metric be acknowledged and accounted for when interpreting the results. Our comments on the consultation include a number of recommendations on how to enhance the proposed ILR. While we believe adoption of ACLI's recommended enhancements would result in a more appropriate ILR, it is important to note that we would still consider the tool to be a simplified metric and its use should still be limited to supporting global monitoring and trending efforts. Specifically, the ILR is not appropriate for assessing liquidity risk at the level of an individual insurer or insurance group. ACLI appreciates the IAIS' recognition that a company projection approach, which it intends to pursue in Phase 2 of its work on liquidity metrics, provides greater risk sensitivity and insights into risk exposures. We believe development and implementation of appropriate Phase 2 approach would preclude the need for ongoing use of the ILR. Our work with the NAIC to develop a liquidity stress test (LST) framework has illustrated the significant time and resources that are required to develop a framework that would provide meaningful insights on an insurers' liquidity profile. As the work on Phase 2 is advanced, we encourage the IAIS to focus it on establishing a framework that leverages the results of jurisdictional level analysis, such as that which the NAIC's LST framework will produce, rather than something that would impose additional data requests on the industry. We believe such an approach would be appropriate for a number of reasons, including: • It would better align with the respective roles and responsibilities of frontline jurisdictional supervisors – who are expected to monitor liquidity at the micro and macro level – and the IAIS;	Answer/comment is noted and will be considered and resolved in the project's Phase 2. The IAIS acknowledges the jurisdictional differences that exist with respect to liquidity risk and liquidity transfer.

			• It would help reinforce the efforts already underway in many jurisdictions to implement the liquidity tools called for in the ICPs, ComFrame and Holistic Framework; and • It would be a more resource efficient approach for all Finally, as a general comment, ACLI believes the IAIS should more clearly acknowledge the jurisdictional differences that exist with respect to liquidity risk and liquidity transfer. Local supervisors are best positioned to understand, assess, and address the liquidity concerns in their jurisdictions. ACLI appreciates the opportunity to provide its perspectives on the IAIS' work to develop liquidity metrics and would welcome the opportunity to engage further on the development of the ILR or future Phase 2 work.	
20. National Association of Insurance Commissioners	United States	No	**Answer:** Yes **Comment:** We agree with the IAIS phased approach to develop liquidity metrics for monitoring as different metrics may achieve the same goal and be comparable.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
21. The Travelers Companies, Inc.	United States	No	**Answer:** No **Comment:** No, as we believe that operating cashflow also needs to be considered, not just balance sheet values. In addition, we advise against enterprise-wide approaches that assume full fungibility of funds within a group. The proposed Insurance Liquidity Ratio (ILR) for Phase 1 has serious technical deficiencies that need to be addressed for the metrics to be meaningful and useful in evaluating an insurance group's liquidity. The deficiencies include: • The use of only balance sheet values when looking at "Liquidity Sources" and "Liquidity Needs" over a one-year time horizon. Liquidity sources over a one-year time horizon include premiums, investment income and investment maturities, even before consideration of asset sales. By focusing solely on the balance sheet, the Consultation Paper would only consider asset sales. Liquidity needs (claim liability runoff, new claims, expenses) offset some of those sources, but the degree to which that happens varies materially by the status of the company. Insurers that are in runoff or partial runoff (such as via exit of a long-tail line of business) might expect liquidity needs to consume most of the sources. Insurers that are going concerns or start-ups would expect liquidity sources to be greater (possible much greater) than liquidity needs, generating high levels of positive operating cash flows. In short, the use of only an exposure-based approach with a one-year time horizon will frequently not provide useful information for evaluating the liquidity of an insurer.	Answer/comment is noted and will be considered and resolved in the project's Phase 2. Cash-flows and business model specific ILRs will be analysed in the Phase 2.

			□ We note that this issue needs to also consider the difference between life and non-life business as a significant portion of a non-life insurer's reserves relates to business that is no longer in force, particularly if the insurer writes long tail business, while a life insurer's reserve liabilities relate to in force business. • The use of only enterprise-wide calculations. The use of only enterprise-wide calculations masks the location of the liquidity sources versus the liquidity needs within a group. The paper points out on page 24 that the location of the funds matters, yet then ignores this critical issue in the design of the ratio. As a result, the proposed ILR is likely to result in false negatives (i.e., indicate that no liquidity issues exist) in situations where liquidity issues do exist. In addition, an analysis based on group data becomes instantly out-of-date whenever an acquisition or divestiture occurs, as opposed to entity-specific analyses which generally continues to be relevant after such transactions. • Ignoring asset duration in the evaluation of liquidity sources. In evaluating the degree to which asset values are available as liquidity sources, no consideration is made of the asset maturity. We believe that assets maturing in a shorter time frame are more fully realizable in a crisis than those maturing in a longer timeframe. • Treatment of unearned premium as a liquidity need based partly on an outdated case study and using an inadequately defined classification inconsistent with the available data. The proposal would treat a certain portion of unearned premiums as a liquidity need, based partly on a 1933 case study for a surety insurer based in the state of New York. A case study from 87 years ago is not relevant, given the changes in the environment (consumer, regulatory, financial, legal requirements and practices) that have occurred since then. The proposed factors also vary for "retail" versus "institutional" business. Such a classification is not sufficiently defined nor captured in the data for U.S. property/casualty insurers for it to be usable. • The catastrophe scenario is overly conservative and would produce unreliable information. For property/casualty coverages affected by a catastrophe, the larger the event the slower the payout. The 1-in-250 year scenario suggested would be larger than any recent event, and the largest recent events have payouts of more than 12 months. Assuming that the event did not occur on January 1, the amount paid in the one-year time horizon would be even less than the fraction paid 12 months after the event. In addition, the longer the return period forecasted by catastrophe models, the more uncertain (if not speculative) the estimates become. Therefore, the suggestion to use the amount of a 1-in-250 year event that is paid within 12 months would produce an estimate of the liquidity need that is not only unrealistic but also unreliable.	

22. American Property Casualty Insurance Association	USA	No	**Answer:** No **Comment:** The American Property Casualty Insurance Association (APCIA) appreciates the opportunity to respond to this IAIS consultation. APCIA is the primary national trade association for home, auto, and business insurers. The association promotes and protects the viability of private competition for the benefit of consumers and insurers, with a legacy dating back 150 years. APCIA members represent all sizes, structures, and regions—protecting families, communities, and businesses in the U.S. and across the globe. APCIA recognizes that the IAIS is looking to develop macro-prudential tools and methods for evaluating liquidity across the insurance sector, as part of the implementation of its holistic framework for systemic risk assessment. However, we think it is important to consider that, within the holistic framework construct, the non-life insurance sector has limited exposure to liquidity risk and the corresponding asset liquidation transmission channel. The generally shorter-duration investment profiles of non-life carriers obviates the risk of large-scale asset “fire sales" that are of macro-prudential concern. We also note that, given that most of the regulatory focus has been on assessing the liquidity profile of longer-duration insurance businesses, there are significant conceptual and technical flaws in the IAIS liquidity metrics, as applied to non-life carriers (discussed later in our response). Given that the potential for non-life insurers to amplify “fire sale" risks is tenuous (or even non-existent), we would discourage the application of these metrics to non-life carriers. APCIA also believes that there are important shortcomings and limitations within the IAIS’ proposal to use an enterprise-wide approach. Such an approach assumes that cash and liquid assets are perfectly fungible across the group with no transaction costs (such as tax costs) when transferring assets across or between entities and jurisdictions. In evaluating liquidity the location of the cash is important. Should the IAIS also focus on cash flows and investments, we suspect that variations in regulatory reporting would be less of a problem. Regulatory reporting systems would be expected to clearly identify cash (due to its importance for solvency evaluation), and most such systems also require the reporting of invested asset market or fair values. A focus on cash and fair value estimates for investments should make it easier to use a hybrid “company projection approach" up front.	Answer/comment is noted and will be considered and resolved in the project’s Phase 2.

			Therefore, if the IAIS proceeds with application of the ILR to non-life carriers, we recommend a focus on the largest individual entities within a jurisdiction (rather than group-wide totals) and a larger focus on cash flow data rather than a pure “exposure" method.	
24. New York Life Insurance Company	USA	No	**Answer:** No **Comment:** For the full set of comments kindly refer to the submission by Northwestern Mutual on behalf of Northwestern Mutual and New York Life.	Answer/comment is noted and will be considered and resolved in the project’s Phase 2.
25. Northwestern Mutual	USA	No	**Answer:** No **Comment:** [This is a joint submission by Northwestern Mutual and New York Life.] While we support the development of insurer liquidity metrics for monitoring, the objective of the IAIS plan should be clarified. Section 1.1 states that the focus of the metrics will be “as much on understanding trends and drivers of liquidity risk for companies and the industry as on the relative level of the liquidity metrics for a company and in the sample." We believe the ILR as currently formulated could be used to identify liquidity trends within the industry, but that it should not be used to assess the “relative level of the liquidity metrics" for a company. This is because the ILR does not adequately reflect the actual liquidity characteristics of individual insurance liabilities. We explain our concern in response to Question 10. Similarly, we caution against indicating “better comparability" as a strength of the ILR (Table 1). Comparability of liquidity risk across companies is possible only where the measure provides a reasonably consistent assessment of the risk across the sample. Because the approach to assessing the liquidity risk associated with insurance surrender or withdrawal does not reasonably reflect the actual nature of the risk across different products, any sense of comparability across companies would be misplaced. In sum, the IAIS should narrow the purpose for its liquidity metrics to a more achievable objective for a global tool that is intended to be relatively simple: the focus should be limited to identifying liquidity trends within the industry. Where meaningful trends are identified, they could be investigated further using other tools. In addition, the IAIS should improve the reasonableness of the ILR’s measure of liquidity risk from surrenders and withdrawals as we indicate in response to Question 10.	Answer/comment is noted and will be considered and resolved in the project’s Phase 2. IAIS acknowledges potential caveats regarding the “better comparability”.

Q2 Should the IAIS consider any other approaches or alternatives when developing liquidity metrics? If so, please explain.				
26. Insurance Europe	Belgium	No	**Answer:** No **Comment:** Given the company and scenario specific nature of liquidity risk, supervision of insurers' liquidity risk management, an assessment of their dedicated liquidity models/analysis is the most efficient way of understanding liquidity risks in the insurance sector.	Answer/comment is noted.
27. Canadian Institute of Actuaries	Canada	No	**Answer:** Yes **Comment:** This consultation paper should be aimed at providing guidance to supervisors on how to judge the robustness of an insurer's liquidity management. This would be better served by the use of scenario testing for liquidity management, as described/required by ICP 16. The supervisor could constrain liquidity risk by advising insurers about best practices. An alternative to calculating a metric (such as a ratio as proposed by this paper) is to show available liquidity and required liquidity, and their difference, as monetary amounts. Each of these amounts can be shown by component. A single ratio seems too simplistic for such a complex risk element. A specific point in this section of the consultation paper notes that the IIM will be computed on an "enterprise-wide basis." At the time of a liquidity crisis, it should not be presumed that any liquid assets would be fungible across separate jurisdictions. Liquidity risk should be measured separately by company/subsidiary and by jurisdiction.	Answer/comment is noted and will be considered and resolved in the project's Phase 2. Liquidity sources and needs (per component) are analysed by the IAIS together with the ratio. Fungibility aspect of the liquidity metrics calculation will be considered in the Phase 2.
30. HUATAI INSURANCE GROUP CO., LTD.	China Banking and Insurance Regulatory Commission	No	**Answer:** No	Answer noted.
31. CBIRC	CN	No	**Answer:** Yes **Comment:** The exposure approach is a static approach, and we suggest developing the company projection approach soon.	Answer/comment is noted and will be considered and resolved in the project's Phase 2. A company projection approach will be developed in the Phase 2.

32. Global Federation of Insurance Association	Global	No	**Answer:** No **Comment:** Given the company and scenario specific nature of liquidity risk, supervision of insurers liquidity risk management is the most efficient way of understanding liquidity risks in the insurance sector. Supervisors could rely on existing analysis, potentially supplemented by additional public information. For example, the S&P Life Model for the United States and Canada is conducted for all North American life insurers. This has the benefits of simplicity and insurance-tailored design.	Answer/comment is noted.
34. Treasury Markets Association	Hong Kong	No	**Answer:** Yes **Comment:** IAIS should consider other approaches to develop liquidity metrics for the following reasons: 1. Insurers especially life insurers have their subsidiaries in each country subject to local insurance regulation and the capital is not 100% fungible especially for policyholder funds. Even shareholders funds may not be fully fungible due to local currency control and the restriction for cross border lending to parent or related companies. This means cash pool in different markets are not additive. The "insurance LCR" at a consolidated level is no assurance that "trapped cash" can be mobilised. 2. Liquidity risk can come from two very different sources: one is from insurance business and one is from investment operation. Ideally there should be two different metrics. One good example for the former is the Korea case study that USD policies were surrendered by policyholders when local currency depreciated. For the latter, liquidity risk may come from a market risk event when the derivative position is marked to market due to a changing interest rate, foreign exchange rate or a credit rating downgrade of insurer. Basel III CVA adjustment may result in significant increate in margin collateral amount that goes beyond the prevailing liquidity buffer of insurers.	Answer/comment is noted and will be considered and resolved in the project's Phase 2. Fungibility aspect of the liquidity metrics calculation will be considered in the Phase 2.
35. International Actuarial Association	International	No	**Answer:** Yes **Comment:** A better focus on entity cash flow data is recommended. In some cases it may be necessary to make further divisions (e.g., separate accounts). This would be more responsive to the individual company differences in products and cash flows, as opposed to the relatively simplistic approach suggested. The suggested approach is less reflective of company differences than an "individual insurer method" would imply – as it limits the use of individual insurer data in favour of broad cross-jurisdictional metrics.	Answer/comment is noted and will be considered and resolved in the project's Phase 2. Company projection approach will be developed in the Phase 2.

36. The Geneva Association	International	No	**Answer:** No **Comment:** While noting that this is intended as an ancillary indicator as part of the IIM, as part of the GME, the ILR has a simple factor-based design, which presents some weaknesses as the IAIS acknowledge in the consultation paper. However, given that liquidity risk is firm and scenario specific and needs to be considered at the level of individual insurers and their collective behaviour as an industry, a more sophisticated approach for a supervisory liquidity indicator may not yield much improvement without company specific assumptions in conjunction with jurisdictionally-developed scenarios that evaluate systemic risks, and may therefore not be cost justifiable.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
37. General Insurance Association of Japan	Japan	No	**Answer:** No **Comment:** Whilst it is not our intention to be presented with other specific approaches or alternatives, as stated in our general comments, due to insufficient information on the calculation method of ILR and for what purpose the ratio will be used, we find it difficult to assess the validity of the framework.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
40. Swiss Financial Market Supervisory Authority FINMA	Switzerland	No	**Answer:** Yes **Comment:** Given the specific characteristics of liquidity risks within the insurance sector, FINMA acknowledges the conceptual and operational challenges linked to a potential one-size-fits-all approach for a supervisory liquidity metric. To avoid various issues and challenges with liquidity on a consolidated level it might be reasonable that groups report on various liquidity pools where fungibility of liquidity can realistically be assumed, under normal and stressed market conditions. Such views on pools would be in addition to the consolidated view. FINMA recommends to further investigate how future liquidity metrics could take greater account of enterprise specific risk management approaches.	Answer/comment is noted and will be considered and resolved in the project's Phase 2. Fungibility aspect of the liquidity metrics calculation will be considered in the Phase 2 including the various fungible liquidity pools.
41. Association of British Insurers	United Kingdom	No	**Answer:** No **Comment:** Given the company and scenario specific nature of liquidity risk, supervision of insurers' liquidity risk management is the most efficient way of understanding liquidity risks in the insurance sector. To arrive at a meaningful indicator at a legal entity level that could appropriately take account of individual insurers' liquidity risk profile would be complex and costly and not justifiable given the nature of the risk within the insurance sector. Further, it would not be possible to aggregate such a measure across different insurers.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.

43. American Council of Life Insurers	United States	No	**Answer:** Yes **Comment:** We believe the overarching approach for the ILR is appropriate for purposes of developing a simple global monitoring metric to detect directional shifts. However, we believe the current design and calibration is overly conservative and insufficiently tailored to differing insurance products and business models to be useful for assessing individual insurer or insurance group liquidity. We believe the IAIS should more closely align aspects of the ILR with the insurance business model, as opposed to the banking-oriented work of the BCBS.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
44. National Association of Insurance Commissioners	United States	No	**Answer:** No **Comment:** We are happy to see the plan includes development of a company projection approach in Phase 2.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
45. The Travelers Companies, Inc.	United States	No	**Answer:** Yes **Comment:** Yes. We recommend recognizing operating cash flow consistent with the chosen time horizon and investigating the use of entity-specific ratios rather than enterprise-wide ratios.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
46. American Property Casualty Insurance Association	USA	No	**Answer:** Yes **Comment:** APCIA recommends focusing on entity cash flow data. This would be more responsive to individual company differences in geography, product design and market. The proposed approach would not be reflective of such differences, despite the label of "individual insurer method".	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
48. New York Life Insurance Company	USA	No	**Answer:** Yes **Comment:** Joint submission, see comment from Northwestern Mutual	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
49. Northwestern Mutual	USA	No	**Answer:** Yes **Comment:** The IAIS has done a good job of identifying the strengths and weaknesses between the Exposure Approach (EA) and Company Projection Approach (CP). Long term, we believe that the CP method better captures liquidity risk than the EA. Particularly on the liability side (liquidity needs), the EA fails to capture the differences among various products throughout the global insurance market.	Answer/comment is noted and will be considered and resolved in the project's Phase 2. A company projection approach will be developed in the Phase 2 and will be included in the public consultation in autumn 2021.

			In Question 10, we discuss the need for further granularity by product in the prescription of static factors for liability withdrawals and surrenders in the EA. The best way to avoid this issue altogether is by shifting to the CP method, allowing a company's projected surrenders and withdrawals to more accurately reflect the characteristics of its unique products. To simulate liquidity stress events, the IAIS can prescribe specific relative stresses that the companies can use; for instance, applying an X% increase to the company's lapses. This is superior to prescribing an absolute lapse rate, which ignores individual company and product traits. In the ICS, the IAIS relies on company specific modeling of non-economic assumptions such as lapses and mortality, where stresses are applied on a relative basis (e.g. +40% for lapse risk). The same approach should be considered for the GME. We understand that the IAIS will be issuing a consultation on the CP method in Phase 2. However, in the development of the final GME, we recommend that the CP method be the predominant tool for analysis and that reliance on the metrics produced by the EA be limited to trend analysis. Furthermore, the IAIS should clarify how the results of the EA will be used and what conclusions the IAIS hopes to derive from it.	
Q3 Should the IAIS develop additional liquidity metrics that examine other time horizons? If so, how should these metrics differ from the proposed metric?				
50. Insurance Europe	Belgium	No	**Answer:** No **Comment:** As mentioned above a one-fits all liquidity metric in general is deemed to not fulfil the stated objectives. Therefore, adding additional metrics would not resolve this shortcoming and a metric which uses a one-year time horizon would therefore be sufficient. The development of additional liquidity metrics is not necessary.	Answer/comment is noted and will be considered in the project's Phase 2. One-year time horizon will be used a main one for the ILR in the Phase 2. Shorter time horizons (eg. 3-month) may be tested in the Phase 2.
51. Canadian Institute of Actuaries	Canada	No	**Answer:** No **Comment:** We consider a one-year time horizon to be appropriate. Specific comments on the metrics are included in responses to some of the questions later in this document.	Answer/comment is noted and will be considered in the project's Phase 2.
54. HUATAI INSURANCE GROUP CO., LTD.	China Banking and Insurance	No	**Answer:** No	Answer noted.

	Regulatory Commission			
55. CBIRC	CN	No	**Answer:** Yes **Comment:** IAIS just develop metric exams one-year horizon, we suggest to add a shorter observe term to enhance the prudence and sensibility of the liquidity metric, i.e. three-month horizon in the approach.	Answer/comment is noted and will be considered and resolved in the project's Phase 2. One-year time horizon will be used a main one for the ILR in the Phase 2. Shorter time horizon (eg. 3-month) may be tested in the Phase 2.
56. Global Federation of Insurance Association	Global	No	**Answer:** No **Comment:** A metric which uses a one-year time horizon is sufficient, the development of additional liquidity metrics is not necessary.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
58. Treasury Markets Association	Hong Kong	No	**Answer:** Yes **Comment:** In addition to the one month and one year, a tailed end risk stress test liquidity ratio is need as it is the unexpected liquidity shortfall that will force the insurer to go under.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
59. International Actuarial Association	International	No	**Answer:** Yes **Comment:** The IAA agrees with the use of a longer time horizon than used for banks, and believe that a one year time horizon is a reasonable place to start. In the future it might be worthwhile to also look at shorter time horizons, but advise against any time horizon shorter than 3 to 6 months for non-life insurers. Shorter timeframes may be appropriate for life insurers, depending on the terms under which they have liabilities that can be called. The IAA strongly advises against a banking time horizon of hours or days, at least for non-life insurance, as such are not relevant for insurers whose liabilities are not callable on demand. As an aside, despite the choice of a one-year time horizon, the rest of the proposal seems to still be based on the short time horizons used for banks. The dynamics of cash demands and sources of cash are very different for a one-year time horizon than for a one-day time horizon, yet the structure of the proposed liquidity ratio does not seem to have reflected this. (For example, for a longer time horizon the regular cash flows of an entity are an important consideration, yet the planned liquidity ratio	Answer/comment is noted and will be considered and resolved in the project's Phase 2. IAIS focuses primarily on one year time horizon in the Phase 2. Shorter time horizons may be tested.

			seems to ignore normal cash flows. Instead, it assumes that all the sources of cash have to come from cash on hand and liquidation of assets – with no recognition of normal cash flow over the one-year time horizon.)	
60. The Geneva Association	International	No	**Answer:** No **Comment:** We support a one-year time horizon for reasons of simplicity and ease of implementation. At the same time we do recognize that more time horizons would provide more informational value, but considering the ILR will be used as a rough global indicator, a one-year time-horizon makes sense. Companies in fact use a wider set of time-horizons for their own purposes	Answer/comment is noted and will be considered and resolved in the project's Phase 2. One-year time horizon will be used a main one for the ILR in the Phase 2. Shorter time horizons (eg. 3-month) may be tested in the Phase 2.
61. General Insurance Association of Japan	Japan	No	**Answer:** No **Comment:** We agree that insurers have low short-term liquidity risks and therefore there is less need to monitor insurers with short-term indicators such as LCR for banks.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
62. KOREA Life Insurance Association	KOREA	No	**Answer:** Yes **Comment:** Yes. We think that it is worth developing a liquidity metrics that covers a short time horizon, considering the conditions of insurance markets and capital markets of jurisdictions.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
65. Swiss Financial Market Supervisory Authority FINMA	Switzerland	No	**Answer:** Yes **Comment:** From FINMA`s perspective the chosen time horizon represents a key element for both the identification of liquidity sources and liquidity needs to be considered as well as for the calibration of the corresponding factors. As an example, an increase in liquidity needs from margin calls on derivative positions typically materialises in shorter time frames than the run-off and settlement of liability claims. Against this background, FINMA recommends to further investigate if and how liquidity metrics could be applied to different time horizons.	Answer/comment is noted and will be considered and resolved in the project's Phase 2. One-year time horizon will be used a main one for the ILR in the Phase 2. Shorter time horizons (eg. 3-month) may be tested in the Phase 2.
66. Association of British Insurers	United Kingdom	No	**Answer:** No **Comment:** Insurance supervisors in their supervision of individual firms' liquidity	Answer/comment is noted and will be considered and resolved in the project's Phase 2.

			risk management should consider this as noted in the IAIS's application paper on Liquidity Risk Management. In the context of the ILR as a blunt ancillary indicator as part of the IIM, although individual life insurers monitor liquidity over a number of different timeframes, due to the nature of their liquidity risk profile, the 1 year time horizon is potentially the more relevant timeframe to consider in terms of liquidity risk. This is as a result of outflows / stresses, such as those for mass lapse and mortality, fully playing out over longer periods of time, whilst flows from assets used to cover these outflows are generally recognised at the shorter end of the time horizon due to their liquid nature. However, it is also important to emphasize that since all insurers are different, their liquidity risk profiles will also be different from one another. It is possible that liquidity risk profiles will be different between funds of the same insurer. This means that the defined timeframe, although relevant, may not be the biting liquidity constraint. An alternative approach could be to consider the lowest point of the liquidity measure within the 1 year timeframe.	
68. American Council of Life Insurers	United States	No	**Answer:** No **Comment:** ACLI believes the one-year time horizon is appropriate. As the consultation accurately notes, liquidity needs of the insurance industry are typically manifested over longer periods of time than other financial services companies (e.g., banks). Three or six month time horizons would not provide useful insights. A longer time horizon might make sense for a more refined exercise such as the company projection approach, but it would not necessarily provide clear additional value under an exposure approach.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
69. National Association of Insurance Commissioners	United States	No	**Answer:** Yes **Comment:** Phase 2 should consider other time horizons as well as asset maturity and trading volumes over a period more consistent with the chosen time horizon.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
70. The Travelers Companies, Inc.	United States	No	**Answer:** Yes **Comment:** We believe the metric should include consideration of asset maturity and trading volumes over a period more consistent with the chosen time horizon.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.

71. American Property Casualty Insurance Association	USA	No	**Answer:** Yes **Comment:** We agree with the use of a longer time horizon than would be used to assess bank liquidity needs. We also agree with the use of a one-year time horizon for non-life insurers at this time. Shorter timeframes might be worthy of investigation in the future, but we advise against use of any time horizon shorter than 3 to 6 months for non-life insurers. We believe that the use of a banking time horizon of hours or days would be ill-advised. These are not relevant for non-life insurers because the industry's liabilities are not callable on demand. Additionally, non-life insurance activities pose minimal liquidity risk and are demonstrably non-systemic, given their lack of correlation with financial market stresses, contractual and product features that mitigate put-ability, and the conventional timing lags between the occurrence of an event and the ultimate payout to the claimant. For example, for major hurricanes, payouts within the first few months are typically a small fraction of ultimate losses to the insurer. In this regard, the assessment of liquidity risks over short-term horizons does not provide much if any informational value. It seems to us that the rest of the IAIS proposal (with regard to parameterization and consideration of risk) is based on the banking time horizons despite the claimed one-year time horizon. Cash planning and management, including liquidity risk management, are very different for a one-year time horizon than for a one-day time horizon, but this is not reflected in the proposed liquidity ratio. The longer the time horizon the more important the role of operating cash flows, especially when the shocked cash demands are not immediate but can be planned for in the weeks and months ahead (for example, in the case of claims resulting from catastrophes, where the claim settlement process can take weeks, months or even longer). The longer time horizon allows the use of normal operating cash flow to meet the shock cash demand, as new funds are redirected to cash rather than longer term investments.	Answer/comment is noted and will be considered and resolved in the project's Phase 2. One-year time horizon will be used a main one for the ILR in the Phase 2. Shorter time horizon (eg. 3-month) may be tested in the Phase 2. Various ILRs may be tested for various business models considering their specificities.
Q4 Do you agree with the exclusion of separate accounts from the ILR? If not, how should separate accounts be incorporated?				
73. Insurance Europe	Belgium	No	**Answer:** Yes **Comment:** Separate accounts should be considered in isolation. This should be a focus of supervision rather than any liquidity metric. However, liquidity risk measures should reflect any requirement for shareholder funds to provide capital / liquidity support to policyholder funds in a time of stress.	Answer/comment is noted. IAIS focuses on general accounts liquidity in the Phase 2. Separate accounts liquidity may be considered in the future IAIS work.

			There are also some accounts, such as operational cash accounts, that are owned by the shareholder but are used to pay claims / receive premiums for policyholder funds. Therefore, consideration of the intra-fund receivables and payables is needed.	
74. Canadian Institute of Actuaries	Canada	No	**Answer:** Yes **Comment:** We agree that separate accounts can be excluded from the ILR. If there are any guarantees of minimum returns on the separate accounts, they will be held in the general account of the insurer and will be subject to cash flow requirements.	Answer noted. IAIS focuses on general accounts liquidity in the Phase 2.
77. HUATAI INSURANCE GROUP CO., LTD.	China Banking and Insurance Regulatory Commission	No	**Answer:** Yes	Answer noted.
78. CBIRC	CN	No	**Answer:** Yes	Answer noted.
79. Global Federation of Insurance Association	Global	No	**Answer:** Yes **Comment:** Separate accounts should be considered in isolation and should be a focus of supervision rather than any liquidity metric. However, to ensure appropriate risk sensitivity, the ILR would have to reflect any requirement for shareholder funds to provide capital / liquidity support to policyholder funds in a time of stress. There are also some accounts, such as operational cash accounts, that are owned by the shareholder but are used to pay claims / receive premiums for policyholder funds. Therefore, consideration of the intra-fund receivables and payables is needed.	Answer/comment is noted and will be considered and resolved in the project's Phase 2. Any liquidity needs in the general account are within the scope of the ILR.
81. Treasury Markets Association	Hong Kong	No	**Answer:** Yes	Answer noted.
82. International Actuarial Association	International	No	**Answer:** Yes **Comment:** The IAA generally agrees, with the exclusion for the reason listed in the consultation document. Separate accounts whose performance accrues to policyholders rather than	Answer noted. IAIS focuses on general accounts liquidity in the Phase 2.

			shareholders (also called 'unit-linked' funds in some jurisdictions) should be included in the scope of liquidity monitoring but perhaps not in the ILR per se. The mechanics of such funds often have similarities to the mechanics of mutual funds and other non-insurance open-ended investment funds and these latter vehicles can be exposed to liquidity risks. The IAA recommends that in due course IAIS adopts approaches for these types of accounts that draw on those being developed by others to monitor investment fund liquidity risk. If an ancillary goal of IAIS liquidity monitoring is to understand interconnectedness better, the IAIS may also find it helpful to try to capture how much of these separate accounts are themselves invested in investment funds. The IAA also notes that although liquidity risks faced by separate accounts may commonly be carried by the policyholders there can be cases where the risks may be shared with or occasionally fall principally to shareholders. For example, if the contract terms allow policyholders to withdraw units in these accounts (or to switch them to units in other accounts) at short notice but the investments themselves are illiquid then liquidity support may need to be provided by the insurer to contain reputational risk and/or to avoid the need for a fire-sale of less liquid assets which would impact remaining policyholders. Or the insurer's cost base may become unsupportable if there is a sudden loss of such funds. Another example of separate account product risks being borne by shareholders relates to variable annuities with substantive investment guarantees. The global financial crisis of 2007-08 severely eroded the capital of life insurers with large portfolios of these products.	
83. The Geneva Association	International	No	**Answer:** Yes **Comment:** We agree that separate accounts should be excluded from the ILR.	Answer noted.
86. Swiss Financial Market Supervisory Authority FINMA	Switzerland	No	**Answer:** Yes **Comment:** FINMA acknowledges that the exposure to liquidity risk for separate accounts shows certain distinguishing features compared to an insurer`s general accounts. However, the extent to which liquidity risk for separate accounts is indeed fully borne by the policyholder can depend on several factors such as specific contractual arrangements or national legislation. Apart from such contract-specific provisions, the assessment of liquidity risks for separate accounts could also comprise potential spillover effects in case of liquidity shortfalls of third parties (such as investment companies). However, given the variety of separate account / unit-linked products FINMA	Answer noted. IAIS focuses on general accounts liquidity in the Phase 2.

			considers the allowance for these products in a liquidity metric as conceptually challenging.	
87. Association of British Insurers	United Kingdom	No	**Answer:** Yes **Comment:** Separate accounts should be considered in isolation as there may be liquidity issues in separate accounts that are caused by operational events, for example a mismatch between financial settlement periods and disposal of underlying assets. As noted earlier, this should be a focus of supervision rather than a feature of the ILR. The insurers' internal liquidity measure should reflect the requirement for the shareholder funds to provide capital / liquidity support to policyholder funds in times of stress, and therefore means that monitoring of liquidity is still required for these ring-fenced funds. There are also some accounts, such as operational cash accounts, that are owned by the shareholder but are used to pay claims / receive premiums for policyholder funds. Therefore, intra-fund receivables and payables would need to be considered	Answer noted. IAIS focuses on general accounts liquidity in the Phase 2.
89. American Council of Life Insurers	United States	No	**Answer:** Yes **Comment:** ACLI agrees with the exclusion of separate accounts from the ILR. As noted in the consultation, separate account risk is borne by the policyholder; it is not transferrable to the insurer. Because of this we would be opposed to the IAIS developing metrics for use in assessing separate accounts.	Answer noted. IAIS focuses on general accounts liquidity in the Phase 2.
90. National Association of Insurance Commissioners	United States	No	**Answer:** Yes **Comment:** However, we agree further metrics should be considered in the future. For certain products, the IAIS should review any potential residual risk in the general account.	Answer/comment is noted. IAIS focuses on general accounts liquidity in the Phase 2. Separate accounts liquidity may be analysed considered in the future IAIS work.
Q5 Do you agree with the proposed factors for liquidity sources? If not, please explain.				
92. Insurance Europe	Belgium	No	**Answer:** No **Comment:** The proposal for liquidity bucketing with prescribed haircuts would result in an over simplified view of the actual liquidity of the assets, and therefore may	Differences in the risk profiles should be taken into account while comparable risks should be treated in a comparable way. Further

			lead to erroneous interpretations from the ILR. Haircuts should depend on a number of factors, including the nature and time horizon of the stress scenario and whether an insurer would actually need to liquidate these assets under the stress scenario. However, it is worth reiterating that haircuts are unlikely to reflect the true liquidity situation. Global insurance Groups operating in multiple regions and jurisdictions have a globally diversified investment portfolio paired with broad access to markets and market players. Further, the IAIS should consider that the liquidity risk profile of banks and insurers differ and that insurers are less exposed to short term liquidity stresses due to the characteristics of their liabilities. As stated in the consultation, “For the treatment of assets, the IAIS relied most heavily on bank regulations". It should be noted that under a 1 year timeframe, it should be possible to recognise the liquidity for more tangible assets than those that are listed in the table. The longer timeframe ensures buyers can usually be found for those assets without creating operational or financial friction caused by the sale process, meaning that haircuts applied to the assets should only be in relation to the fall in asset price due to the stress. Insurance Europe also highlights its support for the appropriate recognition of time deposits as a source of liquidity.	analysis on this will be undertaken in the project's Phase 2. Various ILRs may be tested for various business models considering their specificities.
93. Canadian Institute of Actuaries	Canada	No	**Answer:** No **Comment:** The factors appear to be arbitrary and will not be appropriate in all circumstances in all jurisdictions. The appropriateness of the size of the factors would depend on whether the insurer has an idiosyncratic liquidity problem (in which case the factors are conservative and could all be 100%) or whether there is a systemic market crisis (in which case the factors could all be too high). Judging an insurer’s liquidity management should depend on its specific circumstances. If factors are to be used, they should be a function of similar factors already being used, such as those in the ICS or the large rating agencies. This would simplify reporting requirements and reconciliation of results.	Answer/comment is noted and will be considered and resolved in the project’s Phase 2 when developing other liquidity metrics. Factors and haircuts will be further calibrated in the Phase 2.

96. HUATAI INSURANCE GROUP CO., LTD.	China Banking and Insurance Regulatory Commission	No	**Answer:** No **Comment:** Not quite. We suggest increasing time deposits and non-standardized debt assets that mature within one year.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
97. CBIRC	CN	No	**Answer:** Yes	Answer noted.
98. Global Federation of Insurance Association	Global	No	**Answer:** No **Comment:** The proposal for liquidity bucketing with prescribed haircuts would result in an over simplified view of the actual liquidity of assets, and therefore may lead to erroneous interpretations from the ILR. Actual haircuts may depend on a number of factors, including the nature and time horizon of the stress scenario and whether an insurer would actually need to liquidate these assets under the stress scenario. The IAIS should also consider that the liquidity risk profile of banks and insurers differ and that insurers are less exposed to short term liquidity stresses due to the characteristics of their liabilities. As stated in the consultation, "For the treatment of assets, the IAIS relied most heavily on bank regulations". GFIA questions the reliance on bank regulations, which is reflected in the "bucketing" approach with haircuts. Liquidity risk in the banking sector is very different than that which exists in the insurance sector, based in part on the latter's much lesser susceptibility to short-term runs. Reliance on bank regulations and approaches to liquidity risk could inadvertently raise liquidity risk by, for example, "herding" insurers into certain asset classes that could undermine the benefits of diversity.	Answer/comment is noted and will be considered and resolved in the project's Phase 2 when developing other liquidity metrics.. Differences in the risk profiles between banks and insurers should be taken into account while comparable risks should be treated in a comparable way. Further analysis on this will be undertaken in the project's Phase 2. Factors and haircuts will be further calibrated in the Phase 2.
100. Treasury Markets Association	Hong Kong	No	**Answer:** No	Answer noted.
101. International Actuarial Association	International	No	**Answer:** No **Comment:** The IAA disagrees with the proposed factors to be applied to invested assets as we see them as being inconsistent with (and inappropriately conservative for) the proposed one-year time horizon, although they may be more reasonable for very short time horizons.. The proposed factors also do not reflect the remaining maturity of the investments (for the fixed income assets), as the liquidity value for a fixed income asset that is close to maturity is materially different from that of an investment with a longer maturity. At a minimum there would need to be separate	Answer/comment is noted and will be considered for the development of other liquidity metrics during Phase 2 Possible refinement of the factors will be considered in the project's Phase 2.

			recognition of investments due to mature during the selected time horizon. (The IAA notes that both S&P and AM Best acknowledge the differences in asset liquidity over short versus longer term horizons.) As further support for the position stated above, the proposed factors for invested assets mirror those applied to banking, where the time horizon is hours or days. Such factors are inappropriate where the time horizon is one year.	Differences in the risk profiles between banks and insurers should be taken into account while comparable risks should be treated in a comparable way. Further analysis on this will be undertaken in the project's Phase 2.
102. The Geneva Association	International	No	**Answer:** No **Comment:** We do not support the proposed factors, as they are highly aligned with the factors used by the banking industry and, as such, are much lower than we would consider appropriate in an insurance context. We note that, the banking factors appear to have been created to foster a policy objective of strengthening the liquidity profile of the banking sector as evidenced by the fact that a phase-in approach that was used to establish a minimum ratio. We do not believe it is appropriate or necessary to incorporate such a degree of prudence in the ILR given its role as an ancillary indicator for monitoring the potential build-up of systemic risk at the global level. Further, we do not believe it is appropriate to use banking factors to calibrate the ILR. The LCR was based on a much shorter time horizon than the proposed insurance factor. This seems reasonable, because the banking sector is mostly exposed to very short-term liquidity stresses (e.g. 30 days), while insurers are more vulnerable to stresses that extend over much longer time periods, varying from months up to several years. However, this also means that banking factors should not be used as a guide for insurance. Meanwhile, the Net Stable Funding Ratio (NSFR), while using a one-year horizon, is a substantively different metric. Therefore, we believe the inclusion of these factors in Table 3 is inappropriate. In general, we would expect that short-term stresses are more severe, while longer-term stresses are milder and allow for some recovery of value. Consequently, the insurance factors should be generally higher than the banking factors. In addition, consideration could be given to refining the factors and differentiating them by dimensions such as tenor or time to maturity. We would generally expect that shorter-term instruments would be subject to less loss of value in a liquidity stress than longer-term instruments. We would also expect that sovereign assets are more liquid than securities issued by the private sector.	Answer/comment is noted and will be considered for the development of other liquidity metrics during Phase 2 Differences in the risk profiles between banks and insurers should be taken into account while comparable risks should be treated in a comparable way. Further analysis on this will be undertaken in the project's Phase 2. Factors and haircuts will be further calibrated in the Phase 2. The ILR is meant as a metric to be used in the context of the GME/IIM (as an ancillary indicator). We will contact you for these resources.

			At the same time, we recognize different models other than factor models can provide more informational value but considering the ILR is a rough global indicator and factor models are a simple approach to understanding liquidity factors may be required from a cost-benefit perspective. Companies do in fact use other models in understanding liquidity sources. Finally, we have a different perspective on the paper's assertion that there is a "lack of academic work on measuring the liquidity of different classes." We would be pleased to share some of these resources with the IAIS.	
103. General Insurance Association of Japan	Japan	No	**Answer:** No **Comment:** As stated in our answers to Questions 6-9, there are some parts in the proposed factors to which we do not agree in their application. Furthermore, if liquidity needs are calculated on a one-year basis, it would be reasonable to include short-term loans to qualified investees in liquidity sources. Therefore, we suggest clearly stating that short-term loans to qualified investees such as call loans and receivables under resale agreements are included in liquidity sources.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
104. The Life Insurance Association of Japan	Japan	No	**Answer:** No **Comment:** - Regarding liquidity resources, we do not agree since the rationale behind calculating the haircut ratio is not clearly stated. - In general, the liquidity needs of insurance liabilities are relatively lower than bank deposits. As developing excessively conservative set of metrics would become an impediment to a life insurer's asset management from a long-term perspective, we propose the haircut ratio applied to the insurance sector should be less strict than the banking sector.	Answer/comment is noted and will be considered and resolved in the project's Phase 2. Differences in the risk profiles between banks and insurers should be taken into account while comparable risks should be treated in a comparable way. Further analysis on this will be undertaken in the project's Phase 2.
108. Swiss Financial Market Supervisory Authority FINMA	Switzerland	No	**Answer:** Yes **Comment:** From FINMA`s perspective the calibration of the factors should in particular reflect the specific time horizon chosen for the ILR (cf. our remarks on question 3). Furthermore, FINMA agrees that these factors could also address other aspects like potential falls in asset prices before these assets can be liquidated. Given the material relevance of these factors, FINMA considers it important for the	Answer/comment is noted and will be considered and resolved in the project's Phase 2. Factors and haircuts will be further calibrated in the Phase 2 and explanation will be provided in due course.

			interpretation and assessment of the results that the IAIS provides further comments and explanations on the different factor components, their interdependencies and their calibration.	
109. Association of British Insurers	United Kingdom	No	**Answer:** No **Comment:** The proposal for liquidity bucketing with prescribed haircuts would result in an over simplified view of the actual liquidity of liabilities, and therefore may lead to erroneous interpretations from the liquidity risk measure. Actual haircuts may depend on a number of factors, including the nature of a stress scenario and whether an insurer actually would need to liquidate assets in a stress scenario. Under a 1 year timeframe, it should also be possible to recognise the liquidity for more tangible assets than those that are listed in the consultation paper. The longer timeframe ensures buyers can usually be found for those assets without creating operational or financial friction caused by the sale process, meaning that haircuts applied to the assets should only be in relation to the fall in asset price due to the stress. This is consistent with the approach taken by UK regulators. It should also be noted that there is no direct mention within the list of assets (rows 9.4 to 9.5.6 of the consultation paper) of key sources of liquidity to an insurer. These include the holding of certificate of deposits, and time deposits. Although separately addressed within the liquidity needs of the consultation paper, there is no mention of the proposed treatment within the sources of liquidity. This highlights the fact that the proposed ILR is based heavily on the banking industry's liquidity metrics.	Answer/comment is noted and will be considered and resolved in the project's Phase 2. Possible refinement of the factors will be considered in the project's Phase 2.
111. American Council of Life Insurers	United States	No	**Answer:** No **Comment:** We believe the proposed factors for liquidity sources are overly conservative both for the asset classes and the year-long time horizon considered. They are overly bank-centric, more severe than the rating agencies factors, and are far more excessive than what would be indicated by historical experiences. In addition, there are no granular liquidity factors by ratings for covered bonds, public sector entity debt and corporate debt securities, which is punitive for high quality debt holdings. Additionally, there is no consideration for the tenor of the assets held when liquidity factors are assigned. The proposed factors lump even the highest rated assets, where insurers tend to be concentrated, with the rest of the investment grade assets, which have extremely different default risks that are often scenario dependent. As a more general comment, the proposed metric appears to rely solely on asset sales. Liquidity measures should not be dependent on bank	Answer/comment is noted and will be considered and resolved in the project's Phase 2. Factors and haircuts will be further calibrated in the Phase 2. Differences in the risk profiles between banks and insurers should be taken into account while comparable risks should be treated in a comparable way. Further

			views of assets as insurers may have additional sources of liquidity outside of asset sales (e.g., FLHB borrowing, credit facilities). Liquidity risk in the banking sector is very different than that which exists in the insurance sector, based in part on the latter's much lesser susceptibility to short-term runs. In general, we would expect that short-term stresses are more severe in the banking sector, while longer-term stresses are milder and allow for some recovery of value. Reliance on bank regulations and approaches to liquidity risk could inadvertently raise liquidity risk by, for example, "herding" insurers into certain asset classes that could increase concentration risk.	analysis on this will be undertaken in the project's Phase 2.
112. National Association of Insurance Commissioners	United States	No	**Answer:** No **Comment:** We feel the asset factors are too low. We suggest they be based on empirical evidence such as market size, daily average trading volumes, and price volatility to determine appropriate factors, especially as the asset categories relate to each other. Absent empirical evidence, we are hesitant to recommend a percentage, but look to the factors used by S&P as a logical starting point. In addition, the IAIS should take into account if the insurer has a diversified asset portfolio across business sectors. If an insurer's investments have been concentrated on certain business sectors such as energy or financial services and not well diversified, then an overall haircut adjustment may be warranted.	Answer/comment is noted and will be considered and resolved in the project's Phase 2. Factors and haircuts will be further calibrated in the Phase 2 and explanation will be provided in due course
113. American Property Casualty Insurance Association	USA	No	**Answer:** No **Comment:** We strongly disagree. They seem to be based on a banking time horizon (hours, days) rather than a one-year time horizon, which enables a recovery in short-term price dislocations and therefore should result in correspondingly lower haircuts. The factors for fixed income assets should also vary with the remaining maturity of the investments. We would expect a greater portion of a fixed income asset to be realizable in a crisis if it matures in the near term than if it matures a number of years in the future. At a minimum there would need to be reflection of investments that mature during the selected time horizon. (We note that both S&P and AM Best acknowledge the differences in asset liquidity over short versus longer term horizons.)	Answer/comment is noted and will be considered and resolved in the project's Phase 2. Differences in the risk profiles between banks and insurers should be taken into account while comparable risks should be treated in a comparable way. Further analysis on this will be undertaken in the project's Phase 2. Possible refinement of the factors will be considered in the project's Phase 2.
Q6 Do you agree with the treatment of investment funds? If not, please explain and suggest an alternative treatment.				

115. Insurance Europe	Belgium	No	**Answer:** No **Comment:** Investment funds should be included reflecting the liquidity of the underlying assets and any liquidity-specific features of the individual funds (eg. lock-in periods).	Answer/comment is noted and will be considered and resolved in the project's Phase 2. Investment and money market funds may be considered in the Phase 2 analysis. The current approach was motivated by incomplete look-through view on these funds. IAIS will analyse data provided in IIM 2021 related to the topic focusing on general classification of investment and money market funds and differences in their liquidity.
116. Canadian Institute of Actuaries	Canada	No	**Answer:** Yes **Comment:** If investment funds could cause liquidity risk, as is mentioned in the paper, then they should be included in the analysis	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
119. HUATAI INSURANCE GROUP CO., LTD.	China Banking and Insurance Regulatory Commission	No	**Answer:** Yes	Answer noted.
120. CBIRC	CN	No	**Answer:** No **Comment:** We agree the investment funds can differ from the investments involved in proposed liquidity source table. However, we believe the open end fund products could support the insurer's liquidity need, which is also one of the liquidity source in emerging market. We will suggest IAIS to consider the possibility of adding open-end investment fund into liquidity sources.	Answer/comment is noted and will be considered and resolved in the project's Phase 2. Investment and money market funds may be considered in the Phase 2 analysis. The current approach was motivated by incomplete look-through view on these funds.
121. Global Federation of Insurance Association	Global	No	**Answer:** No **Comment:** Investment funds should be included. Their inclusion could be based on a segregation of categories of investment funds (e.g., money market funds,	Answer/comment is noted and will be considered and resolved in the project's Phase 2.

			exchange-traded funds and mutual funds), and considering tailored haircuts based on additional analysis.	
123. Treasury Markets Association	Hong Kong	No	**Answer:** Yes	Answer noted.
124. International Actuarial Association	International	No	**Answer:** No **Comment:** If the insurer has a well-diversified portfolio of investment funds with short enough withdrawal notice periods then to assume that liquidity seizes up across nearly all of these funds simultaneously seems rather pessimistic. Ideally the methodology would include some element that captures this insight. At a minimum there also needs to be consideration of the cash flows that would arise from those funds in a one year time horizon	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
125. The Geneva Association	International	No	**Answer:** No **Comment:** Exclusion of investment funds implies a 100% haircut, which seems unrealistic and unnecessarily punitive. It disregards liquidity requirements applicable to investment funds as well as guidelines used by insurers when proceeding in such investments (e.g. classification of the fund into a specific liquidity category, stress tests, influencing the liquidity profile of a fund at launch via corresponding investment specifications etc.) We suggest segregating investment funds into different types, and consideration should be given to including many of those types, such as money market funds, exchange-traded funds, and mutual funds, with haircuts. We believe that these categories should be analysed further as – for example – assets such as well diversified, investment grade investment funds can be an appropriate source of liquidity and a blanket exclusion could lead to increasing single counterparty risk. In addition, many life insurance companies hold many funds that can be terminated at any time (i.e., the fund is dissolved and the assets in the fund are sold and returned). The majority of these funds invest in highly liquid assets and can be surrendered on at least on a weekly basis (or daily for domestic mutual funds). For example, in Europe, UCITS-denominated funds are generally regarded as liquid, not least as the UCITS-standard was developed for this purpose. In light of this, UCITS-denominated funds should have a much lower threshold, potentially related to their average 1-year value at risk (i.e. if the 1 year 99% VAR equals a 30% loss, a haircut of 30% should be considered).	Answer/comment is noted and will be considered and resolved in the project's Phase 2. Investment and money market funds may be considered in the Phase 2 analysis. The current approach was motivated by incomplete look-through view on these funds.

126. General Insurance Association of Japan	Japan	No	**Answer:** No **Comment:** Regarding "Most investments in investment funds will not qualify under these definitions for inclusion in the ILR" on p.12, some investment funds like ETFs have liquidity and, as such, we consider it overly conservative to conclude that the total amount of investment in investment funds do not have liquidity. Therefore, it is necessary to exclude liquid investments such as ETFs from investments in investment funds and apply some simple calculations (such as applying the haircut for common equity).	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
127. The Life Insurance Association of Japan	Japan	No	**Answer:** No **Comment:** - We do not agree with the proposal that most investments in investment funds will not qualify under these definitions for inclusion in the ILR. - The consultation document states an investment fund's market liquidity is an issue during a crisis and it is excluded from liquidity resources. However, since investment funds can be redeemed and provide liquidity even during a crisis, we propose funds that are readily redeemable and are able to secure liquidity within the fund should be included as liquidity resources. - This is because many of Japanese life insurers hold funds that are constantly readily redeemable (by dissolving the fund and selling the assets within it). Moreover, these investment funds invest in highly liquid assets and at least half of the assets are redeemable on a weekly basis (on a daily basis for domestic mutual funds).	Answer/comment is noted and will be considered and resolved in the project's Phase 2. IAIS will analyse data provided in IIM 2021 related to the topic focusing on general classification of investment and money market funds and differences in their liquidity.
128. KOREA Life Insurance Association	KOREA	No	**Answer:** Yes **Comment:** It is understandable to exclude investment funds with low liquidity, but some investment funds such as MMF(Money Market Fund) that can be easily liquidated at little or no loss of value should be treated as liquidity sources. ETF is currently classified as investment funds, but part of ETF that tracks stock indices should be regarded as listed stocks, which would make it eligible to be included in the liquidity sources.	Answer/comment is noted and will be considered and resolved in the project's Phase 2. Investment and money market funds may be considered in the Phase 2 analysis. The current approach was motivated by incomplete look-through view on these funds.
131. Financial Supervisory Service	Republic of Korea	No	**Answer:** No **Comment:** In the public consultation document (page 12), "Most investments in investment funds will not quality under these definitions for inclusion in the ILR. The	Answer/comment is noted and will be considered and resolved in the project's Phase 2.

			liquidity of investment funds can differ significantly from the underlying investments, particularly during times of market stress or distress at a fund's sponsor." We share the view that the liquidity of investment funds can differ significantly from the underlying investments. However, rather than excluding all investments in investment funds from the liquidity sources of the ILR, we think it would make more sense to apply a certain factor to and include some liquid investments in the computation of the liquidity sources, such as money market funds (MMFs) and investments in conventional investment funds. More specifically, we would like to propose including the following investments in the computation of liquidity sources and propose the following factors, based on our supervisory data and experience: 1) MMFs need to be recognized as a source of liquidity, as they primarily invest in short-term liquid instruments such as commercial papers and are thus easily convertible into cash. With respect to the factor for MMFs, we would like to propose a range of 70 to 100 percent, depending on their underlying investments. 2) For investments in equity funds, certain exchange-traded funds (ETFs) that track the performance of equity indices need to be treated as a source of liquidity in the same manner (with the same factor of 50 percent) as publicly traded common equity. 3) For investments in bond funds, certain funds that invest in plain-vanilla bonds with investment-grade ratings need to be treated as a source of liquidity in the same manner (with the same factor of 70 percent) as investment-grade corporate debt securities.	Investment and money market funds may be considered in the Phase 2 analysis. The current approach was motivated by incomplete look-through view on these funds.
134. Association of British Insurers	United Kingdom	No	**Answer:** No **Comment:** Investment funds should be included, reflecting the liquidity of the underlying asset. The insurance industry is different to banking in that it does not have access to the same liquid asset product suite. Liquidity funds are designed and have rules in place to ensure liquidity can be relied upon by investors in a time of liquidity stress. Many UK insurers only subscribe liquidity within AAAmf rated funds and ensure that funds are "looked through" to the underlying assets of the funds to assess the liquidity of the fund. Controls are in place, both internally by the insurer and externally by fund providers, to provide assurance that the risk of all cash invested becoming illiquid from gating is considered low and beyond a significant stress event. As the underlying assets of the liquidity funds consist of cash and cash equivalents,	Answer/comment is noted and will be considered and resolved in the project's Phase 2.

			a blended haircut based on the underlying assets is likely to be used within a liquidity risk measure. As the liquidity funds contain highly liquid assets and a 1 year time horizon is being considered, the haircut applied (if any) should be minimal, as it is unlikely that a credit loss from a default would occur.	
136. American Council of Life Insurers	United States	No	**Answer:** No **Comment:** ACLI's view is that exclusion of investment funds implies a 100% haircut, which strikes us as both unrealistic and punitive. There are significant differences in the types of investment funds and how they are used by insurers. There needs to be more consideration given to these differences. We suggest segregating certain categories of investment funds (e.g., money market funds, exchange-traded funds and mutual funds), and considering tailored haircuts based on additional analysis.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
137. National Association of Insurance Commissioners	United States	No	**Answer:** Yes **Comment:** We agree to exclude them, but should review periodically if that is appropriate based on market conditions.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
Q7 Do you agree with the treatment of premiums? If not, please explain how premiums and excluded expenses should be treated in the ILR.				
139. Insurance Europe	Belgium	No	**Answer:** Yes **Comment:** The approach appears to be broadly reasonable. However, the question should also be asked whether these cashflows should be treated on a gross basis as opposed to a net basis.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
140. Canadian Institute of Actuaries	Canada	No	**Answer:** Yes **Comment:** We agree with the proposed treatment.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
143. HUATAI INSURANCE GROUP CO., LTD.	China Banking and Insurance Regulatory Commission	No	**Answer:** Yes	Answer noted..
144. CBIRC	CN	No	**Answer:** No **Comment:** For insurers in emerging markets, premiums are a major source of	Answer/comment is noted and will be considered and resolved in the project's Phase 2.

			liquidity. Therefore, we suggest that liquidity sources include premiums, to better assess liquidity risks in emerging market insurers.	Treatment of premiums (and claims/expenses related to them) will be tested in the Phase 2 sensitivity analysis. The IAIS acknowledges that premiums are a major source of liquidity. Premiums and claims were considered in the Phase 1. However, for non-life business, the ILR assumes a combined ratio 100%, ie. disregards premiums, claims and expenses. For life business, the ILR assumes comparable liquidity of claims and premiums too.
145. Global Federation of Insurance Association	Global	No	**Answer:** Yes **Comment:** The approach appears to be broadly reasonable from a practical perspective. Dependent on the maturity profile of the business, net cash flows can provide a stable and material source of liquidity, or alternatively could indicate material short-term restrictions on liquidity. The question should also be asked whether these cashflows should be treated on a gross basis as opposed to a net-zero basis.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
147. Treasury Markets Association	Hong Kong	No	**Answer:** Yes	Answer noted.
148. International Actuarial Association	International	No	**Answer:** No **Comment:** The IAA disagrees with the treatment of premiums and expenses for an IIM as it seems totally counter to an evaluation of individual company liquidity and to evaluation of liquidity over a one year time horizon. Assuming that net operating cash flow for an insurer is zero would result in treating runoff insurers the same as growing insurers. Runoff insurers would expect to see negative operating cash flow (as the low to non-existent premium cash inflow would be more than offset by expense and claim cash outflows). In contrast, a growing insurer would expect that claim reporting and payment patterns would result in those payments occurring materially later than premium payments (in some cases years or decades later)	Answer/comment is noted and will be considered and resolved in the project's Phase 2. The ILR is based on a balance sheet view, and thus not focusing on income statement or cash-flow statements data elements. The conservative assumption, the combined ratio = 100%, may be reconsidered in the Phase 2.

			resulting in very positive net operating cash flows. It is acknowledged that guidance may be needed in some cases as to how to translate local GAAP into actual cashflows. The IAA notes that the IAIS has not historically collected data on claims and expenses. As the purpose of insurance is to pay claims (and related expenses), the IAA suggests the collection of this data would be a useful addition to the data collection work of the IAIS, regardless of its role in a liquidity ratio. The IIM should include an estimate of normal operating cash flow (by looking at historical levels of annual premium inflows and annual expense and claim payment outflows, with a potential for reflecting historical trends in those values. This would more closely match how an insurer would estimate its own cash flows and liquidity needs.	
149. The Geneva Association	International	No	**Answer:** Yes **Comment:** Given the simplistic nature of the ILR from a cost-benefit perspective, we believe it is appropriate to exclude both future premiums and associated "normal" expenses and claims. We note that companies do use various approaches to premiums, claims and expenses in their internal liquidity methodologies.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
150. General Insurance Association of Japan	Japan	No	**Answer:** Yes	Answer noted.
151. The Life Insurance Association of Japan	Japan	No	**Answer:** No **Comment:** - The consultation document has many references related to banking regulations; however, the characteristics related to liquidity risk of an insurer, who has a stable cash inflow from level premiums, are very different from the business model of a bank. Therefore, premiums need to be considered as liquidity resources as well. - Therefore, as stated in 3.2, the IAIS should continue to consider how premiums should be treated.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
152. KOREA Life Insurance Association	KOREA	No	**Answer:** No **Comment:** No. Premiums should be included in liquidity sources reflecting actuarial	Answer/comment is noted and will be considered and resolved in the project's Phase 2.

			assumptions like retention rate as it is expected cash inflow in the future whereas claims and business expenses should be regarded as cash outflow.	
157. Swiss Financial Market Supervisory Authority FINMA	Switzerland	No	**Answer:** No **Comment:** We understand that premium payments are not fully integrated into the ILR and that integration would be fraught with difficulties. On the other hand, premium payments and benefits are a key driver of liquidity sources and liquidity needs for many traditional insurers, so neglecting these drivers for a suitable liquidity metric seems problematic. Accordingly, we recommend a detailed examination of whether these elements could also be integrated into this metric in a sufficiently reasonable way or whether this can only be done in alternative metrics.	Answer/comment is noted and will be considered and resolved in the project's Phase 2. The Phase 1 ILR is based on a balance sheet view, and thus not focusing on income statement or cash-flow statements data elements. Premiums and claims will be tested in the Phase 2.
158. Association of British Insurers	United Kingdom	No	**Answer:** Yes **Comment:** When managing liquidity risk, insurers should consider all inflows and outflows, inclusive of premiums and claims. However, for life insurance companies, the proposed treatment of premiums is a reasonable assumption to make in order to simplify the liquidity risk measure. Premiums charged on policies are designed to at least cover the Net Present Value (NPV) of expected claims over the life of the policy, plus administrative costs relating to running the policy. The longer nature of life policies ensures sufficient cash generation through the long-term investment of the premiums received. Whilst some businesses are more cost efficient than others and therefore an underwriting profit (or loss) may be made, this is typically immaterial compared to the investment returns. The question should also be asked whether these cashflows should be treated on a gross basis as opposed to a net basis.	Answer/comment is noted and will be considered and resolved in the project's Phase 2. IAIS will consider premiums on both gross and net basis.
160. American Council of Life Insurers	United States	No	**Answer:** Yes **Comment:** ACLI supports the Consultation's exclusion of premiums and associated claims and expenses from the ILR. Further, we do not believe any potential insight gained from the collection and analysis of these items will outweigh the complexities associated with that collection and analysis. However, expected surrenders would also be considered part of expected claims and thus offset by expected premium. Care should be taken when setting the factors for surrenders to account for this offset.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.

161. National Association of Insurance Commissioners	United States	No	**Answer:** Yes **Comment:** However, premiums, expenses and other cash flow items should be considered in Phase 2 development of a liquidity metric. Additionally, the IAIS should consider various insurer business models as the surrender characteristics are different depending on policy, such as non-life and type of life insurance.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
162. RGA	United States	No	**Answer:** No **Comment:** RGA does not support the Consultation's exclusion of premiums and associated claims and expenses from the ILR metric. An insurance group's cashflows come primarily from three categories of activity: investing, financing, and operating, with operating fundamentally consisting of insurance-related items such as premiums, claims, and commissions. It would be incomplete and inappropriate to exclude one of these three broad categories from the ILR metric, especially when such cashflows relate to the fundamental business of the (re)insurer. Further, we believe that the metric should also consider cash flows relating to reinsurance transactions (e.g., reinsurance premiums and expected claim recoveries). Due to the lack of historically collected data on claims and expenses, the IAIS conservatively chose to exclude this information from the metric but indicated it would reconsider this issue in 2021. We recommend that consideration be given now and not delayed to a future point in time.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
163. The Travelers Companies, Inc.	United States	No	**Answer:** No **Comment:** No. We believe that recent historic operating cash flows should be reflected in the calculation. Such an approach is more consistent with the chosen time horizon and reflects the manner in which many non-life insurers that do not have callable liabilities are currently managed."	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
164. American Property Casualty Insurance Association	USA	No	**Answer:** No **Comment:** APCIA strongly disagrees with the proposal to disregard premiums and claim expenses as it seems totally counter to an evaluation of individual company liquidity and to evaluation of liquidity over a one-year time horizon. Ignoring operating cash flow would result in treating runoff insurers as identical to growing insurers. Typically, an insurer with a large runoff portfolio would see negative operating cashflow (at least for the runoff portion of its book). An insurer with consistent growth would typically have positive operating cashflow, with this positive cashflow become more significant the longer the payout pattern for its products.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.

			These relative operating cashflows are a major part of liquidity risk management for runoff versus growing insurers, yet the proposed liquidity ratio would ignore these (frequently very material) differences. The ILR could include an estimate of normal operating cash flow via the use of historic premium inflows and claim plus expense outflows, including a recognition of recent trends in those variables. This would bring the proposed liquidity metric in line with how non-life insurers actually manage their liquidity risk.	
166. New York Life Insurance Company	USA	No	**Answer:** No **Comment:** Joint submission, see comment from Northwestern Mutual	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
167. Northwestern Mutual	USA	No	**Answer:** No **Comment:** Premiums (which includes premiums from new sales as well as recurring premiums on inforce), and other positive operational cash flows play a major role in the day to day management of liquidity by an insurance company. While it is true that a portion of these are used to pay business as usual claims and expenses, excess cash flows remain and are subsequently invested. In a short-term liquidity stress event, a company can pause the investment program and use the excess cash flows to fund any growing liquidity needs. While a factor-based approach may be used to account for these premiums in the EA, a better alternative would be to use the CP method as the principal tool for liquidity assessment in the GME. The CP method automatically captures premiums as well as other operational cash flows missed by the EA, such as principal and interest payments from the asset portfolio. For a major insurance company with a sizable portfolio, the latter contributes a significant portion of the annual cash flows.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
Q8 How should instruments issued by financial institutions be treated within the ILR?				
168. Insurance Europe	Belgium	No	**Answer:** Instruments issued by financial institutions should be included in any liquidity metric in a consistent approach with non-financial institution instruments, ie. taking into consideration their quality and the time horizon. It is recognised that when assessing liquidity under stress there may be scenario specificities which influence the availability of financial institution instruments, but these should only be considered within the given scenario and not result in pre-exclusion.	Answer noted and will be considered and resolved in the project's Phase 2. IAIS will include the instruments issued by financial institutions into the calculation on the ILR.

171. HUATAI INSURANCE GROUP CO., LTD.	China Banking and Insurance Regulatory Commission	No	**Answer:** We suggest that smaller liquidity discount should be applied to instruments issued by financial institutions which rated above a certain grade, but subordinated debt issued by financial institutions should not be included.	Answer noted and will be considered and resolved in the project's Phase 2.
172. CBIRC	CN	No	**Answer:** We agree the IAIS's plan to assess the risk of instrument issued by financial institutions. We believe when insurers hold the instruments issued by other financial institutions, the liquidity risk should be lower compare to those issued by other institutions.	Answer noted and will be considered and resolved in the project's Phase 2.
173. Global Federation of Insurance Association	Global	No	**Answer:** Instruments issued by financial institutions should be included in any liquidity metric in a consistent approach with non-financial institution instruments, ie. taking into consideration their quality and the time horizon. It is recognised that when assessing liquidity under stress there may be scenario specificities which influence the availability of financial institution instruments, but these should only be considered within the given scenario and not result in pre-exclusion. GFIA also highlights that extensive risk mitigation for derivatives, such as centralised clearing, has been implemented globally which mitigate the risks arising from derivative exposures within financial institutions. This supports GFIA's view that it is unnecessary to separate financial institutions and non-financial institutions in the Exposure Approach, taking into account that this is a simple method.	Answer noted and will be considered and resolved in the project's Phase 2. IAIS will include the instruments issued by financial institutions into the calculation on the ILR.
175. Treasury Markets Association	Hong Kong	No	**Answer:** Such instruments are typically derivatives and the liquidity impact can only be incurred when a threshold or event is reached. Therefore such scenarios should be considered as one of the stress liquidity event.	Answer noted and will be considered and resolved in the project's Phase 2.
176. International Actuarial Association	International	No	**Answer:** From an insurer solvency perspective, the treatment of financial instruments should reflect the rating of that instrument, with no preferential treatment for instruments issued by financial institutions. Any increased liquidity from financial institution securities would be already reflected in those credit ratings.	Answer noted and will be considered and resolved in the project's Phase 2.
177. The Geneva Association	International	No	**Answer:** We strongly believe that instruments issued by financial institutions should be treated the same as instruments issued by any other sector. Excluding financial-industry obligations - which often form an important component of insurance entities asset portfolios - from liquidity sources creates perverse incentives and could negatively impact the stability of the financial sector during a crisis. Further, a simple liquidity ratio cannot reasonably account for every dimension of risk. The	Answer noted and will be considered and resolved in the project's Phase 2.

			ratio should be regarded only as an indicator of an entity's potential exposure to a liquidity shock, and we are not aware of evidence that instruments issued by financial institutions are inherently less liquid in a stress environment than instruments issued by other types of institutions.	
178. General Insurance Association of Japan	Japan	No	**Answer:** Although we recognize that exposure to financial institutions may amplify risks, especially in the event of financial market turmoil, we understand this is an issue mainly involving derivatives. Considering risk mitigation efforts such as centralized clearing is in place for derivatives, we believe it is unnecessary to separate financial institutions and non-financial institutions in the Exposure Approach, which is based on a simple calculation method.	Answer noted and will be considered and resolved in the project's Phase 2.
179. The Life Insurance Association of Japan	Japan	No	**Answer:** - There is a possibility that excluding instruments issued by other financial institutions from liquidity resources will have a negative effect on maintaining appropriate liquidity. - Since insurers set risk limits for each counterparty considering the exposures to counterparties and marketability of each asset, the treatment should not be differentiated only because instruments are issued by a financial institution.	Answer noted and will be considered and resolved in the project's Phase 2.
180. KOREA Life Insurance Association	KOREA	No	**Answer:** Some of them, if not all, should be treated as liquidity sources in an appropriate amount that would capture the level of risk interconnectedness among financial institutions.	Answer noted and will be considered and resolved in the project's Phase 2.
183. Financial Supervisory Service	Republic of Korea	No	**Answer:** In times of stress, bonds issued by financial institutions may be more likely to be exposed to systemic risk, but it does not make sense to assume that they will become more distressed than bonds issued by non-financial firms. And many insurers thus have a holding of bonds issued by financial institutions. As such, like ordinary corporate debt securities issued by non-financial firms, bonds issued by financial institutions need to be treated as a source of liquidity, to the extent that they satisfy the criteria such as credit ratings and "being liquid."	Answer noted and will be considered and resolved in the project's Phase 2.
186. Association of British Insurers	United Kingdom	No	**Answer:** For any assessment of liquidity risk management, instruments issued by financial institutions should be included, taking into account the risk profile and time horizon being considered.	Answer noted and will be considered and resolved in the project's Phase 2.
188. American Council of Life Insurers	United States	No	**Answer:** ACLI is aware of no rationale for treating instruments issued by financial institutions in a different manner than those issued by other institutions. Consistent treatment, taking into account characteristics such as credit quality, time horizon, and scenario should govern. We recognize that, in certain scenarios, the availability	Answer noted and will be considered and resolved in the project's Phase 2.

			of financial institution instruments may be analyzed differently, but this would properly occur in a Phase 2 approach.	
189. National Association of Insurance Commissioners	United States	No	**Answer:** We agree with the plan to assess the treatment of instruments issued by financial institutions in 2021. We recommend the assessment include a study of historical defaults, loss given defaults and correlation with a broad market downturn of these instruments compared to other issuer categories to determine if there is any empirical evidence to suggest treating them differently.	Answer noted and will be considered and resolved in the project's Phase 2.
190. American Property Casualty Insurance Association	USA	No	**Answer:** The same as any other financial instrument with the equivalent financial strength rating, with no punitive or preferential treatment.	Answer noted and will be considered and resolved in the project's Phase 2.
Q9 Do you agree with the inclusion of certain encumbered assets as liquidity sources within the ILR or should the IAIS alternatively exclude these encumbered assets and measure certain the related liquidity needs on a net basis? Should any additional liquidity needs be included in the calculation because encumbered assets are included as a liquidity source?				
192. Insurance Europe	Belgium	No	**Answer:** No **Comment:** The basis for liquidity resources and liquidity needs should be consistent.	Answer/comment is noted and will be considered and resolved in the project's Phase 2. IAISI will analyse IIM 2021 …..
195. HUATAI INSURANCE GROUP CO., LTD.	China Banking and Insurance Regulatory Commission	No	**Answer:** No **Comment:** We recommend the latter approach.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
196. CBIRC	CN	No	**Answer:** No **Comment:** We do not agree to include the encumbered assets as liquidity sources, because these assets are restricted, they do not meet the definition of liquidity sources.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
197. Global Federation of Insurance Association	Global	No	**Answer:** No **Comment:** The basis for liquidity resources and liquidity needs should be	Answer/comment is noted and will be considered and resolved in the project's Phase 2.

			consistent. GFIA considers a net approach to be more realistic than a gross approach as encumbered assets are by definition unavailable.	
199. Treasury Markets Association	Hong Kong	No	**Answer:** No **Comment:** Encumbered assets cannot be turned into cash without the counterpart approval so they lost the characteristics of being fungible.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
200. International Actuarial Association	International	No	**Answer:** No **Comment:** For securities lending given a one-year time horizon, it is expected that most of these transactions would reverse in the one-year time horizon. It is worth noting the prior situation with AIG. They lent securities, but then invested the collateral in illiquid assets. When they had to return the collateral they did not have the cash. When they found they could not obtain short term cash sources they were faced with liquidating illiquid assets. As a result, the treatment of encumbered assets may need further research to determine when they should be treated as liquidity sources and when they should not.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
201. The Geneva Association	International	No	**Answer:** No **Comment:** Including gross encumbered assets may not reflect the true value of assets available and thus we support use of net unencumbered assets for purposes of the ILR. In addition, taking a gross approach would also require manual adjustments under the phase 1 ILR approach; hence, for simplicity we suggest that in situations where an insurer has received cash against securities in a repo trade, the cash is included as a liquidity source for the ILR calculation. Similarly, if an insurer has received securities against cash, these securities should be considered a liquidity source as well. Except in situations when there is an overcollateralized position, where the excess (over the borrowed amount) should be counted as a liquidity source.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
202. General Insurance Association of Japan	Japan	No	**Answer:** No **Comment:** We believe that the framework should be on a net basis (excluding encumbered assets and measuring the related liquidity needs on a net basis) rather than on a currently proposed gross basis (including certain encumbered assets as liquidity sources). This can contribute to the mitigation of systemic risk within the entire financial system by providing incentives for insurers to make the shift to funding with collateral.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.

			Explanation ・As far as Annex 2 is concerned, we understand the ILR of insurers is expected to be above 100%. However, if the ILR is 100% or above, the more ILR will raise collateral, so the ILR will decrease towards 100%. (e.g., if ILR = 200/100 = 200%, increasing funding with collateral by 100 yields makes ILS = 300/200 = 150%). Since reserved assets are included as a liquidity source, results are similar even if financed without collateral. ・On the other hand, when measured on a net basis, the ILR basically does not decrease even if funding with collateral is increased, but when raising funding without collateral, the ILR decreases toward 100% as the amount of funding without collateral is increased because the funds raised are included in liquidity sources while also included in liquidity needs as liabilities. ・As described above, it is possible to prevent a decline in ILR in secured transactions by measuring on a net basis, and insurers would have an incentive to make the shift to funding with collateral. We believe that this will lead to the mitigation of systemic risk in the entire financial system.	
203. The Life Insurance Association of Japan	Japan	No	**Answer:** No **Comment:** - We do not agree. - Assets that were transferred to counterparties through repo trading and lending transactions are illiquid. In addition, those liabilities secured by those assets are considered to have the same period of grace as the repo trading and lending transaction. Therefore, those assets should be excluded from liquidity resources and those liabilities should be excluded from liquidity needs. - This treatment is in line with accepting the off-balance sheet disposition right of encumbered assets in Table 2 (please refer to our comment for Question 20 for more detail).	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
204. KOREA Life Insurance Association	KOREA	No	**Answer:** Yes **Comment:** Yes. We agree with the inclusion of certain encumbered assets as liquidity sources within the ILR. However, there needs to be further discussion on whether the factor should always be 90%. There could be other cases that we need to consider changing the rate depending on the characteristic of the deal.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.

207. Swiss Financial Market Supervisory Authority FINMA	Switzerland	No	**Answer:** No **Comment:** The inclusion of repurchase agreements on a gross basis as liquidity needs together with the inclusion of the corresponding encumbered assets as liquidity sources seems to lead to counterintuitive results. Entering a repo agreement appears to reduce the ILR of an insurer if its ILR was above 100% already before. This contradicts the intention of many repo agreements, which is to improve the liquidity position by receiving cash for otherwise not immediately liquefiable assets.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
208. Association of British Insurers	United Kingdom	No	**Answer:** No **Comment:** We believe that the basis for liquidity resources and liquidity needs should be consistent. We believe that a net approach is more realistic than a gross approach as encumbered assets by definition are unavailable.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
210. American Council of Life Insurers	United States	No	**Answer:** Yes **Comment:** We believe that only net unencumbered assets should be included in the ILR. Net unencumbered assets are derived by adding all encumbered assets and deducting all encumbered liabilities. Including gross encumbered assets may not reflect the true value of assets available. Our priority is consistency: if a gross basis is used to assess liquidity needs, then a gross basis should be used to assess liquidity sources. Developing the ratio on a net basis may provide a degree of simplification.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
211. National Association of Insurance Commissioners	United States	No	**Answer:** Yes **Comment:** We believe encumbered assets should be included in the ratio as a liquidity source as long as the cash received in connection with the securities financing transaction is also included as a liquidity source and the liability to return the cash is included as a liquidity need in the denominator of the ratio. We believe treatment of collateral (i.e., cash, investment funds, or securities issued by financial institutions) should be applied consistently for different securities financing transactions.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
212. RGA	United States	No	**Answer:** Yes **Comment:** RGA generally supports the inclusion of encumbered assets as liquidity sources. RGA does not favor a net approach, which would result in the exclusion of certain encumbered assets as liquidity sources. Many different transactions can	Answer/comment is noted and will be considered and resolved in the project's Phase 2.

			require a (re)insurer to post collateral and, in turn, can result in encumbrance. These transactions vary in nature, ranging from standard trades to bespoke capital markets and reinsurance transactions. RGA is concerned that a net approach would paint all such transactions with a broad brush for the sake of simplification, when a more refined approach is needed to properly address the nature of these transactions. We also support consistency in that the same approach should be used to assess both liquidity sources and needs.	
Q10 Do you agree with the treatment of liquidity risk from surrenders and withdrawals from insurance products in the ILR? If not, please explain how this could be improved.				
214. Insurance Europe	Belgium	No	**Answer:** No **Comment:** The approach focusing only on economic penalty and time restraints is too simplistic, and therefore unlikely to reflect the individual characteristics of insurers' liquidity risk or enable meaningful interpretations to be drawn from the ILR. The IAIS acknowledge that policyholders' behaviours are based on the complex interaction of many factors. We do not consider that only picking on two of these factors that are measurable through the IIM data will provide a representative view. Although the proposed treatment appears straightforward in theory, practically it could be very labour intensive to extract the source data, therefore prompting the question as to whether the pros outweigh the cons for calculating a number that would not be used for any other purpose.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
215. Canadian Institute of Actuaries	Canada	No	**Answer:** Yes **Comment:** We agree with the paper's treatment in general. However, there could be additional risks given the specific circumstances of an insurer. An example is the case of General American where a decrease in a rating by an external agency caused a very large pension client to have to immediately withdraw their funds, but the liquidity for this was not available. Special material circumstances have to be addressed separately by an insurer and its supervisor.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
218. HUATAI INSURANCE GROUP CO., LTD.	China Banking and Insurance	No	**Answer:** Yes	Answer noted.

	Regulatory Commission			
219. CBIRC	CN	No	**Answer:** Yes	Answer noted.
220. Global Federation of Insurance Association	Global	No	**Answer:** No **Comment:** The approach focusing only on economic penalty and time restraints is too simplistic, and therefore unlikely to reflect the individual characteristics of insurers liquidity risk or enable meaningful interpretations to be drawn from the ILR. The risk factor is also high overall and should be reduced significantly according to the actual risk regarding insurance liabilities. - Since the likelihood of policyholder runs occurring are lowered by various factors as described in the document, we do not anticipate high surrender rates. For instance, when the economic penalty is Low (no economic penalty) and the time restraints to cancel is Low (less than< 1 week), the factor for retail contracts is set at 50%. However, we are not aware of cases where insurers faced such high surrender rate. - Specifically, it is proposed that the highest risk factor of insurance liabilities for individuals is 50% and that for corporations is 100%, but we consider that this should be lower than the lowest risk factor of retail/commercial deposits (25%/50%). Overestimating the liquidity risk of insurers´ liabilities may also constrain management of insurers in providing stable finance to risk assets. From this perspective, the liquidity risk of insurance liabilities should be carefully assessed and significantly reduced from current levels to match the actual risk of insurance products. The IAIS acknowledge that policyholders' behaviours are based on the complex interaction of many factors. We do not consider that only picking on two of these factors that are measurable through the IIM data will provide a representative view. While a standardised liquidity ratio may make sense in the banking industry given its business profile and heightened liquidity risk, it is inappropriate for the insurance sector given that there is much lower liquidity risk and that it will depend on the individual liquidity profiles of different businesses and the scenarios where they may	Answer/comment is noted and potential alternatives to the surrender's factors will be explored in the project's Phase 2.

			be vulnerable. Because of this liquidity risk needs to be supervised and assessed as part of an insurer's wider ERM framework.	
222. Treasury Markets Association	Hong Kong	No	**Answer:** Yes	Answer noted.
223. International Actuarial Association	International	No	**Answer:** No **Comment:** The IAA believes that the time constraints are more of a deterrent than surrender penalties.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
224. The Geneva Association	International	No	**Answer:** No **Comment:** We support differentiating between retail and institutional liabilities and differentiating by the economic penalty and time restraints. However, we believe that the proposed factors overstate the extent to which liquidity risk exists. We believe other frameworks should be leveraged to appropriately account for the fact that insurance liabilities are inherently different from bank liabilities, including the various product design features and consumer disincentives to surrender their insurance policies. We would like to highlight that the notion of an "insurance run" is a misperception in our view and does not compare with banking deposits or accounts where withdrawals are an easy and straightforward process. While there were only limited cases in which surrenders of insurance products led to liquidity implications, the surrender of a life policy will potentially affect the cost and availability of future financial protection and may result in a wide array of disadvantages. Such disadvantages could include surrender charges, inability to obtain coverage or the same amount of coverage at the same price, loss of guaranteed interest rate, loss of additional savings benefits as opportunity costs of the surrender and potentially tax penalties. For example, a block of fixed annuities could be out of a surrender (penalty) period and thus be sensitive to a move to a higher rate product in a rising rate environment. This potential movement to a higher rate product could occur with the same insurer however, implying a P&L implication but no liquidity risk; or as a transfer to another insurer implying a liquidity outflow at the first insurer and a liquidity inflow for the second insurer. In the latter case, the liquidity impact on the insurance sector as a whole would not be material.	Answer/comment is noted and will be considered and resolved in the project's Phase 2. Mass surrenders, although are rare events in insurance, may significantly deteriorate the stability and predictability of the future cash flows, having a negative impact on the liquidity of insurance undertaking as described in the Ethias' case.
225. General Insurance	Japan	No	**Answer:** No	Answer/comment is noted and potential alternatives to the

Association of Japan			**Comment:** ・The risk factors are generally high, and it should be reduced significantly to match the actual risk regarding insurance liabilities. ・Since the likelihood of policyholder runs occurring are lowered by various factors as described in the document, we do not anticipate high surrender rates. For instance, when the economic penalty is Low (no economic penalty) and the time restraints to cancel is Low (less than 1 week), the factor for retail contracts is set at 50%. However, in Japan, there have been no cases where insurers faced such high surrender rates. ・The risk factor for bank deposits proposed in the document is set at 25% for retail deposits and 50% or 100% for commercial deposits, applying factors close to the upper limit of the risk factor for deposits in banking regulations. However, liquidity risk of insurance liabilities is considered to be lower than that of bank deposits, and therefore, in terms of consistency, the highest risk factor applicable to insurance liabilities should be lower than the lowest risk factor applicable to bank deposits. ・Specifically, it is proposed that the highest risk factor of insurance liabilities for individuals is 50% and that for corporations is 100%, but we consider that this should be lower than the lowest risk factor of retail/commercial deposits (25%/50%). ・Overestimating the liquidity risk of insurers´ liabilities may also constrain management of insurers in providing stable finance to risk assets. From this perspective, the liquidity risk of insurance liabilities should be carefully assessed and significantly reduced from current levels to match the actual risk of insurance products.	surrender's factors will be considered in the project's Phase 2.
226. The Life Insurance Association of Japan	Japan	No	**Answer:** No **Comment:** - We disagree with this proposal. - The liquidity assessment of insurance liabilities is based on economic penalty and time restraint metrics (Tables 4 and 5). However, this is too simplified. It should be comprehensively assessed based on a wide range of perspectives such as the purpose of the insurance policy, the existence of an actual economic penalty for policies with high assumed interest rates, the characteristics of insurance types and the existence of insurance policyholder protection schemes. - We propose particularly consideration of the following three perspectives.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.

			i. Regarding the factor level, it should be considered that our actual surrender rate is much lower than 50% (for individual insurance). - In Japan, the highest mass surrender rate in the past was 25% (Toho Mutual Life Insurance Company's 1997 decrease ratio of individual insurance and annuity), which was far below 50%. - As demonstrated in the IAIS' ICS data collection, Japanese life insurance sector's surrender rate is stable and the 50% level is very atypical from reality. ii. Insurers run their business based on the characteristic of their national markets so the metrics should consider that reality. Specifically, we would like to propose that there should be a difference in factors between protection-based products and savings-based products, as well as the surrender penalty being market value based. For surrender penalty, since data related to "Row 33.A.5 disincentive" have been submitted in G-SIIs Data Collection Exercise, we would like to propose that these factors are reflected. - The consultation document states economic penalty is only the surrender penalty. However, the scale of economic loss, which is beyond the loss from the surrender penalty should be considered. In Japan, the economic loss of surrendering a high yielding product is large when comparing the past high yielding products (approximately 5%) to the current assumed interest rate (approximately 1%). - For protection-based products, it is less likely to be surrendered because the protection will be lost when cancelled. iii. For the time restraints of Japanese insurance policy surrender, we would like the IAIS to consider making it possible to categorize for three months or more during an event of crisis. For this consultation, only the surrender results during normal times are considered. However, we understand that liquidity metrics consider insurers' situation during a crisis; therefore, time restraints for surrenders should also consider situations during a crisis. - As for Japanese surrender results, time restraints are considered low (less than a week). But the reason is because of the early payment of normal times since if the payment of cash surrender value is not made by a certain time, the insurance company is required to pay overdue interest. On the other hand, since this payment period is not guaranteed to customers and if a lack of capital occurs, it is possible to extend the payment period after paying the overdue interest based on the policy's	

			terms and conditions. Therefore, we propose the cash surrender value and overdue interest be considered as liquidity needs in terms of liquidity risk management, and the time restraints during an event of crisis to make it possible to categorize it for three months or more. - As for corporate policy, even if it historically experienced a short payment period after receiving the claim, the administrative process will occur by practice. Even if the surrender period is agreed to beforehand with the policyholder, the actual time restraints is generally longer than a week.	
227. KOREA Life Insurance Association	KOREA	No	**Answer:** No **Comment:** When calculating liquid liabilities, policy loans should be deducted. The limit of policy loan, in general, is within the future benefits payable to policyholders and in case of withdrawing the contract, the payment is made after deducting loan balance by individual contract or contract group. Therefore it would be reasonable to deduct the loan balance from the surrender value when calculating liquid liabilities to predict cash outflows in the future.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
232. Swiss Financial Market Supervisory Authority FINMA	Switzerland	No	**Answer:** No **Comment:** The bucketing of the liabilities according to standardised criteria such as time restraints and economic penalties fits the exposure based characteristics of the proposed metric. In the context of liquidity risks stemming from surrenders and withdrawals, FINMA considers timing aspects of cash in- and outflows as relevant. FINMA assumes that such timing aspects will be addressed under the company projection approach, which the IAIS intends to develop in a second step. The proposed calibration of the liability factors shows a significant dependency on the allocation of the contracts to the corresponding "time restraint" class. Therefore, it can be expected that results react quite sensitive on the corresponding mapping approach chosen by the company. From a supervisory perspective however it may be challenging to verify the appropriateness of this company-specific allocation. Against this background, FINMA recommends to investigate further whether it is possible to reduce the sensitivity of the results linked to classification into different "time restraint" buckets. Regarding the second classification criterion FINMA acknowledges the inherent complexity linked to the large variety of different types of surrender penalties across the insurance sector. While some surrender penalties imply specific reductions to the amount paid out to policyholders, other types of penalties are linked to various	Answer/comment is noted and will be considered and resolved in the project's Phase 2.

			forms of (often-considerable) tax disadvantages. While these fiscal penalties often depend on the specific national legislative framework, FINMA recommends to further investigate how to include such penalties imposed by third parties in the calibration of the liability factors. In the end, the ratio of surrender value to premiums paid so far or to the expected payout at the end of the contract might be more relevant for the decision whether to surrender or not than any surrender penalties.	
233. Association of British Insurers	United Kingdom	No	**Answer:** No **Comment:** The approach focusing only on economic penalty and time restraints is too simplistic, and therefore unlikely to reflect the individual characteristics of insurers' liquidity risk or enable meaningful interpretations to be drawn from the ILR. The IAIS acknowledges in the consultation that policyholders' behaviours are based on the complex interaction of many factors. We do not consider that only picking on two of these factors that are measurable through the IIM data will provide a representative view. Although the proposed treatment is straight forward in theory, practically it could be very labour intensive to extract the source data, therefore prompting the question whether the pros outweigh the cons for calculating a number that would not be used for any other purpose. In addition, potentially applying a 50% liquidity factor as stated in the consultation paper is severe when one compares this to the market average, and could vary greatly from one type of insurer to another. An alternative approach would be to allow firms to use internally developed approaches using a 1 year time horizon. Firms using an internal model, for example, already calculate a number for surrenders and withdrawals from policies, meaning that the data is readily available and based on approved calculations.	Answer/comment is noted and will be considered and resolved in the project's Phase 2 under the company projection approach which will utilise insurers' projections of cash flows to assess liquidity risk.
235. American Council of Life Insurers	United States	No	**Answer:** No **Comment:** Insurers are not standard businesses like banks. They have different products and businesses, and their respective surrender and withdrawal experience will be sensitive to different drivers, varying significantly across the range of insurance products. The Consultation specifically recognizes this. Given the simplifications underpinning the ILR, we reiterate our view that it should be used solely as an "early warning" indicator to identify global industry-level directional shifts meriting further assessment. We support differentiating between retail and institutional liabilities. We also support differentiating by the economic penalty and	Answer/comment is noted and, depending on the data availability, potential alternatives for the surrender's factors will be considered in the project's Phase 2.

			time restraints. However, these alone are not sufficient bases for differentiation. The Consultation seems to acknowledge that the protection purpose for which a policy is purchased plays an important role in the risk of surrender, yet the methodology contains no classification by product type that would incorporate this important factor. This would need to be remedied if the ILR is to provide a meaningful assessment of an insurer's liquidity risk. Furthermore, policyholder behavior for life insurance with cash value is substantially different than for annuity contract withdrawal values, and companies and other oversight bodies have structured liquidity risk management frameworks accordingly. Likewise, we recommend that the IAIS establish separate, factors for cash value life insurance products and annuity contracts. This is consistent with the S&P methodology the IAIS cites in the Consultation, which applies a factor for life insurance that is one half that applied to annuities. Further, the factors included for surrenders and liabilities are proposed without any established historical basis or target confidence level and in many cases overly conservative. The surrender factors proposed (such as 50% for retail and 100% for institutional, Moreover, the thresholds and definitions of the economic penalty and time restraint categories are inadequately aligned to the risk of surrender or lapse. First, the 0-20% for low economic penalty (and thus higher surrender) is overly conservative. Typically, 0-10% is a normal range of surrender charge and above 5% is viewed as a high economic penalty that could deter or slow surrender activity for annuity contracts. Therefore, we believe 5% would be an appropriate threshold for the disincentive for surrender or withdrawal for annuity contracts. For life insurance with cash value, liquidity risk of surrender is generally low due to economic costs of surrender (tax consequences, loss of insurability, cost of replacement, etc.) as well as the protection purpose for which the policy was purchased, and thus economic penalties for surrender may not be included in the contract. Because we recognize the practical difficulty of quantifying these characteristics without further study, as noted above, we recommend that a separate lower factor be established for life insurance. If the IAIS determines to maintain the ILR over time, we recommend that the IAIS undertake a study to develop a more accurate reflection of the liquidity attributes of different insurance products with surrender or withdrawal values (e.g., some policies can't be surrendered, and some may be lapse supported while others are lapse sensitive).	

			Second, the definition of economic penalty is too restrictive as it is limited to surrender charge. For relevant contracts, we recommend replacing economic penalty with “net cash value after contractual adjustments". We also observe that by tying the time restraint definition to ordinary course, non-stress practices, the Consultation presents a conflict with the proposed factors, which are more reflective of an extreme “run on the bank" scenario. In such an extreme scenario, insurers could exercise their contractual rights to delay payment, as by a matter of practicality companies are not set up to process such high volumes in a similar time frame as they would in the ordinary course.	
236. National Association of Insurance Commissioners	United States	No	**Answer:** Yes **Comment:** We agree and support the plan for the IAIS to conduct further sensitivity analysis on these factors in 2021. The IAIS may need to consider impact of non-catastrophic, but significant random fluctuation of insurance experience such as higher than expected death and health claims from COVID 19.	Answer/comment is noted and will be considered and resolved in the project’s Phase 2.
238. New York Life Insurance Company	USA	No	**Answer:** No **Comment:** Joint submission, see comment from Northwestern Mutual	Answer/comment is noted and will be considered and resolved in the project’s Phase 2.
239. Northwestern Mutual	USA	No	**Answer:** No **Comment:** The treatment does not reflect the tremendous variation in surrender/withdrawal attributes across insurance products. As a result, the 50% factor for retail products that are categorized as having “low" time restraints and economic penalties represents an extreme tail stress for some products, such as traditional cash value whole life insurance. This is an unreasonable result that mischaracterizes a product that in our long experience has low liquidity risk. This diminishes the utility of the ILR to monitor industry liquidity trends and makes the ILR unfit for monitoring liquidity risk of companies. While we believe the best way to address this issue is by use of the Company Projection (method), a simple first step towards improvement in the Exposure Approach (EA) would be to distinguish between life insurance and annuities. In our experience looking back over decades, the lapse characteristics of life insurance and annuities behave quite differently, with life insurance generally being less prone to surrender than annuities. We expect that similar distinctions would be observed among other participants in the US life insurance and annuity marketplace. While we recognize that there are meaningful differences within life insurance products	Answer/comment is noted and, depending on the data availability, potential alternatives for the surrender’s factors will be considered in the project’s Phase 2.

			and within annuity products, we also observe as a general matter that policies that provide coverage against death are likely to be viewed by the policyholder as serving primarily a protection purpose rather than primarily a savings purposes. Accordingly, recognizing the lower liquidity risk of life insurance policies would partially fulfil the effort, noted in the paper, at distinguishing policies purchased primarily for protection. This would also be directionally consistent with the distinction between US life insurance and annuity products reflected in the S&P methodology referenced in the paper; for comparison, the S&P methodology applies a factor for life insurance that is one half that applied to annuities. Secondly, recognizing that the IAIS is attempting to strike a balance between simplicity and risk sensitivity, we recommend practical modifications to better align the economic penalty and time restraints category definitions with actual liquidity risk characteristics: Economic Penalties: Section 3.3.1.1 of the paper identifies some of the factors that influence the surrender/withdrawal risk of a particular product. However, the narrow limitation of the economic penalty categorization to contractual penalties disregards the real economic penalties that a policyholder would experience for surrendering a life insurance policy when coverage against risk of death remains an important consideration to the policyholder. The loss of insurance protection, the uncertainty of new underwriting to obtain replacement protection, new sales costs and tax consequences are all actual, quantifiable and potentially significant economic penalties for surrender. In order to maintain a relatively simple approach, the ILR could apply a fixed factor deduction where some or all of these economic costs for surrender are applicable. Time Restraints: Measurement of time restraints based on average time to settlement in the ordinary course of business disregards the company's contractual rights to manage the settlement timeframe. In the major liquidity stress circumstances presumed by the factors, which are more reflective of a "run on the bank" scenario, it is not reasonable to assume that the company would not exercise its contractual rights. Therefore, the definition exaggerates the stress. Taken to the extreme, this methodology could disincentivize companies from maintaining expeditious ordinary course processing of surrenders and withdrawals. Accordingly, we recommend that the time restraints be measured based upon the company's contractual obligations, not its ordinary course practice. Thirdly, we recommend that the IAIS clarify the calibration it is pursuing with this methodology. As noted, a 50% factor for traditional whole life insurance policies	

			reflects an extreme tail scenario. We are not aware what basis the IAIS has for calibrating its liquidity metric at such a level. To do so, if this metric were taken up as a company level requirement, could make low liquidity risk products such as traditional whole life insurance uneconomic. We do not believe that is the IAIS's intent.	
Q11 How should the IAIS capture liquidity needs from policy loans? Should these be incorporated into the ILR or be an alternative metric?				
240. Canadian Institute of Actuaries	Canada	No	**Answer:** If policy loans are material, then they should be included. This depends on the circumstances of each individual insurer.	Answer noted and will be considered and resolved in the project's Phase 2.
243. HUATAI INSURANCE GROUP CO., LTD.	China Banking and Insurance Regulatory Commission	No	**Answer:** We suggest that the policy loan shouldn't be taken into account as a separate liquidity demand factor. Firstly, the amount of the policy loan is included in the policy value. If the cash flow of surrender and quarterly payment are taken into account, then considering the policy loan may lead to double counting. Secondly, the term of the policy loan is less than a year.	Answer noted and will be considered and resolved in the project's Phase 2.
244. CBIRC	CN	No	**Answer:** We suggest the policy loans should be excluded from the calculation of ILR.	Answer noted and will be considered and resolved in the project's Phase 2.
246. Treasury Markets Association	Hong Kong	No	**Answer:** The reasons for policy loans to become an liquidity event can be due to idiosyncratic reasons like rating downgrade of insures when policyholders wish to hold on to cash. It can be due to market event like the carry trade opportunity to borrow policy loan to invest in IPO bidding. All these can be modelled in the liquidity risk behavioural model around possible decision by policyholders. This can be incorporated into the ILR as one additional source of risk. No need to create an alternative metric.	Answer noted and will be considered and resolved in the project's Phase 2.
247. International Actuarial Association	International	No	**Answer:** The IAA agrees that, as policy loans are an alternative to surrendering policies, they should be brought into any analysis of liquidity risks. The two factors that need to be considered are their availability and the loan terms. Clearly, if policy loans are not actively offered and take-up is not significant then they can be ignored. Similarly, the generosity of the loan terms will drive the loan take-up rate. So this only need to be allowed for where there is a significant take-up rate and then a proxy for a surrender penalty could be derived.	Answer noted and will be considered and resolved in the project's Phase 2.
248. The Geneva Association	International	No	**Answer:** Policyholder loans are already captured by the liquidity needs of surrender and refund payments, and double counting should be avoided, not least as insurers limit the products that can be lent and sets rules and limits as to policyholder loans.	Answer noted and will be considered and resolved in the project's Phase 2.

			In addition, policyholder loans are deducted from surrender and refund payments. It is also worth noting that the volume of policy loans being taken out is rather small, hence the liquidity risk emanating from such activity is rather minimal.	
249. The Life Insurance Association of Japan	Japan	No	**Answer:** - We believe policy loans do not need to be separated and captured. - This is because policy loans are limited to certain products, and the amount of the policy loans is capped at a certain ratio based on the cash surrender value. Additionally, the liquidity needs of the cash surrender value are already captured as the methodology is the cash surrender value to be paid less the amount of the policy loans.	Answer noted and will be considered and resolved in the project's Phase 2.
254. American Council of Life Insurers	United States	No	**Answer:** First, we do not believe that the ILR should have policy loan as a separate consideration, as the IAIS acknowledges that the policy loan is a substitute for surrender and withdrawal. We believe including it indirectly as part of the surrender/withdrawal, as it is now, is a preferred approach. Accounting for it as a separate factor could add complexity without adding precision. If the IAIS is to include policy loan as a separate liquidity need and develop associated factors, it is important that care must be taken to avoid duplication with the factors for surrender and the surrender/withdrawal factors need to be lowered accordingly to reflect that policy loan and surrender/withdrawals are substitute means for policyholder to obtain liquidity. We also seek confirmation that ILR will apply the surrender / withdrawal factors to cash surrender values net of outstanding policy loans. We believe that is the logical approach and it is the IAIS' intent, but do not believe the language of the consultation is clear on this point. Second, ACLI recognizes that policy loans can create liquidity needs that life insurers can and do manage along with potential for surrenders and withdrawals. Accordingly, it is reasonable for potential liquidity needs associated with policy loans to be reflected either directly or indirectly within the ILR framework. If the IAIS determines to consider policy loan liquidity needs, care must be taken to avoid duplication with the factors for surrender and withdrawal, recognizing that policy loans present an alternative to surrender or withdrawal.	Answer noted and will be considered and resolved in the project's Phase 2.
255. National Association of Insurance Commissioners	United States	No	**Answer:** If policy loans are included, then care must be taken to avoid overcounting surrender, withdrawal, and loan on the same policy.	Answer noted and will be considered and resolved in the project's Phase 2.

257. New York Life Insurance Company	USA	No	**Answer:** Joint submission, see comment from Northwestern Mutual	Answer noted and will be considered and resolved in the project's Phase 2.
258. Northwestern Mutual	USA	No	**Answer:** Policy loan provisions if not managed appropriately can present liquidity risk. Accordingly, it is appropriate for the IAIS to consider the liquidity risk implications of policy loans when designing a liquidity risk metric. However, as it appears that the liquidity risk associated with policy loans is to a large extent embedded within the liquidity risk already addressed by applying a factor to values potentially subject to surrender or withdrawal, it would not be beneficial to treat policy loans separately unless the proposed surrender/withdrawal risk methodology were revised to avoid redundancy. Also, while we believe the intent of the surrender / withdrawal value calculation is to be net of outstanding policy loans, this should be made clearer, as the liquidity need for a surrender is reduced by the amount of outstanding policy loans.	Answer noted and will be considered and resolved in the project's Phase 2.
Q12 Do you agree with the factors applied to retail insurance products being half of the factors applied to institutional products? How should the factors applied to retail and institutional policies differ?				
259. Insurance Europe	Belgium	No	**Answer:** No **Comment:** The double weighting factors for institutional business is a purely theoretical assumption which is not justified with any supporting analysis or documentation. See also response to question 10.	Answer/comment is noted and, depending on the data availability, empirical evidence and/or specific theoretical reasons will be provided in the project's Phase 2.
262. HUATAI INSURANCE GROUP CO., LTD.	China Banking and Insurance Regulatory Commission	No	**Answer:** Yes **Comment:** Per our company, surrenders are generally paid within a week, so there is not much meaning for the time restraints factors.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
263. CBIRC	CN	No	**Answer:** Yes **Comment:** Institutional investors have better awareness of market information and decision-making ability, thus greater motive and ability to surrender their contracts for economic incentives.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.

264. Global Federation of Insurance Association	Global	No	**Answer:** No **Comment:** The double weighting factors for institutional business is a purely theoretical assumption which is not justified with any supporting analysis or documentation. GFIA is not aware of any empirical support for the proposed 2-1 relationship between retail and institutional liabilities. Additional work is needed to identify and justify any differentiation. See also response to question 10.	Answer/comment is noted and, depending on the data availability, empirical evidence and/or specific theoretical reasons will be provided in the project's Phase 2.
265. Treasury Markets Association	Hong Kong	No	**Answer:** Yes	Answer noted.
266. International Actuarial Association	International	No	**Answer:** Yes **Comment:** The IAA agrees that there are differences between institutional and retail policyholders, however the indicated factors would be expected to vary by product line. In addition, surrender rates among retail customers can be significantly influenced in the presence of a common agent/broker who influences surrender behavior among his/her clients, e It is recommended that the IAIS pursue both these issues further.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
267. The Geneva Association	International	No	**Answer:** Yes **Comment:** We support differentiating between retail and institutional policies but the current 2-1 relationship seems somewhat arbitrary. We request additional insights from the IAIS on how they established the proposed levels and relationship before finalization of the ILR. Further, we believe additional analysis should be conducted, before finalization.	Answer/comment is noted and, depending on the data availability, empirical evidence and/or specific theoretical reasons will be provided in the project's Phase 2.
268. The Life Insurance Association of Japan	Japan	No	**Answer:** No **Comment:** - We do not agree with a part of the proposal. - We believes its comments were reflected and welcomes the statements for the surrender risk factor of individual insurance and group insurance that sets the individual insurance risk factor at one half of the group insurance risk factor. This statement is the same as the statement in the IAIS document "Systemic Risk from Insurance Product Features" (July 16, 2016) Paragraph 4.24, which considers the features of different types of individual insurance and group insurance.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.

			- On the other hand, as stated in our comments for Q10, the IAIS should continue to further consider a comprehensive assessment based on a wider perspective regarding liability liquidity.	
272. Swiss Financial Market Supervisory Authority FINMA	Switzerland	No	**Answer:** No **Comment:** FINMA acknowledges that it makes sense to choose a different factor calibration for retail and institutional products respectively. However, FINMA is not aware of empirical evidence or specific theoretical reasons that would justify factors for institutional products being set twice as large as the factors for retail products. The resulting factors for retail business seem to be too small. Therefore FINMA recommends to investigate further how to define the relation between the corresponding factor calibrations.	Answer/comment is noted and, depending on the data availability, empirical evidence and/or specific theoretical reasons will be provided in the project's Phase 2.
273. Association of British Insurers	United Kingdom	No	**Answer:** No **Comment:** It is agreed that there is a difference in behaviour between retail vs. institutional investors (retail behaviour tends to be more "sticky" in nature against the market awareness / sophistication of institutional investors), and that this should be recognised. However, it is not clear why the factors applied to retail insurance products should be 50% of the factors applied to institutional products, which appears arbitrary.	Answer/comment is noted and, depending on the data availability, empirical evidence and/or specific theoretical reasons will be provided in the project's Phase 2.
275. American Council of Life Insurers	United States	No	**Answer:** No **Comment:** ACLI believes the proposed 100% and 50% factors for institutional and retail clients respectfully are too conservative. Further, ACLI is not aware of any empirical support for the proposed 2-1 relationship between retail and institutional liabilities. We believe it is appropriate to have two different factors, as institutional clients are more sophisticate and sensitive to market conditions than retails clients, but more work needs to be done to determine appropriate factors for each.	Answer/comment is noted and, depending on the data availability, potential alternatives to the surrender's factors will be considered in the project's Phase 2.
276. National Association of Insurance Commissioners	United States	No	**Answer:** Yes **Comment:** We agree and support the plan for the IAIS to conduct further sensitivity analysis on these factors in 2021, but see no statistical evidence that supports 50% factor to be applied as a difference between retail and institutional policyholders. The IAIS should study historical surrender rates to derive appropriate factors. Given	Answer/comment is noted and, depending on the data availability, empirical evidence and/or specific theoretical reasons will be provided in the project's Phase 2.

			regional differences in insurance products, regional factors may need to be developed.	
278. New York Life Insurance Company	USA	No	**Answer:** Yes **Comment:** Joint submission, see comment from Northwestern Mutual	Answer/comment is noted.
279. Northwestern Mutual	USA	No	**Answer:** Yes **Comment:** We agree that the factors applied to retail insurance products should be substantially less than the factors applied to institutional products, in general. While we disagree with the proposed factors as described in our response to Question 10, the relationship of having an institutional product factor that is double that of the retail product factor seems directionally reasonable. However, the surrender rates vary materially among institutional products due to their product features such as tax penalties and market value adjustments.	Answer/comment is noted and, depending on the data availability, potential alternatives to the surrender's factors will be considered in the project's Phase 2.
Q13 Do you agree with the treatment of unearned premiums in the ILR? If not, how can it be improved?				
282. HUATAI INSURANCE GROUP CO., LTD.	China Banking and Insurance Regulatory Commission	No	**Answer:** Yes	Answer noted.
283. CBIRC	CN	No	**Answer:** Yes	Answer noted.
284. Global Federation of Insurance Association	Global	No	**Answer:** No **Comment:** A certain percentage of unearned premiums is included in Liquidity Needs on the assumption that insurance policies will be cancelled in the future. However, given that the impact by cancellation refunds is small in general insurance whose products are mainly one-year policies, we do not agree with this calculation method.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
285. Treasury Markets Association	Hong Kong	No	**Answer:** Yes	Answer noted.

286. International Actuarial Association	International	No	**Answer:** No **Comment:** The IAA disagrees with the proposed factors for unearned premiums, and recommend that the IAIS investigate more recent experience than that from a specialty insurer's experience over 85 years ago. The IAA recommends against treating factors from life insurance (which has long duration policies that contain a savings element and callable liabilities) as a basis for the risk factor applied to short duration policies that contain no savings element. Recent experience is that cancelation of existing short duration (i.e., one year or less) non-life policies is a low risk, with the larger risk being the loss of the customer upon expiration of existing policies. (Note that loss of the customer upon expiration is called "non-renewal" in the non-life industry in many countries, resulting in a different meaning of this term than is common for life insurance.) The IAA expects that more recent experience would indicate factors much lower than proposed, as non-renewal (in the non-life context) is usually the result of losing faith in one's current insurer. This is partly because cancelation of existing non-life contracts takes time, as the contracts provide needed protection that the insured needs to replace before cancelation of the existing contract. In addition, the existence of guarantee funds and other policyholder protections for customers of troubled insurers reduces any urgency for the insurer's customers, so this risk may vary greatly by jurisdiction.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
287. General Insurance Association of Japan	Japan	No	**Answer:** No **Comment:** A certain percentage of unearned premiums is included in Liquidity Needs on the assumption that insurance policies will be cancelled in the future. However, given that the impact by cancellation refunds is small in general insurance whose products are mainly one-year policies, we do not agree with this calculation method.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
291. American Council of Life Insurers	United States	No	**Answer:** No **Comment:** Unearned premiums and reinsurance flows (amounts due to and from) need broader consideration.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
292. National Association of Insurance Commissioners	United States	No	**Answer:** Yes **Comment:** Yes, but suggest conducting sensitivity analysis could be helpful.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.

293. The Travelers Companies, Inc.	United States	No	**Answer:** No **Comment:** We are not ready to agree or disagree until more information is collected with regard to recent situations. We do not believe the 1933 case study is sufficiently relevant to current times and, in addition, believe that the retail vs. institutional split proposed is not feasible or sufficiently defined for the U.S. property/casualty market. With regard to the latter point, the only split readily available for U.S. property/casualty products is personal versus commercial (and even that split is not available for all products – e.g., Fire & Allied lines). Regarding commercial, we would view commercial policies sold to small businesses as more similar to personal lines than to commercial policies sold to Fortune 500 companies. As a result, we do not see the retail vs. institutional split as operational for the U.S. property/casualty market.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
294. American Property Casualty Insurance Association	USA	No	**Answer:** No **Comment:** We do not agree. We question how relevant an example from the Great Depression can be to the current situation, given the changes in governmental mechanisms (including insurance regulation) since then. We also do not see the relevance of factors from life insurance long duration products when considering the risk for non-life insurers, as in many jurisdictions for non-life business there is a new contract every year. The tendency in that environment is to switch insurers at renewal, rather than cancel mid-term, especially in those jurisdictions where the coverage is legally required (e.g., motor liability insurance). We expect that an investigation into more recent events would support lower factors (i.e., indicating a lower risk of mid-term cancellation for non-life contracts). This is due to the requirement to maintain insured status for mandatory products, the existence of guarantee funds in some jurisdictions as protection from insurer insolvency, and the hassle of changing insurers mid-term on short duration policies. The risk factor may need to vary by jurisdiction, due to different levels of policyholder protections (e.g., guarantee funds).	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
Q14 Should the IAIS apply standardised factors to insurers projected ultimate catastrophe losses or rely on company projections for the speed of catastrophe payments and reinsurance recoveries?				
296. Insurance Europe	Belgium	No	**Answer:** No	Answer/comment is noted and will be considered and resolved in the project's Phase 2.

			Comment: There is no need to consider a lower factor for reinsurance recoveries capturing potential risk arising from exposure to the reinsurer counterparty.	
297. Canadian Institute of Actuaries	Canada	No	**Answer:** Yes **Comment:** Company projections should be used since the speed of payments would vary by an insurer's circumstances.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
300. HUATAI INSURANCE GROUP CO., LTD.	China Banking and Insurance Regulatory Commission	No	**Answer:** No **Comment:** We propose that the catastrophe scenarios should be set uniformly by insurance regulators in each country.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
301. CBIRC	CN	No	**Answer:** No **Comment:** Catastrophe losses differ significantly among insurers; therefore, we think it should rely on company projections.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
302. Global Federation of Insurance Association	Global	No	**Answer:** No **Comment:** There is no need to consider a lower factor for reinsurance recoveries capturing potential risk arising from exposure to the reinsurer counterparty.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
303. Treasury Markets Association	Hong Kong	No	**Answer:** No **Comment:** Insurers should be given the flexibility to develop their own "internal models" but disclose how does that differ from the standardised model to provide transparency to policyholders and investors.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
304. International Actuarial Association	International	No	**Answer:** No **Comment:** The IAA recommends the use of company projections. Exposure to catastrophes and the extent of reinsurance protection is a major part of non-life insurers' risk management function and strategic plan. Attempts to come up with standardized factors for this risk were unsuccessful and deemed ill-advised during the development of the U.S. RBC formula, which now uses catastrophe modelling based on the insurer-specific exposures for this regulatory capital requirement. A similar approach of using company-specific catastrophe risk levels is used by Solvency II and the proposed IAIS Insurance Capital Standard (ICS).	Answer/comment is noted and will be considered and resolved in the project's Phase 2.

			The IAA also advises against the use of a risk factor (such as the 50% factor mentioned) for non-life catastrophe reinsurance recoverables that is based on what is applied to life insurers. The issue of reinsurance recoverability from catastrophe reinsurance covers has been recently discussed at the NAIC (which has been using a 5% haircut), with the tentative decision to lower than haircut. The IAA notes that much of the catastrophe reinsurance market for the largest tail events has moved to the capital markets (in the form of cat bonds, or Insurance Linked Securities – ILSs). These bonds are 100% secured, implying a 0% or otherwise very small haircut would be justified.	
305. The Geneva Association	International	No	**Answer:** No **Comment:** Given the company and scenario specific nature of liquidity risk in insurance, we do not consider that a factor-based approach is appropriate.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
306. General Insurance Association of Japan	Japan	No	**Answer:** Yes **Comment:** In light of the Exposure Approach´s intent to easily identify trends, standardized factors should be applied to insurers´ final catastrophe loss predictions.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
310. Association of British Insurers	United Kingdom	No	**Answer:** No **Comment:** Please refer to our answer to Question 1 and 15.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
312. American Council of Life Insurers	United States	No	**Answer:** No **Comment:** ACLI is not aware of any justification for a lower factor for reinsurance recoveries, and consequently urges its removal. Moreover, the 1 in 250 event for cat risks is arbitrary and not calibrated, and should not become a standard benchmark. We note this is more conservative than the ICS calibration.	Answer/comment is noted and will be considered and resolved in the project's Phase 2. In the sensitivity analysis of the catastrophe claim payments, IAIS will consider also alternative calibrations (eg. 1 in 100 and 1 in 200).
313. National Association of Insurance Commissioners	United States	No	**Answer:** Yes **Comment:** We recommend using the companies 1/250 PML or 1/100 PML as an alternative for Phase 1 due to the ease of uniform data collection. Phase 2 should consider company projections.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.

				In the sensitivity analysis of the catastrophe claim payments, IAIS will consider also alternative calibrations (eg. 1 in 100 and 1 in 200).
314. American Property Casualty Insurance Association	USA	No	**Answer:** No **Comment:** Company projections should be used, rather than standardized factors. Standardized factors for catastrophe risk have been rejected in the development of the Insurance Capital Standard (and the NAIC risk-based capital formula) due to material differences in the exposure by product, geography, market, etc. Standardized factors do not make sense with regard to the amount of potential loss, the speed of potential payment upon a loss, and the credit risk from an insurer's catastrophe reinsurance program. The risk factor for reinsurance credit risk for catastrophe losses also needs to reflect non-life reinsurance realities and not factors used for items such as life reinsurance credit risk. One consideration in this risk factor is the use of catastrophe bonds for catastrophe tail risk by major insurance groups. Those bonds are effectively reinsurance contracts that are 100% securitized, which implies a 0% risk factor. In this context we see the 50% risk factor that was mentioned to be grossly over-conservative and extremely unrealistic. Such a factor would also treat the reinsurance industry as if it was untrustworthy, which would be an indictment of the regulation of that industry. The reinsurance industry is strong and well-regulated, and the risk factor proposed by the IAIS should be more realistic.	Answer/comment is noted and will be considered and resolved in the project's Phase 2. The mentioned 50% risk factor assigned by AM Best US to recoverables from reinsurers is not a proposal by the IAIS, but rather an illustration of existing treatments of reinsurance by rating agencies.
Q15 Do you agree with the proposed treatment of catastrophe insurance claims? If not, how can it be improved?				
316. Insurance Europe	Belgium	No	**Answer:** No **Comment:** The IAIS has not justified why it would be appropriate to use a scenario based on a 1 in 250 years global event across all non-life insurance perils. This confidence level is more conservative than the severest prudential solvency regimes.	Answer/comment is noted and will be considered and resolved in the project's Phase 2. In the sensitivity analysis of the catastrophe claim payments, IAIS will consider also alternative calibrations (eg. 1 in 100 and 1 in 200).

319. HUATAI INSURANCE GROUP CO., LTD.	China Banking and Insurance Regulatory Commission	No	**Answer:** Yes	Answer noted.
320. CBIRC	CN	No	**Answer:** Yes	Answer noted.
321. Global Federation of Insurance Association	Global	No	**Answer:** Yes **Comment:** This appears to be a reasonable approach. An alternative approach would be to use standardised factors applied to the insurers´ final catastrophe loss predictions.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
322. Treasury Markets Association	Hong Kong	No	**Answer:** No **Comment:** To the extend that claim recoverable from reinsurers should be discounted at a factor if it is parametric in nature meaning the funding support is immediate from reinsurers.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
323. International Actuarial Association	International	No	**Answer:** No **Comment:** The IAA believes that the use of company projections here is reasonable, although it is recommended that the comparability of estimates (across companies) as to the amount of the event paid in one year be evaluated. One difficulty is that the IIM is currently asking for this metric for a 1-in-250 scenario. Thankfully there are no recent events that fit this description, so the best that can be done is to extrapolate from the more recent extreme events. The IAA also notes that this payment percentage is likely to vary by product and peril. Damage experiences by residencies and personal autos tends to be more commodity-like, making quantification and recovery easier to measure and less time-consuming to accomplish. In particular, it also takes less time to replace a personal auto than to rebuild a personal home. In contrast, it can take several quarters to replace a specialized commercial vehicle and many years to repair a commercial building. With regard to perils, it is noted that damage from a windstorm tends to be more obvious than damage from earthquakes, with the latter sometimes producing	Answer/comment is noted and will be considered and resolved in the project's Phase 2. In the sensitivity analysis of the catastrophe claim payments, IAIS will consider also alternative calibrations (eg. 1 in 100 and 1 in 200).

			structure damage that may take a year or more to be discovered or fully appreciated. These differences in claim discovery and payment by product and peril point out why a standardized approach is ill-advised, and why a company-specific approach is needed for this risk.	
324. The Geneva Association	International	No	**Answer:** No **Comment:** If haircuts are applied to liquidity resources to reflect a stress on the investment, then the liquidity needs would also need to be stressed. The expected settlement payment for Cat Risks under the proposed approach is not consistent with an assessment of the liquidity resources. Consideration would need to be given to the ability of reinsurance counter-parties to cover claims under stress.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
325. General Insurance Association of Japan	Japan	No	**Answer:** No **Comment:** In light of the Exposure Approach´s intent to easily identify trends, it is better to use standardized methods (e.g., calculating payments for catastrophes based on disclosed information, using methods such as multiplying insurance premiums as exposures by a certain risk factor) instead of natural disaster risk figures calculated from each insurer´s internal models.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
327. Financial Supervisory Service	Republic of Korea	No	**Answer:** No **Comment:** In the public consultation document (page 19), catastrophe claim payments are to be computed using a 1 in 250 years global event across all non-life insurance perils and the catastrophic event(s) used by the insurer's internal liquidity monitoring [and/or] stress testing. In an effort to ensure the ease of comparability across insurers or jurisdictions, it would be worth for the IAIS to consider a certain standardized method on this.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
330. Association of British Insurers	United Kingdom	No	**Answer:** No **Comment:** If haircuts are applied to liquidity resources to reflect a stress on the investment, then the liquidity needs would also need be stressed. The expected settlement payment for Cat Risks under the proposed approach is not consistent with an assessment of the liquidity resources. Consideration would need be given about the ability of reinsurance counterparties to cover the claims under stress.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
332. National Association of	United States	No	**Answer:** Yes **Comment:** Yes, but suggest conducting further analysis could be helpful; for	Answer/comment is noted and will be considered and resolved in the project's Phase 2.

Insurance Commissioners			example, an analysis of payouts within a year of a cat event may help improve requested data, especially for Phase 2.	
333. The Travelers Companies, Inc.	United States	No	**Answer:** No **Comment:** No, we do not agree with the proposed approach. We view the 1-in-250 estimate as unreliable and overly extreme, and the portion of any extreme event paid in 12 months as unrealistic as it assumes a January 1 event. (We note that the largest catastrophe events for U.S. property/casualty insurers are typically hurricanes, with most occurring in the third and fourth quarter of the year.) Such events are also typically funded through the use of prudent cashflow management, through the accumulation of cash arising from normal operations immediately before and in the months after the event, making the lack of recognition of operating cashflows inconsistent with any liquidity testing cashflow scenario. (Our above comments reflect our observation that catastrophe models are more reliable the shorter the return period and conversely, less reliable the longer the return period, such that estimates using a 1-in-250-year return period may not be sufficiently reliable.) We recommend looking at percentage payouts within the year of occurrence from recent events, as well as investigating the reliability of catastrophe estimates for longer return periods. (The latter might be accomplished by comparison of various model estimates for various return periods.)" Finally, we note that the payment pattern from catastrophe events varies materially by product. The time to adjust a claim and replace the lost property takes much less time for a commodity product such as a personal auto than for a custom, non-commodity product such as large commercial building designed for a particular business. Therefore we believe that the use of standardized payment factors is ill-advised.	Answer/comment is noted and will be considered and resolved in the project's Phase 2. In the sensitivity analysis of the catastrophe claim payments, IAIS will consider also alternative calibrations (eg. 1 in 100 and 1 in 200).
334. American Property Casualty Insurance Association	USA	No	**Answer:** No **Comment:** We support the use of company projections, although we would recommend a comparison of the various company/group estimates as a reasonability check. We recommend keeping in mind that the scenario envisioned (1-in-250 year) is not one for which there is any recent data. As a general rule, the farther out in the tail the more unreliable the estimate. In addition, any payment pattern for such a scenario is very uncertain if not highly speculative. One thing we can say for certain is that the payout for such an event is	Answer/comment is noted and will be considered and resolved in the project's Phase 2. In the sensitivity analysis of the catastrophe claim payments, IAIS will consider also alternative calibrations (eg. 1 in 100 and 1 in 200).

			likely to be extended, clearly over 12 months. Therefore, we believe that an assumption that all the payments will be made in the one-year time horizon to be invalid and unrealistic. When evaluating how much of the event would be paid in the one-year time horizon, the actual split by product and market matters. Some property losses are more commodity-like with relatively easy-to-value losses and relatively quick replacement (e.g., personal autos). Others are more customized and can take years to replace, and it may take some time for the exact loss to be valued (e.g., large commercial buildings). This is another reason to use individual company factors for amount of loss, speed of payment, and reinsurance credit risk rather than standardized factors.	
Q16 Should the proposed treatment of deposit liabilities include more or less granularity? If so, what additional dimensions (eg the presence of an effective deposit insurance scheme) should be captured or left out?				
336. Insurance Europe	Belgium	No	**Answer:** No **Comment:** Deposit taking forms a significant part of banking activity and therefore a significant part of the risks relating to that sector. This is not the case for insurance companies as most insurers do not control a licensed banking subsidiary, and activities are funded via other means. Therefore, deposit holdings are minimal, and treatment within the ILR should be proportionate to the recognized risk. If an insurer has a licensed banking subsidiary, the liquidity risk management will be monitored by the banking regulatory bodies.	Answer/comment is noted and will be considered. The IAIS will also test an aggregation approach to assessing the risks from deposits that could add additional risk sensitivity without increasing the number of IIM data rows.
337. Canadian Institute of Actuaries	Canada	No	**Answer:** Yes **Comment:** If the deposit liabilities are in an insurer's bank subsidiary, they should be considered separately. See the comments to question 2 above.	Answer/comment is noted and will be considered. The IAIS will also test an aggregation approach to assessing the risks from deposits that could add additional risk sensitivity without increasing the number of IIM data rows.

340. HUATAI INSURANCE GROUP CO., LTD.	China Banking and Insurance Regulatory Commission	No	**Answer:** No **Comment:** Not Applicable	Answer noted.
341. CBIRC	CN	No	**Answer:** Yes **Comment:** The granularity of deposit liabilities is much less than BCBS standards, which is unfair to the insurance group with large banks. To keep the regulatory consistency, we suggest set the same granularity with BCBS standards.	Answer/comment is noted and will be considered. The IAIS will also test an aggregation approach to assessing the risks from deposits that could add additional risk sensitivity without increasing the number of IIM data rows. This would leverage BCBS standards.
342. Global Federation of Insurance Association	Global	No	**Answer:** No **Comment:** Deposit taking forms a significant part of banking activity and therefore a significant part of the risks relating to that sector. This is not the case for insurance companies as most insurers do not control a licensed banking subsidiary, and activities are funded via other means. Therefore, deposit holdings are minimal, and treatment within the ILR should be proportionate to the recognized risk ie exclude both the liquidity sources and liquidity needs of any licensed banking subsidiary. If an insurer has a licensed banking subsidiary, the liquidity risk management will be monitored by the banking regulatory bodies.	Answer/comment is noted and will be considered. The IAIS will also test an aggregation approach to assessing the risks from deposits that could add additional risk sensitivity without increasing the number of IIM data rows.
343. Treasury Markets Association	Hong Kong	No	**Answer:** No **Comment:** Deposit insurance scheme is not applicable to the insurance industry (unlike banking).	Answer/comment is noted and will be considered. The IAIS will also test an aggregation approach to assessing the risks from deposits that could add additional risk sensitivity without increasing the number of IIM data rows.

344. The Geneva Association	International	No	**Answer:** Yes **Comment:** We recommend excluding both the liquidity sources and liquidity needs for any licensed banking subsidiary. Specifically, the liquidity risk profile for the insurance and banking sectors are fundamentally different and, as noted by the IAIS, apply over different time horizons. It is therefore not meaningful to attempt to combine the banking LCR and insurance ILR liquidity metrics. The adjustment to the LCR proposed by the IAIS to address these differences i.e. simplifying an established banking liquidity metric (the LCR) and 'offsetting' this with higher NSFR factors, clearly has no credible basis on which to support it.	In alignment with the scope of the Holistic Framework's Individual Insurer Monitoring, of which this ancillary indicator is a part, the ILR will include banking business. This issue was studied by a joint task force of the BCBS and IAIS.
347. Association of British Insurers	United Kingdom	No	**Answer:** No **Comment:** Deposit taking forms a significant part of banking activity and therefore a significant part of the risks relating to that sector. This is not the case for insurance companies as most insurers do not control a licensed banking subsidiary, and activities are funded via other means. Therefore deposit holdings are minimal, and treatment within a liquidity risk measure should be proportionate to the recognised risk. If an insurer has a licensed banking subsidiary, liquidity risk management will be monitored by the banking regulatory bodies.	Answer/comment is noted and will be considered. The IAIS will also test an aggregation approach to assessing the risks from deposits that could add additional risk sensitivity without increasing the number of IIM data rows.
349. American Council of Life Insurers	United States	No	**Answer:** Yes **Comment:** Consideration should be given to excluding these bank deposit liabilities unless they pose material liquidity risk to the insurance group. We recommend excluding both the liquidity sources and liquidity needs for any licensed banking subsidiary. Specifically, the liquidity risk profile for the insurance and banking sectors are fundamentally different and, as noted by the IAIS, apply over different time horizons. It is therefore not meaningful to attempt to combine the banking LCR and insurance ILR liquidity metrics. The adjustment to the LCR proposed by the IAIS to address these differences i.e. simplifying an established banking liquidity metric (the LCR) and 'offsetting' this with higher NSFR factors, clearly has no credible basis on which to support it.	Answer/comment is noted and will be considered. In alignment with the scope of the Holistic Framework's Individual Insurer Monitoring, of which this ancillary indicator is a part, the ILR will include banking business. This issue was studied by a joint task force of the BCBS and IAIS.
350. National Association of Insurance Commissioners	United States	No	**Answer:** Yes **Comment:** We agree with the proposed treatment, with a less granular approach preferred.	Answer/comment is noted and will be considered.

				The IAIS will also test an aggregation approach to assessing the risks from deposits that could add additional risk sensitivity without increasing the number of IIM data rows.
Q17 Should the proposed factors be modified? If so, please explain how and why.				
352. Canadian Institute of Actuaries	Canada	No	**Answer:** Yes **Comment:** Actual experience should be used if available.	Answer/comment is noted and will be considered. The IAIS will also test an aggregation approach to assessing the risks from deposits that could add additional risk sensitivity without increasing the number of IIM data rows.
355. HUATAI INSURANCE GROUP CO., LTD.	China Banking and Insurance Regulatory Commission	No	**Answer:** No **Comment:** Not Applicable	Answer noted.
356. CBIRC	CN	No	**Answer:** Yes **Comment:** We suggest that on the basis of keeping the same debt deposit granularity with BCBS in reference to Question 16, the consistency of factors should be maintained. Even if it cannot be completely consistent with the BCBS, the rationality of the factor should be considered, rather than taking the upper value.	Answer/comment is noted and will be considered. The IAIS will also test an aggregation approach to assessing the risks from deposits that could add additional risk sensitivity without increasing the number of IIM data rows.
357. Global Federation of Insurance Association	Global	No	**Answer:** Yes **Comment:** The risk factor for bank deposits proposed in the document is set at 25% for retail deposits and 50% or 100% for commercial deposits, applying factors close to the upper limit of the risk factor for deposits in banking regulations. However, liquidity risk of insurance liabilities is considered to be lower than that of	Answer/comment is noted and will be considered. The IAIS will also test an aggregation approach to assessing the risks from deposits that could

			bank deposits, and therefore, in terms of consistency with the actual state, the highest risk factor applicable to insurance liabilities should be lower than the lowest risk factor applicable to bank deposits.	add additional risk sensitivity without increasing the number of IIM data rows.
358. Treasury Markets Association	Hong Kong	No	**Answer:** No	Answer noted.
361. Association of British Insurers	United Kingdom	No	**Answer:** No **Comment:** The proposed factors have been based on the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) which are applicable to the banking industry. Since deposit taking does not form a key component of liquidity risk for insurance, basing the factors on those applied to banking is justifiable.	Answer/comment is noted and will be considered. The IAIS will also test an aggregation approach to assessing the risks from deposits that could add additional risk sensitivity without increasing the number of IIM data rows.
363. National Association of Insurance Commissioners	United States	No	**Answer:** No **Comment:** No, they look appropriate	Answer is noted.
Q18 Should insurance contracts without significant exposure to insurance events be captured by these factors, or included with other policyholder liabilities?				
365. Canadian Institute of Actuaries	Canada	No	**Answer:** Yes **Comment:** They should be included in other policyholder liabilities.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
368. HUATAI INSURANCE GROUP CO., LTD.	China Banking and Insurance Regulatory Commission	No	**Answer:** No **Comment:** We suggest that the same set of indicators should be applied to all insurance business.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
369. CBIRC	CN	No	**Answer:** No **Comment:** These contracts could be captured by the bank deposit factors.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.

370. Global Federation of Insurance Association	Global	No	**Answer:** No **Comment:** GFIA believes no insurance contracts should be captured by these factors.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
371. Treasury Markets Association	Hong Kong	No	**Answer:** No	Answer noted.
372. KOREA Life Insurance Association	KOREA	No	**Answer:** Yes **Comment:** They should be captured, but "contracts without significant exposure to insurance events" needs to be more clearly defined.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
376. American Council of Life Insurers	United States	No	**Answer:** No **Comment:** ACLI believes insurance contracts should not be captured by these factors, but rather included with other policyholder liabilities.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
377. National Association of Insurance Commissioners	United States	No	**Answer:** Yes **Comment:** We believe such contracts warrant being captured by these factors and not just captured by other policyholder liabilities as the purpose is to capture the entire liquidity risk to insurer. For example, the exposure of the insurer to guaranteed investment contracts with no insurance riders attached to the contract should be captured.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
Q19 Do you agree with the treatment of derivatives? If not, please explain and suggest an alternative treatment.				
379. Insurance Europe	Belgium	No	**Answer:** No **Comment:** The trading setup, volume and derivatives usage between sell and buy side (insurance) is completely different. Therefore, the BCBS approach used for banks, is not be suitable for insurance companies. The ratio is more reflective of the balance sheet and the funding requirements as opposed to liquidity and cashflows. As a liquidity metric, the ILR should focus on applying a defined liquidity stress to the derivatives held by the insurer at that moment in time, in order to calculate the additional collateral that needs to be posted.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.

			For this reason, liquidity risk measures generally consider a more risk-based approach, such as VaR or by applying prescribed hikes in market risk parameters against the sensitivities / market value of the derivative portfolio.	
380. Canadian Institute of Actuaries	Canada	No	**Answer:** No **Comment:** The proposed standardized factors in respect of derivatives do not sufficiently recognize the differences in the risk profile amongst insurers and consequently differences in their hedging needs and derivative portfolios. Such analysis of derivatives should be based on each insurer's circumstances.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
383. HUATAI INSURANCE GROUP CO., LTD.	China Banking and Insurance Regulatory Commission	No	**Answer:** Yes	Answer noted.
384. CBIRC	CN	No	**Answer:** Yes	Answer noted.
385. Global Federation of Insurance Association	Global	No	**Answer:** No **Comment:** Derivatives are a fundamental part of insurer's ALM. As such, any assessment of liquidity associated with the use of derivatives by insurers should differentiate between insurer risk profiles. A meaningful assessment of liquidity risk associated with the use of derivatives cannot be achieved by applying simplified factors to one side of the balance sheet. Instead, a separate focus is needed on collateral management by insurers that supports the liquidity needs of its derivatives. The ratio is more reflective of the balance sheet and the funding requirements as opposed to liquidity and cashflows. As a liquidity metric, the ILR should focus on applying a defined liquidity stress to the derivatives held by the insurer at that moment in time, in order to calculate the additional collateral that needs to be posted. For this reason, a more risk-based approach should be considered for ILR purposes, such as VaR or by applying prescribed hikes in market risk parameters against the sensitivities / market value of the derivative portfolio.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.

387. Treasury Markets Association	Hong Kong	No	**Answer:** Yes	Answer noted.
388. The Geneva Association	International	No	**Answer:** No **Comment:** We believe derivative related liquidity exposures would be better assessed through more sophisticated liquidity measures such as projection-based approaches and thus consideration should be given to excluding derivative exposures. To the extent the IAIS retains them within the ILR, we offer the suggested improvements below. The proposal allows for Eligible Cash Variation Margin to offset ILR Gross Derivative Liabilities. We believe that the offset should also allow for eligible non-cash variation margin, which is often used to offset derivatives liabilities, in-line with bilateral CSA agreements with banks. Otherwise, there would be a requirement to hold significant liquidity buffers for derivatives positions, which are already covered by eligible collateral. EU adoption of the NSFR rules allows for non-cash variation margin as an offset. The proposal requires an additional 20% of ILR Gross Derivatives Liabilities for potential valuation changes. This seems like a significant ongoing funding requirement and we note the BCBS' decision to allow national discretion, with ability for jurisdictions to lower this factor down to a floor of 5%. We believe that a factor of 5-10% would be more appropriate. The proposal defines 85% of the fair value of assets contributed to a central clearing party as a liquidity need. We assume that the contributed assets also count towards available liquidity and that this is not an additional requirement. We would like to confirm that only derivative liabilities that will be settled in the next fiscal year should be subject to liquidity needs. In case the settlement period is long (varying from several years to ten years instead of a single year), the derivative liabilities held by (life) insurance companies should not be considered as liquidity needs	Answer/comment is noted and will be considered and resolved in the project's Phase 2. As proposed, all derivatives would be included in liquidity needs, even those with maturity beyond one year. Even long-term derivatives can create liquidity needs, for example through collateral requirements.
389. General Insurance Association of Japan	Japan	No	**Answer:** No **Comment:** The Initial Margin should be well defined. For example, there are both collected and paid Initial Margins. While the paper does not clearly indicate which Initial Margin it refers to, we understand it refers to the paid Initial Margin.	Answer/comment is noted and will be considered and resolved in the project's Phase 2. The initial margin is further defined the 2021 IIM technical specifications.

390. The Life Insurance Association of Japan	Japan	No	**Answer:** No **Comment:** - We do not agree. We propose only derivatives to be settled within the next year be included as liquidity needs. - This is inconsistent because all derivative liabilities are included in the ILR despite this consultation document stating “Insurers should maintain liquid assets sufficient to settle derivative liabilities within the next year (in Table 7)". - In general, derivative liabilities held by life insurers have long settlement periods (not one year, but several years or even 10 years) so there are many that do not become liquidity needs. Therefore, it should be limited to derivatives that are to be settled within the next year.	Answer/comment is noted and will be considered and resolved in the project’s Phase 2. As proposed, all derivatives would be included in liquidity needs, even those with maturity beyond one year. Even long-term derivatives can create liquidity needs, for example through collateral requirements.
391. KOREA Life Insurance Association	KOREA	No	**Answer:** Yes **Comment:** Yes. In addition to that, however, it is necessary to add or deduct eligible collateral, such as soverigh bonds, that is received as collateral in a deriavative transaction to and from liquidity sources or liquidity needs.	Answer/comment is noted and will be considered and resolved in the project’s Phase 2.
394. Association of British Insurers	United Kingdom	No	**Answer:** No **Comment:** The treatment of collateral should reflect, in addition to the fair value position, a stress scenario that requires an insurer to post additional initial and variation margin in a consistent manner to the stress applied to assets and allow for risk correlation to avoid double counting. Although the proposed treatment is straight forward, it is based on the NSFR as used by the banking industry. This ratio is more reflective of the balance sheet and the funding requirements as opposed to liquidity and cashflows.	Answer/comment is noted and will be considered and resolved in the project’s Phase 2.
396. American Council of Life Insurers	United States	No	**Answer:** No **Comment:** ACLI believes other liquidity measures such as projection-based approaches, are the best way to assess derivative related liquidity exposures. While we appreciate IAIS recognizing the Gross Derivative Liability on the netting basis, it does not split between cash variation margin requirements vs. bilateral collateral needs. This could undermine ILR’s ability to account for potential market valuation changes in the case of significant mismatch between cash collateral posted and asset collateral received. The factors-based approach will not capture the inherent liquidity risk in derivatives, rendering the measure useless. For example, it will not	Answer/comment is noted and will be considered and resolved in the project’s Phase 2. The liquidity risks from bifurcated embedded derivatives associated with insurance contracts would be assessed as insurance liabilities in Row 33 rather than with the derivative methodology. Deposit-

			reflect any gains or losses from a capital perspective. Moreover, the scope needs to be clarified. There are many insurance products that are considered to be derivatives or embedded derivatives for U.S. GAAP reporting purposes (e.g., stable value contracts/synthetic GICs, certain variable annuity benefits). It is important to clarify that this section should not apply to everything categorized as a derivative in the U.S. GAAP financial statement.	type insurance products would be assessed similarly as well.
397. National Association of Insurance Commissioners	United States	No	**Answer:** Yes **Comment:** Yes, but suggest further historical analysis could be helpful.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
398. The Travelers Companies, Inc.	United States	No	**Answer:** No **Comment:** We believe that the proposed approach to derivatives is overly conservative and believe it would be instructive to evaluate experience with derivatives during the 2008 financial crisis.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
Q20 How should the ILR treat debt with financial covenants that may be triggered under stress?				
400. Canadian Institute of Actuaries	Canada	No	**Answer:** We do not propose there should be a general rule. Each insurer's circumstances should be analyzed separately where there are material financial covenants.	Answer noted and will be considered and resolved in the project's Phase 2.
403. HUATAI INSURANCE GROUP CO., LTD.	China Banking and Insurance Regulatory Commission	No	**Answer:** Per our company, there are no specific experiences suitable for this situation. We recommend that getting advice from experienced company in the industry.	Answer noted and will be considered and resolved in the project's Phase 2.
404. CBIRC	CN	No	**Answer:** We suggest the cash flow stress test, set the stress scenario that the financial covenants may be triggered, and assess the company's overall liquidity risk.	Answer noted and will be considered and resolved in the project's Phase 2. A company projection approach will be developed as part of Phase 2.
405. Global Federation of	Global	No	**Answer:** The treatment would need to consider the severity of the stress applied and whether that would be likely to breach the covenant. In most cases this would only happen in extreme circumstances and not under a moderate stress. This	Answer noted and will be considered and resolved in the project's Phase 2.

Insurance Association			would be difficult to capture through a factor based ILR but would be something that insurers' own stress and scenario testing as part of their liquidity risk management should consider.	A company projection approach will be developed as part of Phase 2.
407. Treasury Markets Association	Hong Kong	No	**Answer:** As mentioned. above, there should be a "stress scenario ILR" that takes into account such covenants that affect fungibility of financial assets and potential accelerated liquidity demand that will be faced by insurers.	Answer noted and will be considered and resolved in the project's Phase 2.
408. International Actuarial Association	International	No	**Answer:** This issue is connected to the issue of debt with regard to the ICS. A key question with regard to evaluating liquidity risk for insurers is the entity that issued the debt and whether the insurance entities can be forced to help fund that obligation. Another issue is that it is generally not in a counterparty's best interest to create a liquidity crisis despite a contractual ability to do so. As such, execution of a debt covenant should not be assumed to be a probable cause of a liquidity event, but a possible increase to the severity of a liquidity event.	Answer noted and will be considered and resolved in the project's Phase 2.
409. The Geneva Association	International	No	**Answer:** We assume that this question encompasses only the proposed treatment for short-term debt and the current portion of long-term debt (first row of Table 8) and the proposed treatment for long-term debt that can be accelerated (the second row of Table 8), with the proposed treatment for gross repurchase agreement and securities lending transactions (third row of Table 8) covered by question 9 and the other proposed treatments in Table 8 covered in question 21. We do not oppose the proposed treatment for short-term debt, the current portion of long-term debt, and long-term debt that can be accelerated. It is important to treat liquidity needs and liquidity sources consistently. In some jurisdictions, securities lending is treated as an off-balance sheet transaction for both assets and liabilities. If it is not included in the liquidity source, it should not be included in the liquidity needs (Row 43.4).	Answer noted and will be considered and resolved in the project's Phase 2.
410. The Life Insurance Association of Japan	Japan	No	**Answer:** - In Japanese accounting practices, securities lending is settled off balance sheet for both assets and liabilities. - We understand that Table 2 does not include off balance sheet assets as well as collateral assets with disposition rights. It is our understanding that off balance sheet liabilities are not included although the liquidity needs are stated in Table 8 Row 43.4 as "Gross fair value of recognised and non-recognised securities lending	Answer noted and will be considered and resolved in the project's Phase 2.

			liabilities," and Row 43.4 is within the scope of GA and SA. Off balance sheet assets and liabilities are approximately the same amounts. Therefore, they should not be included in liquidity resources and liquidity needs. - On the other hand, if off balance sheet assets are not included in the liquidity resources, but off balance sheet liabilities are included in the liquidity needs (Row 43.4) then it is not consistent. We propose off balance sheet liabilities be excluded from the liquidity needs.	
411. KOREA Life Insurance Association	KOREA	No	**Answer:** It should be included within liquidity needs given an appropriate level of weighted value. But "debt with financial covenants" and "stress" need to be more clearly defined.	Answer noted and will be considered and resolved in the project's Phase 2.
415. Association of British Insurers	United Kingdom	No	**Answer:** The treatment would need to consider the severity of the stress applied and whether that would be likely to breach the covenant. In most cases this would only happen in extreme circumstances and not under a moderate stress. This would be difficult to capture through a factor based liquidity risk measure, but would be something that insurers' own stress and scenario testing as part of their liquidity risk management should consider. A liquidity risk measure should consider historical default rates for corporate bonds and residual years to maturity in deriving a trigger for financial covenants.	Answer noted and will be considered and resolved in the project's Phase 2. A company projection approach will be developed as part of Phase 2.
417. American Council of Life Insurers	United States	No	**Answer:** We assume that this question encompasses only the proposed treatment for short-term debt and the current portion of long-term debt (first row of Table 8) and the proposed treatment for long-term debt that can be accelerated (the second row of Table 8), with the proposed treatment for gross repurchase agreement and securities lending transactions (third row of Table 8) covered by question 9 and the other proposed treatments in Table 8 covered in question 21.	Answer noted. This question was targeted towards the second row of Table 8.
418. National Association of Insurance Commissioners	United States	No	**Answer:** We believe that treating all (100%) of the category as being called, not rolled or not available under stress is too conservative. All debt that is short-term (i.e. commercial paper or long-term debt with maturity of less than a year) should be included. The stress event should be clearly defined. Any debt with covenants or collateral calls that are triggered by that specific stress event should only be included if there are provisions in the financial contracts that exclude them from the jurisdiction's bankruptcy code. The 100% factor on LT Debt appears too high as it is highly unlikely all the debt would be accelerated at once.	Answer noted and will be considered and resolved in the project's Phase 2.

419. American Property Casualty Insurance Association	USA	No	**Answer:** This depends on whether the entity that issued the debt has access to the funds in the insurance operation. In the U.S., the insurance entities cannot be forced to fund the debt obligations of the parent non-insurance holding company, with legal precedent supporting this situation. This also depends on the likelihood of the debt holder triggering such provisions in a time of crisis, as doing so may not be in the holder's best interest. The debt holder may benefit more from a rehabilitated insurer than an insurer forced into liquidation.	Answer noted and will be considered and resolved in the project's Phase 2.
Q21 How should the ILR assess potential liquidity needs from a downgrade?				
421. Insurance Europe	Belgium	No	**Answer:** Potential collateral requirements at different downgrade levels can be faced through different options, e.g. the use of letter of credits from third parties, and the negotiation of different collateral provisions is possible as well. Therefore, a 100% weighting factor on related exposures to derive potential liquidity needs is not realistic. With regard to ILR Funding Liability Factors (Table 8), it is not realistic to assume a 25% weighting factor on "Pledged contingent funding including credit facilities" based on ROW 12.1 of the IIM - this row correspond to all commitments given, including the significant (gross) amounts of pledged assets that are common in the insurance industry. The IAIS does not provide any justification for this factor ("investors are assumed to exercise any options that would shorten the maturity of outstanding debt or draw upon any contingent funding the insurer provides"). A pledged asset is not a form of contingent funding. Furthermore, this approach would be biased as it does not consider any commitment received (e.g. received pledged assets). A liquidity risk measure should consider all contracts that have clauses requiring the posting of additional collateral, drawdown of contingent facilities, or early repayment of existing liabilities upon downgrade by a recognised credit rating organisation. A liquidity risk measure should recognise a percentage of this additional collateral or cash outflow depending on the stress applied. Care needs to be taken to ensure that there is no double counting with calculating derivative risk.	Answer noted and will be considered and resolved in the project's Phase 2.
422. Canadian Institute of Actuaries	Canada	No	**Answer:** If there are potential material liquidity risks from a downgrade, the circumstances should be analyzed separately.	Given the materiality of this potential risk to some firms, the IAIS has chosen to consider this risk in the ILR.

425. HUATAI INSURANCE GROUP CO., LTD.	China Banking and Insurance Regulatory Commission	No	**Answer:** Per our company, there are no specific experiences suitable for this situation. We recommend that getting advice from experienced company in the industry.	Answer noted and will be considered and resolved in the project's Phase 2.
426. CBIRC	CN	No	**Answer:** We suggest the cash flow stress test, set the downgrade stress scenario, and assess the company's overall liquidity risk.	Answer noted and will be considered and resolved in the project's Phase 2. A company projection approach will be developed as part of Phase 2.
427. Global Federation of Insurance Association	Global	No	**Answer:** Potential collateral requirements at different downgrade levels can be faced through different options, e.g. the use of letter of credits from third parties, and the negotiation of different collateral provisions is possible as well. Therefore, a 100% weighting factor on related exposures to derive potential liquidity needs is not realistic. With regard to ILR Funding Liability Factors (Table 8), it is not realistic to assume a 25% weighting factor on "Pledged contingent funding including credit facilities" based on ROW 12.1 of the IIM - this row correspond to all commitments given, including the significant (gross) amounts of pledged assets that are common in the insurance industry. The IAIS does not provide any justification for this factor ("investors are assumed to exercise any options that would shorten the maturity of outstanding debt or draw upon any contingent funding the insurer provides"). A pledged asset is not a form of contingent funding. Furthermore, this approach would be biased as it does not consider any commitment received (e.g. received pledged assets).	Answer noted and will be considered and resolved in the project's Phase 2.
429. Treasury Markets Association	Hong Kong	No	**Answer:** This can be incorporated as one of the "stress liquidity event".	Answer noted and will be considered and resolved in the project's Phase 2.
430. The Geneva Association	International	No	**Answer:** There does not appear to be a question that explicitly addresses pledged contingent funding including credit facilities (fourth row of Table 8), so this response covers the proposed factor of 25%. Regarding pledged contingent funding, the proposed factor of 25% does not appear to take into account commitments from other counterparties that would reduce the potential liquidity exposure.	Answer noted and will be considered and resolved in the project's Phase 2.

			Regarding potential liquidity needs from a downgrade, the proposed factor of 100% seems unrealistically high, as contingent funding sources, such as third-party letters of credit, can often limit the exposure. Many insurers disclose liquidity needs from a downgrade in their GAAP financial statements and we note that these figures are often immaterial. In addition, liquidity needs from a downgrade would be difficult to capture through a factor based ILR, but would be something that insurers own stress and scenario testing as part of their liquidity risk management should consider.	
431. KOREA Life Insurance Association	KOREA	No	**Answer:** It would be better not to assess potential liquidity needs from a downgrade, as a rating downgrade is a possibility in the future and therefore it is not easy to develop specifically a method to measure such liquidity needs. However, if the IAIS decides otherwise, it may be worth referring to IFRS9, which requires provisioning against expected credit loss, as well as provisioning against lifetime credit loss if the credit risk on an asset increases significantly. The IAIS could explore the idea of relying on the book value of an asset after provisioning under IFRS9.	Answer noted and will be considered and resolved in the project's Phase 2.
434. Association of British Insurers	United Kingdom	No	**Answer:** This would be difficult to capture through a factor-based ILR, but would be something that insurers' own stress and scenario testing as part of their liquidity risk management should consider.	Answer noted and will be considered and resolved in the project's Phase 2.
436. American Council of Life Insurers	United States	No	**Answer:** There are many levers available to insurers in responding to downgrades. Therefore, a 100% weighting factor is neither realistic nor fair. There are many implications to ratings downgrades. As such, a factor-based approach may not catch the complexity of downgrades, as they could potentially impact many aspects of the business. The IAIS may want to explore addressing the impact of downgrade via other ancillary metrics, rather than part of the ILR or other liquidity metrics. In addition, liquidity needs would benefit from refinement that involves impacts beyond the instruments and facilities listed. There is no question that explicitly mentions the pledged contingent funding proposal, so we are commenting on it here. The 25% weighting factor in Table 8 on "Pledged contingent funding including credit facilities" is likewise not realistic. Row 12.1 of the IIM includes pledged assets, which are not a form of contingent funding. There is no justification given for this treatment of pledged assets. Moreover, the ILR ignores pledged assets received compounding the unwarranted treatment.	Answer noted and will be considered and resolved in the project's Phase 2.

437. National Association of Insurance Commissioners	United States	No	**Answer:** We agree with 100% of the category affected by the downgrade, but "downgrade" needs to be clearly defined. We believe that a credit rating downgrade of the holding company of significant magnitude that triggers debt covenants and posting of higher collateral requirements for derivatives, securities lending, and repurchase agreements would be appropriate as a definition. In contrast, an insurers' underlying debt or subsidiaries as well as investments are subject to frequent up and downgrades and thus should be excluded.	Answer noted and will be considered and resolved in the project's Phase 2.
Q22 Do you agree with the discussed limitations and mitigations of the ILR? What other limitations should the IAIS consider and how can these be mitigated when the IAIS monitors liquidity risk?				
439. Insurance Europe	Belgium	No	**Answer:** Yes **Comment:** Please refer to our answer to Question 1. The limitations of the proposed ILR are such that it would have limited value as a reliable ancillary indicator that would achieve the aims the IAIS has stated, as it could provide an unreliable signal as to the strength or weakness of individual insurers' liquidity risk. Given that the IAIS acknowledge that it would have limitations and would be required to be supplemented with supervisory judgement the ILR as proposed would seem to have limited value. We acknowledge the limitations noted within the consultation paper and point out the fact that they greatly outweigh (in significance and not just in number) the points of mitigation. The main point of mitigation seems to be the fact that the IAIS will supplement the ILR with other supervisory judgements and the use of additional metrics. This demonstrates that a standardised approach does not necessarily work well to assess liquidity risk and firm-specific liquidity risk frameworks are a better basis for supervisory dialogue. This point is also very relevant indeed for the approach outlined in Phase 2.	Comments and reservations are noted and will be considered and resolved in the project's Phase 2.
442. HUATAI INSURANCE GROUP CO., LTD.	China Banking and Insurance Regulatory Commission	No	**Answer:** Yes **Comment:** We suggest that liquidity monitoring indicators from insurance regulators in each country should be collected simultaneously to obtain supplementary information or overall situation of liquidity risk in insurance industry.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
443. CBIRC	CN	No	**Answer:** Yes **Comment:** No other suggestion	Answer noted.

445. Treasury Markets Association	Hong Kong	No	**Answer:** Yes	Answer noted.
446. International Actuarial Association	International	No	**Answer:** Yes **Comment:** The IAA agrees with the limitations discussed, and suggests that other possible future sources of liquidity are not included in the ILR. A strong franchise that faces a liquidity shortfall over a one-year time horizon would probably have access to the capital markets and other external sources of liquidity. This might not be a possibility under the time horizons envisioned by a bank liquidity test, but would be available under the time horizons being suggested for insurance industry liquidity testing.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
447. The Geneva Association	International	No	**Answer:** Yes **Comment:** Some additional limitations include: • The ratio does not capture aggregation and liquidity fungibility within an insurance group. Liquidity is inherently a very "local" problem and even a group-level picture may not be meaningful • Additional complexities exist within insurance-led conglomerates, where banking and insurance operations reside within the same corporate structure.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
448. KOREA Life Insurance Association	KOREA	No	**Answer:** Yes **Comment:** Yes. It may be worth considering correlations among liquid assets when a liquidity stress materializes.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
451. Association of British Insurers	United Kingdom	No	**Answer:** Yes **Comment:** Please refer to our answer to Question 1. While noting the intention of the ILR as an ancillary indicator as part of the IIM, the nature of the indicator is such that it would not be suitable for use beyond the IAIS's GME, and in particular would not be appropriate for use by supervisors at a micro prudential level. Consequently, we would encourage the IAIS to focus on the supervision of firms' liquidity management to gain an understanding of liquidity risk within the GME.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.

453. American Council of Life Insurers	United States	No	**Answer:** No **Comment:** It is important to note that when considering various market stress scenarios, not all stresses will impact individual insurer's liquidity in the same manner. These limitations are all valid and failing to address them may significantly impact the effectiveness of ILR as a tool to assess insurers' liquidity risks. Each insurer may also consider different management actions to address the same liquidity issue. This approach also does not appear to recognize that capital management actions such as debt and equity issuance, can bolster liquidity. However, the mitigations do not appear clear enough to alleviate our concerns on these limitations. We welcome IAIS to further clarify and elaborate on the mitigations.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
454. National Association of Insurance Commissioners	United States	No	**Answer:** Yes **Comment:** The paper describes only one approximate measure of liquidity risk and such risk may be measured better with a cash flow approach, to be developed in Phase 2. Currently, renewal premiums, future claims from in force business and new business are not included. As these factors may affect the insurer's liquidity position, one caveat of the current metric is that it will require more analysis of the insurer, on an on-going basis, by the IAIS and the supervisor. Another issue the IAIS should consider is how to differentiate between a resolution with an orderly run-off, which will typically result in all claims being paid, and a liquidation due to a lack of liquidity.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
455. American Property Casualty Insurance Association	USA	No	**Answer:** Yes **Comment:** We agree that the ILR suffers from the limitations discussed. We also believe that the list is incomplete with regard to possible liquidity sources. Given a one-year time horizon and a strong brand or viable operation, there should be time to access the capital markets as an additional liquidity source.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
Q23 General comments on the Public Consultation Document on the Development of Liquidity Metrics: Phase 1 - Exposure Approach				
457. Canadian Institute of Actuaries	Canada	No	**Answer:** A liquidity ratio, as proposed by this paper, is too simplistic for a complex liquidity analysis. It is a point in time number that does not include: - An insurer's risk management operations; - Systemic vs. idiosyncratic liquidity crises; - Differences in separate jurisdictions; - Differences in product characteristics between companies and between	Comments and reservations are noted and will be considered and resolved in the project's Phase 2.

			jurisdictions; and - Differences in timing for liquidity needs and liquidity availability. An ILR would also not address any interactions between liquidity and capital. In some cases, the sales of assets used as liquidity sources (with the assumed haircuts) may exhaust the insurer's capital resources. In other cases a weak financial position may in fact deteriorate the illiquidity, which would not be captured by the ILR. While ideally these risks could be looked at jointly, this would add significant complexity, and supervisors typically look at these risks separately using different tools. The use of company liquidity availability and requirements within a company-specific projection gives a better early indicator of potential risk. ICP 16 describes and prescribes this type of scenario testing for risks, specifically including liquidity risk. Liquidity risk is specifically addressed in ICP 16, 16.1.1, 16.1.b, 16.9.1, 6.9.a, 16.9.d. As noted in an earlier answer, this consultation paper's proposed standardized liquidity monitoring using a standardized single ratio is too simplistic to provide any real value to supervisors and adds costs for both the insurers and the supervisors. The use of insurer-specific risk modelling as required by ICP 16 gives superior risk management early warning.	
459. HUATAI INSURANCE GROUP CO., LTD.	China Banking and Insurance Regulatory Commission	No	**Answer:** It's very organized and insightful. Providing many useful information related to liquidity risk.The Public Consultation Document inspires insurance companies and regulators to create efficient standards to collect, analysis data and identify liquidity risk which is vital to the operation of the whole industry.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
460. CBIRC	CN	No	**Answer:** We suggest developing the company projection approach soon.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
461. CRO Forum	Europe	No	**Answer:** Introductory remark: In the European context, EIOPA recently consulted on a liquidity metric approach for potential use in European-wide stress testing frameworks. The CRO forum provided feedback on this consultation and has noted that the IAIS is suggesting similar approaches albeit in the sense of ancillary liquidity metrics. Therefore, our underlying fundamental comments made in the context of the EIOPA consultation equally have relevance to the proposals consulted on by the IAIS.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.

			General observations: Liquidity risk in itself is not unimportant for insurers, but it is not a major risk for insurers due to the inversed business model. The recent crisis has provided a striking example of the resilience of the insurance sector to liquidity risk as was also exemplified in IAIS' own analysis. It is important to remark that most European insurance groups have already established strong liquidity risk management practices tailored to the characteristics and nature of their business. These internally developed frameworks are better suited to pick up much more accurately the actual liquidity profile of the business than standardized approaches since liquidity needs are very much a consequence of the respective business model. The liquidity profile, variability and potential shocks are very different for e.g. a term life portfolio, an annuity portfolio, unitised funds, a motor insurer or a book of catastrophe reinsurance. Analysing this properly is something that cannot be achieved by a crude bucketing of assets and, more notably, liabilities. These inhouse frameworks can also better assess available management actions that a company may have at its disposal, which may differ per insurer. The steering of the liquidity planning is highly dependent on the definition of stresses, the time horizon of the stress, the currency of liquidity needs versus resources, and is very sensitive to the nature of the underlying business. Therefore, individual insurers may even deploy different liquidity assessments within its own group and/or construct scenarios that reflects its specific nature. These different liquidity frameworks and practices help to avoid creating herding behaviours across the industry, and as such avoid creating systemic liquidity risks. The CRO forum would like to draw the attention of the IAIS on the fact that the European industry has taken steps to deliver industry best practices and recommendations to CROs. In particular, the CRO Forum paper on liquidity risk management, published in 2019, which can be found here: https://www.thecroforum.org/2019/09/11/managing-liquidity-risk-industry-practices-and-recommendations-for-cros/ Specific observations on the IAIS paper: The CRO forum takes note that the IAIS is contemplating an ancillary indicator to monitor the liquidity risk as part of the IIM. However, considering the above, the CRO Forum believes that no such indicator is necessary for the supervision of liquidity risk since it is already better addressed by firm's internal liquidity risk framework. The CRO Forum would appreciate clarity on the fact this ancillary indicator, should it go live, will only serve market-wide monitoring purposes and not for supervisory purposes.	

			The CRO Forum further believes there is no need for a Phase 2. The CRO Forum would like to particularly emphasize this point as standardizing cashflows for comparability purposes would produce results not considered economically relevant for participants and would fail to be proportionate to the objective of the ancillary indicator. A Phase 2 would unduly try to duplicate the frameworks put in place by European groups to manage liquidity with potentially negative consequences if the management of liquidity risk gets stuck between the firm's own view and a standardized exogeneous IAIS view. In addition, Phase 2 would go beyond the need for monitoring the liquidity position of the sector. Overall, taking a more principle-based approach would be more suitable in this light and the CROF also notes several methodological shortcomings in the specific proposals on the Exposure Approach (phase 1). Trying to establish an industry wide definition of specific haircuts has drawbacks in itself and implies a one-size-fits all scenario. Haircuts should be objectivized by reference to the economic literature and by fitting them on actual historical stresses relevant for the insurance sector. The IAIS has not provided such evidence. It is therefore not possible to comment nor to support the approach and the CRO Forum can only emphasise that elements such as timing and general market access may have an important impact on appropriateness of the haircuts in general and for the specific situation of each insurer. In fact, due to different market access and diversification of investment portfolios (both in terms of asset classes as well as geographical diversification) of insurance companies standardized haircuts most likely will lead to wrong conclusions. Moreover, the suggested liability bucketing is flawed and presents an over-simplified representation of the actual liquidity of liabilities. This evidently will lead to wrong interpretations of actual impact and lead to incomparable results. A more shock driven approach, although not perfect, would likely be more appropriate. Steering of liquidity is highly dependent on the business model and operational setup. An analysis based on a simplified classification of assets and liabilities leaving those aspects aside will fail to reflect the true liquidity situation of a company. A standardized approach trying to take all these specifics into account will be too complex and prescriptive. Therefore, as it stands, the suggested methodology is not fit for supervision and less relevant than internal liquidity frameworks for monitoring. Existing inhouse liquidity frameworks already put in place, as in the case of large European insurance groups, should be leveraged off for any supervisory purposes rather than supplemented on top with such a default approach. In conclusion, the CRO Forum encourages the IAIS to adopt an approach on	

			liquidity monitoring proportionate to the risk. To avoid a spiralling increase of burden on firms, either directly through Phase 2 or indirectly if Phase 1 leads to inaccurate conclusions, the CRO Forum would appreciate that the IAIS reconsider the whole approach and instead leverage on existing internal liquidity frameworks and promote industry best practices as socialized by the CRO Forum in its 2019 paper. Due to the noted methodological shortcomings a principle-based approach would in general be more favourable, which would ensure that a common standard based on high-level principles is reflected in entities liquidity risk management but tailored to the specific liquidity profile. Companies should then demonstrate against their regulators that they understand their liquidity profile and manage it appropriately. In any case, the very purpose of an ancillary indicator should be clarified (i.e. monitoring but not supervision) and this would, in the CRO Forum's view, also rule out the need for a Phase 2. The CRO forum remains available to keep discussing with IAIS to properly address the highlighted points.	
464. Treasury Markets Association	Hong Kong	No	**Answer:** In addition to setting the minimum standard of liquidity metrics, IAIS should also promote industry best practice to enhance the effectiveness and efficiency of liquidity management such as the use "in-house bank" or regional treasury centre to make the "trapped cash" fungible and in compliance with intra-group financing tax rules (BEPS).	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
465. The Geneva Association	International	No	**Answer:** We would like to reiterate our point made in our response to question one in that we support development of the ILR for use as an ancillary indicator for the IAIS' monitoring of the potential build-up of systemic risk at the global level. However, given the relatively simple nature of the metric, and factor-based liquidity frameworks in general, we do not believe it would be appropriate or insightful to analyse ILR results from a micro prudential perspective and they are unsuited to compare liquidity positions across firms. As a matter of fact, there are a number of drawbacks to an industry-wide approach to using the ILR as a prudential tool for supervising liquidity risk. Many insurers have their own, specific liquidity planning which is highly dependent on current and anticipated future liquidity needs and resources, the definition of stresses, time horizon of the stress as well as the underlying business. Take the mass lapse scenario as an example: this could cause a severe stress scenario for a life insurer but is much less an issue for P&C insurers or reinsurers. We are also concerned about the applied haircuts. The paper indicates that there are different assumptions as to how to calibrate appropriate haircuts. An industry wide definition of specific haircuts has some limitations. One problem arises for example in the market access of an insurance company and the proportion of assets it needs to liquidate in a stressed scenario. Globally operating insurers are	Answer/comment is noted and will be considered and resolved in the project's Phase 2.

			likely to have very diverse assets and access to many different markets and trading partners. Smaller insurers on the other hand, for example those that only operate on national level may be in a different situation when it comes to liquidating assets in times of stress.	
466. General Insurance Association of Japan	Japan	No	**Answer:** The liquidity characteristics of each insurance group vary greatly, and as such we think it is clearly insufficient to use the metric derived from the Exposure Approach to precisely capture liquidity positions of individual insurance groups. We believe it is sufficient for the Group-Wide Supervisor (GWS) in each jurisdiction to ensure the liquidity position of each individual insurance group through supervision (e.g., by confirming the results of each group's liquidity stress test), as each jurisdiction is implementing (or considering to implement) supervisory and regulatory measures based on the Holistic Framework. Having said that, we agree that calculating the Insurance Liquidity Ratio can be viewed as meaningful and we support Exposure Approach as a simple "early risk indicator" to assess the liquidity of the whole insurance sector. However, in its use as an early risk indicator, using detailed internal data of individual insurance groups should be avoided, and publicly disclosed information should be used as much as possible. We believe that this will ensure evaluation objectivity while avoiding unnecessary burden on insurance companies. This document seeks stakeholders' views on each part of the proposal. However, due to insufficient information on the calculation method of ILR and for what purpose the ratio will be used, we find it difficult to assess the validity of the framework.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
467. KOREA Life Insurance Association	KOREA	No	**Answer:** 1) It is difficult to track the market prices of relevant individual assets back in the 2008 financial crisis. So, we would like to ask that the IAIS take a fresh look at the criteria for being "liquid," including, for example, considering a more simple approach of applying different factors according to credit ratings. 2) We think that money market funds that invest in sovereign bonds need to be recognized as liquidity sources at least to some extent. 3) When classifying corporate bonds, we think it would be helpful if the IAIS comes up with specific guidance on how to determine whether an issuer is an affiliate of a financial institution or not, as well as how to classify hybrid securities. 4) We believe that it would be more appropriate to subdivide investment funds by	Answer/comment is noted and will be considered and resolved in the project's Phase 2.

			their characteristics. Investment funds with high liquidity such as MMF(Money Market Fund) need to be included in liquidity source.	
469. Financial Supervisory Service	Republic of Korea	No	**Answer:** First, the Financial Supervisory Service (FSS) very much appreciates all the hard work and progress made by the IAIS so far, as well as this opportunity for us to share our comments on the public consultation document. Second, as one more specific comment on the public consultation document, for certain assets (e.g., page 36 for high quality sovereign and supranational securities) to be counted as liquidity sources, they need to be "liquid," which is defined as those whose market price or market haircut has not changed by more than 10 percent during a 30 calendar-day period of significant distress. We would like to suggest that it would be very helpful to the Members and insurers if the IAIS comes up with a more detailed view or definition on this "period of significant distress."	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
472. Swiss Financial Market Supervisory Authority FINMA	Switzerland	No	**Answer:** The Exposure Approach is a standardised measure that neither takes into account company specific exposures nor company specific risk management approaches. Therefore, the results should only be analysed with great caution and should not be interpreted without gathering additional information from the respective insurers and/or their supervisors.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
473. Association of British Insurers	United Kingdom	No	**Answer:** As noted in our answer to Question 1, while noting the intention of the ILR as an ancillary indicator as part of the IIM, the nature of the indicator is such that it would not be suitable for use beyond the IAIS's GME, and in particular would not be appropriate for use by supervisors at a micro prudential level. As the IAIS has noted in its Application Paper on Liquidity Risk Management, liquidity risk is very much company and scenario specific. The weaknesses of the exposures approach as noted in the consultation paper include a loss of information on mismatches between liquidity needs and sources as well as being less sensitive to risk. A thorough understanding of liquidity sources and needs is required to understand insurers' individual liquidity risk profiles which a blunt factor based ILR as proposed would fail to do, and worse may provide false signals as to the liquidity strength or weakness of individual insurers. The IAIS's application paper on Liquidity Risk Management sets out guidance to supervisors on the assessment of insurers' liquidity risk management processes and the effectiveness of their implementation. This should help supervisors arrive at an informed view of the liquidity risk of an individual insurer to support the IIM.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.

475. American Council of Life Insurers	United States	No	**Answer:** ACLI remains strongly supportive of the Holistic Framework for Identifying and Mitigating Systemic Risk Within the Insurance Industry. ACLI sees the usefulness of using a temporary metric for monitoring liquidity risk, and for that reason we are generally supportive of developing an ILR metric. ACLI does have concerns regarding the material in the Consultation that is reflected more fully in answers to specific questions. A broad point we would reiterate here is that the Phase 1 approach is necessarily a crude metric. As such, it should only be used in conjunction with other oversight and economic measurements, and even then definitive conclusions should not be drawn based on results. Areas of the Consultation are in our view insufficiently reflective of the varying liquidity characteristics of insurer liquidity sources and needs, overly conservative, and occasionally bank-centric given the company and jurisdiction-specific nature of liquidity risk management. We urge some adjustments to be made Outlined above), and also ask that study and refinements continue as long as Phase 1 remains in place. ACLI is very supportive of the recognition that liquidity is very dependent on company circumstances and jurisdictional differences. We hope this principle informs this consultation and all future work on liquidity.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
476. Institute of International Finance	United States	No	**Answer:** Dear Dr. Saporta and Mr. Dixon: The Institute of International Finance (IIF) and its insurance members appreciate the opportunity to comment on the IAIS Public Consultation Document: Development of Liquidity Metrics: Phase 1 - Exposure Approach (Liquidity Metrics Consultation). Overarching Comments The Liquidity Metrics Consultation proposes an Insurance Liquidity Ratio (ILR) that is intended to serve as a macroprudential indicator of liquidity risk to aid in the assessment of systemic risk in the global insurance sector, which includes companies with a variety of business models, assets, liabilities and products. We understand and support the IAIS's interest in monitoring the global insurance industry's exposure to liquidity risk as part of its framework for the assessment and mitigation of systemic risk sector-wide (Holistic Framework) and its interest in developing a metric to be applied consistently across the sector. The ILR may have a role as a basic macroprudential monitoring ratio that supervisors can employ to analyze year-over-year liquidity trends across the sector. However, for reasons expressed in this letter, we have some reservations about the usefulness of this	Answer/comment is noted and will be considered and resolved in the project's Phase 2.

			metric as a macroprudential monitoring tool. Moreover, we would emphasize the role of supervisory discussion and coordination through the IAIS Supervisory Forum in developing a robust macroprudential assessment of sector-wide liquidity risk. We caution against any simple aggregation of the ILR across firms as an indicator of the liquidity risk of the sector. Microprudential liquidity risk, as distinguished from macroprudential liquidity risk, is a company- and scenario-specific risk that generally is not amenable to standardized monitoring measures. We encourage the IAIS to clarify that the ILR should not be used as a microprudential measure. Based on discussions with Chief Risk Officers and liquidity risk experts in our member firms, the ILR is too broad a metric to produce significant decision-useful information for firms. The ILR does not incorporate the thorough reflection of liquidity sources and needs that is required for a microprudential tool to accurately assess an insurer's liquidity risk profile, nor does it reflect the time horizon over which liquidity stresses could materialize in an individual insurer or group or how the reliability of assets as a source of liquidity can change over time. Individual IAIS members are best placed to assess microprudential liquidity risk using the guidance contained in the IAIS Application Paper on Liquidity Risk Management and tools that reflect the specific risk profiles of individual insurers and take into consideration any jurisdictional specificities. Through our discussions, we have identified several shortcomings in the ILR as a macroprudential tool. Of particular note, the ILR is focused on group-level liquidity. As such, the ILR does not reflect that liquidity stresses are not shared equally within a group and that there are important sources of intragroup and holding company liquidity that can be used to address legal entity liquidity needs. Furthermore, the ILR does not recognize liquidity gaps within a group through the loss of information on mismatches between liquidity sources and needs. Consistent with best practices for liquidity risk management, both a bottom-up and a top-down approach to liquidity risk is needed at the microprudential level. Importantly, a group-level ILR is incompatible with the way in which liquidity risk is managed, which is generally at the legal entity level, and the ILR is not always consistent with many liquidity risk management best practices that the IAIS itself has outlined in its Application Paper on Liquidity Risk Management, as well as in the Insurance Core Principles (ICPs) and ComFrame. These flaws could result in the ILR providing false signals as to the relative liquidity strength or weakness of individual insurers. Furthermore, the ILR would exclude certain assets that are reliable sources of	

			liquidity, such as instruments issued by other financial institutions, and does not recognize important local sources of liquidity. Differences in local liquidity conditions, as well as local sources of liquidity, make it difficult, if not infeasible, to develop global liquidity scenarios, parameters, or assumptions. ICP 15.1.9 notes that prescriptive, rules-based requirements can inhibit innovation in investment strategies, may restrain insurers from holding the most appropriate assets in light of their financial objectives, and may discourage insurers from fully developing their own risk management. ICP 15.1.10 contrasts principles-based measures that provide flexibility for the insurer to follow an investment strategy that best matches its risk appetite and overall financial objectives. While a rules-based approach may be easier for supervisors to enforce, we do not believe that the ease of implementation should outweigh the importance of developing and implementing robust risk management frameworks for liquidity. The work conducted by group supervisors and the IAIS during the current COVID crisis has demonstrated their ability to monitor the liquidity positions of IAIGs through insurer reporting, even during a stress event or period of market turmoil. The results of these analyses provided significant insights into sector-wide liquidity risks and trends, and confirmed that companies have maintained robust liquidity positions sufficient to continue to meet their obligations to policyholders and other counterparties. We encourage the IAIS to build upon the work of jurisdictional supervisors in continuing its work on macroprudential assessments of liquidity risk. As we note below in response to the specific questions raised in the Liquidity Metrics Consultation, we believe that the empirical basis for the proposed calibration of the ILR is unclear, and that the calculation of the ILR would produce overly conservative results that would not be indicative of the true liquidity position of the sector. Of particular note, and consistent with our comments with respect to the IAIS consultation on the Draft Application Paper on Liquidity Risk Management , we believe that the exclusion of instruments issued by financial institutions, in addition to being overly conservative, would give rise to negative impacts on the financial sector and real economy by disincenting insurers' investments in the debt of other financial institutions. The exclusion of financial institution assets could also incent insurers to hold larger single-name non-financial exposures, which may result in riskier holdings in a market downturn. We also believe that the treatment of surrenders and withdrawals does not reflect the different levels of risk across insurance products, the range of characteristics impacting liquidity risk across different products, or the variety of factors that influence policyholder behavior. Moreover, the proposed treatment of surrenders and withdrawals disregards	

			attributes that reduce the risk of surrenders and withdrawals. These shortcomings would produce a measure that would give rise to a false sense of security and confidence in the ILR. Responses to Specific Questions in the Liquidity Metrics Consultation Our overarching comments respond to IAIS Questions 1 through 3. Our additional specific responses follow. As noted above, we understand the IAIS's interest in monitoring liquidity trends at a macroprudential level. However, for reasons noted in our answers below, we have serious misgivings about the current proposed design of the ILR. The empirical bases for the assumptions underlying the ILR are unclear, producing an overly conservative calibration that does not recognize the critical role of the industry as a provider of liquidity. The current design of the ILR appears to have been based on a measure that is more suitable for the banking industry, where liquidity pressures can give rise to systemic risks over a short-term time horizon. We encourage the IAIS to consider the inherent limitations of any global liquidity ratio for the insurance sector, with its considerably more diverse and heterogeneous business models than the banking sector, and to more fully develop a use case for a ratio similar to the ILR. IAIS Question 4: Do you agree with the exclusion of separate accounts from the ILR? If not, how should separate accounts be incorporated? In general, the exclusion of separate accounts from a liquidity metric seems appropriate. There may be liquidity issues in separate accounts that are caused by operational events, such as a mismatch between financial instrument settlement periods and the disposal of the underlying assets. These issues are best addressed through a focus on the separate account(s) and through supervisory discussion with the firm, taking into account all relevant circumstances surrounding the operational event. IAIS Question 5: Do you agree with the proposed factors for liquidity sources? If not, please explain. As discussed in our comments with respect to the IAIS consultation on the Draft Application Paper on Liquidity Risk Management, we caution against restricting the types of assets that may be included in a liquidity portfolio, as they could have	

			negative macroprudential ramifications, including impacts on the pricing and supply of certain types of assets, asset concentrations, and hoarding. During a stress environment, companies should not be constrained from using all available sources of liquidity, including financial institution sources, precisely when they need it most. The blanket exclusion of financial institution sources of liquidity is not risk-based and could lead to negative unintended consequences, as outlined in our response to Question 8. The ILR asset factors are arbitrary and do not reflect how the availability of liquidity sources can change significantly over time, particularly in times of stress. The reliability of specific assets as a source of liquidity is scenario-dependent as well. As we saw in 2020, even sovereign debt exposures can be volatile, with other asset classes experiencing less volatility and serving as superior sources of liquidity. Moreover, the ILR asset factors do not reflect local sources of liquidity that may be very valuable to companies in those jurisdictions. The composition of a company's liquid assets is the responsibility of senior management, with oversight from the board of directors and consistent with the board-established risk appetite. The establishment of prescriptive rules around what qualifies as a liquid asset and what haircuts should be applied shifts the responsibility from the board and senior management to supervisors that do not share the advantage of day-to-day insight into the company's liquidity risk management. A prescriptive view of liquidity sources determined by the IAIS is inconsistent with ComFrame 16.9.b.2 and 16.9.b.3. ComFrame 16.9.b.2 and 16.9.b.3 call for the group supervisor to consider the results of the IAIG's stress testing or scenario analysis when assessing the quality and quantity of the assets that the IAIG considers to be highly liquid. The IAIG is responsible for demonstrating to its group supervisor the liquidity of those assets. A restrictive and prescriptive list of permissible liquidity sources could lead to an insurer holding assets that are not well aligned with the liquidity profile of its liabilities, impeding sound asset/liability management IAIS Question 6: Do you agree with the treatment of investment funds? If not, please explain and suggest an alternative treatment. We encourage the IAIS to include investment funds as a source of liquidity, consistent with the liquidity of the underlying assets. Many investment funds are	

			relatively liquid, especially those with robust cash holdings, funds that frequently revalue, and funds that limit outflows through redemption fees, swing pricing, or limited dealing days. IAIS Question 7: Do you agree with the treatment of premiums? If not, please explain how premiums and excluded expenses should be treated in the ILR. Paragraph 38 of the Application Paper states that future premiums and other potential cash inflows may be assumed to be available under stressed conditions, though the insurer should adjust their assumed availability in line with stress scenarios. The exclusion of expected future premiums from liquidity sources in the ILR is not consistent with their treatment in the Application Paper and we would recommend a partial inclusion of future premiums on a conservative basis. IAIS Question 8: How should instruments issued by financial institutions be treated within the ILR? As noted above, there are many sound reasons for allowing the inclusion of instruments issued by financial institutions in the liquidity portfolio of insurers, and unintended consequences that could be avoided by a more risk-based approach to these assets. The exclusion of instruments issued by financial institutions is not only overly conservative but also would give rise to negative impacts on the financial sector and real economy by disincenting insurers' investments in the debt of other financial institutions. The exclusion of financial institution assets could also incent insurers to hold larger single-name non-financial exposures, which may be riskier holdings in a market downturn. The post-financial crisis reforms to the regulation of the banking industry were designed to help ensure that banks can meet their financial obligations under stress. Insurers should not be constrained in their ability to access bank sources of liquidity, consistent with strong risk management practices, including the avoidance of concentration risk. IAIS Question 9: Do you agree with the inclusion of certain encumbered assets as liquidity sources within the ILR or should the IAIS alternatively exclude these encumbered assets and measure the related liquidity needs on a net basis? We would measure an insurer's liquidity needs on a net basis. IAIS Question 10: Do you agree with the treatment of liquidity risk from surrenders	

			and withdrawals from insurance products in the ILR? If not, please explain how this could be improved. We do not agree with the treatment of liquidity risk from surrenders and withdrawals from insurance products in the ILR. Although the IAIS recognizes that mass surrenders are a rare event and that there are various interacting factors that determine the liquidity risk of an insurance product due to surrenders and withdrawals, the IAIS proposes a treatment that is extremely conservative and insufficiently granular. An approach that focuses only on economic penalties and time restraints is overly simplistic and does not reflect the fact that policyholder behavior is based on the complex interaction of many factors. Moreover, the proposed treatment of surrenders and withdrawals disregards attributes that reduce the risk of surrenders and withdrawals, allowing for a methodology that would give a false prominence and sensitivity to these factors in the ILR. We recommend that the IAIS review its calibration and reset the treatment of surrenders and withdrawals in a manner and to a level supported by evidence at the desired confidence level. We would broaden the discussion of economic penalties and time restraints to reflect practical limitations on and disincentives to surrender or withdrawal (e.g. tax penalties and the availability of other alternatives, such as policy loans). The IAIS should also provide for a more granular categorization of insurance products in order to capture the significant variation in surrender and lapse across product types. IAIS Question 11: How should the IAIS capture liquidity needs from policy loans? Should these be incorporated into the ILR or be an alternative metric? Liquidity needs from policy loans are embedded in the treatment of surrenders and withdrawals, which is discussed above in response to Question 10. IAIS Question 12: Do you agree with the factors applied to retail insurance products being half of the factors applied to institutional products? How should the factors applied to retail and institutional policies differ? While the application of different factors to retail and institutional products is reasonable, no specific quantitative justification for the calibration of these factors has been provided. Moreover, the factors do not reflect that economic penalties and time restraints will have different effects and produce different incentives across policyholders.	

			IAIS Question 13: Do you agree with the treatment of unearned premiums in the ILR? If not, how can it be improved? Consistent with Paragraph 38 of the Application Paper, the conservative recognition of a portion of insurers' unearned premiums in the ILR would be appropriate. IAIS Question 14: Should the IAIS apply standardized factors to insurers' projected ultimate catastrophe losses or rely on company projections for the speed of catastrophe payments and reinsurance recoveries? The IAIS should rely on company projections for the speed of catastrophe payments and reinsurance recoveries. Because the speed of payments and recoveries can vary widely across companies, an approach that relies on company projections better reflects an insurer's own liquidity risk than a less granular factor-based approach. IAIS Question 15: Do you agree with the proposed treatment of catastrophe insurance claims? If not, how can it be improved? We question the need for standardized haircuts on liquidity resources to reflect stress. Rather, the approach should reflect the risk of whether a particular counterparty would be unable to cover the claim in a stressed environment. The treatment of catastrophe insurance claims may be best addressed at the microprudential level, as the reliability of catastrophic claims payments can vary significantly across firms. IAIS Question 16: Should the proposed treatment of deposit liabilities include more or less granularity? If so, what additional dimensions (e.g. the presence of an effective deposit insurance scheme) should be captured or left out? We agree that bank deposits generally are not a significant source of insurers' funding. However, the factors proposed do not reflect the acknowledged ready liquidity of bank deposits. Furthermore, the few insurers with significant banking operations are already subject to the rigorous and granular oversight of bank supervisors. As such, a less granular approach than that applied by the Basel Committee is warranted. However, this does not support the application of a more conservative approach than is applied by the Basel Committee. IAIS Question 19: Do you agree with the treatment of derivatives? If not, please explain and suggest an alternative treatment.	

			The adoption of a measure similar to the Basel Committee's net stable funding ratio should be further examined with due consideration given to the differences between the bank and insurance business models. Standardized factors do not take into account the complexity of derivatives, the degree of reliance on derivatives by a particular insurer, and do not reflect jurisdictional differences in the treatment of derivatives. For these reasons, we believe that derivatives exposures should be treated at the microprudential level. IAIS Question 20: How should the ILR treat debt with financial covenants that may be triggered under stress? Firm-specific scenario analysis is the best method to treat debt with financial covenants that may be triggered under stress. A firm-specific analysis can take into consideration the severity of the stress that would be required to breach the covenant, which in most cases would require an extreme stress. The bespoke nature of individual debt instruments and related financial covenants renders a standardized treatment inappropriate. IAIS Question 21: How should the ILR assess potential liquidity needs from a downgrade? Potential liquidity needs from a downgrade are best analyzed at a firm-specific level using liquidity scenario analysis as part of the insurer's liquidity risk management framework. IAIS Question 22: Do you agree with the discussed limitations and mitigations of the ILR? What other limitations should the IAIS consider and how can these be mitigated when the IAIS monitors liquidity risk? As noted in our Overarching Comments, we understand and support the IAIS's interest in creating a consistent metric that would help monitor the global insurance industry's exposure to liquidity risk as part of macroprudential supervision. We appreciate the IAIS's acknowledgement of the limitations of the ILR and our comments reflect our view that the measure may have limited utility and comparability as a global measure of insurance liquidity risk. We strongly encourage the IAIS to avoid any implication that the ILR should be used as a microprudential supervisory measures due to a number of design features that make the ILR ill-suited for microprudential use. As we note above, the	

			ILR is focused on group-level liquidity but does not reflect that liquidity stresses are not shared equally within a group, and that there are important sources of intragroup and holding company liquidity that can be used to address legal entity liquidity needs. Additionally, the ILR does not recognize liquidity gaps within a group. The ILR also excludes certain assets that are reliable sources of liquidity, such as instruments issued by other financial institutions and local sources of liquidity. Importantly, a group-level ILR can be inconsistent with the way liquidity risk is managed, as some insurers address liquidity risk at a legal entity level. These flaws could cause the ILR to provide false signals as to the liquidity strength or weakness of individual insurers. An alternative approach that focuses on supervisory review of the robustness of an insurer's liquidity risk management would be a superior method of identifying potential supervisory issues. A supervisory approach would be company-specific and holistic, and would reflect the manner in which liquidity risk is managed by the company. We appreciate the opportunity to comment on the IAIS's approach to liquidity risk and the proposed ILR. We would be pleased to expand upon this response, and we encourage the IAIS to convene a stakeholder meeting on the important issues raised by this consultation, as well as on broader aspects of macroprudential supervision and systemic risk. Respectfully submitted, Mary Frances Monroe	
477. National Association of Insurance Commissioners	United States	No	**Answer:** None.	Answer noted.
478. American Property Casualty Insurance Association	USA	No	**Answer:** APCIA reiterates our general statement (also contained in our answer to question 1) that non-life insurers in general are neither subject to nor transmitters of material liquidity risk, and therefore the ILR should not be applied to non-life insurers. If it is, however, we urge the revisions that we have discussed in our responses to questions 1 through 22.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.

480. New York Life Insurance Company	USA	No	**Answer:** For the full set of comments kindly refer to the submission by Northwestern Mutual on behalf of Northwestern Mutual and New York Life.	Answer/comment is noted and will be considered and resolved in the project's Phase 2.
481. Northwestern Mutual	USA	No	**Answer:** This is a joint submission by Northwestern Mutual and New York Life.	Answer noted.