# Compiled Comments on *Global Systemically Important Insurers: Proposed Policy Measures document*

17-Oct-12 to 17-Dec-12

Basis of Compilation: The comments are in the sequential order of the organisation as stated in the submission, with general comments shown before comments on specific questions.



| Organisation | Reference | Comments |
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| American Academy of Actuaries | 1 | Comment: We, the Financial Regulatory Reform Task Force of the American Academy of Actuaries appreciate the work of the International Association of Insurance Supervisors (IAIS) to develop policy measures for G-SIIs. We concur with the stated goals and are in general agreement with the objectives and methods of implementing the policy measures. We offer these comments as suggestions to improve upon the work already completed. |

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| | | Generally, we are concerned with some of the examples given as non-traditional, non-insurance (NTNI) activities in the proposed assessment methodology for G-SIIs. The proposed policy measures for G-SIIs are differentiated for traditional insurance activities and NTNI activities. It is essential that NTNI activities be thoroughly vetted and agreed upon by the IAIS. To date, that has not occurred.<br><br>Unless there are compelling reasons to the contrary, we recommend that activities that fall under the jurisdiction of a functional insurance regulator should not be considered NTNI activities. For instance, certain insurance coverages in the US, such as mortgage insurance and financial guarantee insurance, are required to use single purpose entities regulated by a functional insurance regulator. As such they are already subject to self-support and their own capital requirements. Additionally, risk-mitigating activities that take place within an insurance legal entity are already regulated by a functional insurance regulator. There should be no bifurcation of activities occurring within a regulated insurance entity into traditional and non-traditional activities. |
| American Academy of Actuaries | 4 | Comment: We reiterate our concern that the definition of NTNI activities has not been vetted. Wherever it is used in identifying G-SIIs and in applying policy measures, its rationale for being identified as non-traditional should be confirmed. |
| American Academy of Actuaries | 8 | Comment: We recommend that any disincentives applied to G-SIIs be limited to those NTNI activities that give rise to systemic risks. Traditional insurance activities should not be disincentivized. |
| American Academy of Actuaries | 14 | Comment: These appear to be desirable approaches of an enhanced supervisory framework. The policy measures should be principle-based with stated objectives to ensure consistent implementation by different jurisdictions. We also suggest that some of the items here may not be appropriate, or appropriate in all circumstances. For instance, some enhanced regulatory powers may be appropriate as part of an escalation process for G-SIIs rather than in all cases.<br><br>Also, the framework describes a higher level of involvement by the supervisor in company operations. While heightened supervision of G-SIIs is appropriate, it should not change the fundamental roles and responsibilities of regulators and company management, respectively. |
| American Academy of Actuaries | 15 | Comment: Liquidity plans should be required of G-SIIs for those activities that give rise to systemic risks. Liquidity plans should take into account restrictions on transfers between entities, whether separated to comply with SRRPs or with local jurisdictions.<br><br>Risks stemming from traditional insurance activities should be outside the scope of this requirement. |
| American Academy of Actuaries | 16 | Comment: We concur that it is desirable to separate or otherwise mitigate NTNI activities that give rise to systemic risks from those that do not and should be self-sufficient. |
| American Academy of Actuaries | 21 | Comment: Some jurisdictions require local insurance entities to be separate from the group and self-supporting, in the same manner contemplated herein for NTNI activities. To the extent that such a requirement exists, systemic risk is reduced, and there should not be an HLA requirement. |
| American Academy of Actuaries | 26 | Comment: We are concerned that the time and effort involved in preparing and continually updating an RRP is not worth the benefit for a well managed, well capitalized G-SII. In a time of crisis a plan is unlikely to be applicable to the circumstances giving rise to the crisis. The development of an RRP might instead be included as part of an escalation process. |
| American Academy of Actuaries | 27 | Comment: It is not practical to elaborate on an RRP for a G-SII in good health. Rather, the focus should be on the establishment of clear communication plans and agreed-upon roles of involved regulators and constituencies in the case of a crisis. Such a plan would also need to provide for suitable protections from arbitrary |

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| | | actions (i.e., reasonable due process protections in a crisis situation). |
| American Academy of Actuaries | 30 | Comment: As noted, there exists policyholder protection and guarantee schemes in many jurisdictions. These will include their own definition of what policies are covered and what are NTNI.<br>Deference should be given to effective schemes in order to ensure their ongoing viability. |
| American Academy of Actuaries | 33 | Comment: Any HLA should be targeted to the NTNI activities that give rise to systemic risk. Traditional insurance activities should not be subject to HLA requirements.<br><br>Further, the HLA requirement should take into account risk mitigation activities that would reduce the systemic risk, perhaps to levels that would drop the entity from a G-SII designation. |
| American Academy of Actuaries | 39 | Comment: Above some level of HLA, other policy measures may be unnecessary. |
| American Academy of Actuaries | 52 | Comment: We look forward to this proposal and to the opportunity to offer helpful commentary. |
| American Council of Life Insurers | 1 | General Messages on the Proposed GSII Policy Measurers: The ACLI values the opportunity to provide comments on the Proposed Policy Measures for Global Systemically Important Insurers. ACLI continues to be concerned that the G-SII processes, the criteria, methodology and now the proposed measures, are not holistically reflective of the unique nature of insurance in that it is a liabilities driven model that inherently pursues capital protection over capital consumption/usage. Viewed in parsed sections or excerpts the measures appear to reflect insurance as a separate and distinct business, but as a complete document the proposal favors policy remedies that either miss their mark for insurance groups or have been established for G-SIBs.<br><br>The IAIS in the last 'Strategic Plan' indicated an intention to conduct education programs on insurance supervision for global policy makers. We believe this initiative must be elevated and coordinated with national level policy makers familiar with insurance in order to stress to the Financial Stability Board that bank-centric approaches should not be forced on the insurance industry, but that the IAIS must be the final judge of appropriate criteria, methodologies and measures.<br><br>ACLI member companies offer invaluable, socially necessary protection and retirement security products and services. These products are in greater demand today as international organizations and national governments encourage increased private sector risk protection capacity to help deal with aging societies, global warming and other individual and societal challenges. Challenges that the public sector can't meet alone.<br><br>Additionally, the life insurance and retirement sector in most nations is amongst the largest generators of long term investment and largest purchaser of long term financial instruments. This role should not be forgotten when considering which measures to apply to GSIIs and possible unintended consequences, because applying inappropriate measures to GSIIs may result in lower investment in important sectors of several national economies.<br><br>The current approach to assessment and management of systemic risk in insurance seeks to 'penalize' designated firms for conducting activities deemed to be systemically relevant without consideration of their mitigation by risk management programs, management of specific activities or regulatory treatment. Such penalties will likely dictate that the well diversified and capitalized insurers that today deliver vital, socially necessary services, products and investments will retrench or withdraw from markets altogether. This may create unintended, distortive market effects by pushing certain systemically relevant activities to less diversified and financially sound firms or even possibly unregulated markets. In addition, the broader financial services approach tends to be based on bank-oriented research which should not form the basis for insurance policy measures given that insurance and bank business models are simply not comparable. |

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| | | As stated in the November 2011 IAIS Paper on Insurance and Financial Stability, 'There is little evidence of traditional insurance either generating or amplifying systemic risk within the financial system or real economy.' With that said, the necessary focus of the proposed systemic risk measures should only be on the non-traditional and non-insurance (NTNI) activities that in fact pose systemic risk.<br><br>Unfortunately, the definition of NTNI varies according to jurisdiction and while industry accepts that insurance groups with significantly exposure to NTNI which lack robust supervisory oversight may warrant consideration as GSIIs, credit must be granted for mitigating activities that reduce risk such as ALM, hedging and liquidity management. The October 17th draft appears not to recognize and give credit to existing regulator approved risk management practices. This appears contradictory and could lead to distorted outcomes.<br><br>Thus we have two primary substantive requests to the IAIS before you proceed with finalizing the GSII policy measures:<br><br>1. We strongly believe that there must be at least one more stake-holder consultation before the policy measures are finalized. This consultation should include the policy measures and the final form of the assessment methodology that necessitates the measures. We urge this be scheduled prior to designation of any G-SII.<br><br>We believe this is necessary because there are strong conditional inter-linkages between the criteria/methodology and the policy measures (If X than Y, etc.). If approved and supervised NTNI activities are considered traditional (and thus non-systemic) and/or are found at the discretion of the jurisdictional supervisor to be adequately managed under internal risk management programs and practices, then neither structural separation nor any other additional measure should be applied in practice. The proposed methodology and policy measures are simply too vague to allow for a meaningful public consultation. Because of the important role our industry plays and the potential for adverse unintended consequences, we believe that the application of targeted HLA and structural separation must be reserved for when all reasonable alternatives have been explored and found not to adequately manage the risk, and all reasonable questions have been answered. Thus, we would suggest that this exercise be considered as a pre-consultation.<br><br>2. As you re-draft the measures for further consultation once the criteria and methodology are finalized, we would ask for your consideration of the following key principles which we believe provide clear borders to the range of measures which we believe should be applied to insurers and reinsurers.<br><br>a. We agree with the IAIS that policy measures should be proportionate, focused on systemic risk concerns in systemically relevant NTNI activities and should avoid unintended consequences.<br><br>b. For this reason, we believe that the IAIS must clarify characteristics of activities that are systemically risky, clearly indicating that insurance products (e.g. VAs, other life products) and activities conducted in support of the core insurance business (e.g. hedging of general account liabilities) do not pose systemic risks.<br><br>The IAIS should reconsider its policy of structural separation of insurance activities and activities that support those activities and are conducted within a regulated insurance entity as contrary to the goal of improving the entity's risk characteristics. ACLI strongly recommends this policy be excluded from any final measures.<br><br>c. In the U.S., life insurance, reinsurance and annuity providers have appropriate derivative portfolios as part of hedging / risk management strategies. As long as such derivatives use is consistent with national and/or state regulations and is approved by the home supervisor, these activities should be considered traditional insurance.<br><br>d. Given the robust regulation and strict supervision of U.S. entities and groups, we are concerned that inconsistent application of the proposed policy measures will create unintended consequences, including providing a substantial domestic advantage to market dominant domestic companies in international markets where U.S. companies operate. We point to the lack of FSAP oversight of significant market segments dominated by government owned and affiliated insurance providers. |
| American Council | 1.1 | We agree with the IAIS that policy measures should be proportionate, focused on systemic risk concerns in systemically relevant NTNI activities and should avoid |

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| of Life Insurers | | unintended consequences. |
| American Council of Life Insurers | 3 | These mandates must be translated by the IAIS into an appropriate form relative to the unique nature of the insurance industry. |
| American Council of Life Insurers | 4 | We believe that the IAIS must clarify characteristics of activities that are systemically risky, clearly indicating that insurance products (e.g. VAs, other life products) and activities conducted in support of the core insurance business (e.g. hedging of general account liabilities) do not pose systemic risks.<br><br>The IAIS should reconsider its policy of structural separation of insurance activities and activities that support those activities and are conducted within a regulated insurance entity as contrary to the goal of improving the entity's risk characteristics. ACLI strongly recommends this policy be excluded from any final measures.<br><br>n the U.S., life insurance, reinsurance and annuity providers have appropriate derivative portfolios as part of hedging / risk management strategies. As long as such derivatives use is consistent with national and/or state regulations and is approved by the home supervisor, these activities should be considered traditional insurance<br><br>Given the robust regulation and strict supervision of U.S. entities and groups, we are concerned that inconsistent application of the proposed policy measures will create unintended consequences, including providing a substantial domestic advantage to market dominant domestic companies in international markets where U.S. companies operate. We point to the lack of FSAP oversight of significant market segments dominated by government owned and affiliated insurance providers. |
| American Council of Life Insurers | 5 | We feel the IAIS needs to be a strong advocate for outcomes appropriate to the unique nature of the insurance industry. |
| American Council of Life Insurers | 6 | See recent Geneva Association report. |
| American Council of Life Insurers | 7 | We strongly believe that there must be at least one more stake-holder consultation before the policy measures are finalized. This consultation should include the policy measures and the final form of the assessment methodology that necessitates the measures. We urge this be scheduled prior to designation of any G-SII.<br><br>We believe this is necessary because there are strong conditional inter-linkages between the criteria/methodology and the policy measures (If X than Y, etc.). If approved and supervised NTNI activities are considered traditional (and thus non-systemic) and/or are found at the discretion of the jurisdictional supervisor to be adequately managed under internal risk management programs and practices, then neither structural separation nor any other additional measure should be applied in practice. The proposed methodology and policy measures are simply too vague to allow for a meaningful public consultation. Because of the important role our industry plays and the potential for adverse unintended consequences, we believe that the application of targeted HLA and structural separation must be reserved for when all reasonable alternatives have been explored and found not to adequately manage the risk, and all reasonable questions have been answered. Thus, we would suggest that this exercise be considered as a pre-consultation. |
| American Council of Life Insurers | 9 | This characterization also applies to current government owned or affiliate insurance providers which enjoy implicit of explicit government guarantees including: The Life Insurance Corporation of India, China Life, Japan Post Insurance, Japan Agricultural Cooperative and Korea Post Insurance. These groups were excluded from the GSIFII identification process, which we believe is a blind spot in the FSBs work program. |
| American Council of Life Insurers | 11 | See previous comments. |
| American Council of Life Insurers | 12 | Enhanced Supervision: We agree with the need for comprehensive group supervisory coordination for large, cross-border insurance groups. This coordination should provide that regulators are able to receive accurate and timely information on all group-wide activities (including NTNI) and include mechanisms that would alert supervisors of any potentially systemically important activities. The powers provided in the U.S. under Dodd Frank, allow this coordination and cooperation on managing these risks. |

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| | | Additionally in the U.S., State insurance supervisors are in the process of introducing significant improvements to the state regulatory system, including streamlining procedures and mechanisms for States to host and participate within supervisory colleges. These new powers include the ability to:<br>- Aggregate group-wide information<br>- Conduct and lead group-wide supervisory activities<br>- Coordinate information sharing procedures amongst involved supervisors<br>- Make decision on group-wide issues in consultation with involved supervisors<br>- Implement and coordinate of group-wide enforcement activities<br>- Identify gaps in supervision and oversight of group capital management.<br><br>These developments and improvements should be taken into account when considering enhanced supervision for firms designated as G-SIIs. Such enhanced supervision should enable the identification of NTNI activities within the operation and their handling within the risk management framework of the insurance group. It may include enhanced reporting, more intensive contacts with senior management, and extended and more in-depth supervisory colleges. However, the supervisor should not be given authorities or roles that properly fall to G-SIIs' senior management.<br>In the U.S., and we believe most other jurisdictions, recovery is much more important than resolution in insurance, and U.S. regulators have robust intervention and recovery authorities and tools, which in the vast majority of cases makes resolution unnecessary. For those few cases where resolution is necessary, the U.S. has a guarantee fund mechanism which should be a substantial consideration. This system applies to all admitted insurers, including foreign headquartered subsidiaries.<br><br>Regarding Systemic Risk Reduction Plans (SRRP), the IAIS needs to provide further clarification on the structure and responsibilities in developing an SRRP. Based on IAIS's public comments we understand that the purpose of an SRRP is to reduce an institution's risk profile in order to possibly avoid the application of any HLA measure. However, based on the proposed measures, SRRP's dictate separation and self-sufficiency of systemically relevant activities including potentially isolation of insurance-regulated NTNI or activities conducted in support of insurance business (e.g. regulated securities lending, variable annuities, insurance liability hedging). ACLI does not support this approach as it will lead to broad imbalances in the supervision of groups, including but not limited to: multiplying functional regulators and attendant possible blind spots, rendering certain activities formerly regulated or at least considered within the purview of the regulated entity unregulated, and providing supervisors powers that are properly those of management.. Further, while we would strongly suggest that consideration of risk management and governance would make more sense during the assessment phase, as a less optimal alternative we propose that institution-specific risk management and governance programs should be an integral part in the development of every SRRP. What is more, if, after accounting for risk management programs, residual risk is at an acceptable level, we would propose that no further measures should apply.<br><br>We feel that the need for a SRRP is not justified as an insurer's risk management and on-going supervision should take account of the risks of all entities and activities within an insurance group. Moving forward merging requirement for ORSAs will compel global insurance groups to acknowledge and disclose the full range of their risks, risk profile and how they are managing those risks. The ORSA should be a key tool to both manage their risks and to determine if changes to their business model are prudent and/or desirable.<br><br>Direct restrictions or prohibitions of particular activities should only be considered in extreme circumstances. Regulation should set the incentives in order to improve the risk culture and enhance risk management in organizations in order to minimize potentially systemic activities, rather than arbitrarily prohibiting or restricting certain activities or legal structures. The IAIS Methodology paper stated that 'the IAIS would prefer incentives based measures over prohibitions'. No incentive measures, however, are reflected in the document, besides prohibition and restriction. The IAIS should find ways to promote ERM through pillar II measures and make a better use of ORSA and internal models (to reflect intra-group transactions for example).<br><br>Also, such structural measures may prove to be very difficult or impossible to implement in many cases as the purpose of an activity may necessitate that it is conducted in the insurance entity and reflected in its balance sheet for legitimate risk management reasons (e.g. hedging). Further, diversification benefits between traditional insurance business and other businesses need to be considered, unless the activities involved create significant actual exposure to systemic risk. |

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| | | As an example, we are very concerned about the possibility of separating life portfolios of contracts with financial guarantees, including variable annuities (VA), into separate entities. Variable Annuities provide a highly beneficial and long-term value for policyholders. As insurers have the unique ability to effectively diversify the underlying risks, they are the most efficient providers of such contracts. Impeding risk diversification by requiring separate entities for life portfolios including VAs would inevitably result in a substantial drop in the supply of these products by insurers. |
| American Council of Life Insurers | 15 | See previous comments. |
| American Council of Life Insurers | 16 | Regarding Systemic Risk Reduction Plans (SRRP), the IAIS needs to provide further clarification on the structure and responsibilities in developing an SRRP. Based on IAIS's public comments we understand that the purpose of an SRRP is to reduce an institution's risk profile in order to possibly avoid the application of any HLA measure. However, based on the proposed measures, SRRP's dictate separation and self-sufficiency of systemically relevant activities including potentially isolation of insurance-regulated NTNI or activities conducted in support of insurance business (e.g. regulated securities lending, variable annuities, insurance liability hedging). ACLI does not support this approach as it will lead to broad imbalances in the supervision of groups, including but not limited to: multiplying functional regulators and attendant possible blind spots, rendering certain activities formerly regulated or at least considered within the purview of the regulated entity unregulated, and providing supervisors powers that are properly those of management.. Further, while we would strongly suggest that consideration of risk management and governance would make more sense during the assessment phase, as a less optimal alternative we propose that institution-specific risk management and governance programs should be an integral part in the development of every SRRP. What is more, if, after accounting for risk management programs, residual risk is at an acceptable level, we would propose that no further measures should apply.<br><br>We feel that the need for a SRRP is not justified as an insurer's risk management and on-going supervision should take account of the risks of all entities and activities within an insurance group. Moving forward merging requirement for ORSAs will compel global insurance groups to acknowledge and disclose the full range of their risks, risk profile and how they are managing those risks. The ORSA should be a key tool to both manage their risks and to determine if changes to their business model are prudent and/or desirable.<br><br>Direct restrictions or prohibitions of particular activities should only be considered in extreme circumstances. Regulation should set the incentives in order to improve the risk culture and enhance risk management in organizations in order to minimize potentially systemic activities, rather than arbitrarily prohibiting or restricting certain activities or legal structures. The IAIS Methodology paper stated that 'the IAIS would prefer incentives based measures over prohibitions'. No incentive measures, however, are reflected in the document, besides prohibition and restriction. The IAIS should find ways to promote ERM through pillar II measures and make a better use of ORSA and internal models (to reflect intra-group transactions for example).<br><br>Also, such structural measures may prove to be very difficult or impossible to implement in many cases as the purpose of an activity may necessitate that it is conducted in the insurance entity and reflected in its balance sheet for legitimate risk management reasons (e.g. hedging). Further, diversification benefits between traditional insurance business and other businesses need to be considered, unless the activities involved create significant actual exposure to systemic risk.<br><br>As an example, we are very concerned about the possibility of separating life portfolios of contracts with financial guarantees, including variable annuities (VA), into separate entities. Variable Annuities provide a highly beneficial and long-term value for policyholders. As insurers have the unique ability to effectively diversify the underlying risks, they are the most efficient providers of such contracts. Impeding risk diversification by requiring separate entities for life portfolios including VAs would inevitably result in a substantial drop in the supply of these products by insurers. |
| American Council of Life Insurers | 25 | See previous comments. |
| American Council of Life Insurers | 26 | Effective resolution: The nature of insurance and its liabilities (including asset liability matching) allows for a prolonged time period to react to developing stress situations. Broadly effective recovery and resolution approaches exist in jurisdictions across the world to address the risks posed through an insurance failure. A more tailored approach is therefore necessary for insurance. |

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| | | ACLI supports the inclusion of insurance specifics in the development of assessments of resolution mechanisms for use by the IMF and World Bank. We would suggest that guarantee schemes (if any) associated with resolution mechanisms should always be strictly sector specific such that any levies (whether pre or post funded) support failures within a sector and do not require policyholders to support insolvencies of other financial sectors that inherently exposed to greater systemic risk than the insurance sector.<br><br>The ACLI fundamentally disagrees with paragraph 28: 'It needs to be further examined whether a mainly traditional insurance group with a large derivatives portfolio may experience a disorderly run-off?' It should be noted that large derivative portfolios for hedging purposes are inherent in traditional insurance and there is no evidence that this would impede orderly resolvability of traditional insurers. This practice is authorized under U.S. law and is subject to strict supervision. This is also acknowledged in the earlier IAIS position presented in Insurance and Financial Stability (2011): 'The long term nature of insurance liabilities and their extended run-off profiles, along with the authorities and tools available to regulators, typically provide for orderly resolutions of traditional insurance firms.'<br><br>As the IAIS proceeds in assessing the FSB Key Attributes (i.e. (i) the establishment of Crisis Management Groups (CMGs); (ii) the elaboration of recovery and resolution plans (RRPs); (iii) the conduct of resolvability assessments; and (iv) the adoption of institution-specific cross-border cooperation agreements) it is essential to recognize the existing regimes and consider where a proportionate application of the Key Attributes would provide any practical improvement, and where not. It is particularly important to note the inverted production cycle that provides more time for early intervention. This is very important to a solvency regime based on the ICPs and negates the need for the application of many of the key attributes.<br><br>The ACLI believes that the potential resolution of a large, internationally active insurance group focused on traditional insurance activities would not pose and exacerbate systemic risk. This is the case given the low levels of interconnectedness of insurance firms (i.e. insurers do not lend to each other like banks) and high degree of substitutability. However, it is important to note that there remain fundamental differences between recovery and resolution measures in different jurisdictions.<br>Further, the October 17th Proposal does not reflect the efforts and initiatives that regulators and government officials need to undertake in order to address (and remove) international legal barriers to effective resolution. The IAIS and FSB should drive these efforts. While the document mentions efforts from companies (e.g. RRPs, separability assessments) and national regulators, it does not comment on international/cross-border efforts expected from regulators.<br><br>Such firm-specific cross-border coordination arrangements between supervisors should address the exchange of information and ensure appropriate cooperation and coordination by including the following elements:<br>- Group Supervisor: agreements should involve the group lead who has responsibility to supervise all or a substantial part of the groups' insurance operations.<br>- International mandate: Authorities should be required to coordinate effectively with the authorities of other jurisdictions in the crisis management and resolution of cross-border groups.<br>- Non-discrimination: Authorities cannot discriminate against creditors of the group on the basis of their location or nationality.<br>- Optimize outcomes for creditors as a whole: Authorities are required to optimize outcomes for the creditors of the group as a whole.<br>- Joint planning/crisis management: Practices for crisis management as a part of sound risk management should be exchanged (as crisis management measures are already developed under different regimes) and developed within colleges.<br>- Cooperation and coordination agreement: Authorities should be required to enter into a cooperation and coordination agreement in respect of the crisis management and resolution of the group.<br>- Joint plan implementation: Authorities should have an obligation to act in accordance with cooperation and coordination agreement.<br>- Information sharing: The relevant authorities should share all relevant information with each other on the basis of strict confidentiality arrangements.<br>- Early warning: Obligation to alert other authorities if the group or key entities within the group are at material risk of approaching a crisis situation.<br>- Burden sharing: As there should be no expectation that losses will be borne by taxpayers, burden-sharing principles between governments are not necessary.<br><br>While in the banking arena the concept of 'Key Critical Functions' has a proper meaning within resolution frameworks, it is still necessary to conduct further analysis in the non-traditional insurance arena to determine whether any activity could be critical in this respect. Given that it is accepted that traditional insurance can be resolved in an orderly manner without impact to the financial system or the real economy, it is unnecessary to stipulate prescriptive requirements. |

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| | | Additionally, while we understand the natural desire to reference ComFrame in paragraph 14, we reject the implication that it should represent an additional layer of regulation on insurance groups that are already subject to comprehensive group supervision under national law. |
| American Council of Life Insurers | 32 | Higher Loss Absorbency (HLA): While it is possible HLA may not apply if a G-SII meets targets set under its SRRP, we would suggest that given the fact that the IAIS has not yet determined those targets, consideration of group-wide higher loss absorbency (HLA) capacity should be tentative until the determination criteria and methodology are finalized.<br><br>Given the nature of the insurance business model and the legal-entity based solvency system in the U.S., group wide HLA capacity is not appropriate for insurance and reinsurance groups. Additionally, the application of such measures would be complicated by the fact that no consistent global solvency standards exist and because of possible negative unforeseen consequences such as making insurance uncompetitive; limiting coverage of risks, and causing higher premium rates. We support the concept of targeting HLA to specific activities which are a source of systemic risk, as proposed in Step 1 of the 'Cascade Approach'. However, the application of HLA should take into account existing national or regional regimes in order not to create market distortion at the global level. |
| American Council of Life Insurers | 51 | See previous comments. |
| American Council of Life Insurers | 52 | See executive summary comments. |
| American Council of Life Insurers | 52.9 | Given the lack of certainty on the outcome of the finalization on the GSII determination criteria and methodology, we suggest at least a ninety day consultation following their publication, to review an updated policy measures proposal. Given the long time horizon of the overall implementation this would seem prudent and in line with the common wisdom of measure twice, cut once. |
| American Council of Life Insurers | 53 | We strongly believe that there must be at least one more stake-holder consultation before the policy measures are finalized. This consultation should include the policy measures and the final form of the assessment methodology that necessitates the measures. We urge this be scheduled prior to designation of any G-SII.<br><br>We believe this is necessary because there are strong conditional inter-linkages between the criteria/methodology and the policy measures (If X than Y, etc.). If approved and supervised NTNI activities are considered traditional (and thus non-systemic) and/or are found at the discretion of the jurisdictional supervisor to be adequately managed under internal risk management programs and practices, then neither structural separation nor any other additional measure should be applied in practice. The proposed methodology and policy measures are simply too vague to allow for a meaningful public consultation. Because of the important role our industry plays and the potential for adverse unintended consequences, we believe that the application of targeted HLA and structural separation must be reserved for when all reasonable alternatives have been explored and found not to adequately manage the risk, and all reasonable questions have been answered. Thus, we would suggest that this exercise be considered as a pre-consultation. |
| American Council of Life Insurers | 57 | Consistent with U.S. national and state laws. |
| American Council of Life Insurers | 58 | In a transparent manner with regular reports, and with application of the criteria, methodology and measures to government owned and affiliated insurance providers |
| American Insurance Association | 0.9 | The American Insurance Association (AIA) appreciates the opportunity to submit comments on the International Association of Insurance Supervisors (IAIS) October 17, 2012 Public Consultation Document entitled 'Global Systemically Important Insurers: Proposed Policy Measures.' (G-SII Policy Measures) AIA represents approximately 300 major U.S. insurance companies that provide all lines of property-casualty insurance to consumers and businesses in the United States and around the world. AIA members write more than $117 billion annually in U.S. property-casualty premiums and approximately $225 billion annually in |

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| | | worldwide property-casualty premiums.<br>AIA's membership includes U.S. insurers that write insurance only within the U.S., U.S. insurers that write insurance inside and outside the U.S., and the U.S. subsidiaries of multi-national insurers. This diversity gives AIA the ability to analyze issues from many perspectives and enables us to draw on the global experience and expertise of our companies with many forms of insurance regulation.<br>On July 31, AIA submitted comments to the IAIS in response to its public consultation on the proposed methodology for assessing insurance companies as G-SIIs. While we agreed with the consultation document's conclusion that traditional insurance activities do not present any systemic risk, we reiterated our concerns that the proposed methodology itself was not consistent with that general conclusion. Similarly, AIA and its members have a strong interest in ensuring that the policy measures applied to G-SIIs focus squarely on systemically risky behavior and activities, while avoiding the type of government support that will give G-SIIs a competitive advantage over other international insurers.<br><br>SUMMARY<br><br>AIA supports the efforts of the IAIS to apply enhanced supervision and early remediation policy measures for companies that are a source of systemic risk and are consequently designated as G-SIIs. In particular, AIA appreciates that the IAIS has tried to distinguish and separate non-systemically risky insurance activities from those systemically risky activities that may require enhanced regulation. We believe that G-SII regulation should be guided by the IAIS' statement that application of the measures should be 'proportionate and?. avoid unintended adverse consequences,' targeted at systemically risky activity, 'linked to the assessment methodology,' and reliant on 'strong cooperation' among a G-SII's insurance and non-insurance supervisors.<br>While AIA is generally supportive of the G-SII Policy Measures, we remain concerned about four separate aspects of the consultation document and the overall G-SII designation and supervision process. First, it is difficult to support implementation of those measures when many of the foundational issues associated with the G-SII assessment methodology have not as yet been conclusively determined. As a result, as outlined in more detail below, AIA continues to be concerned with the IAIS implementation timeline for the G-SII initiative, and the scope and definition of key terms such as 'non-traditional, non-insurance' activities (NTNIA) that are referenced throughout the G-SII Policy Measures. Specifically, we believe it is important to achieve consensus on the criteria for determining whether a company is a G-SII, so that application of the enhanced regulatory standards does not produce adverse consequences for the company or distort market competition. Therefore, we strongly recommend that the IAIS hold the G-SII Policy Measures in abeyance until the G-SII assessment methodology has been finalized and the outstanding concerns with that methodology addressed. At that time, the IAIS should expose the G-SII Policy Measures to additional public comment, to make certain that application of the Policy Measures is (1) proportionate, (2) targeted correctly at systemic risk-related activity, (3) consistent with the final methodology, and (4) avoids adverse company-specific and market-wide consequences.<br>Second, separate from our concern about the timing and staging of the G-SII initiative, the G-SII Policy Measures reference other IAIS initiatives, most notably ComFrame. The inclusion of numerous references to ComFrame - particularly in the discussion of higher loss absorbency (HLA) - perpetuates the idea that there is no regulatory distinction between G-SIIs and internationally active insurance groups (IAIGs). We respectfully request that the IAIS consider deleting all references to ComFrame, or adding qualifying language at the beginning of the G-SII Policy Measures that clearly describes ComFrame as a principles-based initiative.<br>Third, we suggest that the IAIS carefully calibrate any recommended requirement of additional capital for G-SIIs to ensure that such capital, where appropriate, supports only the systemically risky, non-insurance activities of those companies. As we have noted in other submissions to the IAIS, AIA neither supports the institution of a global capital standard for international insurers, nor the adoption of a group capital requirement for insurers that are subject to risk-based capital requirements and financial regulation at the legal entity level (like those in the United States).<br>Fourth, effective resolution should factor in guaranty fund mechanisms and the potential disruption to well-functioning insurance resolution schemes, and calibrate any requirements for living wills to account for the practicality of completing those plans for insurance entities. |
| American Insurance Association | 0.91 | GENERAL COMMENTS<br><br>I. Evaluation Of The G-SII Policy Measures Is Premature And Should Follow Final Adoption Of A Consensus-Based Assessment Methodology.<br><br>The G-SII Policy Measures are scheduled to be implemented in 2013, immediately following the first wave of G-SII designations and the release of a final assessment methodology. As a result, the request for public comments is premature, as AIA and other industry observers must evaluate those measures without |

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| | | the benefit of knowing the outcome of final IAIS deliberations on the assessment methodology itself. Assuming arguendo that the May 31, 2012 draft assessment methodology will be finalized without change, there are several serious concerns that appear in both public consultation documents.<br><br>First, the IAIS ties NTNI activities of a G-SII, as determined by the G-SII assessment methodology, directly to the application of many of the G-SII Policy Measures. While this makes sense, as NTNI activity assessment is linked in many ways to interconnectedness, a G-SII's 'activities' only become relevant to the application of enhanced policy measures where those activities present a risk of systemic instability. As a result, it is important to further separate 'non-traditional' insurance from 'non-insurance' activities, in order to isolate those activities that have a lower risk because they follow the insurance business model. Neither the G-SII assessment methodology nor the G-SII Policy Measures make this distinction, which could lead to enhanced supervision and related activity restrictions or prohibitions even where the non-traditional insurance activity presents no threat to financial stability.<br><br>As discussed in our July 31, 2012 submission on the proposed G-SII assessment methodology, the characterization of insurance-linked securities as 'non-traditional' products is particularly troubling, as ILS are treated for accounting purposes like other insurance products and are functionally similar to insurance and reinsurance. ILS transactions, including catastrophe bonds engaged in by property-casualty insurance and reinsurance companies, are in fact important tools used by these companies to manage, transfer, and spread the risks associated with exposure to natural catastrophes. Property-casualty insurers use ILS transactions to complement their reinsurance, and reinsurers also use these products to spread their risk. The continued availability of ILS enables companies to continue to provide insurance capacity for catastrophic events such as earthquakes and hurricanes. Almost $15 billion of ILS, including catastrophe bonds, were outstanding as of July 2012.<br><br>Further, to the extent that variable annuities are treated as a 'non-traditional' insurance activity, this treatment is inconsistent with industry understood meaning of these products and other IAIS statements regarding these products. In short, in both the G-SII assessment methodology and the G-SII Policy Measures, the IAIS needs to be very careful about defining indicators for the NTNIA category, and should focus only on those non-insurance activities with systemic potential.<br><br>The same definitional issues arise with the G-SII Policy Measures' discussion of 'interconnectedness,' which is defined as 'strong connections between the insurance and banking sectors that can amplify the impact of stress events.' To the contrary, interconnectedness is not important because of the amplification effect; it is important because the relationships are based on activities that enable a source of systemic risk to spread that risk through the financial sector.<br>Finally, 'systemic importance' and 'systemic risk' are used interchangeably in the G-SII Policy Measures. While this may not seem significant, there is a substantial difference between a 'systemically risky' activity and one that is merely 'important' to the financial system. The G-SII Policy Measures need to focus on 'risk,' not 'importance.'<br><br>With respect to the definitional issues in the G-SII Policy Measures, AIA respectfully recommends that the IAIS defer further work until the G-SII assessment methodology has been finalized through consensus. It is important that the IAIS achieve regulatory and industry consensus so that the G-SII Policy Measures are proportionate, targeted at systemically risky activity and behavior, and avoid unintended adverse consequences.<br><br><br>II. References To Other IAIS Initiatives Should Be Avoided Where Those References Would Cause Confusion With The G-SII Policy Measures.<br><br>The G-SII Policy Measures contain numerous references to other IAIS initiatives, particularly ComFrame. Any such references should be informational and describe the distinctions between those initiatives and the enhanced supervision that will be applied to designated G-SIIs. When describing the methodology for applying HLA capacity, the IAIS notes that 'the capital component of the solvency assessment in ComFrame should have ? a partly harmonised set of standards and parameters that sets out a narrow range of target criteria and time horizons for measurement purposes.' This reference seems to confuse the G-SII capital standards with those that the IAIS is seeking to apply to IAIGs, and to imply that decisions to require additional capital will be made principally through quantitative, rather than qualitative, assessment. AIA respectfully suggests that this reference be eliminated.<br><br>III. The Consequences Of Applying HLA Need To Be Carefully Considered. |

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| | | Regarding the standards for applying additional capital or other means of HLA, the G-SII Policy Measures need additional detail and an impact analysis to ensure that any HLA avoids adverse consequences on the insurance entities within a G-SII. The IAIS has recognized that G-SIIs operate in different countries that use differing accounting standards and risk-based capital approaches, and there is no global capital standard that is applicable to insurers. Our concerns over HLA arise mainly in circumstances where additional capital would be required either at a group-wide level or within insurance entities of a G-SII. As the IAIS is aware, in jurisdictions like the United States, applying additional capital requirements at the group level would prevent that capital from being used to provide additional policy protection to policyholders. Similar results could also occur by directing the additional capital to certain insurance subsidiaries or affiliates. Thus, the IAIS needs to carefully weigh the need to apply HLA against any market availability or policyholder protection concerns. AIA would like to see additional details regarding the methodology for calculating HLA that is targeted at systemically risky activities within a G-SII or that works in conjunction with the G-SII's current national/regional solvency regime before we commit our support to these parts of the HLA policy measures.<br><br>IV. Aspects Of Effective Resolution May Not Be Possible For Some G-SIIs.<br><br>Part of the G-SII Policy Measures promotes the establishment of recovery and resolution plans by G-SIIs. However, for G-SIIs within insurance operations in the United States, a resolution plan may not be possible or consistent with applicable federal law. Section 203(e) of the Dodd-Frank Act directs that the liquidation or rehabilitation of an insurance company shall be conducted as provided under applicable state law. Because insurers are subject to state-based receivership laws, it may be impossible for them to prepare resolution plans that meet the informational content requirements that may be suggested by the IAIS. In this context, G-SIIs with U.S. insurance operations are in a position with regard to resolution matters that is virtually identical to that of U.S. insured depository institutions for which the FDIC is appointed receiver under the Federal Deposit Insurance Act ('FDIA'). Under the FDIA, the FDIC, as receiver, has plenary authority over the disposition of the assets, liabilities and affairs of an insured depository institution in receivership. The proposed 'orderly resolution authority' regulation under the Dodd-Frank Act recognizes that resolution plans submitted by bank and savings and loan holding companies will not address resolution of the depository institution's subsidiaries because of the primacy of the FDIA and the role of the FDIC as receiver. Accordingly, AIA strongly urges that when deciding on the details of recovery and resolution plans for G-SIIs that operate in the U.S., the IAIS treat G-SIIs in the same manner as the proposed Dodd-Frank Act rule treats depository institutions. The IAIS should expressly acknowledge that in view of the role of U.S. state insurance laws relating to resolution of insurers, G-SIIs are not required to submit a U.S. insurer's plan for rapid and orderly resolution in the event of material financial distress at or failure of the G-SII.<br><br>CONCLUSION<br><br>AIA appreciates the opportunity to provide the foregoing comments on the G-SII Policy Measures. It is important than the entire G-SII initiative - from determination to supervision - proceed in a deliberative manner that addresses systemic risk, but allows private insurance markets to flourish. |
| American Insurance Association | 2 | AIA agrees with modification of the framework to address insurance-specific factors that differentiate the industry from other financial sectors. These distinctions should be maintained when deciding whether to apply the G-SII policy measures to insurance entities within a G-SII. |
| American Insurance Association | 4 | NTNI ACTIVITY. The IAIS ties NTNI activities of a G-SII, as determined by the G-SII assessment methodology, directly to the application of many of the G-SII Policy Measures. While this makes sense, as NTNI activity assessment is linked in many ways to interconnectedness, a G-SII's 'activities' only become relevant to the application of enhanced policy measures where those activities present a risk of systemic instability. As a result, it is important to further separate 'non-traditional' insurance from 'non-insurance' activities, in order to isolate those activities that have a lower risk because they follow the insurance business model. Neither the G-SII assessment methodology nor the G-SII Policy Measures make this distinction, which could lead to enhanced supervision and related activity restrictions or prohibitions even where the non-traditional insurance activity presents no threat to financial stability.<br>As discussed in our July 31, 2012 submission on the proposed G-SII assessment methodology, the characterization of insurance-linked securities as 'non-traditional' products is particularly troubling, as ILS are treated for accounting purposes like other insurance products and are functionally similar to insurance and reinsurance. ILS transactions, including catastrophe bonds engaged in by property-casualty insurance and reinsurance companies, are in fact important tools used by these companies to manage, transfer, and spread the risks associated with exposure to natural catastrophes. Property-casualty insurers use ILS transactions to complement their reinsurance, and reinsurers also use these products to spread their risk. The continued availability of ILS enables companies to continue to provide insurance capacity for catastrophic events such as earthquakes and hurricanes. Almost $15 billion of ILS, including catastrophe bonds, were |

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| | | outstanding as of July 2012.<br>Further, to the extent that variable annuities are treated as a 'non-traditional' insurance activity, this treatment is inconsistent with industry understood meaning of these products and other IAIS statements regarding these products. In short, in both the G-SII assessment methodology and the G-SII Policy Measures, the IAIS needs to be very careful about defining indicators for the NTNIA category, and should focus only on those non-insurance activities with systemic potential.<br><br>INTERCONNECTEDNESS. The same definitional issues arise with the G-SII Policy Measures' discussion of 'interconnectedness,' which is defined as 'strong connections between the insurance and banking sectors that can amplify the impact of stress events.' To the contrary, interconnectedness is not important because of the amplification effect; it is important because the relationships are based on activities that enable a source of systemic risk to spread that risk through the financial sector.<br><br>'SYSTEMIC RISK' VS. 'SYSTEMIC IMPORTANCE'. Finally, 'systemic importance' and 'systemic risk' are used interchangeably in the G-SII Policy Measures. While this may not seem significant, there is a substantial difference between a 'systemically risky' activity and one that is merely 'important' to the financial system. The G-SII Policy Measures need to focus on 'risk,' not 'importance.'<br><br>RECOMMENDATION: With respect to the definitional issues in the G-SII Policy Measures, AIA respectfully recommends that the IAIS defer further work until the G-SII assessment methodology has been finalized through consensus. It is important that the IAIS achieve regulatory and industry consensus so that the G-SII Policy Measures are proportionate, targeted at systemically risky activity and behavior, and avoid unintended adverse consequences. |
| American Insurance Association | 6 | It is important that this process only result in application of the enhanced policy measures to those few firms that are a SOURCE of systemic risk, and not merely victims of anothers contagion. |
| American Insurance Association | 7 | AIA agrees with this distinction. As discussed further, it is also important to further differentiate between 'non-traditional' and 'non-insurance' activities to identify those activities that are systemically risky (as opposed to merely systemically 'important'). |
| American Insurance Association | 11 | AIA believes that this paragraph is perhaps the most important statement in the consultation document and should guide the application of G-SII Policy Measures. |
| American Insurance Association | 13 | The IAIS needs to be aware of the limits of authority that can be vested in a group-wide supervisor. In this regard, the ability to supervise a G-SII will depend in large measure upon the coordination of functional supervisors via the supervisory college, as well as an understanding of the different business components of a G-SII. |
| American Insurance Association | 17 | Again, as previously noted, enhanced supervision applied to a G-SII and any separation of activities will depend in large part on appropriately defining 'systemically risky' activity so as not to capture (and over-regulate) activities that have little potential to destabilize the financial system. |
| American Insurance Association | 21 | The IAIS should provide more details or examples of regulatory restrictions or prohibitions that might be applied to a G-SII. As a general matter, we are not in favor of prohibition where effective supervision and monitoring can continue to allow the activity to occur. |
| American Insurance Association | 24.9 | Aspects Of Effective Resolution May Not Be Possible For Some G-SIIs.<br><br>Part of the G-SII Policy Measures promotes the establishment of recovery and resolution plans by G-SIIs. However, for G-SIIs within insurance operations in the United States, a resolution plan may not be possible or consistent with applicable federal law. Section 203(e) of the Dodd-Frank Act directs that the liquidation or rehabilitation of an insurance company shall be conducted as provided under applicable state law. Because insurers are subject to state-based receivership laws, |

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| | | it may be impossible for them to prepare resolution plans that meet the informational content requirements that may be suggested by the IAIS. In this context, G-SIIs with U.S. insurance operations are in a position with regard to resolution matters that is virtually identical to that of U.S. insured depository institutions for which the FDIC is appointed receiver under the Federal Deposit Insurance Act ('FDIA'). Under the FDIA, the FDIC, as receiver, has plenary authority over the disposition of the assets, liabilities and affairs of an insured depository institution in receivership. The proposed 'orderly resolution authority' regulation under the Dodd-Frank Act recognizes that resolution plans submitted by bank and savings and loan holding companies will not address resolution of the depository institution's subsidiaries because of the primacy of the FDIA and the role of the FDIC as receiver. Accordingly, AIA strongly urges that when deciding on the details of recovery and resolution plans for G-SIIs that operate in the U.S., the IAIS treat G-SIIs in the same manner as the proposed Dodd-Frank Act rule treats depository institutions. The IAIS should expressly acknowledge that in view of the role of U.S. state insurance laws relating to resolution of insurers, G-SIIs are not required to submit a U.S. insurer's plan for rapid and orderly resolution in the event of material financial distress at or failure of the G-SII. |
| American Insurance Association | 30 | AIA agrees that it is important to consider guaranty funds and other similar policyholder protection measures when applying effective resolution measures. In the U.S., we have an effective state-based guaranty fund system in place that has led to an orderly resolution process for companies that have become insolvent. |
| American Insurance Association | 31.9 | The Consequences Of Applying HLA Need To Be Carefully Considered.<br><br>Regarding the standards for applying additional capital or other means of HLA, the G-SII Policy Measures need additional detail and an impact analysis to ensure that any HLA avoids adverse consequences on the insurance entities within a G-SII. The IAIS has recognized that G-SIIs operate in different countries that use differing accounting standards and risk-based capital approaches, and there is no global capital standard that is applicable to insurers. Our concerns over HLA arise mainly in circumstances where additional capital would be required either at a group-wide level or within insurance entities of a G-SII. As the IAIS is aware, in jurisdictions like the United States, applying additional capital requirements at the group level would prevent that capital from being used to provide additional policy protection to policyholders. Similar results could also occur by directing the additional capital to certain insurance subsidiaries or affiliates. Thus, the IAIS needs to carefully weigh the need to apply HLA against any market availability or policyholder protection concerns. AIA would like to see additional details regarding the methodology for calculating HLA that is targeted at systemically risky activities within a G-SII or that works in conjunction with the G-SII's current national/regional solvency regime before we commit our support to these parts of the HLA policy measures. |
| American Insurance Association | 38 | When describing the methodology for applying HLA capacity, the IAIS notes that 'the capital component of the solvency assessment in ComFrame should have ? a partly harmonised set of standards and parameters that sets out a narrow range of target criteria and time horizons for measurement purposes.' This reference seems to confuse the G-SII capital standards with those that the IAIS is seeking to apply to IAIGs, and to imply that decisions to require additional capital will be made principally through quantitative, rather than qualitative, assessment. AIA respectfully suggests that this reference be eliminated. |
| American Insurance Association | 45 | See AIAs general comments in response to Q-39. |
| American Insurance Association | 52 | Given the importance of this issue, AIA would appreciate the ability to publicly comment on any HLA capacity proposals as they are developed by the IAIS. |
| American Insurance Association | 53 | The G-SII Policy Measures are scheduled to be implemented in 2013, immediately following the first wave of G-SII designations and the release of a final assessment methodology. As a result, the request for public comments is premature, as AIA and other industry observers must evaluate those measures without the benefit of knowing the outcome of final IAIS deliberations on the assessment methodology itself. Many of the unresolved definitional issues are outlined in AIA´s General Comments on the policy measures. |
| Association of Bermuda Insurers and Reinsurers | 0.9 | On behalf of the 22 members of Association of Bermuda Insurers and Reinsurers (ABIR) we offer these comments. In general we make these points: 1) the IAIS methodology measures should be subject to further refinement prior to being used to identify globally systemically important insurers (G-SII's); based on the acknowledged problems in the current methodology we believe it should be subject to additional consultation; 2) the best policy measures to identify and apply to systemic risk are those in the enhanced supervision arena; the IAIS should focus on building out the correct enhanced supervision measures; the enhanced |

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| | | supervision should be targeted to specific activities where the threat of systemic risk is identified; 3) the HLA measures should be targeted to the non insurance activities that have been identified that pose systemic risk; applying HLA measures to the group as a whole penalizes the core insurance underwriting operations. The IAIS had already determined that core underwriting activities do not pose systemic risk; 4) we note that the leaders of the IAIS project put great weight on the supervisory judgment component to address inequities that may result from the methodology being flawed or the data filing being incomplete; we recommend that the selection of G-SII's be delayed until such time as the IAIS itself is comfortable that the methodology is on target and that data filings are credible; otherwise the proposed G-SII's would find themselves subject to enhanced supervision costs and penalties which are counterproductive; 5) We also note that government controlled insurers and reinsurers appear to be outside the scope of the IAIS' analysis - they have not been subject to data calls. Since some government controlled insurers are large market participants it seems to us to be only fair that they become subject to the same data analysis and evaluation of the potential for systemic risk. Government controlled insurers (including residential markets) can distort markets and thus can affect market availability and solvency of regulated insurers. They may well warrant enhanced supervision if the analysis showed that they pose a systemic risk. |
| Association of Bermuda Insurers and Reinsurers | 12 | In the introduction sections with regard to Enhanced Supervision it should be noted that these powers would flow from jurisdictional law. Perhaps that is understood, but this paper should reflect the fact that regulatory powers must flow from jurisdictional law. This would underscore the point that while some jurisdictions have advanced robust prudential systems in place that include legal authority for group supervision, other jurisdictions do not. |
| Association of Bermuda Insurers and Reinsurers | 18 | This element of enhanced supervision calls for Non Traditional Insurance and Non-Insurance Activities to be handled in a separate legal entity so that the risk associated with these activities is walled off and thus would not affect the core underwriting activities of the insurer. Our view is that walling off 'non insurance' activities is understandable and necessary. Our view is that the 'non-traditional insurance activities' are still not appropriately defined in the methodology paper. Thus we wouldn't advocate walling off non-traditional insurance activities in a separate business unit until we know of a better and final definition of what 'non-traditional insurance activities' is meant to include. For example 'finite risk' insurance is not subject to a uniform definition and is often viewed as a type of reinsurance, thus it may well be done in the same legal entity as traditional reinsurance. The accounting for traditional reinsurance is different than that for finite reinsurance, but that doesn't mean it is not insurance and it doesn't mean that it should be managed in a separate legal entity. We are not sure how much finite risk reinsurance is being written today. But it would not make sense to wall off an incidental amount of such business into a separate legal entity. If the accounting rules determine that such contracts are 'not insurance' then we would understand why that business should be booked into the non-insurance enterprise. |
| Association of Bermuda Insurers and Reinsurers | 22 | This paragraph refers to powers to prohibit or approve transactions for NT NI that may entail systemic risk. This paragraph fails to mention enhanced supervisory techniques which may be more appropriate such as application of ERM or ORSA measures. Prohibition may be appropriate but at a first brush it would seem that application of better risk management would be the first regulatory tool that should be considered. This measure should be restated. |
| Association of Bermuda Insurers and Reinsurers | 23 | This paragraph refers to powers to prohibit or approve transactions for NT NI that may entail systemic risk. This paragraph fails to mention enhanced supervisory techniques which may be more appropriate such as application of ERM or ORSA measures. Prohibition may be appropriate but at a first brush it would seem that application of better risk management would be the first regulatory tool that should be considered. This measure should be restated.<br><br>This paragraph on enhanced supervision describes an approach for applying HLA measures to NTNI. We agree that HLA measures are most appropriately applied to NI activities that pose a systemic risk. However, the paragraph states that the HLA could be applied at the legal entity, the sub holding or the holding company level. We believe the HLA measures for NI should only be applicable to the legal entity or to a sub holding company that controls the NI subsidiary. The HLA should not be broadly applicable to the parent holding company. At that level the HLA requirements would inadvertently distort the capital requirements for the overall insurance group. |
| Association of Bermuda Insurers and Reinsurers | 32 | 'This paragraph states that 'all G-SII's should have higher loss absorbency capacity'. We think this is an overstatement. Considering that the architects of this IAIS work on the methodology admit it is an imperfect product this seems to be an overstatement. It would be more correct to assert that: 1) all G-SII's should be subject to enhanced supervision provisions; and 2) that HLA provisions may be critically important tied to the specific systemic risk generating operations of the G-SII. |
| Association of Bermuda Insurers and Reinsurers | 35 | We generally agree with the steps described for application of HLA. Again, the HLA is best applied targeted directly to the legal entity where the systemic risk is being generated. The paper notes that a discussion is ongoing with regard to whether additional HLA measures are pertinent at the group level. We would argue with the IAIS's own determination that core underwriting activities of insurers do not create or pose a systemic risk that this argument should be settled based on |

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| | | the IAIS's own research and thus HLA measures would not be applied at the group level. |
| Association of Bermuda Insurers and Reinsurers | 38 | This paragraph properly notes that no group wide capital requirement exists in the IAIS framework, thus it is impossible to apply a group wide HLA provision. |
| Association of Bermuda Insurers and Reinsurers | 45 | We concur that the Step 2 provisions for group-wide HLA are not feasible. We'd suggest deleting the paragraph. |
| Association of Bermuda Insurers and Reinsurers | 46 | It's most likely that legal authority for HLA provisions will be found in existing or new statutes for local capital requirements. As a result applying the HLA up lift based on local capital requirements seems logical. Generally, as we have noted we don't believe HLA measures should be applied to the group. In these provisions of the paper it would be logical for the design of such measures to be left to the group wide supervisor who with the regulatory college members could consult on the correct application of HLA provisions. By definition these provisions would need to be tailor made since the risk that is triggering the HLA application is unique to the company. |
| Association of British Insurers | 0.9 | The ABI agrees with the IAIS's statement that measures applied to G-SIIs should be proportionate, avoid unintended consequences, and be directed at the sources of systemic importance.<br><br>However the lack of a clear view on the nature of systemic risk in insurance has resulted in a set of measures that are not coherent, the implications of which have not been fully considered, and which are not consistent with these objectives.<br><br>In particular the proposals for group-wide capital add-ons do not in any way target the sources of systemic risk in insurance, which are activity based and do not stem from core insurance business.<br><br>The IAIS must urgently clarify what the risks are that they are trying to address as systemic, how the activities they intend to target could give rise to systemic risk, as it will otherwise not be possible to target policy measures in a way that will achieve their objectives.<br><br>We are particularly concerned that the proposed application of policy measures does not reflect the IAIS's previous conclusion that traditional insurance activity does not generate or transmit systemic risk, and by the suggestion by IAIS that a large 'traditional' insurer could still be designated as systemic.<br><br>This creates serious problems with the whole initiative. Targeting traditional insurance business will do nothing to address systemic risk within the financial system, and worse may damage the capacity of insurers as natural risk absorbers within system making the impact of future financial shocks potentially greater than they may otherwise have been.<br><br>This lack of clarity and the inconsistency between the methodology and the measures undermines the proposed incentives for an institution to reduce its 'systemic risk profile', since it will be unclear how this could be achieved.<br><br>Enhanced supervision:<br><br>We agree institutions that are inherently more complex or pose greater risks to the financial system should be supervised more intensively than those that are not, and that it is vital that all G-SIIs should be subject to effective group supervision.<br><br>However the proposals for 'Systemic risk reduction plans' (SRRPs) cannot be supported unless there is greater clarity on the factors that give rise to systemic risk, the basis on which an insurer could be designated as systemically important, and the characteristics of the activities that are deemed to pose the systemic risk.<br><br>Equally, the focus of an 'SRRP' should not begin with restrictions, prohibitions or structural separation, but should first examine the risk management practices of |

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| | | the institution in question, their adequacy and any existing or planned restrictions already imposed on the activities deemed as systemically relevant. It is only useful to consider separation, restrictions or prohibitions where it is clear what factors of an activity referred to as NTNI give rise to concerns about systemic risk, so the appropriateness of any possible actions can be assessed. For some activities, the best outcome may be achieved through enhanced supervision and ensuring that robust risk management processes are in place.<br><br>The timeline proposed for implementing an SRRP, in particular if structural measures are involved, would be also very difficult to achieve considering the magnitude of the legal and operational challenges that would be involved.<br><br>Improved resolvability:<br><br>With respect to resolvability, further consideration is needed around what problem is being addressed given the different time horizons available for insurance, what failings have been identified that need to be addressed and the cost benefit of the proposals. We caution against any introduction of 'resolution tools' that may appear attractive to authorities in a crisis as being 'more immediate' but that could ultimately lead to greater detriment to policyholders and the financial system by failing to utilise the time element that is critical to core insurance business.<br><br>Higher loss absorbency:<br><br>This is the most damaging proposal. The proposals for group-wide 'higher loss absorbency' (HLA) requirements are contrary to both the objectives of the IAIS for the policy measures and to the rationale for the identification of G-SIIs. The IAIS has stated that systemic risk in insurance is concentrated in specific activities rather than embedded in the core business model of insurers.<br><br>Group-wide capital add-ons will reduce the ability of 'G-SIIs' to compete effectively on traditional insurance product lines. This will have consequences for capacity and availability of insurance for consumers - ultimately resulting in a less resilient society and business community without, as we note above addressing the concern around systemic risk.<br><br>In recognition of the unfinished nature of the HLA proposals we urge the IAIS to consult further on this aspect of the measures in particular before their planned finalisation at the end of 2013.<br><br>Conclusion:<br><br>In conclusion, it is clear that there is still no clarity on the extent of systemic risk in insurance - as evidenced by the substantial elements of both the proposed methodology and measures that are incomplete or subject to change.<br><br>Nevertheless we can see that if appropriate clarifications are made, and if applied sensibly, some of the proposed measures could provide a means to limit the risk to the global financial system that could be posed by certain activities. Nevertheless, it is vital that any measures are applied flexibly and in proportion to address the characteristics, nature and source of activities that have clearly been established to present a risk to the financial system.<br><br>Without such consensus and clarity however, we will have the publication of a list of G-SIIs in April 2013 decided by an opaque methodology and facing the prospect of unspecified structural measures and punitive group-wide capital add-ons.<br><br>The considerable uncertainty on how measures will be applied could lead to a significant negative market impact on any insurers named on that list - which is all the more alarming given that there is currently a real chance that many of them will not actually pose any threat to the financial system.<br><br>First and foremost, we urge the IAIS to clarify the characteristics of NTNI activity that can be seen to pose a systemic risk, and that where a company is carrying out NTNI on a scale that poses no threat to the financial system, no measures will be applied in respect of that activity. |

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| | | We also urge the IAIS to take into account other global initiatives to tackle systemic risk, such as the FSB's shadow banking workstream which proposes measures market-wide measures to address the risks posed by some of the activities featured in the IAIS indicator assessment. Any measures for G-SIIs should avoid imposing unnecessary double-burdens.<br><br>Above all, the proposals for group-wide capital add-ons must be dropped. |
| Association of British Insurers | 8 | Further thought needs to be given to the objective of incentivising G-SIIs to become less systemically important. The approach has been read across from banking and is not appropriate to insurers, especially when there is no consensus among the authorities about whether there is any systemic risk in traditional insurance. It is particularly inappropriate when read alongside the methodology for the selection of G-SIIs, which in many cases relies on size relative to other insurers, making this objective self-defeating. Until these points are settled, this objective risks being taken as a simple injunction to large insurers to reduce underwriting capacity and take on less risk. This would contradict the law of large numbers that underpins properly managed insurance business, and would ignore the benefits of diversification |
| Association of British Insurers | 9 | We contest the notion that certain insurers are viewed as a 'safe-haven' by either policyholders or investors as a result of assumed taxpayer support and no evidence has yet been presented to support this claim. Indeed, as is acknowledged in this paragraph, the evidence is to the contrary. |
| Association of British Insurers | 10 | We agree that appropriate group-wide supervision is key to ensuring that some of the failings that led to the bailout of AIG at the height of the financial crisis are not repeated. Nevertheless we caution against setting excessively high expectations for ComFrame to play a major role in the near term since it remains unfinished and untested and faces significant obstacles. We encourage IAIS members to make every effort to move these negotiations forward, particularly relating to improving the requirements on regional and national supervisors to make a reality of group supervision. Otherwise there is a risk that the current process of regulatory fragmentation will continue.<br><br>However, if an insurer is subject to effective group-wide supervision in the jurisdiction in which it is based, then this should certainly address many of the concerns over activities that could, if unsupervised, have the potential to pose a systemic risk. |
| Association of British Insurers | 11.9 | Institutions that are inherently more complex or pose greater risks to the financial system or objectives of supervisors should be supervised more intensively than those that are not - however it is important that requirements for 'enhanced' supervision should not simply mean that any insurer identified as a G-SII should be supervised more intensively than it already is. If the insurer in question is already subject to intensive supervision which provides an appropriate level of oversight then there should be no requirement to increase that level of supervision.<br>We agree that enhanced supervision experienced by G-SIIs as compared to other insurers should focus on the unique risk profile of the institution, and in particular the reasons for the G-SII designation through the identification methodology. We also agree that G-SIIs should be subject to effective group supervision. However we strongly oppose some of the inappropriate proposals, such as encouraging authorities to impose 'more conservative underwriting standards' during boom periods. Underwriting should reflect the actual risks being insured. Insurance underwriting is not correlated to the financial system. Therefore, there is no rationale to impose artificial restrictions to underwriting standards which will have a direct correlation to the capacity of insurers and availability of insurance for consumers. |
| Association of British Insurers | 12 | The stated objective of the G-SII policy measures is to reduce the systemic relevance of the any firm identified as a G-SII. In the case of insurers, the IAIS have asserted that the drivers of systemic importance are 'interconnected' or 'non-traditional/non-insurance' (NTNI) activities. The consultation sets out three broad categories of measures that could apply to these activities - separation (and subsequent application of HLA), restriction or prohibition.<br><br>Here we examine each of the activities identified in the IAIS' methodology paper as 'interconnected' or 'NTNI' and assess the suitability of each for separation, restriction or prohibition - and potential implications.<br><br>1. 'Interconnected' activities<br><br>Intra-financial assets |

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| | | IAIS definition: Sum of lending to financial institutions and holdings of securities (debt securities, commercial paper, certificates of deposit and equity) issued by other financial institutions<br><br>Separation - not feasible.<br><br>Restriction - In practice insurers already impose restrictions on this through their own risk management processes, such as concentration limits. Some jurisdictions already impose limits, for example the UK FSA Pillar 1 rules on asset admissibility. Restrictions will have a knock-on effect on ability of the financial institutions in question to fund themselves.<br><br>Prohibition - An outright prohibition would have severe consequences for bank funding, both limiting the overall availability of funding and increasing the concentration of remaining funding sources. There is already uncertainty in any case of insurers' capacity/ability to hold 'bail-in' debt issued by banks in view of the potential detriment to policyholders should bail-in be applied.<br><br>Intra-financial liabilities<br><br>IAIS definition: Sum of borrowing from financial institutions and issuance of securities (debt securities, commercial paper, certificates of deposit and equity) owned by other financial institutions<br><br>Separation - not feasible<br><br>Restriction - it is unclear how this could be practically restricted and would limit funding and liquidity management options.<br><br>Prohibition - Banning other financial institutions from holding debt or equity of insurers would severely impact the group's funding and liquidity management options, and would be a barrier to effective liquidity management planning.<br><br>Reinsurance<br><br>IAIS definition: Gross technical provisions for reinsurance assumed business<br><br>Separation - Primary insurers with reinsurance assumed business would be forced to carry out that business in small, stand-alone reinsurers that would lose size and diversification benefits. Likewise the main insurance business would lose the diversification benefit gained from the reinsurance business which, for example, might be offsetting corresponding risks (e.g. mortality vs. longevity)<br><br>Restriction-Various restrictions already exist on reinsurance assumption, mainly relating to concentration and retrocession. The benefit of any additional restrictions is not readily apparent - and certainly there does not seem to be any more rationale for restricting primary reinsurers from assuming reinsurance business than for restricting them from any other form of insurance, providing the appropriate concentration and retrocession considerations are observed.<br><br>Prohibition- a prohibition either on ceding or assuming reinsurance does not have any apparent benefit other than to force insurers to retain more risk. This would clearly not reduce systemic risk.<br><br>Derivatives<br><br>IAIS definition: Gross negative fair value of derivatives liabilities (gross of collateral, netted for counterparties) with other firms |

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| | | Separation - Much of the derivatives held by insurers would clearly not be separable from the core business, but it is conceivable that some derivatives trading activitycould be separated and conducted in an independent legal entity, however there are practical difficulties with identifying derivatives held ‘for trading purposes’ as opposed to those held, for example, for hedging, obtaining policyholder exposure to investments not directly available. This would essentially be a restriction rather than a separation.<br><br>Restriction - It could be possible to require that derivatives used for trading purposes be held in a separate legal entity however, as outlined above, there may some practical barriers to identifying derivatives held for trading purposes as opposed to for other functions. Some jurisdictions already place restrictions on the use of derivatives by insurers, for example stipulating that they can only be used for hedging purposes.<br><br>Prohibition - Barring all use of derivatives would be extremely problematic for insurers, and would result in policyholders being exposed to greater risks in some circumstances, and would prevent insurers from effectively competing in the fund management market.<br><br>Large exposures<br><br>IAIS definition: Combination of: (a) Total asset exposures to the 10 largest counterparties (including counterparties in derivative transactions), and (b) Ratio of total asset exposures to the 10 largest counterparties to total assets<br><br>Separation - clearly not possible.<br><br>Restriction - It would be very difficult to impose a restriction in this area as there could be a significant conflict with the ability of clients to select assets or investments, which is a key element of many policies.<br><br>Prohibition - clearly not possible<br><br>Turnover<br><br>IAIS definition: Two ratios: (a) Ratio of total purchase of invested assets* plus total sale of invested assets to total assets, and (b) Ratio of total sales (issuance) of funding liabilities* plus total retirement of funding liabilities to total liabilities *in accordance with cash flow statements<br><br>Separation - clearly not possible<br><br>Restriction - As above, restrictions on either of these ratios would be very difficult to apply to insurers with fund management and unit-linked businesses (where investment decisions are with the policyholder), and it is in any case unclear what it would achieve. In particular the concentration on ratios only makes it impossible for this measure to factor in the relevance of the activity - a high ratio could be achieved with a very low level of activity. Likewise an extremely high level of activity could yield a very low ratio if the magnitude of purchases/sales were roughly equal<br><br>Prohibition- clearly not possible<br><br>Level 3 Assets<br><br>IAIS definition: Combination of: (a) Total level 3 assets, and (b) Ratio of total level 3 assets to sum of level 1, 2 and 3 assets<br><br>Separation - not feasible.<br><br>Restriction - A restriction on the total level 3 assets would not seem to make much sense, given that the impact of a limit would depend on the overall size of the |

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| | | group. It might be technically feasible for there to be a limitation on the ratio of level 3 assets to sum of level 1, 2 and 3 assets However it is questionable whether this would address systemic risk concerns, since the suitability of an insurer holding a particular concentration of level 3 assets will depend to a very large degree on the nature of the liabilities against which those assets are held.<br><br>Prohibition - technically feasible. Holding of Level 3 assets by insurers could be barred, however the benefit of an outright prohibition is hard to see, and would significantly limit the market for such assets. As long-term investors, insurers will often be better placed to hold Level 3 assets than other financial institutions with shorter term liability profiles, or that are more susceptible to liquidity squeezes.<br><br>2. Non-traditional and non-insurance activities (NTNIA)<br><br>Non-policy holder liabilities and non-insurance revenues<br><br>IAIS definition: Combination of: (a) Total on balance sheet liabilities minus all policyholder liabilities,* (b) Ratio of (a) to total on balance sheet liabilities, (c) Total revenues from noninsurance businesses, and (d) Ratio of (c) to total revenues * all technical provisions held for fulfilling insurance contracts.<br><br>Separation - depending on definitions, certain non-insurance revenues and/or liabilities could theoretically be separated from the main insurance business and held in a separate legal entity. However it is not clear that this would result in greater stability either for the insurer or for the financial system, nor that it would necessarily be in the best interests of policyholders. Forcing certain activities to be conducted in separately capitalised legal entities removes the diversification benefits that can be achieved through operating them in conjunction with the rest of the business.<br><br>Restriction - It could be possible to place some kind of restriction on the proportion of non-insurance business in relation to the overall size of the insurance business, however this would need to be proportionate to the risks posed by the specific NTNI activities in question.<br><br>Prohibition - Any activities to be prohibited would need to be identified individually. The merits or drawbacks of prohibiting various specific activities are outlined in the following sections.<br><br>Derivatives trading<br><br>IAIS definition: Gross notional amount of CDS protection sold<br><br>Separation - Sale of CDS protection could be conducted from a separate legal entity. However it is important to recognise that the problems that arose from sale of CDS protection by AIG resulted primarily from the supervisory gap that allowed AIG FP to operate essentially unregulated, holding little or no capital against the liabilities that it was originating - and that did not require AIG itself to take into account the risk it faced in relation to the activities undertaken by the non-insurance activity of the AIG FP subsidiary.<br><br>Restriction - It would be technically feasible to place limits - for example in relation to the size of the overall CDS market, or on counterparty counter-party concentrations, or the size of insurer.<br><br>Prohibition - an outright prohibition on sale of CDS protection would be possible.<br><br>Short term funding<br><br>IAIS definition:Combination of: (a) Absolute sum of: Short term borrowing; Commercial paper issued; Certificates of deposit issued; Gross value of repos; and Gross value of securities lent; and (b) Ratio of sum of the above mentioned items to total assets |

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| | | Separation - It is conceptually possible that some short term funding, linked to systemically relevant business lines could be conducted in a separate legal entity. However it is clear that total separation of all of the elements of the IAIS definition of short term funding is not possible. This is emphatically demonstrated by the fact that securities lending, which is included in the indicator definition, is classified by the IFS assessment as fundamentally a traditional insurance activity. In addition, the gross value of securities lent misleading as securities lending undertaken by insurers is not typically for funding purposes.<br><br>Restriction - It is theoretically possible that some limit on the ratio of short term funding to total assets could be set, however great care would be needed to ensure such a restriction would not hamper the ability of insurers to manage their liquidity as this could have a detrimental impact on their stability. Inappropriate restrictions would also, depending on the type of policy, raise the cost of premiums for policyholders or reduce the return they receive. Any restriction should therefore only be set at a level where the proportion of short term funding could pose a significant threat to the ability of the firm to continue as a going concern. It should be noted that Own Risk and Solvency Assessments would include consideration of the insurer's funding profile.<br><br>Prohibition - short term funding is an integral part of the operation of insurers as with many other financial firms, and its vital role in the financial system has been recognised by the Financial Stability Board in their analysis of the shadow banking sector. Prohibition of short term funding would be damaging both to insurers' ability to manage liquidity, and to market efficiency.<br><br>Financial Guarantees<br><br>IAIS definition: Combination of: (a) Gross notional amount of debt securities including structured finance insured for financial guarantee. Not including CDS protection sold or surety bonds, and (b) Risk in force for mortgage guarantee insurance, which is the gross mortgage default amount covered by all mortgage insurance policies issued<br><br>Separation - It is of course technically feasible for financial guarantees and mortgage guarantee business to be conducted in a separate legal entity from 'traditional' insurance business, however the experience of the financial crisis suggests that this will not necessarily reduce the risk of failure, and that conducting these business lines as part of a diversified portfolio may be a more appropriate approach.<br><br>Restriction - Unclear what restrictions could be applied. Some limit in relation to overall size of insurer?<br>Prohibition-Outright prohibition of insurers providing financial guarantees for debt securities would be likely to lead to guarantees being provided by unregulated entities instead. A prohibition of mortgage guarantee insurance would lead to a combination of reduced supply of housing finance and greater risk being borne by mortgage providers, which would appear to be detrimental to the global economy and financial stability respectively.<br><br>Variable annuities<br><br>IAIS definition: Total technical provisions for variable annuities and contingent annuities including additional technical provisions for any guarantees<br><br>It is unclear what the primary concern of the IAIS is regarding variable annuities (VAs), and it is therefore difficult to envisage how any of these measures might be applied. Some concerns have been expressed about the guarantees offered by VAs - however other products offered by insurers (and indeed other financial institutions) offer guarantees.<br><br>We note that with respect to the European market, EIOPA's 2011 report on the European VA market concluded that it poses no systemic threat as the size of the market is too small to have an impact, and that in the theoretical case that it did pose such a risk the appropriate supervisory response would not be to add capital but to increase monitoring, and to ensure that companies take account of model risks and that proper governance procedures are applied.<br><br>In particular we note that one way in which it was considered that VAs could contribute to systemic risk was if there was a concentration of insurers with poorly hedged VA books or where hedging derivatives resulted in pro-cyclical market activity in the event of a downturn. With this in mind, we do not believe that an appropriate response would be to require VA business to be conducted from a separate legal entity, which would in turn mean that the entire risk of the book |

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| | | would have to be hedged by derivatives or supported by higher premium payments rather than, as is currently the case with some providers, obtaining diversification benefits by holding the longevity risk of the annuities book against mortality risks elsewhere in the insurer's portfolio. Moreover, the optimum solution is, as EIOPA correctly identified, to ensure that the business is conducted within a robust risk management framework, appropriately hedged and subject to proper governance.<br><br>Separation - while it would be technically possible for variable annuities to be provided via a separately capitalised legal entity, there would be a number of negative consequences for policyholders. For example it would remove the ability to obtain the diversification benefits of, for example, matching the longevity risks of the VA book with mortality risks held on a life insurance book. In some jurisdictions the VA market is highly sensitive to credit ratings for new business, and it is questionable whether ring-fenced entities would be able to achieve a credit rating that would enable them to sustain the VA market. In a low-interest environment, this would add yet another disincentive to long-term savers.<br><br>Restriction - Restrictions on VA guarantees offered by insurers designated as G-SIIs would most likely lead to greater take-up of alternative products, or VAs offered by other insurers. The IAIS has also noted concerns about the derivatives activity associated with VA portfolios. However given that these derivatives hedge the risks of unexpected market changes such as interest or exchange rate fluctuations impacting on the performance of the portfolio, restricting the use of derivatives would be counterproductive.<br><br>Prohibition - An outright prohibition on provision of VAs would be disproportionate considering that the IAIS classify this activity as 'semi-traditional', making a clear distinction between the relative potential for systemic consequences posed by a VA book compared to, for example, provision of CDS protection.<br><br>Intra-group commitments<br><br>IAIS definition: Combination of: (a) Intra-group commitments granted by insurance entities or the top holding company of an insurance group for the benefit of non-insurance entities of the group, and (b) Ratio of intra-group commitments granted by insurance entities or the top holding company of an insurance group for the benefit of non-insurance entities of the group to total assets<br><br>Separation - not possible by definition.<br><br>Restrictions - some limitation on (b) could theoretically be set. This would limit or make more costly certain group activities, as intra-group commitments often cover service companies for example.<br>Prohibition- an outright prohibition on intra-group guarantees would have an even more pronounced impact on the ability of groups to use service companies to improve their overall efficiency. It would also incentivise operating through branch rather than subsidiary structures for certain activities, and would make provision of certain products or services through subsidiaries unviable. |
| Association of British Insurers | 14 | The proposal that supervisors should 'impose more conservative underwriting standards in boom times' appears to be directed at reproducing counter-cyclical bank measures for loan underwriting standards. As noted in the Likanen report, the 'originate-to-distribute' model in mortgage lending contributed to the decline in loan underwriting standards which in turn helped to generate the financial crisis. However no parallel to the 'originate-to-distribute' model exists in insurance.<br><br>Insurance underwriting is an entirely different practice and not subject to the same cyclical pressures as loan underwriting, particularly loan underwriting that is taking place within a maturity transformation process. To begin with, there is no feedback loop between underwriting standards and the value of the underlying assets. The value of insured assets is not increased even if the underwriting underprices the risk - in contrast to the mortgage market, where a decline in loan underwriting standards leads to greater availability of credit, which in turn increases demand for the housing and pushes property asset prices up.<br><br>Similarly, if an insurance risk has in the past been underpriced, the company may suffer some losses but the level of the underlying insurable risk is not generally affected - again, in contrast, rising defaults on poorly underwritten property loans can lead to a decline in overall property asset prices which can in turn further impair the lender's loan book (or indeed the loan books of other lenders). |

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| | | Most importantly of all, insurers do not engage in maturity transformation, therefore although they are exposed to credit risk and default risk they will assets are held to match expected liabilities. Consequently they are not subject to pressures to lower underwriting standards, nor to the crises of confidence that accompany excessive asset bubbles.<br><br>For all of these reasons, the proposal to allow authorities to impose 'more conservative' underwriting standards in insurance has no coherent basis, nor any readily conceivable means of implementation - and would lead to greater exposure to risk for consumers and governments, all for the sake of solving a non-existent 'problem'.<br><br>In keeping with our comments on 'enhanced supervision' in general, we query whether it is appropriate to require that supervisory interactions with Boards and senior management be 'stepped up'. Once again, the appropriate level of supervisory interaction with senior management should certainly be commensurate with the complexity of the business and its potential to impact the financial system. However in supervisory regimes that already apply intensive supervision to such institutions, there may already be a high level of interaction.<br><br>Similarly, a 'higher bar' for assessment of the control environment makes little sense. Assessment of the control environment should seek to establish that it is appropriate to the scale and complexity of the organisation, and this will automatically achieve the outcome that is sought. |
| Association of British Insurers | 15 | With regard to liquidity management plans, we agree that liquidity management is an important part of the proper management of an insurer (whether they are a 'G-SII' or not). As such liquidity management will already be part of the risk management processes of the firm - additional liquidity planning requirements should only be imposed if it is found that the existing measures taken by the insurer are in some way inadequate. |
| Association of British Insurers | 16 | As noted above, we do not support the proposal to introduce SRRPs given the lack of any clarity around the actual basis on which a G-SII are identified and what actual systemic risk that has caused concerns for supervisors. The key point to emphasise about 'Systemic Risk Reduction Plans (SRRPs)' is that they should be proportionate to the risks involved, and tailored to the likely circumstances of an insurance failure, i.e. an orderly run-off of the business over a period of several years. We regret that the description of the proposed SRRP focusses on the most extreme and disruptive measures such as separation, restrictions and prohibitions rather than outlining the way in which other measures - such as effective governance, appropriate management, co-ordinated supervision and a whole of balance sheet approach to risk - can also reduce the impact of distress or failure to non-systemic levels.<br><br>Any 'SRRP' should first focus on the risk management practices of the institution in question, and any existing or planned restrictions already imposed on the activities that are the drivers of the G-SII designation before moving to consider new restrictions, prohibitions or to separation. For example, the work of the FSB on shadow banking proposes new requirements on OTC derivatives trading, securities lending and repo activities designed to reduce their potential to generate systemic risk. This work, along with other global, regional or national initiatives should be taken into account when determining the extent to which the a G-SIIs activities pose any systemic risk. |
| Association of British Insurers | 17 | We agree that the idea of separating non-traditional and non-insurance activities, to be conducted in separate, legally and financially self-sufficient legal entities, is worth exploring as a means of reducing the possibility of contagion within a G-SII. However, we feel obliged to strike a note of caution: considerable work has been devoted in the UK to the possibility of ring-fencing retail banking from investment banking in the context of the Independent Commission on Banking headed by Sir John Vickers. It is proving very difficult to draw the line satisfactorily between retail and investment banking, and to determine the necessary degree of separation. Our initial examination of the possibilities in NTNIA suggest that separation is not possible for all activities, as they are inextricably tied to traditional insurance activities. In some cases, separation could have significant destabilising effects (on the insurer, the separated entity or the financial system: the experience of the monoliners during the financial crisis suggests that stand-alone credit insurers may not be the most stable structure for the system as a whole) - and may not be in the best interests of policyholders.<br><br>In our general response to this section, we have noted the range of impacts that separation, restriction or prohibitions could have when applied to the activities identified in the Indicator Assessment as either 'non-traditional/non-insurance' or 'interconnected' (as these, on the basis of the methodology, will be the main drivers of G-SII designation). |

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| | | Separation should never be necessary for any activity being undertaken on a scale that lacks the potential to impact the stability of the insurer as a whole. Separation should also only be considered after identification of how an activity could pose a systemic risk, and why existing risk management and governance are not adequate responses to this. Thereafter, in each case the impact of requiring the activity to be carried out in a separate entity, both on policyholders, the institution as a whole and on overall financial stability should be carefully assessed to determine whether separation is an appropriate measure. |
| Association of British Insurers | 23 | We also see possibilities in the use of restrictions and prohibitions to reduce systemic risk, provided that these are closely tied to the risks identified, and that their effect is proportionate to that risk. Restrictions already apply in many jurisdictions to the non-traditional insurance activities identified. However, for this approach to work, there will need to be a much greater clarify over which NTNI these measures would apply: it is not clear that the IAIS have yet established that all the activities currently included under that banner have the potential to pose a systemic risk.<br><br>Of the specific examples mentioned, requiring prior approval of intragroup transactions related to NTNI activities should not be necessary unless there is a failure of overall group supervision. Effective group supervision should take into account any NTNI activities along with any intragroup transactions supporting those activities in the overall assessment of the group's risk management and solvency. While insurers should be able to justify the suitability of decisions made on major transactions, requirements for pre-approval such as this would lead to supervisors playing a quasi-management role.<br><br>Likewise, use of affiliate reinsurance should also be taken into account through effective group supervision, and assessment of group risk management and capital requirements. |
| Association of British Insurers | 24.9 | Insurance already benefits from excellent arrangements to deal with failing insurers, mainly through run-off. We agree that there may be issues of cross-border resolution that require attention. However recommendations on new resolution powers over insurance companies must be clearly defined as to the nature of the problem that each power seeks to address, and the circumstances under which it should or should not be used. Care must be taken to ensure that there is no pressure (explicit or implicit) on jurisdictions which already have a comprehensive suite of powers to resolve insurance companies to expand those powers needlessly.<br><br>In particular jurisdictions should be wary of introducing resolution tools that may appear attractive to authorities in a crisis as being 'more immediate' but that could ultimately lead to greater detriment to policyholders and the financial system by failing to utilise the time element that is critical to core insurance business.<br><br>With regard to Recovery and Resolution Plans, we support the recent work undertaken by the CRO Forum, 'Insurers' Risk Management Systems - Preparing for Recovery', which provides a detailed study of the various risk management systems typically used in insurance businesses to continually assess the condition of the company, and to prompt remedial actions at the appropriate point.<br><br>In view of the acknowledged specificities of insurance business, and bearing in mind the commitment to ensuring that measures are proportionate, we conclude that any recovery plan required of insurers should not take the same form as that required from banks. Instead, the most useful form for an insurance recovery plan would be one that identifies a range of events that could require remedial management action, and sets out the appropriate processes that would need to be engaged to respond.<br><br>In jurisdictions where Own Risk and Solvency Assessments are in use, or there is a well-defined ladder of intervention, we question the need for additional measures. Certainly any requirement for a recovery plan should build on or be fulfilled by the existing ladder of intervention and the material contained in the ORSA, rather than being a completely separate and parallel requirement.<br><br>We have set out our views in this area in greater detail in our response to the recent FSB consultation 'Recovery and resolution planning: making the Key Attributes operational'.<br><br>To summarise, although specific resolution powers have been shown to be necessary for G-SIBs, the role and function of insurers is very different. It is to the benefit of all parties for failing insurers to be run off over a period of time, allowing expected liabilities to materialise into actual liabilities and assets to be managed |

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| | | to that end. Immediate banking-style resolution powers could lead to premature assumption that immediate and definitive action is required.<br><br>We recognise that the IAIS are undertaking work to assess the 'Key Attributes' in relation to their relevance to the insurance business model. This work must recognise the robustness of the existing resolution regimes for insurers in providing for orderly failure and that the idiosyncratic nature of insurance liabilities means that the failure of one insurer does not automatically bring into question confidence in other insurers (or indeed, other financial institutions).<br><br>Where an attribute is not relevant to insurance, or where the underlying objective is better achieved by other means, appropriate adjustments should be made. Furthermore, where existing and proposed insurance-specific national arrangements already achieve the objectives set out by the key attributes, no change should be necessary.<br><br>With respect to recovery, because of the diverse nature of insurance liabilities, rigid recovery triggers with automatic consequences and escalation procedures are inappropriate. Indeed, it is doubtful whether a standing recovery plan is at all helpful for an insurer, or for its supervisor. Where a jurisdiction already has in place a well-defined ladder of intervention, additional measures are superfluous. In any event, soft triggers would be a more sensible approach to recovery in insurance. |
| Association of British Insurers | 26 | |
| Association of British Insurers | 28 | It is hard to imagine the circumstances in which a traditional insurance group, with or without a large derivatives portfolio, would experience a disorderly run-off. While a large derivatives portfolio could be problematic for a company being wound up in a very short period of time, as closing off positions within the necessary timeframe may be difficult or costly, this is not the case in a run-off scenario. Indeed, it is not immediately obvious why it should be any more problematic for an insurer to hold a large derivatives portfolio in run-off than in the normal course of business, since the only material difference is that the insurer will not be taking on new business. As such a derivatives portfolio that posed a systemic risk in these circumstances would be indicative of prior supervisory failure to identify that risk. Derivatives are a well established risk management tool, particularly for with-profits and variable annuities businesses and operate with insurers' overall risk management frameworks. |
| Association of British Insurers | 31 | On balance we do not believe that a template for national authorities setting out how to assess resolvability of G-SIIs would be helpful, as in practice the considerations will differ according to the legal structures in each jurisdiction as well as the existence of policyholder protection schemes and various other interconnecting considerations. As such we do not think it is likely that creating a suitable universal template will be possible. |
| Association of British Insurers | 31.9 | Group-wide HLA cannot achieve the IAIS' stated objectives for the measure: it is, by definition, not linked to the drivers of G-SII status, since these are related to specific activities; it does not incentivise G-SIIs to become less systemically important since it penalises traditional insurance activity alongside NTNI; neither does it correspond with any measurable negative externality posed by 'G-SIIs'.<br><br>Where new concerns regarding traditional insurance business have been raised such as insurers with large derivatives portfolios, it appears that the concerns are not ones that would be addressed by additional capital, but through enhanced supervision (for example monitoring of concentration risks).<br><br>Any effective application of higher loss absorbing capacity for 'G-SIIs' must take into account both the differing role played by capital in traditional insurance business, and the fact that systemic risk in insurance is activity-based rather than integral to the core business.<br><br>Arbitrary higher capital requirements on insurers, unrelated to the real risks of their activities will reduce the competitiveness of affected insurers on a range of consumer and institutional products, possibly resulting in higher prices for policyholders, and reduced availability of cover.<br><br>Where the cost of cover becomes too high consumers, entrepreneurs and businesses will be more susceptible to risks that they do not individually have resources to withstand. Where insurance cover is compulsory, individuals and organisations will either have to bear additional costs or withhold from economic activity, with consequent impact on growth.<br><br>The application of targeted HLA may be appropriate in the case of certain activities, however it is clearly not universally applicable to the activities identified in |

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| | | either the indicator assessment or the IFS assessment as being 'NTNI'. The proposals for targeted HLA therefore require a great deal of further clarification, with respect to both the precise activities which the IAIS propose that it should apply to, and how the level of HLA to be applied would be determined.<br><br>Certainly, in line with the objective that the measures should be proportionate and targeted at the drivers of a G-SII status, we would oppose the application of targeted HLA to any NTNI where the risk is already well managed, or where the scale of the activity is not material in relation to the firm or the market.<br><br>In recognition of the significant uncertainties remaining over the HLA measures we urge the IAIS to consult further on this aspect of the measures in particular before the planned finalisation of the measures at the end of 2013. |
| Association of British Insurers | 32 | The function of higher loss absorbency requirements is variously given as to reduce the probability of default, and to price in the negative externality of 'systemic' status:<br><br>With regard to reducing the probability of default, it must be noted that insurance failures historically have not usually arisen from a lack of capital resources - rather they have stemmed from management failings, and capital levels have been a lagging indicator (Sharma, 2002). Even in the case of AIG, where failure stemmed from non-insurance activity, increased margin calls on their CDS and securities lending activities wiped out 80% of the group's available capital. No realistic capital buffer will provide protection against this level loss - it can only be addressed by better management or more effective supervision, in particular effective group supervision.<br><br>With respect to negative externalities, there is no measurable negative externality posed by G-SIIs - as is acknowledged in the consultation in paragraph 9. This directly contrasts with the implicit subsidy experienced in the banking sector (reflected in the dual ratings given to banks). The notion of applying a capital add-on to insurers as a pricing in of this externality therefore carries no weight.<br><br>Even if a negative externality did exist, the use of HLA as an attempt to address it is fundamentally misguided unless there is some means to quantify the externality, and to assess whether and how the application of additional capital would affect it. Even if the externality could theoretically be reduced by additional capital, without any quantification of the externality there is no way to assess whether the impact of the 'cure' is going to be worse than that of the disease. |
| Association of British Insurers | 41 | For certain 'NTNI' activities, targeted Higher Loss Absorbency based on the nature of the activities in question, and the principles set out in ICPs and other relevant regulatory frameworks (as proposed in paragraph 44) has the potential to be a tool to provide an incentive to reduce systemic importance. However this is only the case for activities that are genuinely systemically relevant. Given the current lack of clarity over how systemically relevant 'NTNI' will be identified, and in particular the focus on the methodology on assessing activities in relation to peers rather than capacity to affect the financial system as a whole, we are extremely concerned that this measure may be misapplied. It must not applied inappropriately to activities where additional capital is not effective, and if it is applied the level of HLA must be set appropriately and proportionately in relation to the activity in question and to the risk that it poses.<br><br>Determining the right approach in relation to each activity will be an extremely complex process, however the success of this measure in achieving the objectives set out by the IAIS (reduce probability and impact of failure/distress; incentivise G-SIIs to reduce their systemic importance; be linked to the drivers of G-SII status) will be entirely dependent on getting this determination right. |
| Association of British Insurers | 43 | In respect of the specific case mentioned here of 'bank-like' activities carried out in a bank subsidiary (or a non-insurance financial entity) targeted HLA set according to Basel III rules may be appropriate. However we note that the current ICPs already provide for an appropriate PCR where a risky activity may impede the orderly running of an insurer, through requiring supervisors to consider all material risks in determining capital requirements. Care must therefore be taken not to impose multiple layers of additional capital in respect of the same risk - and where all material risk has been acknowledged in required capital in this fashion, the PCR should not be increased with additional HLA requirements. |
| Association of British Insurers | 44 | We are pleased that the IAIS has dedicated additional time to finalise proposals on HLA capacity measures. We also welcome that pre-existing capital charges imposed via national legislation will be taken into account. However this consideration should not be restricted only to cases where systemic risk mitigation is the given reason for the additional capital charge - where capital is determined to take account of all material risks this implicitly will take account of potential systemic impact given that the objective of insurance regulation is to ensure insurers can continue to meet obligations to policy holders as they fall due, even in stressed |

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| | | conditions. Activity that could bring about the sudden failure of an insurer is inconsistent with the objectives of insurance regulation and should therefore be appropriately captured in the capital charge if this reflects all material risks.<br><br>Therefore, the application of the ICPs, should be taken into account when assessing both the necessity and the quantity of further additional capital. |
| Association of British Insurers | 45 | The proposal to apply group-wide HLA in certain circumstances is contrary to both the objectives of the IAIS for the policy measures and to the rationale for the identification of G-SIIs. The IAIS has stated that systemic risk in insurance is concentrated in specific activities rather than embedded in the core business model. As such the effectiveness of capital add-ons as a mitigatory measure will only be diluted by application on group-wide basis rather than in targeted fashion.The application of group-wide capital add-ons will, by definition, not incentivise any reduction of NTNI activity - but rather a reduction of overall activity. The natural and rational reaction to a group-wide capital add-on will be to withdraw first from those activities where the overall return on capital (or assets) is lowest. Depending on the nature of the particular institution's business, this may well be traditional insurance activities rather than NTNI. |
| Association of British Insurers | 46 | There are serious failings in the basis on which the level of proposed group-HLA is being considered. Whereas there is a wealth of academic and empirical evidence relating to the implicit subsidy for banks - and regarding the extent to which capital charges are (or are not) effective in reducing it - there is no such basis, either theoretical or empirical for applying the same approach to insurers.<br><br>The rationale for determining the size of the proposed group-HLA add-ons is described as beginning from an assumption that the systemic importance of a G-SII is equivalent to the least systemically important G-SIBs. There does not appear to be any basis for this assumption, and we do not believe it to be an appropriate starting point from which to determine Higher Loss Absorbency requirements for an insurer. There is no further consideration of whether this results in a figure that is at all meaningful for insurance business - so it could equally result in a wholly excessive, or a wholly inadequate requirement.<br><br>We believe that in the vast majority of cases it will result in excessive requirements. To begin with, it does not take into account the fact that, because of the fundamentally different business models, a bank needs to be able to absorb the capital cost of low probability, high impact events almost immediately, whereas insurers have the ability to spread the cost of that impact over time. Furthermore, it does not take account of the fact that insurers' liabilities are calculated to take into account a range of scenarios and are set at a point that will enable them to withstand future adverse conditions. As such, an insurer's reserves already contain a level of 'Higher Loss Absorbency', as they have significant capital-like content which contributes to the financial strength of the company. No comparable process exists in banking.<br><br>The addition of further capital on top of the PCR set in a risk-based capital regime, where the capital requirement covers all the activities of the group and where capital charges already reflect all material risks (in respect of non-insurance activities or where some risk has not been fully captured), makes little sense. Likewise, calculation of group-HLA using total balance sheet size would perversely penalise insurers with asset management businesses or large blocks of unit-linked business, even where these activities having no bearing on systemic importance (featuring little or no interconnection, and no 'NTNI' elements).<br><br>In addition to these considerations, it is important to highlight the impact of imposing arbitrary higher capital requirements on insurers, unrelated to the real risks of their activities. This will reduce the competitiveness of affected insurers on a range of consumer and institutional products, possibly resulting in higher prices for policyholders, and reduced availability of cover.<br>The consequence of this will be that where the cost of cover becomes too high consumers, entrepreneurs and businesses will be more susceptible to risks that they do not individually have resources to withstand. In certain cases this will result in greater costs for governments, for example business failures resulting in higher unemployment - or inability to withstand financial shocks resulting in tax arrears.<br><br>Where insurance cover is compulsory, individuals and organisations will either have to bear additional costs or withhold from economic activity, with consequent impact on growth. |
| Association of British Insurers | 53 | The implementation timeframe will be very difficult to achieve considering, for example, the magnitude of the legal and operational challenges that would be involved in developing and implementing an SRRP that included structural changes of the nature proposed. |
| BaFin | 0.9 | 1) Page 3, third paragraph (cover note): |

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| | | The indicator-based assessment approach does not include the category ‘complexity’. In the proposed assessment methodology the category complexity has been captured by some of the indicators within the other five categories. We propose to amend the sentence: ‘? IAIS developed an assessment methodology to identify any insurers whose distress or disorderly failure, because of their size and interconnectedness ?’<br><br>2) Page 6, second paragraph (enhanced supervision):<br><br>We need a clear definition of NTNI business to ensure the effective separation between traditional insurance and NTNI business. Perhaps a negative definition could be useful?<br><br>3) Page 7 iii) HLA:<br><br>Please find our detailed comments in question Q-39. |
| BaFin | 11.9 | The supervisors have to analyse activities that cause systemic relevance/importance of G-SII and take necessary measures to reduce that systemic risk. These will result in a substantial mismatch in the treatment of G-SIIs and non-G-SIIs (distortion of international competition). |
| BaFin | 31.9 | We have very significant concerns with the proposed text and think it needs substantial refinement before BaFin can support it. The reasons are as follows:<br>Placing a group HLA and hoping that the group will discontinue its problematic operations is a bit naive, if one considers that private entities are led by return considerations. The reason is that systemically relevant activities usually have a very high return, precisely because their hidden costs are actually borne by the society. Against this background the systemically relevant activities will be the last and not the first ones that an insurance group will discontinue, unless the supervisor resorts to targeted measures.<br>We believe that Solvency II is a very comprehensive supervisory system and offers a broad range of tools to address the risks arising out of non-traditional, non-insurance activities. We believe that its strength results decisively from the mixture of different Pillars. We believe that the current proposal of the IAIS places undue emphasis on capital measures while largely ignoring qualitative Pillar 2 measures. Against this background BaFin believes that qualitative measures, which address specific parts of the risk management and group structure should play a stronger role in the supervisory toolkit. The BaFin proposal accounts for the Pillar 2 dimension by introducing limitations and prohibitions in the toolbox for G-SIIs. We do not share the concerns of EIOPA that such measures can cause a shift of NTNI activities into unregulated parts of the group, as the same concern also applies to group HLA and, in fact, most regulatory measures, as such a shift is a widely spread regulatory arbitrage strategy.<br>We believe that it is the mixture of solo and group view - home and host perspective - that makes ComFrame a comprehensive and strong regulatory system. Hence, solo measures are indispensable tool in an effective supervisory toolkit to address systemic risk that in addition can address it in a more targeted way.<br>In addition, we should be very careful not to cause competitive disadvantages for specific insurance groups. Even if the idea of group HLA is enticing in an ideal world, it only works if all jurisdictions have comparable capital requirements. To the extent that third country capital requirements are lower, a group HLA will benefit their insurance undertakings and penalize the others. This is even more of a concern, given that the current resolution in the IAIS involves an additional capital requirement based on stress testing and not based on a harmonized capital formula. It is not clear to us that this will result in a common basis for group HLA without causing an unlevel playing field.<br>Finally, we would like to emphasize that limitations and especially prohibitions are a powerful supervisory tool that can effectively mitigate or in case of prohibitions even forbid different factors of systemic risk (NTNI activities as well as interconnectedness with the financial markets).<br>The FSB had also asked to find a solution for the two alternatives towards Group HLA. We therefore suggest to complement on page 7 iii) HLA and page 19 to 22 the following text:<br>?The IAIS proposes that the following cascading triad approach to achieve HLA capacity should apply. This is in line with the principle for HLA is to be targeted, where possible, at activities that have the potential to generate or aggravate systemic risk.<br><br>1. Step 1 - to the extent to which an effective separation of NTNI activities from traditional insurance activities within the G-SII into a self-sufficient legal entity, independent from group support, has been achieved, a targeted HLA will be applied to the separate legal entities conducting NTNI activities. The targeted HLA will be a bank-like capital add-on, where appropriate, or a comparable capital add-on for comparable risks and activities. |

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| | | 2. Step 2 - to the extent NTNI activities cannot or have not been effectively separated, additional structural measures will be applied to mitigate systemic risk at the group-wide level. Such structural systemic risk reduction measures by the supervisory authority will consist of limitations, restrictions, reduction, portfolio transfer or even prohibition of activities that cause or increase the systemic risk for the group. The effectiveness of such measures and any further ones in the SRRP, has to be controlled by the supervisory authority and will be reflected in the supervisory scoring for the G-SIIs, if step 1 and 2 has been judged as effective. Structural measures allow for a timely intervention (<br><br>3. Step 3 - if and to the degree that the combined Steps 1 and 2 did not fully mitigate the G-SII's systemic risk, the group-wide supervisor determines (in consultation with involved supervisors) whether the HLA capacity held at the NTNI entities is sufficient or needs to be further increased at the group level as a surcharge to existing national or regional capital levels. This should take into account the targeted HLA in the separate entities and the fact that separation exists, but only where that targeted HLA was not created by multiple-gearing through down streaming capital within the G-SIIs.' |
| Canadian Life & Health Insurance Association Inc. | 0.9 | The Canadian Life and Health Insurance Association Inc. ('CLHIA') is a voluntary trade association whose member companies account for 99 percent of Canada's life and health insurance business. Our industry provides a wide range of financial security products such as life insurance, annuities and supplementary health insurance to about 26 million Canadians.<br><br>We welcome the opportunity to provide input into the very important issue of the IAIS´s proposed GSII policy measures. We have provided comments for questions 1,2,3,4,5,6,7,8,9,10,11,12,13,15,16,17,18,19,20,21,22,23,24,31,35,39,42,43,44,46,49,53,54,61<br><br>The CLHIA is an Observer of the IAIS and an active participant in the Global Federation of Insurance Associations ('GFIA').<br><br>The key messages the CLHIA wishes to convey to the IAIS are as follows. More detail is provided in our responses to subsequent questions:<br>- It is important to limit application of policy measures to those activities potentially contributing to systemic risk, namely NTNI activities, and within NTNI, the focus must be on non-insurance activities that potentially contribute to systemic risk.<br>- There needs to be a clear understanding of the NTNI activities and the criteria used to characterize the specific activities within NTNI from a systemic perspective.<br>- Specific application of policy measures applied to NTNI activities must consider an insurer´s particular circumstances.<br>- The importance of recognizing the insurance industry´s different business practices and unique characteristics must be emphasized.<br>- Incentives to become less systemically risky must be appropriate so as to not create unintended consequences.<br>- We have serious concerns about the HLA provisions and the potential requirement to separate/ring-fence NTNI activities. The CLHIA is of the view that a proportional HLA uplift can be applied to address a clearly identified systemic risk activity within the group, instead of applying HLA on the entire balance sheet of the group or entity within which the systemic activity is undertaken, which would not provide an incentive to reduce the level of systemic risks<br>- It would be constructive to allow stakeholders to provide another round of comments on policy measures after the assessment methodology is finalized.<br>The CLHIA would be pleased to provide further input into both the assessment methodology and policy measures. |
| Canadian Life & Health Insurance Association Inc. | 0.91 | - We strongly recommend the assessment methodology be revisited. For insurers, there needs to be more emphasis on NTNI activities in determining GSIIs, and on the definition of NTNI activities. Also, within NTNI, the emphasis must be on non-insurance activities. In fact, per the CLHIA submission on the IAIS assessment methodology document, consideration should be given to having separate categories for NT and NI.<br>- It is important to have the policy measures target activities, not entities per se. The policy measures should focus on impacting NTNI activities without capturing traditional activities in the application of the measures.<br>- It must be recognized that separation of NT activities may not necessarily be optimal, viable, or necessary.<br>- We have grave concerns about HLA measures. HLA should be the measure of last resort and if applied at all must only be applied in reflection of the insurer´s particular circumstances, notably existing capitalization levels.<br>- The CLHIA is of the view that a proportional HLA uplift can be applied to address a clearly identified systemic risk activity within the group, instead of applying HLA on the entire balance sheet of the group or entity within which the systemic activity is undertaken, which would not provide an incentive to reduce the level of |

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| | | systemic risks<br>- We suggest the policy measures (and methodologies) document emphasize that the use of judgment is vital in applying policy measures for more intensive supervision, recovery and resolution and HLA to ensure the principle of 'proportionality' (application reflective of the nature, scale and complexity) is effected in practice.<br>- It would be constructive to allow stakeholders to provide another round of comments on policy measures after the assessment methodology is finalized. |
| Canadian Life & Health Insurance Association Inc. | 1 | - We believe the insurance industry will not be a source or contribute significantly to a significant disruption of the global financial system and economic activity. Any insurer distress is idiosyncratic, for example, in contrast to banking, contagion risk is not significant in insurance. |
| Canadian Life & Health Insurance Association Inc. | 2 | - We are encouraged by the IAISs acknowledgment, and ultimately the FSBs, that adjustments must be made to the general framework and we trust the outcome of these adjustments will result in the focus on NTNI activities. |
| Canadian Life & Health Insurance Association Inc. | 3 | - We suggest the policy measures (and methodologies) document emphasize the use of judgment is vital in applying policy measures for more intensive supervision, recovery and resolution, and HLA to ensure the principle of 'proportionality' (application reflective of the nature, scale and complexity) is effected in practice. |
| Canadian Life & Health Insurance Association Inc. | 4 | - It would be useful for the IAIS to provide indications of what 'strong connections' between the insurance and banking sectors could be that can 'amplify the impact of stress events'. |
| Canadian Life & Health Insurance Association Inc. | 5 | - We appreciate the opportunity to provide comments.<br>- It would be constructive to allow stakeholders to provide another round of comments on policy measures after the assessment methodology is finalized. |
| Canadian Life & Health Insurance Association Inc. | 5.9 | - We fully support and encourage the IAIS to continue to emphasize the importance of tailoring any policy measures to the specific circumstances of the insurer. Such measures should be effective in addressing the specific potential sources of systemic risk and avoid unintended consequences. Use of judgment is vital. |
| Canadian Life & Health Insurance Association Inc. | 6 | - Due to the lower degree of risk of interconnectedness, substitutability and liquidity risk within the insurance sector compared to banks, it should be recognized that the distress of any one insurer will have a much lower degree of impact if at all. |
| Canadian Life & Health Insurance Association Inc. | 7 | - We commend the IAIS for its recognition of a policy response designed to address the specific nature and source of systemic importance and the different drivers of possible negative externalities. We are of the view that, neither the G-SII methodology nor the policy measures have sufficiently captured the uniqueness of the insurance industry. |
| Canadian Life & Health Insurance Association Inc. | 8 | - It would be useful for the IAIS to clarify its policy relating to 'probability of distress or failure'. As it stands currently, probability of distress or failure does not appear to be an explicit consideration in the determination of GSIIs. Yet after an insurer is designated a GSII, reducing the probability of distress or failure is a key objective. As such, why would a more highly capitalized insurer, hence lower probability of distress or failure, be designated a GSII in the first place?<br>- Incentives must be appropriate so as to not create unintended consequences. We believe GSIIs should not necessarily have to be limited, restricted or prohibited from conducting certain businesses if such businesses are being well managed through robust enterprise risk management and adequate supervision |
| Canadian Life & Health Insurance Association Inc. | 9 | - It is vital to ensure potential unintended consequences be avoided where possible. There has been no evidence of the distortional consequence as described. Insurers foresee layers of additional supervision and higher capital uplifts and restriction of their freedom to structure and transact. |
| Canadian Life & | 9.9 | The key messages the CLHIA wishes to convey to the IAIS are |

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| Health Insurance Association Inc. | | - It is important to focus application of policy measures to those activities potentially contributing to systemic risk, namely non-traditional non-insurance activities (‘NTNIA’). Even within NTNIA, it is only the non-insurance activities that should be of significant concern to regulators.<br>- Specific application of policy measures applied to NTNIA must consider an insurer´s particular circumstances, for example enterprise risk management practices. Sound judgment by supervisors is vital to ensure measures are appropriate and do not create un-level playing fields and other unintended consequences.<br>- Incentives must be appropriate so as to not create unintended consequences. We believe GSIIs should not necessarily have to be limited, restricted or prohibited from conducting certain businesses if such businesses are being well managed through robust enterprise risk management.<br>- Although the IAIS does recognize this aspect, we do wish to emphasize the importance of recognizing the insurance industry´s different business practices and unique characteristics and the perils of applying otherwise bank centric ‘GSIFI’ standards to insurers. Further, the structural and procedural difficulties posed by the lack of global accounting and capital standards for insurers.<br>- We have serious concerns about the HLA provisions. Given one of the objectives of HLA is to reduce the probability of impact, the capitalization level of an insurer must be a key determinant in determining the extent of HLA application. More fundamentally, relating to our comment about the importance of judgment and in the absence of a capital adequacy indicator, we question why an insurer would be designated a GSII in the first place if it is highly capitalized. Furthermore, any application of HLA should be directed to NI activities only and must consider the local capital standards applicable to NTNIA.<br>- The CLHIA is of the view that a proportional HLA uplift can be applied to address a clearly identified systemic risk activity within the group, instead of applying HLA on the entire balance sheet of the group or entity within which the systemic activity is undertaken, which would not provide an incentive to reduce the level of systemic risks |
| Canadian Life & Health Insurance Association Inc. | 10 | - The degree of ‘enhanced’ supervision, based on the collective judgment of the supervisors, should take into account the particular circumstances of the GSII.<br>- The SRRP and RPP should be coordinated to avoid inconsistencies and duplication.<br>- The paragraph as currently written requires HLA in all circumstances. It should be emphasized that HLA will not be required in all cases and any application of HLA should be the measure of last resort, only after it is determined that enhanced supervision and increased resolvability measures are not effective. Coordination with national supervisory frameworks is vital. |
| Canadian Life & Health Insurance Association Inc. | 11 | - We fully agree with these objectives and recommend they be emphasized. |
| Canadian Life & Health Insurance Association Inc. | 11.9 | - While we agree with the importance of comprehensive group supervision, any ‘enhanced supervision must be appropriate to the individual insurers unique circumstances and reflect existing supervision already in place and should not infringe upon the roles of senior management and the Board<br>- The necessity and contents of a Systemic Risk Reduction Plan must be considered in the context of the insurers Recovery and Resolution Plan and their ORSA |
| Canadian Life & Health Insurance Association Inc. | 12 | - We trust that ‘bolder’ use of existing supervisory tools will be reasonable and appropriate to the circumstances and not lead to unintended and unfortunate results such as hastily derived decisions to exit business lines. |
| Canadian Life & Health Insurance Association Inc. | 13 | - Coordination via the supervisory college is vital to avoid inconsistent and duplicative supervision. |
| Canadian Life & Health Insurance Association Inc. | 14 | - We again recommend the importance of supervisors exercising judgment, for example in their ‘will to act’. |
| Canadian Life & Health Insurance Association Inc. | 15 | - Given insurers lower level of liquidity risk, at least for traditional insurance activities, is not as significant as banks, we recommend the extent of the length of examples of ‘relevant issues may include’ is too long as it implies an insurers liquidity risk is as significant as for banks. |
| Canadian Life & | 17 | - It is vital for ‘separation’ initiatives to be carefully considered in terms of effectiveness, viability and limiting unintended consequences. Most notably, separation, |

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| Health Insurance Association Inc. | | if any, must be restricted to activities that potentially contribute to systemic risk.<br>- Per the CLHIA submission on assessment methodology, Variable Annuities should be considered to be a traditional insurance activity (thus contributing to diversification), and not NTNI.<br>- Further, separation of non-traditional activities is counterintuitive, as they are by definition, closely linked to traditional insurance activities and complement each other<br>- Hence, non-separation of Variable Annuities should not impact the application of policy measures, notably the rationale for applying Step 2 HLA is weak regardless of whether Variable Annuities are separated or not.<br>- The degree of any separation must be proportionate to the degree of potential systemic risk. It would be counterproductive to separate non-insurance activities if they represent a relatively small proportion of an insurers total business |
| Canadian Life & Health Insurance Association Inc. | 18 | - The specific measures must be conditioned on the legal ability and the necessity to effect them.<br>- Any perceived benefits of specific measures must be considered in the context of potentially creating adverse consequences such as adding unnecessary complexity, fragmentation of group supervision, and suboptimal group capital management.<br>- The effectiveness of other than ‘separation measures’ such as internal risk management and governance, asset liability management and stress tests should be utilized before ‘separation measures’ are deemed necessary. |
| Canadian Life & Health Insurance Association Inc. | 19 | - Risk diversification would be impeded if separation of life portfolios including Variable Annuities were required. This would ultimately impact the supply of these traditional protection products in the market. More broadly, there would be the unintended consequence of a reduction in the benefits of insurance such as less efficient pricing of risks and supply of funding by insurers for economies. |
| Canadian Life & Health Insurance Association Inc. | 24.9 | - We believe the focus should be on recovery over resolution<br>- There already exist a wide range of recovery/resolution mechanisms. Bank centric mechanisms are not necessarily directly applicable to insurers |
| Canadian Life & Health Insurance Association Inc. | 28 | - Policy measures must distinguish between insurers who have large derivatives portfolios for hedging and speculative purposes. Derivatives used for hedging purposes, reduces the insurers risk. This is acknowledged by the IAIS paper on Insurance and Financial Stability (2011). |
| Canadian Life & Health Insurance Association Inc. | 31.9 | - We have grave concerns about HLA. HLA should be the measure of last resort and if applied at all must only be applied in reflection of the insurer´s particular circumstances, notably existing capitalization levels.<br>- As any HLA must be targeted to NT activities that are a potential source of systemic risk, we disagree with the relevance of ‘Step 2’ especially in the absence of global capital standard<br>- The CLHIA is of the view that a proportional HLA uplift can be applied to address a clearly identified systemic risk activity within the group, instead of applying HLA on the entire balance sheet of the group or entity within which the systemic activity is undertaken, which would not provide an incentive to reduce the level of systemic risks |
| Canadian Life & Health Insurance Association Inc. | 34 | - The lack of a common global accounting and solvency basis for insurers impedes a consistent assessment for GSII identification as well as for application of HLA, the complications from this phenomena do not exist in the banking world. This is another example of a bank-centric model without the necessary insurance industry consideration. |
| Canadian Life & Health Insurance Association Inc. | 35 | - It is vital to limit the application of additional capital requirements, if any, to those activities that may be a source of systemic risk. Applying additional capital requirements that directly or indirectly increases capital requirements for traditional businesses would lead to inappropriate distortions and un-level playing fields between GSIIs and non-GSIIs<br>- Hence as any HLA must be targeted to NI activities that are a potential source of systemtic risk, we disagree with the relevance of ‘Step 2’ especially in the absence of global capital standard |
| Canadian Life & | 36 | - HLA measures should only be relevant where existing regimes are insufficient to ensure the appropriate capital is held for the identified risk, whether specifically |

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| Health Insurance Association Inc. | | labelled as systemic risk or not. |
| Canadian Life & Health Insurance Association Inc. | 38 | - In the view of CLHIA, given the lack of global common language for both accounting and solvency standards, a harmonized application of these measures would be very problematic. |
| Canadian Life & Health Insurance Association Inc. | 41 | - Regarding targeted HLA and separation, a specific assessment and identification of systemic relevant activities is a prerequisite in order to apply such policy measures. The CLHIA considers targeted HLA and separation as measures of last resort. Separation should only be applied for systemically relevant non-insurance activities. Separation for non-traditional activities is not an option since they are, by definition, insurance activities or closely linked to traditional insurance activities and complement each other (e.g. ILS complement reinsurance programs). Therefore, only measures such as increased technical provisions or governance requirements may apply to potentially systemic relevant non-traditional activities. Allocation of technical provisions and required capital should preferably result from internal models. |
| Canadian Life & Health Insurance Association Inc. | 45 | - We believe the expectation of 'benchmarking' probabilities of distress/failure is unrealistic<br>- The CLHIA is of the view that a proportional HLA uplift can be applied to address a clearly identified systemic risk activity within the group, instead of applying HLA on the entire balance sheet of the group or entity within which the systemic activity is undertaken, which would not provide an incentive to reduce the level of systemic risks. |
| Canadian Life & Health Insurance Association Inc. | 46 | - This section is too prescriptive given the absence of a global capital standard<br>- In the view of CLHIA, given the lack of global common language for both accounting and solvency standards, a harmonized application of these measures would be very problematic |
| Canadian Life & Health Insurance Association Inc. | 52.9 | - It would be constructive to allow stakeholders to provide another round of comments on policy measures after the assessment methodology is finalized.<br>- The IAIS should be flexible with the proposed timetable in paragraph 53. The priority should be 'quality' over 'timeliness' |
| CRO Forum | 0.9 | Please find below CRO Forums response to the IAIS draft policy measures. The CRO Forum will publish and share a more detailed response early 2013 providing more background to the key messages set out below.<br><br>NTNI criteria<br><br>- The CRO Forum questions the distinction made by the IAIS between traditional and non-traditional (NT) insurance activities and does not recognise that such 'NT' activities present a systemic risk or are relevant for the classification of G-SIIs.<br>- The relevant distinction is how activities which, due to their characteristics such as purpose, interconnectedness, size and complexity, might undermine the time available for recovery or orderly resolution presenting a potential contagion risk to the wider financial system.<br>- The CRO Forum position is that only bank or bank like (shadow banking) activities (i.e. certain 'NI' activities) operated on a broad scale within (re)insurance groups or conglomerates, poorly managed and supervised, may present a risk to the wider system.<br><br>Activity specific remarks<br><br>- Variable Annuity (VA) writers have developed dynamic and/or static hedging programs to mitigate risks of these products. Reinsurance cover is also still widely used for the purposes of reducing exposures to financial and non-financial risks. These hedging strategies are proven to be effective. Furthermore, VA writers do not pose any form of systemic risk.<br>- It should be acknowledged that there are differences in credit insurance activities. More specifically, trade credit insurance is a traditional insurance business and as such not systemically risky.<br>- In respect of derivatives, the CRO Forum understands and supports that insurance regulators limit the risks, which can arise from large derivatives positions that |

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| | | are not primarily set up for hedging strategies and which can jeopardize the solvency and the going concern of an individual insurer. However, new rules implemented should consider the applicable regulatory framework and its ability to avoid a spill over of losses.<br>- With regards to ART we think that this should not be classified as non-insurance as the transfer of technical risks is closely linked to the traditional insurance business.<br><br>Practical implementation issues and ring fencing<br><br>- The IAIS considers ring-fencing/separation both in an enhanced supervision and a Higher Loss Absorption (HLA) context. We understand that these measures are seen by policy-makers as tools which among others might allow them to protect traditional insurance businesses and their policyholders against adverse spill over effects (e.g. the spill over of losses or a liquidity drain) from systemically important NTNI activities.<br>- These ring-fencing requirements would have significant structural and management implications potentially leading to reduced fungibility of capital, reduced risk diversification and reduced economies of scale. The CRO Forum rejects the proposal for ring-fencing activities in a large extent as this is likely to lead to disadvantages and costs for both the affected insurers, their policyholders and the society as a whole and would not come along with any benefit.<br>- However, ring-fencing may be appropriate for non-insurance activities within an insurance group or conglomerate, which due to their nature and size could present a risk to the wider system (e.g. large scale bank and bank-like activities).<br>- HLA is not the appropriate response for the insurance sector and particularly where Solvency II, Swiss Solvency Test (SST) and other national capital frameworks seek to capture the economic risks of activities and determine the appropriate level of capital needed to cover these risks. It is more appropriate to look-through the activities undertaken, to assess risk management practices and risk capital methodologies in place with regards to their appropriateness, and then to decide what to do from the supervisory point of view.<br>- With regards to regulatory tools and measures the CRO Forum is in favour of having the local group supervisor (and the colleges of supervisors) in the lead when assessing NTNI and when defining the respective measures.<br><br>The CRO Forum would recommend the IAIS to analyse practical implementation issues further. |
| CRO Forum | 5.9 | NTNI criteria<br><br>- The CRO Forum questions the distinction made by the IAIS between traditional and non-traditional (NT) insurance activities and does not recognise that such 'NT' activities present a systemic risk or are relevant for the classification of G-SIIs.<br>- The relevant distinction is how activities which, due to their characteristics such as purpose, interconnectedness, size and complexity, might undermine the time available for recovery or orderly resolution presenting a potential contagion risk to the wider financial system.<br>- The CRO Forum position is that only bank or bank like (shadow banking) activities (i.e. certain 'NI' activities) operated on a broad scale within (re)insurance groups or conglomerates, poorly managed and supervised, may present a risk to the wider system. |
| CRO Forum | 9.9 | - The IAIS considers ring-fencing/separation both in an enhanced supervision and a Higher Loss Absorption (HLA) context. We understand that these measures are seen by policy-makers as tools which among others might allow them to protect traditional insurance businesses and their policyholders against adverse spill over effects (e.g. the spill over of losses or a liquidity drain) from systemically important NTNI activities.<br>- HLA is not the appropriate response for the insurance sector and particularly where Solvency II, Swiss Solvency Test (SST) and other national capital frameworks seek to capture the economic risks of activities and determine the appropriate level of capital needed to cover these risks. It is more appropriate to look-through the activities undertaken, to assess risk management practices and risk capital methodologies in place with regards to their appropriateness, and then to decide what to do from the supervisory point of view. |
| CRO Forum | 9.91 | Practical implementation issues and ring fencing<br><br>- The IAIS considers ring-fencing/separation both in an enhanced supervision and a Higher Loss Absorption (HLA) context. We understand that these measures are seen by policy-makers as tools which among others might allow them to protect traditional insurance businesses and their policyholders against adverse spill over effects (e.g. the spill over of losses or a liquidity drain) from systemically important NTNI activities. |

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| CRO Forum | 11.9 | - With regards to regulatory tools and measures the CRO Forum is in favour of having the local group supervisor (and the colleges of supervisors) in the lead when assessing NTNI and when defining the respective measures. |
| CRO Forum | 52.9 | - The IAIS considers ring-fencing/separation both in an enhanced supervision and a Higher Loss Absorption (HLA) context. We understand that these measures are seen by policy-makers as tools which among others might allow them to protect traditional insurance businesses and their policyholders against adverse spill over effects (e.g. the spill over of losses or a liquidity drain) from systemically important NTNI activities.<br>- These ring-fencing requirements would have significant structural and management implications potentially leading to reduced fungibility of capital, reduced risk diversification and reduced economies of scale. The CRO Forum rejects the proposal for ring-fencing activities in a large extent as this is likely to lead to disadvantages and costs for both the affected insurers, their policyholders and the society as a whole and would not come along with any benefit.<br>- Furthermore, the CRO Forum would recommend the IAIS to analyse practical implementation issues further. |
| European Commission | 0.9 | The Commission Services would like to thank the IAIS for its important work during the last years leading up to the publication of this consultation document on policy measures for global systemically relevant insurers (G-SIIs). We strongly support the work of the IAIS to develop a set of measures to address G-SIIs and we are pleased to contribute with our comments to the development of this important project.<br>We appreciate that the IAIS is considering a number of different measures to address global systemically relevant insurers and that these are in line with the FSB recommendations as this would ensure achieving a common framework for any G-SIFIs, regardless of whether they are banks or insurers. However, similarly to the criteria set for the identification, measures that are suitable for banks may need to apply in a different way to insurers.<br>The objectives of any policy measures should be carefully set out since the measures to be applied will depend on the objective that one wishes to achieve. Measures should address the cause of the systemic relevance in order for moral hazard to be reduced. In addition, measures should also compensate the negative effects that SIFIs cause to the system and hence 'internalise' the cost of negative externalities: it is paramount that no extraordinary taxpayer support should be asked.<br>In principle policy measures should disincentive insurers from entering into activities that would let them become G-SIIs. However, should an insurer decide to carry out potentially systemically important activities, the objective of the policy measures should then be that systemic risk is measured, managed and controlled (or mitigated) effectively by the insurers themselves and supervisors. Framing the objective in this way may also overcome the issue of sifi-ness being relative.<br>In principle the policy measures should be a toolkit which supervisors of GSIIs can choose from to address the particular features of their GSIIs. However, risks of inconsistent application should be avoided. Principles and conditions for the application of the measures should be harmonised to the extent possible and should not leave room for excessive discretion in the application from supervisors. Such principles and conditions, to be detailed in guidelines by the IAIS, should clearly set out the cases when and under which circumstances a specific tool should be used.<br>The major problem of big, complex, financial groups is that it becomes very difficult to identify where the source of systemic risk resides when hundreds of different legal entities and businesses around the world belong to the same group. As a consequence, the application of measures to address systemic importance would become difficult as well. Close cooperation between insurance, banking and other financial institutions´ supervisors will be paramount to achieve consistency in the application of measures, to ensure harmonization of practices worldwide and avoid creating an un-level playing field.<br>Also, unintended consequences in relation to shadow banking activities should be taken into account. Regulators and also the IAIS should carefully assess the |

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| | | linkages between non-traditional and non-insurance activities with shadow banking activities to ensure that there is no overlap or underlap in the measures to tackle non-traditional activities.<br>We fully agree that the framework should include enhanced supervision, effective resolution, enhanced loss absorbency and other prudential requirements as determined by national authorities. In addition to the comments raised on the specific sections, we would like to share with the IAIS the following general remarks on each of the proposed measures.<br>Enhanced supervision. We strongly support direct group-wide supervision to be in place for all G-SIIs. As long as there is a group-wide perspective to risk exposure and management, which includes each and every entity belonging to a group, it will be ensured that all risks to which a group is exposed are identified, monitored and managed. This is in line with the objective of other international prudential frameworks, like Solvency II in Europe and the IAIS ComFrame at global level. Looking at groups that way would imply that any risk stemming from NTNI activities and interconnectedness can be effectively and efficiently be taken into consideration.<br>We believe that more clarity should be added on the relationship between the IAIS ComFrame and the G-SIIs policy measures, not only in terms of enhanced supervision but also in relation to HLA and timing (see also comments below).<br>Further clarity and guidance would also be helpful with regard to the interaction between the SRRP, the recovery and resolution measures and the steps 1 and 2 envisaged as part of the HLA. On the SRRP and its interaction with resolution measures, it must be seen whether in a situation of going concern there is willingness (and the ability) to stop firms in carrying out certain activities or whether it is enough and efficient to actively and timely monitor them and internalise the cost of negative externalities that these activities may cause. We acknowledge that the answer is not straightforward. However we tend to think that it depends on the level of interconnectedness that exists between these activities and on whether and to what extent this is a source of systemic risk. We would therefore suggest that the IAIS further elaborate on this issue.<br>One key issue that also needs further elaboration would be whether in case existing prudential regulation already caters for systemic risk how this should be taken into account when applying the measures. We understand that, according to the paper, this would be left to the supervisor. However, we believe that the IAIS should play a role on this issue in order to avoid inconsistencies in the application. For instance, as far as enhanced supervision is concerned, direct group-wide supervision should be in place for G-SIIs. SIFIs should be subject to proper group supervision with the calculation of a group solvency capital taking into account all entities that are part of the group and with a clear indication of a group supervisor with clear duties and powers. This is the form of enhanced group supervision already envisaged in Solvency II which should be taken into account when applying the measures.<br><br>Effective resolution. We broadly agree with the approach taken by the IAIS on resolution measures. The European Commission published a consultation paper in October on a possible framework for recovery and resolution of entities other than banks, including insurance companies<br>(http://ec.europa.eu/internal_market/consultations/2012/nonbanks_en.htm<br>). The paper is relatively open on whether an insurer may be systemically relevant in order not to prejudge the work underway at the international level on this. The question is rather when an entity is systemically important, what resolution measures and tools should be applicable. Our perspective is that when an entity is systemically relevant, this will normally imply the need for recovery and resolution arrangements, consistent with the FSB Key Attributes (KA) for Effective Resolution Regimes and the IAIS view. We appreciate that the IAIS is also working on the application of the FSB KAs to insurers other than those designated as G-SIIs and we support this workstream.<br>Higher loss absorption capacity (HLA). HLA should be part of the measures for G-SIIs. Capital surcharge should not be set in relation to traditional insurance business since this is not a cause of systemic risk. However, the measures should be in line with the identification methodology. Hence, since the identification of a G-SII is carried out on a group basis, the determination of the HLA, while addressing the root of the systemic relevance, should also take the whole G-SII into consideration.<br>Given the differences in capital requirements worldwide, the calculation of a targeted HLA is acceptable, provided that an overall assessment of group-HLA is performed. This should also ensure that where a prudential framework includes requirements on group-wide supervision, including the calculation of a group-wide capital, this is recognised when setting HLA. If the group-wide capital already caters, even though partially, for NTNI and/or interconnectedness, the additional capital required should be reduced to correct for that fact. We would like to stress that even in the case where it is possible to calculate a targeted HLA, the relevant capital should be available both at the individual and at the group level, particularly given the difficulty noted above of identifying where the source of systemic risk resides in big, complex, financial groups. Effective separation and self-sufficiency may not fully address the problem of interconnectedness as the legal entity (even if separated and self-sufficient) would still be part of the group that has been designated as a G-SII. Hence, the capital should also be available at the level of the group. Further investigation on separation and self-sufficiency would be very helpful. |

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| | | While we understand that ComFrame is not expected to directly address systemic relevance, it is crucial that the ComFrame project of the IAIS establishes a common base level of capital for all IAIGs to ensure consistent application of the measures and to avoid that HLA measures are more punitive for some G-SIIs than others. As already mentioned, further clarification is needed as to the link between the capital requirements under ComFrame and the determination and calculation of HLA for G-SIIs. Without a global capital measure, it would not be appropriate for the HLA uplift to be calculated as a multiple of the local solvency regimes´ PCRs. We would therefore have a preference for an HLA uplift based on a total group balance sheet, which reflects all the exposures of the group and is based on IFRS. However, further work is needed to ensure that this approach does not unduly penalise those groups already subject to high capital requirements.<br>As part of a medium-long term plan and given that the timeline for application of HLA is not that tight, we would suggest that further work is carried out with regard to the calibration of an HLA for the systemic risk a group is exposed to.<br>Further work should also be done in relation to the quality of capital in order to ensure more clarity and consistent application.<br>Finally, the issue of systemic risk cannot only be solved by addressing the treatment of systemic entities:<br>o The existing prudential regulation has to be applied and enforced properly and effectively. For instance, Solvency II envisages that non-regulated entities in a group are included in the scope of the group supervision<br>o It is clearly possible to improve the cooperation between supervisors of different sectors (e.g. banking and insurance supervisors) notably by means of the colleges of supervisors. In Europe, the new agencies (EIOPA, EBA, ESMA and the ESRB) have contributed to that.<br><br>As to the timing, we believe that the paper could usefully outline how the timeline fits with the introduction of ComFrame envisaged for 2018. |
| European Commission | 7 | We fully support the principle that measures should be tailored to address the root of systemic risk. However, it should be clarified how a specific measure would apply in relation to different situations, and more specifically when the NTNI is carried out in a separate legal entity or not. |
| European Commission | 8 | We would propose adding the objective that systemic risk is measured, managed and controlled effectively by the groups and supervisors. |
| European Commission | 10 | We wonder whether the statement that some existing regimes ‘already provide for capital surcharges that account for systemic risk’ is appropriate. Instead we would recommend that jurisdictional regimes for capital requirements are considered holistically rather than considering capital surcharges for systemic risk in isolation. A regime may impose higher capital requirements for all groups overall, without specific capital surcharges for systemic risk. |
| European Commission | 11 | We strongly support these principles. |
| European Commission | 12 | While any relevant supervisor should be involved in the enhanced supervision of a G-SII, there must be one single supervisor with duties and powers and that should be responsible for the decision-making over the G-SII. |
| European Commission | 13 | It should be further clarified whether the set of measures is a toolkit among which supervisors can choose or rather a set of mandatory measures to be applied. The wording in paragraphs 16 and 21 would suggest that a supervisor can choose the most appropriate one among different tools. We agree with this in principle, as measures would be more tailored to the specific source of systemic relevance and supposedly work more effectively. However, we fear that consistent application may be at risk and may prejudge a level playing field, even though we understand that peer reviews would be carried out by the IAIS.<br>We would suggest that, along the lines of ComFrame, the policy measures paper should set out the idea of one unique lead/group-wide supervisor in order for the measures to be applied efficiently and effectively.<br>The principle that supervisory colleges for G-SIIs should focus on systemic risk could usefully be included in the document. |
| European Commission | 14 | We would agree that ComFrame, although not expected to focus on systemic risk, should apply to all G-SIIs. As stated in our general comments, there is a need for additional clarity on the link between the two projects, both in terms of content and timing. With regard to HLA, we would expect that once capital requirements are finalised in the ComFrame, these would form the basis on top of which the HLA uplift could be calculated.<br>We wonder why terms like ‘consolidated supervision’ are used, since this is mainly a banking term. ICPs and ComFrame refers to group wide supervision.<br>We support the description of how enhanced supervision should work. However this may be too generic in order to be implemented effectively in practice. We wonder whether the IAIS expect to issue further guidance on this. |

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| European Commission | 16 | The definition of authorities in footnote 19 is different from the one in footnote 17. We wonder whether this was intended. |
| European Commission | 17 | It is unclear whether measures like separation and self-sufficiency alone are deemed sufficient to address the systemic relevance of a G-SII.<br>Separation and self-sufficiency may be difficult to achieve in practice. Moreover, even if separation and self-sufficiency were achievable, should the separated entity still belong to the same group that was identified as G-SII, the whole group could still be deemed as a G-SII in case that separated entity was originally the source of systemic relevance. Hence, we doubt about the effectiveness of this measure. |
| European Commission | 20 | The wording is unclear and is likely to contradict what the document states in relation to enhanced group supervision. 'Regulated entity' generally means an undertaking that needs an authorization to carry out a certain business and which will be subject to prudential regulation. Non-regulated entities captured by direct group supervision are not directly regulated. They are captured in the supervision of the group to which they belong. There is no need for unregulated entities to become regulated provided that they are properly captured by the group-wide supervision.<br>Hence if the separation of NTNI means the creation of an unregulated entity, that may not be an issue, provided that either it is captured under the group-wide supervision or under the shadow banking measures. |
| European Commission | 21 | This paragraph seems to be more related to the general objectives that a policy measure should have and not to goals that supervisor can choose from. |
| European Commission | 23 | To be effective, the limitation in diversification effects should be applicable at the ultimate level at which capital requirements are calculated and not at the sub-holding or entity level. |
| European Commission | 24 | The wording 'joint bank and insurance make it more desirable to contain risk' is unclear. |
| European Commission | 27 | It is not fully clear what the asset/liability ratio referred to in this paragraph is. If this is simply assets exceed liabilities then we would argue that the MCR is always breached if the asset/ liability ratio is breached. The consultation paper implies that it is possible for the asset/ liability ratio to be breached but the MCR is still met. |
| European Commission | 28 | We support further work form the IAIS on this issue. However, this should neither imply a change in the identification methodology nor that resolution measures should be application to any insurance firm. |
| European Commission | 29 | We strongly support that insurance specificities are taken into account when applying the FSB resolution KAs. |
| European Commission | 33 | The 'or' in the first sentence seems to imply that the targeted and group HLA are mutually exclusive. We would not support that. As mentioned in the general comment, the measures should be in line with the identification methodology. Hence, since the identification of a G-SII is carried out on a group basis, the determination of the HLA, while addressing the root of the systemic relevance, should also take the whole G-SII into consideration (e.g. be calibrated based on group-wide figures on systemic risk exposure of the group). |
| European Commission | 34 | We see the point that the absence of a global standard can complicate the calculation of a group HLA and such a measure can be more punitive for some G-SIIs than others. Given the differences in capital requirements worldwide, the calculation of a targeted HLA could be acceptable, provided that an overall assessment of group-HLA is performed. This should also ensure that where a prudential framework includes requirements on group-wide supervision (and hence on the calculation of a group-wide capital), this is recognised when setting HLA (namely if the group-wide capital already caters, even though partially, for NTNI and/or interconnectedness, the additional capital should corrected for that). We would like to stress that even in the case where it is possible to calculate a targeted HLA, the relevant capital should be available both at the individual and at the group level. |
| European Commission | 35 | We would not be in favour of the alternative approach to step 2. Again, since the whole group is designated as G-SII and since separation, even when possible, may not fully address the systemic risk, we strongly believe that a global assessment of HLA is needed. We would rather suggest a reverse approach, whereby step 2 comes beforehand. We would recommend that the approach to HLA seek to examine absolute levels of capital within a group to avoid discriminatory treatment for groups subject to more onerous capital requirements. One way to do this could be to vary the total balance sheet approach to the HLA uplift to factor |

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| | | in the amount of regulatory capital already required at group level. We would encourage the IAIs to further investigate this approach. |
| European Commission | 36 | The paragraph acknowledges that capital charges imposed to mitigate systemic risk at national level should be taken into account in the HLA assessment. However, this seems too restrictive since it ignores the overall capital required for regulatory purposes. Further elaboration on this point would be welcome. |
| European Commission | 38 | We strongly support this. It is crucial that ComFrame project of the IAIS establishes a common base level of capital for all IAIGs to ensure consistent application of the measures and to avoid that HLA measures are more punitive for some G-SIIs than others. |
| European Commission | 40 | We would recommend the IAIS to further investigate the approach that we suggested in our comments on paragraph 35. |
| European Commission | 41 | We believe that the consultation paper should clarify the difference between how the HLA is calculated and where the available capital is needed and should be held. |
| European Commission | 43 | We believe that this paragraph should be expanded to address two key issues:<br>1. the soundness of the approach whereby Basel III HLA would be applied to the banking-like activity when the separate/segregated NTNI would not have counted alone as a G-SIB (e.g. if not considered from a group perspective),<br>2. how to apply Basel III rules in practice. |
| European Commission | 44 | The application of a capital surcharge cannot be left to the discretion of supervisors, while common and standard rules are necessary to ensure level playing field and certainty and predictability of rules that will be applied. Otherwise no credible disincentive would be set for insurers not to become G-SIIs. |
| European Commission | 45 | We agree with the approach set out in this paragraph and would encourage the IAIS to further investigate on it even though it is would not be applicable in the short term. |
| European Commission | 46 | We believe that the disadvantage listed under the first bullet point would overweigh any other advantage that this approach may deliver. Hence we tend to favour the approach based on total balance sheet, until ComFrame establishes a common basis for the calculation of the PCR. As recommended above, the IAIS should explore variations to the total balance sheet approach to the HLA uplift which would avoid groups subject to higher group capital requirements being unduly penalised. |
| European Commission | 47 | The section on the quality of capital should be further elaborated in order to ensure more clarity and consistent application. Detailed guidance on capital developed by the IAIS would be helpful. |
| European Commission | 51 | The paper could usefully outline how the timeline for the IAIS work on HLA fits with the introduction of ComFrame envisaged for 2018. |
| European Commission | 53 | The paper could usefully outline how the timeline fits with the introduction of ComFrame envisaged for 2018. |
| European Commission | 57 | We fully support disclosure of relevant data. |
| European Commission | 58 | We welcome the IAIs commitment to carry out peer reviews. |
| European Insurance and Occupational Pensions Authority (EIOPA) | 0.9 | EIOPA strongly supports the work of the IAIS to develop a set of internationally consistent standards for the regulation and supervision of G-SIIs. EIOPA would like to thank the IAIS for the work conducted up to now.<br><br>Enhanced supervision and comprehensive group-wide supervision are the essential measures in case of G-SIIs, which follow logically from a risk sensitive approach to group-wide supervision as promoted in for instance European Union by the forthcoming Solvency II and globally by ComFrame project.<br>Recovery and resolution plans prepared for a G-SIFI should serve as a guidance to firms and authorities in a recovery or resolution scenario. EIOPA sees the |

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| | | merit to apply this logic to G-SIIs, while recognising the need to take into due account the specificities related to the insurance sector vis-is to the techniques used in banking due to the nature of the insurance business model.<br>EIOPA believes that policy measures applied to G-SIIs should incentivise groups and companies reduce their systemic importance.<br><br>EIOPA is convinced that for G-SIIs the supervisory toolkit of measures should focus primarily on a group-wide approach in order to be consistent with the underlying logic of for instance Solvency II and ComFrame. This is particularly so in relation to HLA. In considering the alternative approaches set out in the consultation, especially the alternative to Step 2, EIOPA believes that group-wide HLA is the appropriate organisational level at which to assess and address HLA for the systemic activities of a GSII. The group-wide supervisor (in consultation with involved supervisors) should assess whether the HLA capacity held at the NTNI entities is sufficient or needs to be further increased at the group level. Moreover, a group-wide approach would allow for interconnectedness of risks within groups and with other sectors of the financial system to be better reflected in the assessment of the need for HLA.<br>EIOPA notes that the consultation document does not fully address interconnectedness in proposed policy measures despite the fact that it is a significant factor in determining the designation of the undertaking or group as a G-SII.<br><br>With regard to the restructuring of G-SII activities and the potential prohibition of certain activities as well as any other potential supervisory measures, they must not be ruled out as policy options. Nevertheless, they need very careful further analysis and in case of lack of group-wide HLA there will be a danger that such actions could drive certain activities into non-regulated entities or that they would run counter to the principles of sound risk management.<br><br>EIOPA supports the approach that HLA requirements should be covered by high quality capital, but further developing the proposals in the paper beyond the current status is needed in this area in joint cooperation with IAIS SSC to develop the treatment of quality of capital. |
| European Insurance and Occupational Pensions Authority (EIOPA) | 0.91 | EIOPA is concerned about the current status of work on the definition of NTNI, as this is an important factor in the credibility and acceptance of supervisory measures for G-SII. At present, the NTNI definition continues to have a grey area where it is not completely obvious how certain activities would be classified. This is non-trivial in terms of the potential effect that it may have and further work is welcomed in this area.<br><br>EIOPA observed an imbalance in the paper between addressing the NTNI factor and interconnectedness. The FSC is encouraged to work further on how to address the interconnectedness and EIOPA considers a group perspective, including an approach to risk concentrations, would be a valuable framework in this context. |
| European Insurance and Occupational Pensions Authority (EIOPA) | 13 | In EIOPA's view the systemic relevance of an insurer should be taken into account in framing the objectives of insurance supervision, incl. the extension of mandate if necessary. Effective group wide supervision should be ensured and all obstacles should be identified and removed. |
| European Insurance and Occupational Pensions Authority (EIOPA) | 24.9 | Recovery plans and resolution plans should be further defined in the proposals. Key areas that ought to be covered include scope, level of detail, content, security of information and trigger points, inter alia. It should be clarified at which stage each of them apply.<br><br>Moreover the FSB continues to consider questions of group structure and intra-group transactions as part of its on-going work on resolvability. Therefore EIOPA believes it should be also addressed in IAIS G-SII policy measures document as structural factors may limit the authorities' choice of resolution options. |
| European Insurance and Occupational Pensions Authority (EIOPA) | 25 | With regard to outcomes of effective resolution EIOPA suggest to redraft the 3rd bullet and make it stronger: 'to ensure that policyholder protection is not weakened'. |
| European | 31.9 | In a long-term, under HLA own funds and technical provisions should be based on a common international standard in order to assess the group wide element of |

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| Insurance and Occupational Pensions Authority (EIOPA) | | loss absorbency. |
| European Insurance and Occupational Pensions Authority (EIOPA) | 46 | EIOPA sees a group-wide approach to HLA as being potentially the most effective in terms of dealing with the nature and scope of NTNI business and interconnectedness. Not only would such an approach be more consistent with broader supervisory developments in terms of ComFrame and Solvency II, but it also reflects the complexity of adopting a more granular approach such as that in Step 1 in paragraph 35.<br><br>The lack of a global standard for PCR cannot be ignored and represents a significant challenge to the adoption and calibration of a group approach. It should not, however, be used as a reason not to seek to develop a HLA approach that incentivises firms to deal with NTNI and interconnectedness.<br><br>EIOPA believes that there are two areas that would benefit from further exploration in order to develop a workable group approach. These are:<br>- Development of a balance sheet measure to ensure more comparability and level playing field for G-SIIs. The HLA could then be calculated and applied using the balance sheet as a base.<br>- Differentiation of the factors to be applied to PCRs across jurisdictions in order to develop a common charge related to a given magnitude of NTNI or interconnectedness (namely different uplifts should be applied in different jurisdictions).<br><br>In the longer term, EIOPA believes that a global standard for group capital requirements should include a systemic risk component to better reflect the nature of the NTNI business and interconnectedness. Such a standard could also address the question of non-recognition of diversification effects. |
| European Insurance and Occupational Pensions Authority (EIOPA) | 50 | Referring to acceptable instruments final G-SII policy measures should further elaborate on the expected quality of capital. EIOPA agrees that it is a role of the supervisor to judge whether an instrument which exists in its jurisdiction constitutes the highest quality of capital or not. Nevertheless clear criteria included in the G-SII policy measures document would foster consistency of supervisory approaches.<br>It is worth to highlight that the analysis of capital resources requirements in different jurisdictions (currently conducted by IAIS SSC) will lead to a largely harmonised approach (and not common approach) under ComFrame and some G-SIIs may not be identified as IAIGs.<br>Therefore EIOPA sees the benefit of further FSC work on quality of capital in cooperation with IAIS SSC. |
| French Insurance Federation (FFSA) | 0.9 | The French Insurance Federation has the following key concerns when it comes to the measures to be applied to G-SIIs;<br>- The measures are too banking-centric, and not sufficiently adapted to the insurance-specific components. Beside the very different business model of the two sectors, there is also a significant difference in scale of respective involvement in potentially systemically risky activities, which is demonstrated in the research paper of the Geneva Association ‘Cross industry analysis, 28 G-SIBs vs. 28 insurers, comparison of systemic risk indicators’, dated 11 December 2012.<br>- There remain too many uncertainties on the basic concepts on which both the methodology and the measures are developed.<br>- The lack of definition of NTNIs. It is of upmost importance that IAIS communicates clearly which activities will lead to a G-SII designation. Only with this understanding can the industry comment precisely on the proposed policy measures.<br>- The definition of ‘systemic risk’ is inappropriately broadened to ‘severe financial shocks’ whereas the FSB, the IMF and the BIS [Report to the G20, October 2009] have already clarified that ‘a collapse in an asset price [?] would not constitute a systemic event by this definition unless it disrupted the provision of some financial services’ and that ‘the definition requires significant spillovers to the real economy’. As a consequence, this would lead the IAIS to wrongly consider some activities as being systematically relevant. For instance, reinsurance is considered as relevant merely because it increases the interconnectedness of insurers and reinsurers within the insurance sector. However, it does not increase the interconnectedness of these institutions with the real economy or with institutions that are directly exposed to systemic risk (such as banks or other institutions involved in maturity/liquidity transformation, creation of money-like liabilities or leverage). [The IAIS itself has concluded recently that ‘traditional reinsurance - including the reinsurance of peak risks - is unlikely to contribute, or amplify, systemic risk. While reinsurance establishes intra-sector connectivity, the hierarchical structure of the insurance market dampens the propagation of shocks through the insurance market. Although reinsurers can fail, in the past, primary insurers have typically absorbed the loss of reinsurance recoverables without a significant detrimental financial impact’. (Reinsurance and financial stability, 19 July 2012)]<br>- The exercise of segregating activities is a very important issue and difficult exercise, which can have tremendous consequences in terms of measures especially |

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| | | when it comes to self-sufficiency.<br>More precisely, in the identification process of potential, systemic relevant activities, the treatment of Life Insurance products with financial guarantees and options including variable annuities is inappropriate. |
| French Insurance Federation (FFSA) | 11.9 | 1. FFSA considers that a sound and comprehensive supervision framework is appropriate for the orderly treatment of potential, systemic relevant activities in the insurance sector in the case of G-SIIs distress or failure FFSA supports IAIS's role in identifying and elaborating the core features that a supervisory regime should meet in order to provide with a sound and effective supervision framework. The FFSA is therefore supporting the IAIS's ICPs which provides the foundation for an appropriate supervision.<br>2. FFSA recognizes that further work is needed in order to improve group-wide supervision and develop an internationally acceptable framework that would contribute to ensuring appropriate streamlining, consistency, efficiency and effectiveness of supervision on a group-wide basis. When it comes to cross-sectoral supervision as part as group-wide supervision, FFSA keeps wondering how such an articulation between different supervisory bodies could be best addressed while maintaining insurance-specific approach, and is concerned by the additional data which may be potentially required, especially if they are not relevant nor necessary in the purpose of identifying and supervising potential, systemic relevant activities.<br>3. If FFSA acknowledges the current tendency for supervisors to cover additional powers, in alignment with the FSB's recommendations for Intensity and Effectiveness of SIFI Supervision, it considers that such a move should only be considered after having developed a comprehensive vision of the whole set of powers, making sure that they are consistent with the insurance-specific components (the ones currently envisaged are too banking-centric), and not excessively intrusive.<br>- An early intervention of supervisor is not as appropriate with insurance as it would be for other financial institutions with immediate liquidity needs, such as banks.<br>- If supervisory interactions with boards and senior management could be stepped up they should remain appropriate and balanced in order not to interfere with (and not substitute to) the company's management decisions.<br>- The existing (or under development) supervisory framework should be first considered and potential gaps addressed.<br>4. FFSA wants to reiterate that the insurance business model gives to liquidity under extraordinary conditions a very different impact when compared with banks (no such event as fire sales, the insurance is funded upfront and does not need to rely on wholesale market liquidity). Further, the long-term nature of most insurance products which are controlled and relatively stable, allows investments to be matched.<br>5. In Europe, insurers are prepared and have a clear understanding of how their liquidity would perform under stress conditions. They also have considered stress in case they would have to rely on contingent liquidity at group-level.<br>6. Therefore, any additional rule on liquidity should take into consideration the insurance specificities and the existing rules.<br>7. FFSA considers that structural measures should be of last resort. They are directly related to the issue of segregating activities, an exercise on which FFSA wants to express its strongest reserves. Further, FFSA considers that it does interfere with the role that the company's management should play when it comes to operating activities, and reviewing/adjusting the place they are playing in the overall strategy.<br>8. FFSA considers that the proposed Systemic Risk Reduction Plan (SRRP) could become an appropriate tool in the IAIS systemic risk framework, if it only and exclusively applies to the sole systemic relevant activities.<br>9. The identification and separation of non traditional and non-insurance activities (NTNIA) constitutes one major concern for FFSA. An illustrative list of NTNIA has been provided but the definition remains inappropriate .Too many of them remain subjective to the jurisdictional interpretation and local definition. Furthermore, this list includes some insurance activities which are regulated and supervised and which do not pose systemic risk.<br>FFSA is more specifically questioning the identification as semi-traditional activities for life insurance portfolios embedding financial guarantees, including variable annuities, and does not fully understand the IAIS's doubts about their traditional feature<br>Further, FFSA considers that segregating NTNIA does not seem to be the most appropriate solution to best address the reduction of systemic impact.<br>There are other regulatory tools which are currently available to meet the IAIS objectives of reducing systemic risk, including:<br>- Liquidity stress testing and asset liability matching for short term funding,<br>- Development of internal risk management, ALM and other risk-mitigating processes and existing regulatory treatment and capital requirements.<br><br>In addition to the fact that this exercise does not appear to be realistic nor feasible for all the activities, it is also important to highlight the damaging consequences that this exercise could have on the segregated activities themselves (decrease of activity, reputation impact). Finally, segregation has a cost which would be |

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| | | carried over by the consumer and that would have negative externalities for the whole economy.<br>Direct restrictions, structural segregation, or prohibitions of specific activities should be a measure of last resort and only dedicated to evidenced systemic relevant activities.<br>FFSA is calling for a clear and consistent approach to identify among the non-traditional and non-insurance activities the sole activities which could become potential systemic relevant. They should be the sole activities on which IAIS should apply measures. IAIS could develop a global approach to identify potential systemic relevant activities (beyond the NTNIA identification) that would be shared with local supervisor in order to target the sole systemic relevant activities. In the consultation document 'Strengthening Oversight and Regulation of Shadow Banking an integrated overview of policy recommendation' (Nov 2012) the FSB provides guidance to focus on activities involving maturity/liquidity transformation, imperfect credit risk that have these characteristics potentially systemic risky activities. It may be a useful basis to identify those activities. |
| French Insurance Federation (FFSA) | 24.9 | 10. It is worthwhile remembering the specific role of time in the traditional insurance industry.<br>- The nature of the insurance business model which is characterized by pre-funded business, asset-liability matching and risk management provides insurers with time to react and adjust to stressed situations. The focus should then be on recovery rather than resolution.<br>- As an insurance crisis plays out over a long period of time, it does not have to be solved over a week-end. Pre-defined recovery and resolution plans do not therefore cover and meet the same rationale as it would be if it were for institutions with immediate liquidity needs in situations of stress, such as banks.<br>11. Risk management is the usual business of insurers which makes them most prepared to prevent adverse conditions resulting in failure. It may take the shape of risk mitigation or risk monitoring which generally provide insurers with the ability to take necessary actions to effectively recover and therefore mitigate the impact on policyholders and protect tax payer. The core itself of the insurance activity is dedicated to face adverse situations and already includes approaches to recovery.<br>12. In Europe, insurers have developed a wide range of tools and techniques to explain and document the risk covered, the measurement approach used, and the different assumptions considered, and to describe the relevant policies in both the overall strategy and day-to-day operation, including the relationship between triggers and processes. All these means form the continuum framework that already enables management to effectively and appropriately react to the various circumstances which may affect the business. The insurance industry does not need additional and excessive requirements as those introduced by the FSB in its Key Attributes as they are too banking-focused. IAIS also needs to take great consideration of existing framework.<br>13. RRPs should only apply to the sole systemic relevant activities such as shadow-banking.<br>14. FFSA is therefore supporting the current work undergone by the IAIS in its subcommittees to accurately restrict and adapt the FSB's Key attributes requirements to the specific nature of insurance. The FFSA is also urging the IAIS to working closely with the FSB on the current assessment methodology being developed (no clear vision on how it will be shaped) in order to ensure that the insurance-specific elements are taken into consideration.<br>15. FFSA is extremely concerned that IAIS may further examine if a mainly traditional insurance group with a derivatives portfolio may pose a risk. The insurance industry already had a lengthy and documented debate with the IAIS providing that traditional insurance does not pose systemic risk - which was agreed and supported by the IAIS itself -. The industry understands that the use of derivatives - and the potential systemic threat that it may pose - seems to be questioned again by the IAIS.<br>16. The default risk arising from derivatives liabilities which can generate a spillover of significant losses to other financial institutions should be addressed by regulating the derivatives market. Requiring a centralized clearing with daily/weekly margin calls for derivatives which so far have been traded OTC is currently a market practice. It largely eliminates this default risk. The FSB, which has set up a separate work stream for the regulation of the OTC derivatives market, EMIR and Dodd Frank regulation, will contribute to secure even more this framework.<br>17. It should also be considered that derivatives counterparties are large financial institutions which all impose reciprocal credit limit. Then the consequences on derivatives counterparties of a large insurance run off involving the unwinding of derivatives position would be quantitatively limited and manageable from a systemic point of view.<br>Moreover derivatives rolled over by the Insurance sector for ALM purposes represent a very small part of the derivatives market e.g. on the US market no more than 0,18%. Similarly, the outstanding amount of Cat bonds is less than $ 15 billion (source: Aon Benfield, Reinsurance Market Outlook, September 2012), which is of no significance when compared with the outstanding amount of other securities such as corporate bonds or asset-backed securities, and far too low to pose a real risk to the stability of the financial system.<br>In any case, it should be reminded that insurers use derivatives primarily for the purpose of hedging their asset and/or liability portfolio. Therefore derivatives are usually attached to a 'real' underlying asset or liability - e.g. interest rate hedging of an insurance liability, insurance linked securities [For instance, Cat bonds are |

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| | | financed upfront, involve no leverage and their risk remains limited -only eight of some 210 property cat bonds issued since 1997 have been triggered-].As a consequence, there is no maturity/liquidity transformation, creation of money-like liabilities or leverage attached to that use of derivatives and therefore no need for specific measures to address a potential systemic risk in that context. |
| French Insurance Federation (FFSA) | 31.9 | 18. FFSA considers that applying higher loss absorbency capacity is not the appropriate answer to reducing the probability of failure of companies and the negative impacts that may result.<br>19. FFSA supports that a sound and comprehensive supervision, in addition to a strong and effective company's management and governance are key to ensure the resilience of insurers in case of extraordinary conditions, when appropriately defined.<br>20. A targeted capital approach may be a right approach if it applies, as a last resort measure, to the sole evidenced systemic relevant activities where the current requirements are deemed inadequate. It should be based on the actual risk of the activity and calibrated using a risk-based approach. It also should be built on existing regimes and avoid conflicting, cumulative and uncoordinated requirements. The targeted HLA should be applied 'net' of mitigated activities.<br>21. Further, it should also be considered that targeted HLA could miss the objective to lessen the systemicity of the financial system. Targeted HLA could make NTNIs unprofitable for designated G-SIIs which will act as an incentive for their disposal. In the same manner, targeted HLA could create a unique opportunity for non-designated systemic players in the market to substitute G-SIIs in systemic activities. Hence targeted HLA application should avoid any potential market distortions that could result at the global level.<br>22. FFSA strongly opposes a group-wide HLA for two reasons :<br>- FFSA considers that this measure is too banking-centric, and does not meet the specific rationale which should be considered for the insurance industry. As already stated, the insurance business itself places the risk approach and management at the core of its activities, and is 'by nature' prepared to face adverse conditions. The precautionary approach and the long-term nature of the business of insurance make companies more resilient to extraordinary conditions.<br>- FFSA strongly questions how such a group-wide HLA could be assessed. There is no global solvency or accounting standards, and requiring a group-wide HLA could only have the opposite result, and create significant risk, by further aggravating differences between jurisdictions and creating strong unbalances and thus real risks. Furthermore, the international differences in accounting and regulatory requirements are far from being effectively addressed, making a common basis for calculation most unlikely.<br>23. As previously mentioned, the application of a HLA uplift based on the local solvency regime (in the form of an additional percentage of the PCR) would create significant market distortions and lead to undue capital requirements. Further, the current prescribed capital requirement (PCR) which constitutes a useful basis for the convergence of different prudential regime on the internationally agreed insurance core principles (ICP) is not currently an operational quantitative measurement of capital requirements. In Europe, the solvency standard already provides with a high level of precautionary approach. Therefore, it is of utmost importance that existing (or under development) framework is taken into consideration.<br>24. As previously mentioned, the application of an HLA uplift based on the total balance sheet, excluding capital but including off balance sheet items (in the form of a percentage of the total amount) would be inappropriate as the accounting standards are different across jurisdictions and as the definition of off-balance sheet items is also technically difficult. This would lead to inconsistent buffer, not necessarily providing with more resilience. Besides if technical provisions are included on the basis of the calculation it may result into an incentive to distort the calculation<br>25. FFSA is strongly questioning the common definition of the categorization of capital, which could lead to significant market distortions.<br>26. FFSA wants to highlight the damaging consequences of excessive capital requirements. |
| German Insurance Association | 0.9 | The German Insurance Association (GDV) welcomes the opportunity to comment on the IAIS' proposed policy measures for G-SIIs. The GDV also closely cooperates with Insurance Europe and the Global Federation of Insurance Associations (GFIA) and is in line with the main positions taken in their comments. However, in consideration of the significance of the issue we would like to share our most important thoughts and comments on behalf of the German insurance industry directly with the IAIS.<br><br>Given the lessons learned from the financial crisis, we support the G20-initiative for strong supervision on global systemically important financial institutions in order to foster the resilience of the financial markets. It is reasonable that this discussion is also extended to the insurance sector, and we appreciate the deliberate efforts of the IAIS in providing sound recommendations to the FSB which adequately reflect the specifics of the insurance sector. However, taking note |

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| | | of the proposed policy measures on G-SIIs -which we comment on in detail in the following-and now being aware of the complete framework for G-SIIs we are still concerned that the entire approach proves to be inadequate to effectively capture systemic risk in insurance.<br><br>Adequate designation of NTNIs remains unsolved<br><br>Though we acknowledge the efforts of the IAIS to create an approach which is activities-based rather than focused on institutions, it is inevitable to positively identify those activities with the potential to threaten financial stability and the real economy. This is an indispensable prerequisite for any regulatory approach dealing with systemic risk in insurance. Unfortunately, we do not see that considerable progress has been made on this important issue. The proposed measures are linked to non-traditional and non-insurance activities (NTNIs) as defined in the IAIS' proposed assessment methodology published in May 2012. However, this methodology fails to provide a clear and comprehensive dividing line for systemically relevant NTNIs. Instead, the classifications of traditional, semi-traditional, non-traditional and non-insurance activities as well as the indicators for NTNIs are too broad and include many elements -such as variable annuities, trade credit insurance and finite reinsurance - which are important elements of core insurance business. Making these activities subject to the proposed measures would not contribute to financial stability but unnecessarily harm the risk taking capacities of the industry. Therefore -as a superior appeal to the following comments- we would like to urge the IAIS to readdress the issue of NTNIs. The ongoing consultation of the FSB on strengthening the regulation of shadow banking might be taken into account in this regard.<br><br>Flexibility is of utmost importance<br><br>We understand that once an institution/group has been identified as G-SII it will automatically become subject to additional measures taking on enhanced supervision, effective resolution and HLA. We would, however, like to see provisions which in a first step require undertakings and supervisors to thoroughly analyze the situation and seriously consider less intense alternatives than separation and ring-fencing of NTNIs, limitations on NTNIs and HLA. Advanced and risk-based regulatory frameworks such as Solvency II are likely to cover all aspects of insurance activities and impose tailored quantitative and qualitative supervisory requirements. Therefore, the principle of proportionality should also apply to the policy measures on G-SIIs.<br><br>Sequenced approach<br><br>Though it is not entirely clear from the consultation document, we assume that the IAIS has some sort of a step-by-step-approach in mind which we would support from a conceptual point of view. The GDV believes that measures on G-SIIs should be executed in a sequenced approach which is consistent with the methodology to identify G-SIIs and complies with the principle of proportionality:<br><br>? The systemically relevant activities need to be positively identified in the first step. Both the methodology and the measures are inseparably linked to those activities. Thus, the adequacy of the entire process relies on their accurate determination. As stated above, we do not think that categories and indicators provided by the current methodology are suitable to meet this requirement.<br><br>? Following this assessment, supervisors first need to evaluate whether the systemically relevant activities are sufficiently captured by the internal risk management procedures and the capital position of the group before considering additional measures.<br><br>? Structural measures such as separation, limitation and ring-fencing of systemically relevant activities should be envisaged as the next stage of intervention if the risk management framework of the group and available supervisory tools fails to mitigate or eliminate the systemic risk arising from the identified activities.<br><br>? Only as last resort, targeted HLA applied on systemically relevant activities might be taken into consideration.<br><br>Group-wide HLA is inappropriate<br><br>While targeted HLA may be acceptable as a last resort, we strongly oppose to envisage HLA on group level. On the one hand, such a flat measure is indifferent |

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| | | and not consistent with the IAIS' intention that measures should specifically address the source of systemic risk. It would simply adopt the policy measures imposed on G-SIBs without reflecting the factors that make insurers different to other financial institutions. On the other hand, group-wide capital uplifts would result in competitive distortions given that both a global standard for group capital requirements based on which an uplift could be applied and a common definition of capital are not available. |
| German Insurance Association | 1 | As regards the proposed assessment methodology to identify G-SIIs, we reiterate the concerns stated in our comments submitted July 31, 2012. In particular, we do not agree that the proposed assessment methodology is suitable to identify insurers whose distress or disorderly failure would cause significant disruption to the global financial system and economic activity. This is the most important element of the FSB-definition of systemic risk, and there is still no reasonable evidence provided that the failure of an insurance undertaking may have such implications. In any event, it would be helpful if the IAIS indicates whether or not a revised assessment methodology will be released prior to the possible designation of G-SIIs. |
| German Insurance Association | 2 | We appreciate the obvious efforts of the IAIS to emphasize the fundamental differences of the insurance sector compared to other financial institutions. However, there are some important elements of the proposed measures where the IAIS did not succeed. The measures on increased resolvability do not contain major adjustments compared to the FSB 'Key Attributes on Effective Resolution Regimes for Financial Institutions'. The same applies to the envisaged group-wide HLA, which is a mere adoption of the main policy measure imposed on G-SIBs. |
| German Insurance Association | 4 | We would widely subscribe to the conclusions drawn in the IAIS' report 'Insurance and Financial Stability'. However, instead of relying on the arbitrary distinction between traditional and non-traditional respectively non-insurance activities it is essential to solely focus on those activities which have the potential to be systemically relevant. This would require a thorough analysis of each activity of an insurer that might have a significant impact on other market participants combined with an impact assessment on the global markets and the real economy if these activities fail.<br><br>Apart from that, we welcome the notion on the longer timeframe over which insurance liabilities are managed. This is the most compelling argument against the probability of a disorderly failure in the insurance industry. Unfortunately, this important aspect has not been accepted as a mitigating factor in the IAIS' framework. |
| German Insurance Association | 8 | The German insurance industry fully supports the overarching goal of systemic regulation, which is to reduce the potential of moral hazard in the financial system. We would also agree that the G-SII-framework should set reasonable incentives for G-SIIs in order to become less systemically relevant or even get the G-SII-designation withdrawn by the competent authorities. As a precondition, this would require that -in accordance with the definition of the FSB -systemic risk is measured based on the absolute impact of certain activities on the financial markets and the real economy. In contrast, the current IAIS-methodology methodology results in a ranking order of insurers which would only address the relative systemic relevance of the insurance sector. In this context, we would like the IAIS to take note of recently published research of the Geneva Association ('Cross industry analysis, 28 G-SIBs vs. 28 Insurers, comparison of systemic risk indicators', 11 December 2012), which is based on a cross-industry comparison of the 28 G-SIBs with the world's largest insurance groups and clearly demonstrates that the scale of potentially risky activities conducted by insurers is considerably smaller.<br><br>However, apart from the reasons stated in paragraph 9 which might foil this intention, we believe that IAIS' proposals do not provide the right incentives for effective risk management. On the contrary, based on the indicators provided in the assessment methodology, undertakings could be encouraged to place limitations on fundamental aspects of the insurance business such as derivatives, reinsurance, intra-financial assets/liabilities and carefully hedged variable annuities-positions. This would disincentivize best practices in insurance risk management rather than contributing to financial stability. |
| German Insurance Association | 9 | Paragraph 9 vividly illustrates the possible unintended consequences of the proposed policy measures and the entire approach of systemic risk regulation. It is not a remote scenario that the markets could interpret the advanced scrutiny of G-SIIs not as a clear signal for reducing moral hazard, but as an implicit state guarantee. These counterintuitive effects need to be borne in mind by regulators when implementing an ambitious regime for certain insurers which is based on an at least questionable assumption of systemic relevance. |
| German Insurance Association | 11.9 | As a basic prerequisite, the proposed measures need to be aligned with the systemic risk profile in order to ensure consistency with the assessment methodology. Given our fundamental concerns with the current approach to detect systemic risk, we reiterate our appeal to revisit the assessment methodology in order to calibrate identifying indicators and implement other analytical measures which provide solid evidence for insurers actually carrying systemic risk. Otherwise, the measures would ultimately affect traditional business features and undermine financial stability. |

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| | | As mentioned above, we firmly believe that each G-SII-designation should be followed by a dialogue between undertakings and supervisors in order to make an inventory of the current risk situation prior to the consideration of concrete measures proposed by the IAIS. This inventory should include an assessment of the adequacy of group-wide risk management, governance and controls. If supervisors come to the conclusion that the systemically relevant activities receive a capital treatment which is commensurate with the risks they pose no further measures should be required.<br><br>Only if the current supervisory treatment is deemed to be insufficient, the proposed measures should be applied in a step-by-step-approach, following a ladder of intervention which is consistent with the principle of proportionality. It is essential that each level of intervention is directly linked to the activity which has been identified as the source of systemic risk. |
| German Insurance Association | 12 | We strongly believe that enhanced supervision, i.e. comprehensive group-wide supervision, is the key measure to effectively address systemically relevant activities in insurance. Supervisors must be able to recognize and monitor systemic activities and, through colleges and a strong group lead supervisor, develop sound strategies to cope with them. They must be equipped with adequate powers and resources to file proportionate and tailored data requests and to develop and implement coherent supervisory programs. The Insurance Core Principles of the IAIS provide a solid and strong foundation for comprehensive group supervision. Furthermore, the ongoing development of ComFrame -although neither directly nor indirectly related to systemic risk regulation- has the potential to add considerable value to the comparability of regimes and improve coordination and cooperation among supervisors. |
| German Insurance Association | 14 | We urge the IAIS to be cautious of simply updating the range of supervisory powers based on the FSB's recommendations for 'Intensity and Effectiveness of SIFI Supervision' without a careful consideration of possible unintended consequences. Measures such as requiring conservative underwriting in boom times or imposing dividend cuts and exposure limits heavily interfere with the competences of the management board and might prove to be pro-cyclical if misinterpreted by the financial markets. |
| German Insurance Association | 16 | Structural measures might be taken into consideration after other measures contributing to enhanced supervision prove to be insufficient. Again, it is very important that insurers will be incentivized to utilize and if necessary improve their risk management resources and capacities first before activities are prohibited or restricted and before structural changes are required. When considering structural measures, substance should prevail over formal considerations. There needs to be an in-depth discussion about the feasibility and appropriateness of such measures.. We understand that the development and execution of the SRRP generally follows this process. However, we would appreciate if the IAIS could provide more details on such a plan's content and its interaction with other supervisory tools (in particular the RRP). |
| German Insurance Association | 17 | As explained above, we are of the view that the bulk of the activities, which the IAIS has classified as NTNI, do not pose any systemic risk. These activities, as well as traditional insurance activities, should therefore under no circumstance be subject to separation / ring-fencing requirements, which would have a tremendous impact (restricted fungibility of capital, etc.). We are, however, of the view, that ring-fencing of systemically relevant activities, e.g. of large scale bank and bank like activities, could be appropriate in order to protect the insurance business and its policyholders against adverse spillover effects such as a spillover of losses or a liquidity drain. |
| German Insurance Association | 22 | Restrictions and prohibitions are supposed to apply not only to NTNIs, but also to be executed on interconnectedness activities. This is not consistent with the IAIS's conclusion that NTNIs haven been identified as the most important indicators for systemic risk in insurance. Moreover, supervisors need to be very mindful of unintended consequences given that the current indicators for interconnectedness include some aspects which are closely linked to the traditional insurance business. This is particularly valid for reinsurance which is an accepted source of financial stability and an indispensable tool of risk management. |
| German Insurance Association | 26 | We note that the FSB's 'Key Attributes for Effective Resolution Regimes' serve as a foundation for imposing policy measures on orderly resolution of G-SIIs. However, this paper is clearly designed for G-SIBs and cannot serve as a blueprint for the insurance sector without major adjustments arising from a careful reflection of its particularities. We do not see that this reflection has taken place so far given that the proposed measures concerning increased resolvability are simply adopted from the FSB-report. |
| German Insurance Association | 27 | We appreciate the reference to solvency and financing plans. These plans will be requested by the supervisors if certain capital ratios are breached. They provide the supervisors with adequate tools to closely monitor the solvency condition and recoverability of G-SIIs at any time. Therefore, we do not see added value from maintaining upfront RRPs. The content and direction of recovery and resolution procedures depend of the concrete cause of the stressed situation. Given the |

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| | | possible myriad of causes it is hardly possible to anticipate them from an ex-ante perspective. |
| German Insurance Association | 28 | The IAIS came, based on an extensive analysis, to the conclusion that traditional insurance activities are not systemically relevant and that even in the case of a failure such activities can be liquidated in an orderly fashion without any significant market disruption. We agree on this and see no reason why this should not hold for traditional insurers with a large derivatives portfolio, which might e.g. be used for hedging purposes. Market disruption could only be caused if the insurers would default as a derivatives counterparty and if this would lead to a large scale loss for other financial institutions. The FSB has started an own initiative on the regulation of OTC derivatives markets, which is intended to address this issue. We are of the view that this issue should be addressed by this work stream, but not as part of the IAIS's initiative on the identification and supervision of G-SIIs. |
| German Insurance Association | 32 | HLA should only be considered as a supervisory measure of last resort, e.g. if measures of enhanced supervision including separation and ring-fencing of systemically relevant activities eventually fail to sufficiently mitigate the systemic risk potential posed to the markets and the real economy. If HLA is inevitable, corresponding measures need to be targeted and restricted to those activities which have been identified as the source for the systemic relevance of the G-SII. A blanket increase of capital requirements at group level will not be effective in addressing the relevant risks and would be punitive<br>for traditional insurance activities. It would reduce the social and economic value of insurance arising from the pooling and diversification of risks whilst not effectively addressing systemic relevance. Apart from that, it needs to be emphasized that the technical provisions and risk-based capital regulation regimes such as Solvency II are already well designed to provide sufficient loss absorbency capacity and reduce the negative externalities associated with insurance failures. |
| German Insurance Association | 34 | The lack of global solvency and capital standards is a major obstacle when considering HLA-measures. The introduction of 'add-ons' would only be possible if capital requirements in all jurisdictions are effectively equivalent. This is currently not the case and very unlikely to be resolved in the foreseeable future. |
| German Insurance Association | 35 | For the reasons set out in our comments on paragraph 32, we strongly oppose the cascading approach proposed by the IAIS. Targeted HLA for ring-fenced systemically relevant activities is sufficient, as the other activities outside of the fence do not pose any systemic risk. Consequently, capital surcharges for the activities outside of the fence - which are not systemically relevant, and which are protected against any adverse spillover effects - are not justified. |
| German Insurance Association | 39 | As mentioned in our comments on paragraph 35, the PCR, which should be the assessment base for calibrating HLA, deviates between the jurisdictions concerned. Against this background, a level playing field cannot be ensured and competitive distortions are likely to occur. |
| German Insurance Association | 46 | The IAIS assumes an HLA in the range between 10%-30%.We can hardly verify this range since it is apparently derived from the capital requirements for G-SIBs. However, we do not believe that HLA-regulation for G-SIBs can be adopted for G-SIIs. Apart from that, the total balance sheet-approach does not offer an acceptable alternative. It is entirely remote from the sources of systemic risk and would clearly disadvantage large groups. |
| Institute of International Finance - IIF | 0.9 | The Institute of International Finance appreciates the opportunity to comment on the IAIS G-SII Proposed Policy Measures. In developing our comments, we believe it is important to reiterate the industry's support for targeted and proportionate sector specific policy measures to address potential systemic risk and thus making the global financial system as a whole more stable.<br><br>However, it is essential to develop a framework that is properly tailored to the insurance industry and its intrinsic characteristics. It is our assessment of both, the proposed IAIS G-SII methodology and policy measures, that they borrow excessively from those developed for the banking sector without the necessary adaptation to the insurance industry.<br><br>As acknowledged by the IAIS , 'there is little evidence of traditional insurance either generating or amplifying systemic risk within the financial system or real economy.' This is a view that the industry fully shares and believes should be more strongly reflected in the development of any related policy measure.<br><br>It is crucial that in developing a methodology to identify potentially systemic relevant insurers and proposing corresponding policy measures, differences in the business models between banking and insurance are taken into account. Some of these differences include that insurers (1) do not engage in maturity transformation (2) are up-front and long-term funded and (3) have an inverted production cycle providing time for recovery and orderly resolution.<br><br>Further, it is important to consider the social and economic benefits of insurance in developing a policy framework. Such benefits include, amongst others, risk pooling, attaching a price to a wide range of risks, contributing to financial stability through long-term investments, providing protection for individuals, improving |

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| | | resilience of businesses and governments. We strongly believe that there is a risk that the proposed new framework could result in unintended consequences for the insurance industry and the services it provides to the economy. We note that when similar proposals were developed in the area of banking the Basel Committee and the BIS undertook a careful study and analysis of potential impact, a study that so far has not taken place in the area of insurance. Therefore, the IIF encourages the IAIS to undertake a comprehensive impact study of its proposals. Until now, insurance regulators have not adequately addressed the unintended consequences of the G-SII approach on social and economic benefits provided by insurance. Such study is in our view a prerequisite for the finalization of the G-SII methodology and policy measures.<br><br>The IIF notes that the recently proposed IAIS systemic risk framework is concerned with the overall impact of an insurance failure on the overall economic and financial environment. However, such broad approach is intrinsically incompatible with the consensus view that there is little evidence of traditional insurance either generating or amplifying systemic risk within the financial system or real economy. Such approach also provides wrong incentives as sound risk management practices and existing regulations to reduce systemic risk are not recognized within this framework.<br><br>The Institute therefore encourages the IAIS to focus its proposed systemic risk regulatory framework exclusively on potentially systemic relevant non-traditional and non-insurance (NTNI) activities. Insurance groups that engage significantly in such potentially systemic relevant NTNI activities without proper oversight can become more vulnerable to financial market developments and therefore may amplify or contribute to systemic risk. Consideration needs to also be given to mitigating activities that reduce risk from these activities, including reserving and capital provisions, ALM practices, hedging activities and liquidity management.<br><br>Importantly, before proceeding with finalizing the G-SII methodology and policy measures, there needs to be a clear understanding of what constitutes potentially systemic relevant NTNI activities. The Institute notes that since the report on Insurance and Financial Stability (Nov. 2011), no further specification was provided. The IIF urges the IAIS to provide further clarification and analysis on the current classification. In order to fully understand the underlying thinking behind these categories, it may be helpful to develop a list of criteria which characterizes the specific activities from a systemic risk perspective. Such criteria may include exposure of these activities to insurance vs. financial risk, existence of an insurable interest, timing aspect of resolution, impose liquidity risk in the financial system, internal risk management and governance practices, regulatory treatment, etc. The recent FSB documents on the ‘Strengthening Oversight and Regulation of Shadow Banking’ may be useful for consideration when deciding the final framework for identification of potentially systemic relevant activities.<br><br>Furthermore, and as stated by G20, we note that one of the goals of the G-SIFI framework is to incentivize designated institutions to become less systemic. Consequently, the drivers of systemic riskiness ought to be clearly defined in order for firms to be able to adopt any necessary measures to reduce their exposure to such drivers and consequently become less systemic. The proposed framework, and in particular the proposed assessment methodology, so far lacks the necessary clarity for firms to be able to reduce their potential systemicness.<br><br>As mentioned above, a specific assessment of potentially systemic relevant activities is a prerequisite in order to develop appropriate policy measures, in particular regarding targeted HLA and separation. The IIF considers targeted HLA and separation as measures of last resort. Separation should only be considered for systemically relevant bank-like activities. Separation for non-traditional activities, however, can only be an option in case of an adequate clear and narrow definition of such activities. Business activities which are closely linked to traditional insurance business or are even complementing activities should not be requested to be separated (e.g. Life portfolios including VAs; ILS (insurance linked securities) complement reinsurance programs). Instead of separation, only other measures such as increased technical provisions or governance requirements may apply to potentially systemic relevant non-traditional activities.<br><br>While overall the measures are tailored to NTNI activities, there are still important uncertainties to whether traditional business will be penalized through some of the proposed measures such as a group-wide HLA. A group-wide HLA (e.g. based on an insurers’ overall balance sheet) would introduce severe distortions of competition between insurance companies and deep perturbations of insurance markets. Further, G-SIIs with a relatively large share of traditional activities would be penalized with an HLA based one the total balance sheet. As neither a global capital nor accounting standard exist, a balanced calibration of HLA is not realistic which would introduce severe uneven level playing field conditions across jurisdiction. The IIF emphasizes the need for more clarity regarding the calculation and application of any HLA uplift based on existing national and regional solvency regimes.<br><br>The IIF believes that comprehensive group supervision for large, cross-border insurance groups is absolutely crucial. Such approach should allow supervisors to |

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| | | monitor all group-wide activities (including NTNI) and to detect in a timely manner any potentially systemic relevant activities with a view to ensuring they are adequately mitigated.<br><br>Regarding resolution it needs to be considered, that characteristics such as maturity mismatches, illiquid assets and leverage, which can result in precipitate failure with systemic consequences, are not features of traditional insurance. The nature of insurance and its liabilities (including asset liability matching) allows for a prolonged time period to react to developing stress situations.<br>Further, the international insurance business model is largely characterized by strong and broadly self-sufficient entities. These legal entities have their own balance sheets and local capital requirements, facilitating recovery and resolution actions in times of distress.<br><br>The IAIS should also consider the implications of global measures on local domestic requirements which might exacerbate the above mentioned issue of fair competition as well. The document does not comment on this aspect and the industry is concerned about duplicative and excessive requirements that could be added on top of global measures implemented by the group supervisor in consultation with the College. This concern is particularly true in light of recent developments in banking. |
| Institute of International Finance - IIF | 0.91 | See Executive Summary - General comments |
| Institute of International Finance - IIF | 1 | See Executive Summary - General comments |
| Institute of International Finance - IIF | 2 | See Executive Summary - General comments |
| Institute of International Finance - IIF | 3 | See Executive Summary - General comments |
| Institute of International Finance - IIF | 4 | See Executive Summary - General comments |
| Institute of International Finance - IIF | 5 | See Executive Summary - General comments |
| Institute of International Finance - IIF | 5.9 | See Executive Summary - General comments |
| Institute of International Finance - IIF | 6 | See Executive Summary - General comments |
| Institute of International Finance - IIF | 7 | See Executive Summary - General comments |

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| Institute of International Finance - IIF | 8 | See Executive Summary - General comments |
| Institute of International Finance - IIF | 9 | See Executive Summary - General comments |
| Institute of International Finance - IIF | 9.9 | See detailed comments under 3.2. Enhanced Supervision, 3.3. Effective Resolution and 3.4 Higher Loss Absorption (HLA) capacity. |
| Institute of International Finance - IIF | 10 | See detailed comments under 3.2. Enhanced Supervision, 3.3. Effective Resolution and 3.4 Higher Loss Absorption (HLA) capacity. |
| Institute of International Finance - IIF | 11 | See detailed comments under 3.2. Enhanced Supervision, 3.3. Effective Resolution and 3.4 Higher Loss Absorption (HLA) capacity. |
| Institute of International Finance - IIF | 11.9 | The IIF believes that comprehensive group supervision for large, cross-border insurance groups is absolutely crucial. Such approach should allow supervisors to monitor all group-wide activities (including NTNI) and to detect in a timely manner any potentially systemic relevant activities with a view to ensuring they are adequately mitigated. Therefore, it is logical that group supervision plays a major role in any potential set of G-SII policy measures.<br><br>Insurance supervisors around the world, individually and through the IAIS, are in the process of introducing significant improvements to supervisory regimes (e.g. ComFrame). In particular, supervisory regimes are evolving to allow the following key responsibilities for the designated group-supervisors within a college:<br>- Gathering and assessment of group-wide information<br>- Conduct and lead group-wide supervisory activities<br>- Coordination of information sharing procedures amongst involved supervisors<br>- Decision making on group-wide issues in consultation with involved supervisors<br>- Implementation and coordination of group-wide enforcement activities<br>- Identification of gaps in supervision and oversight of group capital management.<br><br>These developments and improvements should be taken into account when considering enhanced supervision for firms designated as G-SIIs. Such enhanced supervision should enable the identification of NTNI activities within the operation and their handling within the risk management framework of the insurance group. It may include enhanced reporting, more intensive contacts with senior management, and extended and more in-depth supervisory colleges. However, the supervisor should not be given responsibilities that are properly the responsibility of G-SIIs' senior management.<br><br>IIF members support the proposal that a G-SII should have adequate arrangements in place to manage liquidity risks for the whole group. The IIF would also agree that the focus of such enhanced liquidity planning and management should be on NTNI activities and interconnections with the financial system (if any) with a secondary focus on the remainder of the group. While less relevant for insurers, assessment and adequate management of liquidity risk is key to the identification of systemic risk. It is important, however, that the draft provision under 3.2.2. Enhanced liquidity planning and management is not too prescriptive as this may inhibit adequate management and planning. Rather, the IAIS should set standards for G-SIIs which appropriately address the risks incurred by systemic relevant activities.<br><br>Regarding Systemic Risk Reduction Plan (SRRP), there is no similar existing tool in the general FSB approach and the IAIS needs to provide further clarification on the structure and responsibilities in developing a SRRP. Based on the IAIS comments at the IIF Meeting in Basel on November 15, the Institute understands |

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| | | that the purpose of a SRRP is to provide the opportunity to reduce an institution's systemic risk profile in order to avoid the application of any HLA measure in 2019. While the Institute may support such an approach if the scope of systemic activities is clearly defined, it is concerned about the benefit of SRRPs in practice. This concern is in particular based on the fact that the Institute does not agree with the drivers of systemic riskiness as they are outlined in the current methodology. As an example, the development of a SRRP would not make sense for an insurer designated as G-SII mainly due to its size and global activity. Further, the IIF recommends that institution-specific risk management and governance programs should be an integral part in the development of every SRRP.<br><br>In the view of IIF members, an explicit requirement for a SRRP would not be necessary as an insurer's risk management and on-going supervision should take account of the risks of all entities and activities within an insurance group. Moving forward the upcoming requirement for the preparation of tools such as ORSAs coupled with other regulatory requirements under development for solvency oversight, such as Solvency 2 and US NAIC SMI, will compel firms to acknowledge and disclose the full range of their risks, risk profile and how they are managing those risks. The ORSA should be a key tool for management to both manage their risks and to determine if changes to their business model are prudent and/or desirable.<br><br>Direct restrictions, structural separation and prohibitions of particular activities should be a measure of last resort for clearly defined systemically relevant activities, and need further clarification. Importantly, regulation should set the incentives in order to improve the risk culture and enhance risk management in organizations in order to minimize potentially systemic activities, rather than arbitrarily prohibiting or restricting certain activities or legal structures. The IAIS Methodology paper stated that 'the IAIS would prefer incentive based measures over prohibition'. No incentive measures, however, are reflected in the document, but only prohibition and restriction. In general, we consider that a more effective approach would be one where the IAIS promotes a more comprehensive ERM through pillar II measures and make a better use of ORSA and internal models (to reflect intra-group transactions for example).<br><br>The requirement to separate activities could result into substantial distortions to group management, which may include - amongst others - (a) complex and costly operational management of NTNI activities (e.g. incorporation, capitalization and licensing of new entities), (b) place undue constraints on group capital management by further limiting the fungibility of the group balance sheet and by eliminating the benefits of diversification effects from NTNI portfolios, (c) reduced ability to secure external funding on the group level and lower capacity to support M&A operations, (d) very complex group support arrangements between entities, and (e) shift of group supervision focus on a fragmented legal entity level instead of an economic and consolidated level.<br><br>Also, such measures may show to be very difficult or impossible to implement in many cases as the purpose of an activity may necessitate that it is conducted in the insurance entity and reflected in its balance sheet for legitimate risk management reasons (e.g. hedging). Further, diversification benefits between traditional insurance business and other businesses need to be considered, unless the activities involved create significant systemic risk.<br><br>Alternative tools are available that meet the stated objectives of separation, including improved resolvability, protection from contagion or reduction of systemic risk. For improved resolvability and protection from contagion, liquidity stress tests may ensure that cash for traditional insurance is not supporting systemic relevant activities. To reduce systemic importance, measures may include internal risk management and governance, ALM and other risk-mitigating processes such as stress testing and existing regulatory treatment and capital, solvency and risk requirements.<br><br>As an example, the IIF is very concerned about the possibility of separating life portfolios of contracts with financial guarantees, including Variable Annuities (VA), into separate entities. Life insurance and VAs provide a highly beneficiary and long-term value for policyholders. As insurers have the unique ability to effectively diversify the underlying risks, they are the most efficient providers of such contracts. Impeding risk diversification by requiring separate entities for life portfolios including VAs would inevitably result in a substantial drop in the supply of these products by insurers. As a consequence, guarantees embedded in these kinds of contracts may increasingly be provided on a shadow insurance market or the costs of replacing the social value of the product may ultimately be covered by national budgets.<br>Another example where separation must not be applied to, is the credit insurance business, which is related to the real economy and not a speculative financial business. |
| Institute of International | 12 | See comments under Q17 - Enhanced supervision - general comments |

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| Finance - IIF | | |
| Institute of International Finance - IIF | 13 | See comments under Q17 - Enhanced supervision - general comments |
| Institute of International Finance - IIF | 14 | See comments under Q17 - Enhanced supervision - general comments |
| Institute of International Finance - IIF | 15 | See comments under Q17 - Enhanced supervision - general comments<br><br>IIF members support the proposal that a G-SII should have adequate arrangements in place to manage liquidity risks for the whole group. The IIF would also agree that the focus of such enhanced liquidity planning and management should be on NTNI activities and interconnections with the financial system (if any) with a secondary focus on the remainder of the group. While less relevant for insurers, assessment and adequate management of liquidity risk is key to the identification of systemic risk. It is important, however, that the draft provision under 3.2.2. Enhanced liquidity planning and management is not too prescriptive as this may inhibit adequate management and planning. Rather, the IAIS should set standards for G-SIIs which appropriately address the risks incurred by systemic relevant activities. |
| Institute of International Finance - IIF | 16 | See comments under Q17 - Enhanced supervision - general comments<br><br>Regarding Systemic Risk Reduction Plan (SRRP), there is no similar existing tool in the general FSB approach and the IAIS needs to provide further clarification on the structure and responsibilities in developing a SRRP. Based on the IAIS comments at the IIF Meeting in Basel on November 15, the Institute understands that the purpose of a SRRP is to provide the opportunity to reduce an institution's systemic risk profile in order to avoid the application of any HLA measure in 2019. While the Institute may support such an approach if the scope of systemic activities is clearly defined, it is concerned about the benefit of SRRPs in practice. This concern is in particular based on the fact that the Institute does not agree with the drivers of systemic riskiness as they are outlined in the current methodology. As an example, the development of a SRRP would not make sense for an insurer designated as G-SII mainly due to its size and global activity. Further, the IIF recommends that institution-specific risk management and governance programs should be an integral part in the development of every SRRP.<br><br>In the view of IIF members, an explicit requirement for a SRRP would not be necessary as an insurer's risk management and on-going supervision should take account of the risks of all entities and activities within an insurance group. Moving forward the upcoming requirement for the preparation of tools such as ORSAs coupled with other regulatory requirements under development for solvency oversight, such as Solvency 2 and US NAIC SMI, will compel firms to acknowledge and disclose the full range of their risks, risk profile and how they are managing those risks. The ORSA should be a key tool for management to both manage their risks and to determine if changes to their business model are prudent and/or desirable. |
| Institute of International Finance - IIF | 17 | See comments under Q17 - Enhanced supervision - general comments |
| Institute of International Finance - IIF | 18 | See comments under Q17 - Enhanced supervision - general comments |
| Institute of International Finance - IIF | 19 | See comments under Q17 - Enhanced supervision - general comments |

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| Institute of International Finance - IIF | 20 | See comments under Q17 - Enhanced supervision - general comments |
| Institute of International Finance - IIF | 21 | See comments under Q17 - Enhanced supervision - general comments |
| Institute of International Finance - IIF | 22 | See comments under Q17 - Enhanced supervision - general comments |
| Institute of International Finance - IIF | 23 | See comments under Q17 - Enhanced supervision - general comments |
| Institute of International Finance - IIF | 24 | See comments under Q17 - Enhanced supervision - general comments |
| Institute of International Finance - IIF | 24.9 | Characteristics such as maturity mismatches, illiquid assets and leverage that can result in precipitate failure with systemic consequences, are largely absent in traditional insurance. The nature of insurance and its liabilities (including asset liability matching) allows for a prolonged time period to react to developing stress situations. Broadly effective recovery and resolution approaches exist in jurisdictions across the world to address the risks posed through an insurance failure. A more tailored approach is therefore necessary for insurance.<br><br>The IIF fundamentally disagrees with paragraph 28: 'It needs to be further examined whether a mainly traditional insurance group with a large derivatives portfolio may experience a disorderly run-off?' It should be noted that large derivative portfolios for hedging purposes are inherent in traditional insurance and there is no evidence that this would impede orderly resolvability of traditional insurers. This is also acknowledged in the earlier IAIS position presented in Insurance and Financial Stability (2011): 'The long term nature of insurance liabilities and their extended run-off profiles, along with the authorities and tools available to regulators, typically provide for orderly resolutions of traditional insurance firms.'<br><br>As the IAIS proceeds in assessing the FSB Key Attributes (i.e. (i) the establishment of Crisis Management Groups (CMGs); (ii) the elaboration of recovery and resolution plans (RRPs); (iii) the conduct of resolvability assessments; and (iv) the adoption of institution-specific cross-border cooperation agreements) it is essential to recognize the existing regimes and consider where a proportionate application of the Key Attributes would provide any practical improvement, and where not. It is particularly important to note the inverted production cycle that provides more time for early intervention. This is key to a solvency regime based on the ICPs and negates the need for the application of many of the key attributes.<br><br>Importantly, the international insurance business model is largely characterized by strong and broadly self-sufficient entities. These legal entities have their own balance sheets and local capital requirements, facilitating recovery and resolution actions in times of distress, in particular enabling the implementation of RRPs without the need to explicitly ring-fence activities or entities.<br><br>The IIF believes that the potential resolution of a large, internationally active insurance group focused on traditional insurance activities would not pose and exacerbate systemic risk. This is the case given the low levels of interconnectedness of insurance firms and high degree of substitutability. However, it is important to note that there remain fundamental differences between recovery and resolution measures in different jurisdictions.<br><br>Further, the document does not reflect the efforts and initiatives that regulators and government officials need to undertake in order to address (and remove) international legal barriers to effective resolution. The IAIS and FSB should drive these efforts. While the document mentions efforts from companies (e.g. RRPs, |

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| | | separability assessments) and national regulators, it does not comment on international/cross-border efforts expected from regulators.<br><br>Such firm-specific cross-border coordination arrangements between supervisors should address the exchange of information and ensure appropriate cooperation and coordination by including the following elements :<br>- Group Supervisor: agreements should involve the group lead who has statutory responsibility to supervise all or a substantial part of the groups' insurance operations.<br>- International mandate: Authorities should be required to coordinate effectively with the authorities of other jurisdictions in the crisis management and resolution of cross-border groups.<br>- Non-discrimination: Authorities cannot discriminate against creditors of the group on the basis of their location or nationality.<br>- Optimize outcomes for creditors as a whole: Authorities are required to optimize outcomes for the creditors of the group as a whole.<br>- Joint planning/crisis management: Practices for crisis management as a part of sound risk management should be exchanged (as crisis management measures are already developed under different regimes) and developed within colleges.<br>- Cooperation and coordination agreement: Authorities should be required to enter into a cooperation and coordination agreement in respect of the crisis management and resolution of the group.<br>- Joint plan implementation: Authorities should have an obligation to act in accordance with cooperation and coordination agreement.<br>- Information sharing: The relevant authorities should share all relevant information with each other on the basis of strict confidentiality arrangements.<br>- Early warning: Obligation to alert other authorities if the group or key entities within the group are at material risk of approaching a crisis situation.<br>- Burden sharing: As there should be no expectation that losses will be borne by taxpayers, burden-sharing principles between governments are not necessary.<br><br>While in the banking arena the concept of 'Key Critical Functions' has a proper meaning within resolution frameworks, it is still necessary to conduct further analysis in the non-traditional insurance arena to determine whether any activity could be critical in this respect. Given that it is accepted that traditional insurance can be resolved in an orderly manner without impact to the financial system or the real economy, it is unnecessary to stipulate prescriptive requirements. |
| Institute of International Finance - IIF | 25 | See comments under Q31 - Effective Resolution - general comments |
| Institute of International Finance - IIF | 26 | See comments under Q31 - Effective Resolution - general comments |
| Institute of International Finance - IIF | 27 | See comments under Q31 - Effective Resolution - general comments |
| Institute of International Finance - IIF | 28 | See specific comments under Q31 - Effective Resolution - general comments<br><br>The IIF fundamentally disagrees with paragraph 28: 'It needs to be further examined whether a mainly traditional insurance group with a large derivatives portfolio may experience a disorderly run-off?' It should be noted that large derivative portfolios for hedging purposes are inherent in traditional insurance and there is no evidence that this would impede orderly resolvability of traditional insurers. This is also acknowledged in the earlier IAIS position presented in Insurance and Financial Stability (2011): 'The long term nature of insurance liabilities and their extended run-off profiles, along with the authorities and tools available to regulators, typically provide for orderly resolutions of traditional insurance firms.' |
| Institute of International Finance - IIF | 29 | See comments under Q31 - Effective Resolution - general comments |

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| Institute of International Finance - IIF | 30 | See comments under Q31 - Effective Resolution - general comments |
| Institute of International Finance - IIF | 31 | See comments under Q31 - Effective Resolution - general comments |
| Institute of International Finance - IIF | 31.9 | In insurance, capital requirements must not punish size or global activity as this would provide a disincentive for effective risk pooling. Increasing size and global activity of an insurer allows it to better pool risks, thereby contributing to stability and welfare. A blanket capital uplift (Group-wide HLA) on large global insurers would therefore reduce the efficiency of risk pooling and would be inconsistent with the underlying reasoning expressed by the IAIS. It would also provide wrong incentives as G-SIIs with a relatively large share of traditional activities would be penalized with an HLA based on the total balance sheet. The consequences would be more expensive insurance, less risk capacity and greater reliance on state protection. Moreover, HLA, if inappropriately applied, would create distortions and affect significantly the level playing field. The IIF is of the view that a proportional HLA uplift can be applied to address a clearly identified systemic activity within the group, instead of applying HLA on the entire balance sheet of the group or entity within which the systemic activity is undertaken, which would not provide an incentive to reduce the level of systemic risks.<br><br>Regarding targeted HLA and separation, a specific assessment and identification of systemic relevant activities is a prerequisite in order to apply such policy measures. The IIF considers targeted HLA and separation as measures of last resort. Separation should only be applied for systemically relevant non-insurance activities. Separation for non-traditional activities is not an option as they are - by definition - insurance activities or closely linked to traditional insurance activities and complement each other (e.g. ILS complement reinsurance programs). Therefore, only measures such as increased technical provisions or governance requirements may apply to potentially systemic relevant non-traditional activities. Allocation of technical provisions and required capital should preferably result from internal models approved by supervisors. This approach is currently working in risk-based capital frameworks in many jurisdictions, without the need for additional separation of the non-traditional activities. The HLA uplift should only be considered where existing regimes are insufficient to ensure that appropriate capital is held for the identified systemic activities. In addition, any HLA should be proportional with regard to the identified and isolated systemically relevant activities within an entity and not with respect to the entire balance sheet of the entity in which the systemically relevant activity is undertaken.<br><br>Further, the IIF strongly believes that a cascading approach which includes a combination of targeted and Group HLA is not warranted. The IAIS should clearly state that Group HLA will not be applied if a targeted HLA for potentially systemic relevant activities is introduced as a last resort.<br><br>The IIF emphasizes the need for more clarity regarding the calculation and application of any HLA uplift based on existing national and regional solvency regimes. The HLA uplift should reflect the extent to which the entity undertakes systemically risky activities, and no addition is justified when the risk derived from such activities is already reflected in existing national and regional solvency regimes.<br><br>To a large extent, existing and newly developed regulatory regimes in various jurisdictions already cover NTNI activities as they feature a total balance sheet and comprehensive risk-based approach. Such regimes may also require capital adequacy for such activities. Therefore, any assessment of the need to impose a HLA uplift should explicitly acknowledge whether different existing or future regimes already include a risk based capital component. Further, instead of requiring HLA, supervisors may consider modifying or increasing the ladder of intervention for G-SIIs with a focus on pillar II measures rather than on quantitative pillar I measures.<br><br>In addition, solvency regimes differ widely across jurisdictions. As a consequence, the potential introduction of the HLA uplift as a factor applied to local capital requirements would be implemented internationally in a completely misaligned way, with disproportionate impact on different firms and distorting competition. |
| Institute of International Finance - IIF | 32 | See comments under Q39 - HLA capacity - general comments |

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| Institute of International Finance - IIF | 33 | See comments under Q39 - HLA capacity - general comments |
| Institute of International Finance - IIF | 34 | See comments under Q39 - HLA capacity - general comments |
| Institute of International Finance - IIF | 35 | See comments under Q39 - HLA capacity - general comments |
| Institute of International Finance - IIF | 36 | See comments under Q39 - HLA capacity - general comments |
| Institute of International Finance - IIF | 37 | See comments under Q39 - HLA capacity - general comments |
| Institute of International Finance - IIF | 38 | See comments under Q39 - HLA capacity - general comments |
| Institute of International Finance - IIF | 39 | See comments under Q39 - HLA capacity - general comments |
| Institute of International Finance - IIF | 40 | See comments under Q39 - HLA capacity - general comments |
| Institute of International Finance - IIF | 41 | See comments under Q39 - HLA capacity - general comments |
| Institute of International Finance - IIF | 42 | See comments under Q39 - HLA capacity - general comments |
| Institute of International Finance - IIF | 43 | See comments under Q39 - HLA capacity - general comments |
| Institute of International Finance - IIF | 44 | See comments under Q39 - HLA capacity - general comments |
| Institute of International | 45 | See comments under Q39 - HLA capacity - general comments |

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| Finance - IIF | | |
| Institute of International Finance - IIF | 46 | See comments under Q39 - HLA capacity - general comments |
| Institute of International Finance - IIF | 47 | See comments under Q39 - HLA capacity - general comments |
| Institute of International Finance - IIF | 48 | See comments under Q39 - HLA capacity - general comments |
| Institute of International Finance - IIF | 49 | See comments under Q39 - HLA capacity - general comments |
| Institute of International Finance - IIF | 50 | See comments under Q39 - HLA capacity - general comments |
| Institute of International Finance - IIF | 51 | See comments under Q39 - HLA capacity - general comments |
| Institute of International Finance - IIF | 52 | See comments under Q39 - HLA capacity - general comments |
| Institute of International Finance - IIF | 52.9 | In light of the remaining revision of the proposed assessment methodology to identify G-SIIs and the further development of related G-SII policy measures, the implementation schedule with a first potential G-SII designation in April 2013 and direct initiation of enhanced supervision and effective resolution measures seems to be overly ambitious and inappropriate given the lack of consideration of the downside risks from the read across of a banking concept to insurance. |
| Institute of International Finance - IIF | 53 | See comments under Q61 - Implementation - general comments |
| Institute of International Finance - IIF | 54 | See comments under Q61 - Implementation - general comments |
| Institute of International Finance - IIF | 55 | See comments under Q61 - Implementation - general comments |
| Institute of International Finance - IIF | 56 | See comments under Q61 - Implementation - general comments |

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| Institute of International Finance - IIF | 57 | See comments under Q61 - Implementation - general comments |
| Institute of International Finance - IIF | 58 | See comments under Q61 - Implementation - general comments |
| Insurance Europe | 0.9 | Insurance Europe supports the work conducted by the IAIS in the area of systemic risk and financial stability with the objective of developing an approach that is appropriately tailored to the specificities of the insurance sector.<br><br>We welcome this opportunity to provide comments on the measures for Global Systemically Important Insurers (G-SIIs). However in the absence of further detail on the IAIS methodology for identifying G-SIIs and more specifically on activities considered systemically risky, it is difficult to deliver precise comments on the proposed measures. This is especially so given the need for measures to be carefully tailored to address the causes of systemic risk with the intent of reducing a G-SII's risk profile and ultimately removing it from the G-SII list.<br><br>It is essential that the policy measures are designed so that they target the identified systemically risky activities an entity engages in and are proportionate to the potential of the activity to create systemic risk. In our view a number of the proposed measures do not meet these objectives and in certain cases have the potential to expose the insurance sector to a greater level of risk as opposed to reducing it.<br><br>As regards the application of policy measures, Insurance Europe is of the opinion that the approach should be based on a process consisting of a number of successive steps.<br><br>-In this process, the first step should be to identify activities that have the potential to generate or transmit systemic risk, based on their characteristics (such as the fact that they would involve maturity and liquidity transformation, the creation of money-like liabilities or the inappropriate use of leverage, as suggested in the on-going FSB consultation, 'Consultative Document - Strengthening Oversight and Regulation of Shadow Banking', 18 November 2012). If so, it should then be examined whether the activity is being undertaken on a scale that is systemically relevant.<br><br>-Following this, supervisors should assess whether an insurance group involved in such activities can adequately deal with the risks through its internal risk management framework, capital position and internal control processes. Indeed, risks may be mitigated via appropriate internal risk governance measures, supervisory reporting and/or appropriate supervision.<br><br>-Other measures, such as the separation of activities, should only be envisaged as a next step and for systemically relevant activities. If applied in a generalised and unspecific manner, the separation of activities could have a significant negative impact on an insurer's activities.<br><br>-Insurance Europe is of the opinion that HLA should only be considered as a last resort, after assessing the appropriateness of other measures. In addition, it is important for any HLA requirements to be properly calibrated, taking into account similar supervisory and regulatory tools in place at national or regional level. The use of higher loss absorbency should only be envisaged for systemically risky NTNIAs and be directly linked to the potential for the activity to generate systemic risk.<br><br>-Insurance Europe would like to raise its strongest concerns on the possibility that group wide capital requirements could be imposed on insurers. A group-wide HLA would not provide appropriate incentives for G-SIIs to reduce their involvement in systemically risky activities and would create a distortion of competition between G-SIIs and other insurance providers.<br><br>Insurance Europe understands based on the consultation document that the IAIS has such a step-by-step approach in mind for the application of policy measures in insurance. Insurance Europe would encourage the IAIS to make more explicit that this is indeed the case. |

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| | | Given the possible distortive effects of the envisaged measures if applied unduly to activities which are not systemically relevant, Insurance Europe strongly believes that every effort should be made to ensure that both the methodology and proposed measures are appropriate. In addition the practical implementation of the proposed measures will require further dialogue between supervisory authorities and insurers. In this respect we would strongly urge the IAIS to reassess the envisaged timeline of the current process to allow for further analysis in order to ensure genuine consistency between the proposed measures and the identification methodology. This would clarify which activities are deemed systemically relevant, and under which circumstances. Insurance Europe would welcome a new opportunity of having a dialogue on the updated methodology, as a follow-up to the 2012 July consultation, and on measures based on the updated methodology. |
| Insurance Europe | 0.91 | Insurance Europe welcomes the work conducted by the IAIS on systemic risk with the objective of contributing to a stable and sustainable international financial system. In particular, we appreciate the IAIS' genuine efforts to develop a specific approach for insurance, given the important differences between insurance and other sectors, especially banking. The potential of the insurance and banking sectors to generate systemic risk concerns is not only different because of the structures of the two sectors, but also because of the significant difference in scale of respective involvement in potentially systemically risky activities, as demonstrated by the recently published research of the Geneva Association ('Cross industry analysis, 28 G-SIBs vs. 28 Insurers, comparison of systemic risk indicators', 11 December 2012).<br><br>As mentioned in its response to the June consultation, Insurance Europe is concerned that the envisaged G-SII methodology is based on a broad range of categories and indicators, many of which are linked to traditional insurance activities. This approach is counter to the generally shared view that there is little evidence of traditional insurance either generating or amplifying systemic risk within the financial system or real economy.<br><br>Insurance Europe continues to believe that the IAIS' illustrative list of non-traditional and non-insurance activities (NTNIA) should be re-evaluated as it remains unnecessarily broad and incorporates a number of activities that do not pose a systemic risk (for example life portfolios of contracts with financial guarantees including Variable Annuities (VA) and trade credit insurance). In addition, it should be kept in mind that just because an activity is a NTNIA it does not automatically follow that it is of systemic importance. Insurance Europe wishes therefore to reiterate its view that the methodology should be reviewed in order to focus specifically on activities which have the potential to raise systemic risk concerns.<br><br>In order to better understand the underlying thinking behind the categorisation of activities as NTNIA and to limit uncertainty regarding which activities should be included in this categorisation, it would be helpful to develop a list of criteria which characterise specific activities from a systemic risk perspective. In this respect, we consider that the on-going FSB work on strengthening the regulation of shadow banking could serve as a basis for a more accurate definition of activities which could be considered systemically risky. The FSB work, which focuses on activities which involve maturity and liquidity transformation, the creation of money-like liabilities or the inappropriate use of leverage, would allow for a more precise identification of NTNIA's which could be considered systemically risky in an insurance context.<br><br>In Insurance Europe's opinion it is important to ensure that there is a clear link between the methodology and the measures. This is for the moment not the case. In particular, the methodology may capture traditional insurers as G-SIIs, while most measures (such as higher loss absorbency capacity (HLA) and the development of systemic risk reduction plans (SRRP)) aim to target specifically the activities that raise systemic risk concerns, and would therefore not apply to such traditional insurers. In our view, this inconsistency reinforces the need to adjust the methodology to ensure that traditional insurers are not unnecessarily determined to be G-SIIs. |
| Insurance Europe | 3 | Given the significant role of insurers in enabling society to manage risk more efficiently and their role as long term investors, it is important to be mindful of possible negative unintended consequences of the measures, in terms notably of more expensive premiums and reduced coverage.<br><br>Some of the envisaged measures, if applied in an undifferentiated and comprehensive manner, risk generating significant unintended consequences for the role of insurance in enabling society at large to effectively manage risk. These consequences need to be carefully considered before any possible measures are implemented. |

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| | | In general, instead of prohibiting, segregating, and restricting activities, the measures should encourage better risk management through ORSA and improved ERM. |
| Insurance Europe | 7.9 | Insurance Europe agrees that the objective of the G-SII policy measures should be to avoid the potential for moral hazard, resulting from a disorderly failure. It is important to recognize however that an insurer's failure is typically a long and orderly process does not require taxpayers' money. Therefore, the efforts of the IAIS should focus on those specific cases where the failure of an insurer may be disorderly, as a result of certain activities the insurer is engaged in. Such a focussed approach is also the only way to ensure that insurers regarded as G-SIIs are given the right incentives to become less systemically relevant. Insurance Europe is concerned that using the current, broad concept of NTNIA, the IAIS may not meet its objectives as outlined in paragraphs 8 and 9. |
| Insurance Europe | 10 | - It is fundamental that the envisaged measures target the activities that raise systemic risk concerns, as opposed to entities. In that sense, the IAIS should not excessively mirror for the insurance sector what the Basel Committee developed for the banking sector. In addition, it is important for the measures 'to be proportionate', 'to avoid unintended adverse consequences', and 'to be directed at the source of systemic importance and linked to the assessment methodology', as indicated in paragraph 11. Insurance Europe is concerned that this may not always be the case with some of the envisaged measures.<br><br>- In particular, Insurance Europe would strongly oppose the introduction of group-wide higher loss absorbency requirements. As explained in more detail in the comments on this specific measure, we believe that requiring additional HLA capacity at group level would not address the systemic risk concerns and may have unintended negative consequences on the continued provision of insurance. Consequences could include the withdrawal of certain products and an increase in the costs of providing existing levels of coverage.<br><br>- Appropriate supervision could on the other hand, if focused on systemically risky NTNIA's have the potential to become a workable solution to managing the potential for systemic risk in insurance. Before deciding on whether additional supervision is needed consideration should first be made as to whether an insurer's supervisory regime already appropriately covers the risk in question.<br><br>- Insurance Europe considers that the proposed systemic risk reduction plan (SRRP) has the potential to become an appropriate tool in the IAIS systemic risk framework. However, this would be the case only if applied exclusively to activities which have the potential to raise systemic risk concerns. As stated previously, Insurance Europe is convinced that many of the activities classified by the IAIS as NTNIA do not actually pose, or do not have the potential to generate, a systemic risk. Such activities should not be targeted through inappropriate supervisory measures, such as the SRRP.<br><br>- Insurance Europe believes that supervisors should carefully consider to which activities regarded as systemically relevant the separation measures and constraints should be applied. As explained in more detail below, such an approach should only be considered for activities raising systemic risk concerns, and after a range of other options have been considered. If applied in a generalised and unspecific manner, the separation of activities could have a significant negative impact on an insurer's activities as well as unintended consequences.<br><br>- Insurance Europe is of the opinion that unlike in banking, in insurance the focus should be on recovery rather than resolution, due to the fact that an insurance failure is generally a much lengthier process. The need for new recovery and resolution mechanisms should be assessed against the backdrop of existing processes at national and regional level and considering the extent to which activities which raise systemic risk concerns could negatively impact the orderly resolution of an insurer. In general, Insurance Europe fails to see the rationale for additional resolution tools for insurance as there is no track record of a wind-up scenario where severe 'systemic disruption' or 'vital economic functions' were put at stake. In addition, the FSB key attributes, which were originally designed with the banking sector in mind, need to be further adapted to account for the differences between banking and insurance if they are to be applied in an insurance context. In this regard, we support the IAIS' work to adapt properly these attributes and we welcome the IAIS acknowledgement in Paragraph 30 of the need to incorporate insurance-specific elements.<br><br>Finally, we wish to reiterate our overarching concern that if left unchanged, the methodology will result in the designation of traditional insurers as G-SIIs. The policy measures developed by the IAIS, which focus on systemically risky activities, would not be suitable to insurers who do not undertake such activities. It is therefore essential that the methodology identifies only those institutions that engage in systemically risky activities. |

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| Insurance Europe | 12.9 | We support the view that supervision has a vital role to play in insurance in addressing concerns related to potential systemic risk. It is important for supervision to be proportionate and tailored to the risk profile of an entity or activity.<br><br>Insurance Europe also firmly believes that supervision should be risk based and therefore an assessment as to what form of enhanced supervision might be needed depends on the underlying risk or in this instance on the particular systemically important activity in question. Advanced and risk-based regulatory frameworks are likely to cover all aspects of insurance activities and impose tailored quantitative and qualitative supervisory requirements.<br><br>It is unclear what the IAIS means by 'enhanced supervision', given that regulation and supervisory practices in insurance are not globally consistent. This means that what might be regarded as enhanced supervision in one jurisdiction might well be viewed as standard in another. Therefore, it is important that any additional 'enhanced supervision' is only applied with reference to the regulation already in place in a jurisdiction and where there is a clearly identified supervisory gap/need. On this note no enhanced supervision should apply to activities that are not systemically relevant.<br><br>Supervisory powers should also remain balanced, and should not lead to a situation whereby supervisors would end up taking over the role of a company's board and/or management while a company is still a going concern. |
| Insurance Europe | 13 | Insurance Europe agrees that comprehensive group supervision is an important element of a supervisory regime and could ensure that potential systemic risk concerns are identified, monitored and managed effectively.<br><br>- We believe that the supervisor should supervise and assess a group's risk management policy, notably as regards risk concentration and intra-group transactions. In addition, subsidiaries active in other financial sectors and non-regulated entities should also be included in the scope of the group supervision and in the calculation of a group's capital requirement.<br><br>- Close coordination between supervisors is extremely important. In order for coordination to work effectively, the roles, activities, responsibilities and processes of all supervisors involved need to be clearly defined.<br><br>- Without a framework which builds an appropriate level of supervisory cooperation at the global level, there is a risk that supervisory 'gaps' may emerge in the regulatory treatment of certain activities. Insurers active at the international level would also be subject to duplicative reporting lines and conflicting regulation.<br><br>- As some activities deemed systemically relevant might be conducted by entities in other financial sectors, subject to other financial supervisory regimes, we welcome the reference in paragraph 13 to enhanced cross-sector and cross-jurisdiction co-ordination via supervisory colleges. A well-functioning supervisory college, led by a group supervisor with clear supervisory responsibilities, is fundamental to the effective supervision of an international conglomerate or insurance group. |
| Insurance Europe | 15 | Although we recognise the value of appropriate liquidity planning and management, Insurance Europe wishes to stress that the core insurance business model does not in itself expose insurance companies to substantial liquidity risk, to the extent that it would raise systemic risk concerns. In particular:<br><br>- On the liability side, most policyholder funds either cannot be withdrawn at policyholder discretion or can only be withdrawn with a penalty and subject to a cancellation period. Large single claims have long, sometimes even multi-year, pay-out periods.<br><br>- On the asset side, liquidity risk is mainly driven by collateral calls. These items do not change in value suddenly or unexpectedly and can often be anticipated in advance.<br><br>- Insurers match expected future claims by policyholders with sufficient assets and since most assets are long-term funded, short-term fire sales caused by liquidity shortages rarely occur.<br><br>In addition, advanced supervisory frameworks and management tools (such as those outlined in the CRO Forum publication on best practice in liquidity risk |

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| | | management, 2008) already address liquidity risk in an appropriate manner. In such cases, Insurance Europe does not see the need for additional enhanced liquidity planning and management. |
| Insurance Europe | 16 | Given the lack of clarity on the activities regarded as systemically relevant, and on the sequence of measures envisaged to address these concerns, it is difficult to provide a clear view on the proposed 'Systemic Risk Reduction Plan'. In Insurance Europe's opinion, the SRRP could be a useful tool only if applied strictly to activities which have the potential to raise systemic risk concerns. On the other hand, Insurance Europe is concerned that if applied to a wide range of NTNIA not raising systemic risk concerns, it would not target the potential sources of systemic risk in insurance.<br><br>One aspect in particular that remains unclear is whether the measures taken by a G-SII as part of its SRRP may actually result in that entity being removed from the list or being subject to more targeted measures, such as targeted HLA instead of group-wide HLA. An acknowledgement that this would be the case could provide an incentive to insurers to undertake the appropriate actions envisaged as part of the SRRP. In this respect greater predictability of supervisory responses to measures undertaken by insurers is necessary.<br><br>It is also important that the development of Systemic Risk Reduction Plan does not lead to situations whereby supervisors would undertake actions which are more appropriately carried out by an insurer's management.<br><br>Insurance Europe wishes to reiterate its concerns that if left unchanged, the IAIS methodology would result in traditional insurers being identified as G-SIIs. In such a case, the company could only reduce its perceived systemic risk - as part of its SRRP - by actions that are directly contrary to its wider role as a risk absorber and to its commercial interests. Such actions could include: reducing its premium income (to tackle size); withdrawing from certain countries or international sectors (to tackle global activity); and withdrawing from certain lines of business (to tackle substitutability). This reinforces the view that the methodology should be focussed on systemically relevant activities in order not to incorporate traditional insurers in the G-SII list.<br><br>Given the open questions relating to the proposed SRRP, Insurance Europe would welcome a specific dialogue on this tool on the basis of a final version of the methodology on the identification of systemic risk |
| Insurance Europe | 17 | Separation of activities should only be envisaged for activities which have the potential to raise systemic risk concerns. The current definition of NTNI includes a wide range of activities which do not raise or have the potential to raise systemic risk concerns. Imposing a separation of such activities would not be appropriate.<br><br>In terms of approach, supervisors should firstly determine whether the nature of a particular activity has any potential to generate or transmit systemic risk. If so, it should then be examined whether the activity is being undertaken on a scale that is systemically relevant. Following this, supervisors should assess whether an insurance group involved in that activity can adequately deal with the risks through its internal risk management framework, capital position and internal control processes. Indeed, risks may be mitigated via appropriate internal risk governance measures, supervisory reporting and/or appropriate supervision without the need to create self-sufficient legal entities. Separation should only be envisaged as a next step.<br><br>If applied in a generalised and unspecific manner, the separation of activities could have a significant negative impact on an insurer's activities, since it has the potential to:<br><br>- Make operational management of certain activities complex and costly.<br><br>- Introduce constraints on group capital management by limiting the fungibility of capital within a group and by eliminating the benefits of diversification.<br><br>- Weaken the holding company's ability to secure external funding and the capacity of the group to support M&A operations.<br><br>- Create a series of connected entities, each exposed to strongly concentrated risks, but without access to the group resources in order to absorb significant shocks, or the means to attract sufficient resources to do so alone. |

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| Insurance Europe | 18 | Insurance Europe is concerned by the potential for misunderstanding through the use of the phrase ‘subsidies in the form of capital and/or funding to the benefit of NTNI activities should not be allowed’. Given that a subsidy is an economic concept rather than a legal one, there is the potential for supervisors to have different understanding of what could be considered a subsidy. We would therefore ask for a clarification from the IAIS on what the meaning of ‘capital subsidies’ is in this case. |
| Insurance Europe | 24.9 | The long-term nature of insurance liabilities and their extended run-off profiles generally ensure that sufficient time is available for taking corrective action in a deliberate and well-coordinated process. As a result of this specific characteristic, the main focus in insurance should be on recovery rather than on resolution.<br><br>Insurance frameworks generally contain measures applicable in recovery periods, portfolio run-off, novation, whole account reinsurance, insurance business transfer, schemes of arrangement and commutation plans or cross border mergers. In many cases these tools enable a company to remain in business after recovery. In addition, policyholders are protected in many jurisdictions by policyholder protection funds, insurance guarantee schemes or similar tools. On top of that, in Europe, Solvency II introduces a confidence level and a clear ladder of intervention as well as preventive action as a way of reducing the probability and impact of failure of an insurer. All these tools need to be taken account of before considering the introduction of additional mechanisms in insurance.<br><br>As regards resolution, we welcome the IAIS commitment to work on the FSB key attributes of effective resolution regimes to enable their application in an insurance context, given that they have been developed with the banking model in mind and are therefore not directly applicable to insurance. We welcome the IAIS’ acknowledgement in paragraph 30 of the need to incorporate insurance-specific elements.<br><br>However we do not see the need to introduce new resolution tools which would enable a speedy and quick resolution of an insurer. The extent to which an insurer failure could suddenly destabilise markets is limited due to the generally low levels interconnectedness between insurers and the rest of the financial system. Indeed, accelerating an insurer’s wind-up could result in unnecessary destruction of value, policyholder detriment and could trigger pro-cyclical actions such as forced asset sales in depressed markets. |
| Insurance Europe | 25 | Insurance Europe supports the desired outcomes of effective resolution presented in the Paragraph 25 of the consultation. However, we fail to see the rationale for additional resolution tools for insurance as there is limited evidence where the wind-up of an insurer resulted in severe ‘systemic disruption’ or put ‘vital economic functions’ at risk (as stated by the IAIS in the November 2011 report ‘Insurance and Financial Stability’).<br><br>- In the event of it being unlikely to return to solvency, an insurer is placed into run-off. The formal procedure can vary across jurisdictions but generally includes measures such as administration, receivership and if necessary, liquidation. The structure of an insurance balance sheet whereby assets are matched with liabilities limits the possibility of liquidation being necessary. Past experience suggests that in all but a few cases, insurance resolution has resulted in the orderly winding up of the business with limited losses for policyholders.<br><br>- We think that on the global level, supervisory colleges are fundamental to ensure effective cooperation among national authorities in the event of the cross-border resolution of a conglomerate or an insurance group.<br><br>- We would welcome further action in removing barriers to cross-border resolution. |
| Insurance Europe | 26 | The FSB’s ‘Key attributes for effective resolution regimes for Financial Institutions’ should be substantially amended to match the specificities of insurance and we welcome the IAIS acknowledgement in Paragraph 30 of the need to incorporate insurance-specific elements. The FSB’s ‘Key attributes for effective resolution’ were originally drafted with the banking sector in mind, and do not reflect the insurance business model. In addition further analysis is necessary on the extent to which the key attributes are incorporated into existing tools.<br><br>Insurance Europe believes that Crisis Management Groups (CMGs) should be part of the existing supervisory colleges of G-SIIs rather than a completely separate forum. |
| Insurance Europe | 27 | Insurance Europe does not consider the establishment of a specific resolution authority for insurance to be necessary. In various jurisdictions, only national supervisors can apply for an insurer to be entered into administration. A court appointed administrator manages the resolution process (resolution authority as |

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| | | such). In this respect the appointment of a national resolution authority may only require a formalisation of the supervisor's role as the initiator of the resolution process. However, the establishment of a specific agency to manage the resolution appears unnecessary given the rarity of the occurrence of such events. |
| Insurance Europe | 28 | Insurance Europe does not believe that a traditional insurer, with or without a large derivatives portfolio, should experience a disorderly run-off. The fact that a traditional insurer holds a large derivatives portfolio (acquired for hedging purposes) should not be a problem in a run-off scenario, where time is normally available to close off positions, including those relating to that portfolio. The only material difference between a run-off scenario and the normal course of business is that the insurer will not take on new business.<br><br>Against this background, Insurance Europe does not see the need to adjust the methodology or policy measures to the specific case outlined in paragraph 28. This being said, Insurance Europe remains open to a discussion on specific questions arising from the use of derivatives in insurance. |
| Insurance Europe | 31 | It is important that, if a template were to be developed for assessing the resolvability of G-SIIs it would be done in such a way that it would not limit the flexibility of national authorities in managing future resolutions. |
| Insurance Europe | 31.9 | Insurance Europe would like to raise its strongest concerns on the possibility that group wide capital requirements could be imposed on insurers. A group-wide HLA would not provide appropriate incentives for G-SIIs to reduce their involvement in systemically risky activities and would create a distortion of competition between G-SIIs and other insurance providers.<br><br>Also, HLA requirements should be properly calibrated and be envisaged as part of a toolbox, which would also include similar supervisory and regulatory tools in place at national or regional level. The use of higher loss absorbency should only be envisaged as a measure of last resort, for systemically risky NTNIA's where there are no appropriate similar supervisory and regulatory tools at national or regional level. In this respect the level of the HLA should be directly linked to the potential for the activity to generate systemic risk.<br><br>HLA measures which are not applied in a targeted and proportional manner could have a substantial negative impact on the continued provision of insurance.<br><br>- At the industry level, higher capital charges may reduce returns and trigger a reduction in new investment by the industry. This would eventually limit the risk capacity of the insurance industry.<br><br>- Higher funding costs could affect the cost of premiums for policyholders, resulting in price increases for households and commercial buyers.<br><br>- At the macro-economic level, additional capital requirements would limit the role of insurers as long-term investors in providing financing for long-term economic development. This could potentially result in a negative impact on growth. |
| Insurance Europe | 34 | We regard the details provided on what would be considered as acceptable instruments in the application of HLA as being somewhat incomplete. Clearly further work is needed in identifying the desired properties of instruments which could be included in a definition of an international capital regime in an insurance context. In particular regional differences in terms of accounting and solvency standards and the current lack of a global definition of insurer capital are significant difficulties which would need to be overcome. While the consultation acknowledges the need to consider accounting and regulatory difference (paragraph 34), we are concerned that the proposed HLA measures do not take these differences into account. |
| Insurance Europe | 36 | We welcome the fact that HLA assessment takes into account capital charges imposed at national level to mitigate identified systemic risks. We believe the IAIS should equally consider the scope and nature of normal prudential requirements, as these may also mitigate systemic risks. |
| Insurance Europe | 41 | Insurance Europe considers that HLA should only be considered as a last resort, as part of a gradual approach which would initially assess the appropriateness of other measures. In addition, it is important for any HLA requirements to be properly calibrated, taking into account similar supervisory and regulatory tools in place at national or regional level. The use of higher loss absorbency should only be envisaged as a measure of last resort, for systemically risky NTNIA's where there are no appropriate similar supervisory and regulatory tools at national or regional level. In this respect the level of the HLA should be directly linked to the potential for the activity to generate systemic risk. |

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| Insurance Europe | 46 | We fail to see the rationale of the figures proposed. The figures are based on the approach taken for the banking sector and are in no way appropriate for insurance. An insurer's 'prescribed capital requirement' (PCR) is not at all comparable to a bank's capital requirements and the role that capital plays in the two sectors is also fundamentally different. Insurers' PCR is determined in advanced regulatory frameworks on the basis of all quantifiable risks on both the asset and liability side of the balance sheet, whereas in banking the minimum capital requirement is calculated based on risk weighted assets only. Insurance Europe would also consider the proposed uplift for insurers, with respect to the banking requirement, as being completely disproportionate to the potential for systemic risk in insurance. |
| Insurance Europe | 52.9 | Insurance Europe would like to thank the IAIS for the possibility given to engage in the debate by participating in the consultation and for considering the views of European (re) insurers. In light of the importance of the current debate and the number of details pending in both methodology and measures, Insurance Europe believes that further opportunities for comments should be given to the industry.<br><br>- We urge the IAIS to publish the revised methodology and measures before the first G-SIIs are designated.<br><br>- We believe that the industry should have another opportunity for comments once the methodology is finalised. In this respect, the proposed implementation timeline should be re-structured accordingly.<br><br>- We particularly emphasise the need for further dialogue and consultation on the capital measures which are scheduled for continuing development throughout 2013 and are presented in the current consultation in an unfinished form. |
| Insurance Europe | 53 | Insurance Europe has significant concerns regarding the implementation timetable of paragraph 53. The proposed policy measures contain some quite far reaching measures which if they are to be applied correctly, will take significant time for insurers to implement. |
| International Actuarial Association | 0.9 | We agree with the IAISs view that G-SII measures should be focused on the cause of a groups systemic classification. The measures should allow for risk management actions in place to control and mitigate the risks.<br>We do not have clarity on the metrics used to determine the G-SII designation and consequently find it difficult to assess the appropriateness of the measures proposed.<br>We do think that measures should consider the significance of the systemic risk presented by the group and how significant the systemic parts of its NTNI activities are compared to the other activities. |
| International Actuarial Association | 1 | 1. There is a reference to the document 'G-SII: Proposed Assessment Methodology, 31 May 2012'; But the methodology is not fully described in this document. Are more details forthcoming?<br>2. It states that the announcement of the revised assessment will depend on the data at the end of 2011. Is this still the case?<br>3. Why is the 'cut-off-point' defined in relation to the 29 G-SIBs? This seems in contradiction to the statement that insurers are generally considered as less systemically critical than banks. |
| International Actuarial Association | 3 | 1. The different assessment of traditional and non-traditional insurance business is appropriate (see comment for paragraph 17) but there should not be a requirement of separation into different companies. This would not be consistent with solvency legislation.<br>2. 'Public consultation document on G-SIIs proposed assessment methodology'contains some definitions and explanations. An additional 'calibration paper' containing background information about technical analysis regarding calibration of key parameters would be helpful. |
| International Actuarial Association | 11.9 | 1. The IAIS paper focuses strongly on the supervision of NTNI activities and even proposes a separation of these activities from the traditional insurance business. However there is no clear definition of traditional and NTNI business. (E.g. Does the unit linked business belong to traditional business?)<br>2. If a group has to separate the unit linked business, it will lead to distortions in the business mix and maybe even lead to a run off of 'pure endowment companies'.<br>3. Further the IAIS requires the authorities to analyse activities that cause systemic importance of G-SII and to take necessary measures to reduce that systemic importance. For 'traditional insurance companies' the liability portfolio mix has a very high importance. This requirement implies that the authorities can instruct |

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| | | insurance companies to sell products without guarantees. These will result in a substantial difference in the treatment of G-SIIs and small insurance groups.<br>4. The 'Substance over form' principle should be respected as is done in Solvency II regulation<br>5. We recommend that supervisory authorities take into account which information and data are already disclosed in the existing standards to avoid extra work and cost. |
| International Actuarial Association | 13 | Paragraph 13 bullet 4<br>This refers to '.. reinsurance arrangements that are appropriately diversified ..'. This is a good risk management practice and if followed by all groups, limits the impact that any reinsurer difficulty can have across the system. Indeed does such a requirement ensure that a reinsurer is not systemic? |
| International Actuarial Association | 14 | Bullet 4 sub-heading 1<br>This refers to 'imposing more conservative underwriting standards in boom times, or raising capital requirements, which may run contrary to public perceptions of risk and be politically unpopular.' We appreciate that this is a FSB text presumably written within a banking context. It is not clear how insurance supervisors would impose more conservative underwriting standards. Would it be by placing price floors for a group or by deeming certain risks unacceptable? Either course of action will have significant consequences to the economy. Underwriting standards in this context may be more a market issue than a firm/group one. We would expect supervisors to have a view on market prices and whether a firm has a sensible approach to the sustainability of its position.<br><br>Bullet 4 sub-heading 3<br>This fails to allow for the current level of interaction or requirements on board quality. The text should be amended to call for in-depth review of a supervisors approach and where appropriate to improve practice on these key areas.<br>We also note that supervisors need sound resource planning if they are to maintain a staff capable of deploying the necessary skills and judgments at all times and do so without imposing undue burden.<br><br>Bullet 4 sub-heading 5<br>Again this employs an automatically higher than current requirement. It should seek an appropriate level. It should not require a higher level for a G-SII: if the local regulator wishes to have all firms meet that level it should be free to do so.<br><br>Bullet 4 sub-heading 6<br>This appears to lack a consequence. |
| International Actuarial Association | 16 | The need for self-sufficiency may be too broadly stated. We do not see why an NTNI segregated entity should not be allowed to use services from other group members. |
| International Actuarial Association | 17 | We suggest that the separation of NTNI activities should be clearly qualified to apply to significant causes of systemic risk.<br><br>It is not evident that activities covered by the IAISs table are necessarily contributing to systemic risk even though that activity may have such capacity (e.g. use of derivatives and CDS which can be to control risk in the investment book is usually heavily controlled by insurance legislation to prevent use for speculation).<br><br>The NTNI table given in earlier IAIS papers includes ART on which IAIS in Reinsurance and Financial Stability (IAIS July 2012 para 92) finds .. in many cases as unlikely to raise broader systemic concerns but notes a number of cases ...include features that may create.. potential systemic implications), In particular para 84 finds ,. finite reinsurance is unlikely to create systemic issues and para 74 concludes that .. it is difficult to see how the marginal ILS market could give rise to systemic concerns, but going forward growth and potential for systemic ramifications need to be monitored carefully. .<br><br>Given the burden that separation of NTNI may cause, if it is required it should only be for activities that are currently causes of systemic risk in the group. |
| International | 23 | Footnote 25 describes a limitation for the use of affiliate reinsurance on NTNI line of business, such as variable annuities with financial guarantees. However, |

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| Actuarial Association | | insurance groups sometimes adopt centralized risk management structure to hedge the associated risk effectively by reinsuring the risk to central control function of the group. These sound risk management activities should not be restricted nor prohibited.<br><br>Segregating NTNI activities and limiting recognition of diversification effects may increase total capital required and will protect traditional insurance from the NTNI activities but it will reduce the capital coverage available for either part.<br>If separation and stand-alone capitalization is forced on a group will it feel any duty to put more resource into the NTNI activity subsidiary in a time of crisis? Does it make a problem more likely to turn into a crisis? |
| International Actuarial Association | 24.9 | 1. We think that a resolution plan is not the right solution as things never go as expected when a crisis occurs. What should be done is to develop a set of options that might be used in the event of a crisis and to establish the lines of communication between supervisors in advance of a crisis. When a crisis occurs the supervisors could then evaluate the list of options to see which best fits the problem(s) at hand.<br>2. Without a clear and transparent classification of insurance business, (especially of the treatment of investment linked insurance contracts as traditional or non-traditional insurance business), enhanced supervision may lead to the liquidation of traditional life business.<br>3. As a core part of the new concept is about NTNI-activities, a clear definition is fundamental. The paper 'Insurance and Financial Stability' gives a definition: 'traditional insurance is a business concerned with interests that meet at least the principles of insurability based on insurance techniques and that is subject to insurance accounting'. Criteria should be defined as:<br>- How do products react to capital markets?<br>- Are there guarantees included? Who gives guarantees (Insurance, third party banks, ?)?<br>4. Direct matching of product segments to traditional insurance, semi-traditional insurance and NTNI seems not to be reasonable because of designing features and no clear differentiation criteria<br>5. Proposed mechanisms burden insurance groups and are even stricter than those for banks. Implementing solvency regulations should ensure that there is no arbitrage between insurance companies and banks. |
| International Actuarial Association | 27 | This refers to an asset liability ratio. We do not understand how this is to be used given the traditional roles of PCR and MCR. How is it defined? What is the benchmark level? What risk does it protect against? |
| International Actuarial Association | 31.9 | 1. It should be recognized that HLA may not always operate effectively to restrict systemic risk as a measure for G-SIIs. For example, lack of liquidity is considered as one of the major causes of systemic risk for Non Insurance activities. Additional assets that are not liquid will not help. Only additional liquid assets would help.<br>2. Regardless of the option i) (HLA uplift in the range of 10% - 30% of prescribed capital requirement (along Basel III requirements)) or option ii) (HLA uplift around 0,5% - 1,5% of the total balance sheet (ex capital, including off balance sheet items)), these capital measures lead to a higher HLA for G-SIIs compared to banks.<br>3. This is a contradiction to the general principle that insurers should generally be considered as less critically systemic than banks.<br>4. Simply comparing size is misleading. |
| International Actuarial Association | 32 | Risk management measures taken by G-SIIs needs to be taken into account when considering HLA requirements. Risk mitigation activities such as reinsurance also reduce the expected impacts especially for low probability but high impact events. |
| International Actuarial Association | 46 | 1. There is no rationale for the assumption mentioned in the footnote 30 '?assume that the systemic importance of a G-SII is similar to the least important G-SIBs ?'.<br>2. There is no indication as to where the formula used for the uplift is coming from, who adapts the trigger and who changes mechanisms. |
| Metropolitan Life Insurance Company (MetLife) | 0.9 | MetLife has been in the business of providing insurance for over 140 years and is a leading global provider of insurance, annuities and employee benefit programs serving 90 million customers in over 50 countries. MetLife is the largest life insurer in North America (based on life insurance in-force). Through its subsidiaries and affiliates, MetLife holds leading market positions in the United States, Japan, Latin America, Asia Pacific, Europe and the Middle East. MetLife's clients include over 90 of the top 100 FORTUNE 500 companies. The MetLife companies offer life insurance, annuities, and auto and home insurance, as well as group |

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| | | insurance and retirement and savings products and services to corporations and other institutions. MetLife's products and services are offered globally, through agents, third party distributors such as banks and brokers and direct marketing channels.<br><br>MetLife thanks the IAIS for the opportunity to comment on Proposed Policy Measures (PPM) for Global Systemically Important Insurers (G-SII). This consultation takes on added importance given our understanding that insurers will be assessed on potential impact on the financial system without consideration of elements of our business model that act as risk mitigants. For this reason, before summarizing our key recommendations below, we feel it important to make some threshold points.<br><br>First, providing meaningful comment on policy measures requires understanding of what impact the policy measures are designed to temper. While we are aware that non-traditional and non-insurance activities are a focus, as we have not seen the latest edition of the assessment methodology we cannot know if there is a meeting of the minds between the IAIS and industry on exactly what we mean when we refer to a non-traditional or non-insurance activity, and more importantly what aspect of engaging in this activity is deemed to have 'what' impact on the financial system. Our assumption is that the impact must be 'distress or disorderly failure [which] would cause significant disruption to the global financial system and economic activity.'<br><br>Second, we must voice our disagreement with an approach that does not take the unique insurance business model and its risk management practices into account. In our view, such an approach ignores the unique aspects of what engaging in insurance business is: the absorption and management of risk. Proceeding in this manner risks inaccurately designating and inappropriately regulating companies that pose no net risk to the system.<br><br>Third, we highlight that insurance provides a valuable service to society and stability to the financial system and would caution that any approach to identifying and managing risk in the insurance sector must balance the critical role of insurance groups against seemingly expedient application of rules designed for a different financial sector. We recommend a proportionate approach to the development of insurance-centric policy measures that target risk, recognize existing risk management programs and practices and regulatory treatment.<br><br>Many insurance products play an important role in ensuring that individuals and their families through group or individual plans are protected against the financial impacts of loss of life, personal injury, property damage and or health issues, to name but a few. In addition insurers provide a full range of retirement products that supplement government provided benefits..<br><br>What is more, the insurance industry acts as a stabilizing force in global financial markets. Many independent reports point to the structural elements of the insurance business model and the fact that insurers usually have limited interconnection with other financial institutions. This has resulted in strong balance sheets even in times of severe economic stress. Some unique features of an insurance risk profile that contribute to stability follow:<br><br>An insurance company's liabilities are the primary determinant of its overall risk profile and drive its investment decisions, assumption of credit risk and its liquidity risk exposure. Although liabilities are also an important contributor to bank risk profiles, the linkages between asset and liability risk exposures are less integrated than is generally the case for insurance business models.<br>- Payments under insurance products are triggered when an insured event occurs. As promises of indemnity or protection, products such as life insurance and annuities create insurer cash flow obligations that are generally very long term in nature ? often extending 30 years or more. This liability profile is unique to the life insurance industry and represents one of the primary risks of a life insurance company. In general, the primary risks flow out of the design and purpose of insurance products and depend on insurance-specific risks such as mortality, longevity, morbidity, loss or damage to property, casualty loss, lapse and catastrophe.<br><br>- Since insurance is a liability driven business with often long term cash flow patterns, an insurance company's investment portfolio composition and credit quality distribution is highly linked to and driven by the liability profile of its insurance products.<br>o Insurance companies invest in assets to match the effective duration of liabilities. Unlike banks, which can have substantial liquidity risk, insurers generally have much less liquidity risk due to their stable portfolio of in-force insurance policies with regular premium payments and contractual features of liabilities that prohibit or limit (through surrender charges and/or tax penalties) early calls by policyholders. As a result, the liquidity risks and interest rate risks are substantively different |

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| | | and more controlled than those inherent in the banking business model.<br>o The liability profile of an insurance company also positively impacts the credit quality of its assets. Insurers generally invest in higher quality and more diversified assets to ensure that such assets can back reserve requirements and meet all policyholder obligations. However, due to the long duration of some liabilities as well as some insurance contracts that guarantee minimum benefits, insurers are exposed to market risk (interest rate and equity).<br>o Furthermore, in order to mitigate foreign exchange risk, insurance companies typically invest in locally denominated assets (or hedge any currency risk) in order to back locally denominated liabilities.<br><br>- Movement in asset values on insurance companies' balance sheets due to temporary market movements are often irrelevant due to the cash flow matching utilized by the insurance industry and market movements due to interest rate changes are often accompanied by offsetting movement in the economic value of liabilities, which dampens the impact of asset losses on the overall financial condition of an insurer.<br><br>Last but not least we reiterate that in general, insurance companies are comprehensively and well regulated and have long standing capital, liquidity and resolution frameworks that have been effective and have evolved in light of past crises. These insurance-specific frameworks have contributed to dampening, if not mitigating, the impact of insurance company failures in the past. No past insurance company failure involving regulated, traditional insurance activities has generated systemic risk.<br><br><br>Summary of Key Issues and Recommendations<br><br>1. Designation as a G-SII<br><br>Issue: Assessment on the basis of potential impact on the financial system without consideration of internal risk management programs. Risk management techniques will not be considered as these are company specific and lack objective means of evaluating their strength.<br><br>Recommendation:<br>We are in the business of managing and absorbing risk. As such, our risk management programs and internal management of specific activities should be a critical part of the assessment process.<br><br>The fact that risk management programs differ from company to company does not justify ignoring their impact on risk. A company's lead supervisor could use existing or new authority to recognize the impact of internal risk management programs, such as ALM and hedging programs.<br><br>Issue: What are the characteristics of 'activities that cause systemic importance' (otherwise known as non-traditional/non-insurance activities 'NTNI')? The IAIS is not expected to release a final copy of the draft assessment methodology prior to final assessments. Industry has no visibility into the factors that place a company on a G-SII list.<br><br>Recommendation:<br>We request clarity on the characteristics of NTNI activities. We continue to maintain that NTNI activities conducted within a regulated insurance entity to support the core business do not create exposure to systemic risk if appropriately managed through regulatory treatment and sound risk management practices, including hedging and ALM.<br><br>Issue: Cutoff point distinguishing non-G-SIIs from G-SIIs. Following assessment, companies will be placed on a ranked list, and designated based on a cut-off point distinguishing G-SIIs from non-G-SII. How will this point be determined? If insurers are compared to banks, most insurers will fall below the threshold for systemic relevance.<br><br>Recommendation: |

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| | | We recommend comparison against all financial institutions, including banks.<br><br>2. Policy Measures<br><br>2.1 Bank-centric Policy Measures ignore the unique role of insurance in society and the financial system.<br><br>Issue: Insurance provides a valuable service to society and stability to the financial system. Blunt application of measures designed for the banking sector could have unintended consequences. These include a lack of affordable products to support critical social needs, and erosion of the stability afforded by a business model that does not involve maturity transformation, is up-front and long-term funded and which allows which allows time for recovery and orderly resolution.<br><br>Recommendation:<br>Managing systemic risk in the insurance sector should not reduce the availability or affordability of vital financial protection. We recommend an approach that recognizes the unique business model of insurance, preserves the important societal role played by insurance, and builds on existing risk management practices and regulatory treatments.<br><br>2.2 Systemic Risk Reduction Plans (SRRPs)<br><br>Issue: As is the case with the assessment process, current draft policy measures do not take into account Enterprise Risk Management (ERM) and other internal risk management activities.<br><br>Recommendation:<br>Internal risk management should be factored into the designation process. As a clearly second-best option, designated insurers should have their risk management programs fully factored into the development of SRRPs. If, after accounting for risk management programs, residual risk is at an acceptable level, no further measures should apply.<br><br>The fact that risk management programs differ from company to company should not be a reason for discounting their impact. The group or lead supervisor could use existing or be given authority to approve internal risk management programs. Supervisors could rely on both an ERM framework at the consolidated enterprise level and management of specific activities, including hedge positions and ALM positions<br><br>Issue: Structural Separation of Activities Deemed to Cause Systemic Importance. SRRPs could require insurers to separate systemically risky activities into ‘self-sufficient’ legal entities to protect against contagion, improve resolvability and apply higher loss absorbency measures..<br><br>Recommendation<br>We oppose structural separation, especially given the lack of clarity as to the characteristics of activities deemed systemically important.<br><br>We do not believe structural separation offers any advantages over other options that would keep activities deemed systemically importance within the consolidated insurance group. We propose alternative tools:<br>- For improved resolvability and protection from contagion, liquidity stress testing to ensure that cash available for traditional insurance is not supporting activities determined to expose a company to systemic failure.<br>- For reduction of systemic importance, internal risk management, ALM and other risk-mitigating processes such as stress testing and existing regulatory treatment and capital requirements.<br>- HLA targeted to NTNI through independent capital calculations or translation into a reserve factor.<br>We propose alternative tools are available that meet the stated objectives of separation. For example:<br>- For improved resolvability and protection from contagion, liquidity stress testing to ensure that cash available for traditional insurance is not supporting activities |

determined to expose a company to systemic failure
- For reduction of systemic importance, focus on internal risk management, ALM and other risk-mitigating processes such as stress testing and existing regulatory treatment and capital requirements
- HLA targeted to NTNI through independent capital calculations or translation into a reserve factor.

2.3 Liquidity Risk Management

Issue: The current policy measures require adequate arrangements to deal with liquidity risk management for the whole group, with a focus on NTNI.

Recommendation:
We endorse the proposed enhanced liquidity management and suggest a focus on liquidity risk as a key risk in assessment of systemic importance and application of policy measures. However, we recommend use of approved internal models with assumptions and stress scenarios subject to review by regulators.

2.4 Additional Capital Buffers or Higher Loss Absorbency (HLA): Only high-level points are provided in the draft. Final provisions will not be available before year-end 2013 with the first application occurring in 2019.

Issue: Targeted vs. Group Level HLA: Based on current information, it is possible that a designated G-SII meeting targets set under its SRRP would never require additional capital. However, the policy measures allow supervisors to require an additional group-level capital charge in the event they feel targeted HLA is insufficient. In addition, the draft policy measures only contemplate targeted HLA for separated activities.

Recommendation:
HLA as a blanket charge at the group level is not an appropriate tool to manage systemic risk in the insurance sector may raise the cost of offering traditional insurance products and result in reduced availability of products currently meeting social needs.
- Targeted HLA could be appropriate in limited circumstances if applied net of mitigating activities. However, as noted, structural separation is not necessary to target HLA in these limited circumstance where it can be applied by independent capital calculations or translation into a reserve factor.

- An approach that combines RBC and prudential requirements is more effective for insurance entities.

Issue: Draft policy measures propose setting targeted HLA according to Basel III rules for any banking or bank-like activities.
Recommendation

If bank-like activities are conducted within an insurance entity and insurance risk management principles apply, current Basel III rules would be inappropriate

2.5 Competition

Issue: The designation and application of enhanced measures to only a few large groups creates competition issues.

The current approach to assessment and management of global systemic risk in insurance penalizes firms for conducting activities that are only potentially systemically relevant. Such penalties could result in well diversified and capitalized insurers that today deliver products and investments that benefit societies and economies retrenching or withdrawing from markets. This could create the unintended consequence of distorting market effects by pushing certain potentially systemically relevant activities to less diversified non-G-SII firms.

Also, given the inevitable application of measures by national authorities in accordance with national frameworks, the risk of inconsistent application (and exacerbation of the competition issue) is considerable.

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| | | Recommendation:<br>- MetLife supports a level playing field and requests that the IAIS/FSB work in conjunction with national authorities to ensure the consistent application of any additional measures.<br><br>- The IAIS cross-jurisdictional survey to determine how measures will be applied should be conducted prior to any application of measures.<br><br>3. Definition of term 'Supervisor'<br>The terms 'supervisor' and 'group-wide supervisor' are used throughout the document without definition. Given that this individual will have responsibility for implementing guidelines in accordance with national supervisory frameworks, we would suggest that a definition be provided. We would suggest the term be consistently 'group-wide lead supervisor' and that a definition might be:<br>The group-wide supervisor will be the insurance supervisor of the jurisdiction (which could be below the national level) where<br>- the head of the G-SII candidate is based<br>- the G-SII insurance operations are effectively controlled,<br>- the supervisor has statutory responsibility to supervise a substantial part of the G-SII candidate´s insurance operations |
| Metropolitan Life Insurance Company (MetLife) | 0.91 | See General Comments to Executive Summary (Q-1) |
| Metropolitan Life Insurance Company (MetLife) | 1 | No Comment |
| Metropolitan Life Insurance Company (MetLife) | 2 | No Comment |
| Metropolitan Life Insurance Company (MetLife) | 3 | No comment |
| Metropolitan Life Insurance Company (MetLife) | 4 | While we would agree that unmitigated and mismanaged NTNI activities may be the potential source of exposure to systemic risk and thereby merit further scrutiny, we would argue that strong connections such as those that exist between banks and that result in institutions being sources or objects of systemic contagion do not generally exist among insurers, or among insurers and other financial institutions. In any event, those activities need to be examined to reflect each company's risk management practices for residual risk, which most likely will not reach the level of systemic risk. |
| Metropolitan Life Insurance Company (MetLife) | 5 | No comment |
| Metropolitan Life Insurance | 5.9 | See General Comments to Executive Summary (Q-1) |

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| Company (MetLife) | | |
| Metropolitan Life Insurance Company (MetLife) | 6 | Agree but would reiterate our comment in General Comments to Executive Summary (Q-1) above that no past insurance company failure involving regulated, traditional insurance activities has generated systemic risk as defined in this Paragraph 6. |
| Metropolitan Life Insurance Company (MetLife) | 7 | As our opening paragraphs in General Comments to Executive Summary above indicate, we are in full agreement with this statement. |
| Metropolitan Life Insurance Company (MetLife) | 8 | We would agree with bullets one and three, but would suggest that bullet two incentivize through encouragement of proactive, positive actions that also contribute to strengthening the industry. A focus on the quality of regulation and encouraging G-SIIs and non-G-SIIs alike to adopt strong internal risk management and control functions such that risk is well managed could achieve this goal. The identification of potentially systemically risky activities must be followed by an assessment of residual risk. |
| Metropolitan Life Insurance Company (MetLife) | 9 | There has been considerable debate about whether designation as a G-SII confers an advantage or disadvantage. MetLife's view is that whether advantage or disadvantage, designation will create an unlevel playing field. In the former view it is possible that G-SIIs would enjoy a competitive advantage since consumers may consider a systemically important designation as 'too big to fail' and be willing to pay more for products issued by such companies. This would disadvantage non-G-SIIs. In the latter view, G-SIIs would be required to bear the cost and potential restrictions that would come with additional oversight and higher loss absorbency requirements rendering their policies less competitive with similar products offered by non-G-SIIs.<br><br>MetLife strongly supports a level competitive playing field. No advantage or disadvantage should be created by a designation. We have significant concerns the application of higher loss absorbency requirements to only a few global insurance companies would introduce an unlevel playing field. This could put such companies at a competitive disadvantage not only against national peers but also against foreign insurance companies that are competing locally and are not subject to sufficiently equivalent standards.<br><br>The current approach to assessment and management of global systemic risk in insurance penalizes firms for conducting activities that are only potentially systemically relevant. Such penalties could result in well diversified and capitalized insurers that today deliver products and investments that benefit societies and economies retrenching or withdrawing from markets. This could create the unintended consequence of distorting market effects by pushing certain potentially systemically relevant activities to less diversified non-G-SII firms.<br><br>We note that the Executive Summary states 'Implementation of G-SII policy measures should be monitored by an IAIS peer review process in order to ensure international consistency' (see Implementation Timeframe, Page 8). We are encouraged by this remark as we have additional concerns the unavoidable implementation of G-SII policy measures, and HLA measures in particular, through national supervisors in accordance with national frameworks is a potential source of inconsistent application of measures which could exacerbate the competition issue. We would urge that an evaluation of how any policy measures would be implemented under any particular national, subnational or regional framework be undertaken prior to imposition of measures on any G-SII. |
| Metropolitan Life Insurance Company (MetLife) | 9.9 | See General Comments to Executive Summary (Q-1) and to relevant sections in 3.2 - 3.4 below |
| Metropolitan Life Insurance | 10 | As regards the first bullet, 'Enhanced Supervision', please see our comments to Executive Summary (Q-1) and to Paragraph 17 (Q-23) below. |

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| Company (MetLife) | | As regards increased resolvability, we would comment that many element of RRPs already exist or are proposed in existing regulation (including insurance resolution schemes), policyholder protection plans (where these exist), the insurance business model and (without prejudice to our registered objections to structural separation) the proposal for SRRPs if these last Plans focus on reducing risk through strong risk management and asset-liability matching practices.<br><br>As regards Higher Loss Absorbency, please see our General Comments to 3.4 (Q-39) and comments to Paragraphs 32-34 (Q-40-42) below. |
| Metropolitan Life Insurance Company (MetLife) | 11 | We fully agree. |
| Metropolitan Life Insurance Company (MetLife) | 11.9 | See General Comments to Executive Summary (Q-1) and to relevant sections in this and Sections 3.3 - 3.4 below |
| Metropolitan Life Insurance Company (MetLife) | 12 | We are in general agreement with this paragraph and support the concept of enhanced supervision. However, we would request clarification of what is meant by 'direct approach' to consolidated group-wide supervision and would add that in addition to 'the reasons for the systemic importance of the G-SII suggested by the results of G-SII assessment methodology', 'involved supervisors' should also take into account risk management practices and asset-liability matching and other such risk-mitigating processes. |
| Metropolitan Life Insurance Company (MetLife) | 13 | Please see our comments to Executive Summary (Q-1) above where we request definition of the term 'supervisor '.<br><br>Moreover, we propose that while a laudable goal, statements in the 2nd bullet above to the effect that 'Obstacles that could hinder effective group-wide supervision are identified and removed' and that 'For G-SIIs, the supervisor has direct powers over holding companies to ensure that a direct approach to consolidated group-wide supervision can be applied' raise questions as to whether legal authority to accomplish the goals exists. How are supervisors to remove obstacles they may have no jurisdiction over, and how would they obtain direct power of holding companies if this falls to another supervisor under local law? We suggest the IAIS/FSB recommend statutory changes to permit current or prospective group or lead supervisors to obtain the necessary legal authority to accomplish these goals.<br><br>We also note the concern raised in comments to Paragraph 9 (Q-12) above that implementation of G-SII policy measures, and HLA measures in particular, through national supervisors is a source of potential inconsistent application that could lead to market distortions. As mentioned in comment to Paragraph 9, we recommend an evaluation of how policy measures would be implemented under national or regional frameworks prior to imposition of measures on any G-SII. |
| Metropolitan Life Insurance Company (MetLife) | 14 | Unambiguous mandates, independence and appropriate resources: While we realize these are FSB recommendations and are broad recommendations for the financial services sector generally, we would suggest that cooperation as opposed to conflict is the best means of resolving differences of opinion. What is more, we would suggest that supervisory independence is not so much ensured by conflict and distance as it is by engagement and capacity building.<br>Reinforcing operational independence and resources of supervisory agencies: Again while we realize these are FSB recommendations and are broad recommendations for the financial services sector generally, we strongly suggest that setting underwriting standards, and risk appetite and management are managerial functions that do not properly fall within supervisory powers. The former tend toward growth whereas the latter tend toward control. Each has its place. Sub-bullet 'Stricter Assessment Regimes' below appears to recognize the point we make.<br>Full suite of supervisory powers: Again we realize these are FSB recommendations however we would suggest that absent statutory authority, supervisors may be unable to achieve the expectations placed upon them. Even where authority exists, we suggest supervisors need to be equipped with sufficiently qualified staff to interpret the risks and complexities and that capacity building programs should be envisaged.<br><br>Improved standards and methods: We would suggest that authorities suggested go far beyond a supervisory function. The powers proposed are unnecessarily intrusive and encroach on management, board and shareholder prerogatives to select candidates of their choice. Supervisors have every right to be advised of, |

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| | | review and assess measures taken by company management to mitigate risk, and underwriting policy, and how these processes are explained to the Board and Shareholders. However, the above suggestion introduces to the management of a successful enterprise, undue, overbearing supervisory restraint associated with a failing company.<br>Stricter assessment regime: We would agree with this 4th sub-bullet.<br><br>Impairment of Group-wide and consolidated supervision: This is a real concern and we would suggest that the SRRP goal of creating self-sufficient units that isolate activities that support core activities contributes to this problem.<br><br>Risk aggregation: We would suggest that in order to streamline the process and avoid placing a duplicative burden on companies that supervisors should look first to public and other information provided by companies to their primary regulator. |
| Metropolitan Life Insurance Company (MetLife) | 15 | We would fully agree with Paragraph 15. We suggest a key focus of assessment for systemic risk should be liquidity risk and of course the broader impact on the real economy, if any. As stated in our General Comments to Executive Summary above, liquidity risk is key to the identification of exposure to systemic risk. Indeed, to reinforce our argument that it is not necessary separate NTNI into self-sufficient entities we propose liquidity stress tests could mitigate risk of contagion. The results of liquidity stress tests could identify mismanagement of unmitigated or improperly mitigated activities that could cause liquidity issues and verify that cash available marked for traditional business is not also supporting activities that expose the company to systemic failure (See our Comments to Executive Summary (Q-1) above and Paragraph 17 (Q-23 ) below). Supervisors could rely on internal liquidity models approved by regulators. |
| Metropolitan Life Insurance Company (MetLife) | 16 | We reiterate our request in comments to Executive Summary (Q-1) above for greater clarity as to what are ‘activities that cause systemic importance of G-SIIs’ that will result in ‘necessary measures’? How are these to be evaluated? In accordance with the indicator based assessment (where there is no separation of non-traditional from non-insurance and where both are weighted equally) or in accordance with the business-segment assessment? If the latter, what are the characteristics of the activities (products) that fall in semi-traditional, non-traditional and non-insurance categories? If the goal is to encourage voluntary control of risk, we suggest there be greater clarity and guidance as to what level of risk is acceptable.<br><br>How will a company’s risk management practices which mitigate potential risk be reflected? While strongly recommending that risk management programs be included in the assessment of insurers activities for potential exposure to systemic risk prior to designation, as a less optimal alternative we recommend risk management programs should be factored into the development of SRRPs such that if, when accounted for, risk management programs reduce risk to a level the IAIS/FSB have deemed acceptable no further measures apply to the G-SII. The fact that risk management programs differ from company to company should not be a reason for discounting their impact on risk--the group or lead supervisor could use existing or be given authority to approve internal risk management programs. Supervisors could rely on both an ERM framework at the consolidated enterprise level and management of specific activities, including hedge positions and ALM positions<br><br>We are encouraged by language in this Paragraph 16 to the effect that ‘authorities should select the most effective policy measures to achieve [reduction of systemic importance] and that SRRPs may include separation where ‘feasible and appropriate’. As mentioned in our comments to Executive Summary (Q-1) above, we propose that if the primary objective is the reduction of systemic risk and mitigation of contagion, other more practical ‘feasible and appropriate’ tools exist and enumerate these in response to Paragraph 17(Q-23) below. However, we would strongly suggest that ‘effectiveness’ of a measure needs to be evaluated against the cost of any measure such that the result is a proportionate application of a measure and not that which comes at the most prohibitive cost. |
| Metropolitan Life Insurance Company (MetLife) | 17 | While the stated goals and outcomes of separation of NTNI Activities described in Paragraph 17 are creditable, we must suggest that in practice separation of NTNI Activities is unlikely to achieve these results. Instead, as proposed in our Comments to the Executive Summary (Q-1) above, we foresee a different result.<br><br>We suggest that separation into self-sufficient units could contribute to an issue recognized earlier in the PPM at paragraph 14, Group-wide and consolidated supervision, that ‘competing mandates and approaches of [different functional] supervisors can fragment the overall supervisory effort ‘(4th bullet, 5th sub-bullet (p.14). Separation could mean supervision by a different functional supervisor and thus separation of NTNI (whether supporting the core business or not) will |

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| | | inevitably multiply the number of functional supervisors.<br><br>We further suggest separation as currently described under SRRPs is an overly disruptive and costly process that will cause inconvenience to policyholders and could result in withdrawal of beneficial savings, protection and retirement products for no additional security.<br><br>We would also question structural separation as an efficient means of adequate and efficient capitalization of NTNI entities. if structural self-sufficiency means the G-SII parent cannot contribute proceeds of capital raised at holding company level, but instead, must require the subsidiary to pay a 'market rate' for contributed capital, that rate would have to be an attempted approximation of the subsidiary's cost of capital as a hypothetical stand-alone entity. The process would at best be cumbersome and could constrain the NTNI subsidiary's ability to raise capital when needed most needed. Please see our later comment at Q-24 to the effect that regulators should focus on contingent obligations of regulated entities or their parent to provide capital or funding to NTNI entities which could have the effect of making capital or funding unavailable to the insurance operations in times of stress. Our position is that well managed activities are well managed whether separated or not and propose there are other more efficient tools that will achieve the same results.<br><br>If the goal of structural separation is primarily to improve resolvability and ensure protection from contagion, liquidity stress testing could be an alternative tool to verify that cash available necessary for traditional business is not supporting activities determined to expose companies to systemic failure.<br><br>If the goal is reduction of systemic importance,) internal risk management, asset-liability matching and other such risk-mitigating/management devices and existing regulatory frameworks should be taken into consideration (there is currently no mention of internal risk-mitigation processes in the SRRP process).<br><br>Structural separation is not necessary to target HLA which could easily be applied to independent capital calculations or translated into a reserve factor.<br><br>Use of the above tools as alternatives to separation would avoid the many complications of transferring business formerly integrated within a group business model. As IAIS members will be aware, not only will there be new units to incorporate and license (if indeed licensing processes are available under existing regulations) and all regulatory (and possibly policyholder) approvals associated with this process to be obtained, but also the internal separation of a portfolio, its assets and liabilities, rights and obligations, and regulatory review and approvals associated with this portion of the transaction. |
| Metropolitan Life Insurance Company (MetLife) | 18 | Please see comments at Paragraph 17 (Q-23) above |
| Metropolitan Life Insurance Company (MetLife) | 19 | This is a somewhat theoretical statement made without regard to practicalities and specifics of the insurance business model. We suggest it is misguided and will lead to unintended consequences outlined in our response to Executive Summary (Q-1) and Paragraph 17 (Q-23) above. |
| Metropolitan Life Insurance Company (MetLife) | 20 | We would agree with this comment. However, we propose that the increase in separate units under different functional supervisors required by SRRP separation proposals will undermine effective regulation under consolidated group-wide supervision. In addition, if no separate license/licensing process for an NT or NI activity is immediately available, structural separation could encourage if not require the creation of unregulated units |
| Metropolitan Life Insurance Company (MetLife) | 21 | We reiterate a comment made to Paragraph 8 (Q-11) to the effect that encouragement of proactive, positive actions that also contribute to strengthening the industry are preferable to negative action. A focus on the quality of regulation and encouraging G-SIIs and non-G-SIIs alike to adopt strong internal risk management and control functions such that risk is well managed could achieve this goal.<br><br>What is more, we cannot over stress the importance we give to supervisory engagement with companies such that internal risk management practices, asset/liability matching and other risk-mitigating processes are properly understood and taken into account before any restrictions, limitations or prohibitions are |

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| | | potentially applied. |
| Metropolitan Life Insurance Company (MetLife) | 22 | See response to Q-27 |
| Metropolitan Life Insurance Company (MetLife) | 23 | Footnote to bullet 3 is of concern as it implies that bullet 3 would limit an insurer's ability to spread risk which is a fundamental principle of insurance and we would note that the PPMs consistently apply to NTNI activities, i.e. include non-traditional insurance which includes activities that are insurance products regulated by insurance law. Internal reinsurance can and is used by some companies to aggregate risks from multiple legal entities to facilitate risk management activities such as hedging or external reinsurance, as well as to facilitate external financing.<br><br>The last bullet and its footnote are completely misguided especially when we take into account that the proposed policy measures refer to NTNI (not merely, eg: trading in CDS or engaging in maturity transformation activities). Limiting and restricting diversification benefits weaken an insurer's ability to manage risk, keep its promises and to pay when due. |
| Metropolitan Life Insurance Company (MetLife) | 24 | No Comment |
| Metropolitan Life Insurance Company (MetLife) | 24.9 | We support the inclusion of insurance specifics in the development of assessments of resolution mechanisms and reiterate our suggestion that as regards increased resolvability, we would comment that many element of RRPs already exist or are proposed in existing regulation (including insurance resolution schemes), policyholder protection plans (where these exist), the insurance business model and (without prejudice to our registered objections to structural separation) the proposal for SRRPs if these last Plans focus on reducing risk through strong risk management and asset-liability matching practices. In addition we favor resolution schemes that are sector specific. |
| Metropolitan Life Insurance Company (MetLife) | 25 | See General Comments to 3.3 Effective Resolution (Q-31) above. |
| Metropolitan Life Insurance Company (MetLife) | 26 | See General Comments to 3.3 Effective Resolution (Q-31) above. |
| Metropolitan Life Insurance Company (MetLife) | 27 | See General Comments to 3.3 Effective Resolution (Q-31) above. |
| Metropolitan Life Insurance Company (MetLife) | 28 | We do not believe that adjustments to the draft methodology or policy measures are necessitated by the scenario envisaged in paragraph 28. First we would underscore that hedging exposure is non-speculative derivative dealing and it is beneficial because it mitigates exposure. If a company with a large derivative portfolio were to fail, it is MetLife's opinion that while policyholders and other stakeholders would sustain a loss, the failure would not result in the contagion that would lead to a systemic event. Derivatives used to reduce risk, would still have a place in a failed companys portfolio and would not have to be liquidated immediately. Downstream exposure to the impact of a counterparty failure could create loss but not enough to cause the failure of a large insurance company with an adequately diversified portfolio and adequate collateral requirements. Therefore the key is size, diversified product mix and diversified counterparties, which in |

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| | | addition to the recognition of collateral held, significantly reduces the risk of loss from counterparty exposures. |
| Metropolitan Life Insurance Company (MetLife) | 29 | We request that the IAIS clarify that 'all necessary actions to ensure effective resolution' will occur after the G-SII is in need of resolution and not before. To request such actions before the fact on grounds they would facilitate resolution if and when necessary, could create a self-fulfilling prophesy in that it would impose unnecessarily intrusive measures on a healthy institution that could hamper its ability to continue to operate effectively. |
| Metropolitan Life Insurance Company (MetLife) | 30 | We support the inclusion of insurance specifics in the development of assessments of resolution mechanisms for use by the IMF and World Bank. We would suggest that guarantee schemes (if any) associated with resolution mechanisms should always be insurance sector specific such that any levies (whether pre or post funded) support failures within a sector and do not require policyholders to support insolvencies of other financial sectors. |
| Metropolitan Life Insurance Company (MetLife) | 31 | See General Comments to 3.3 Effective Resolution (Q-31) above. |
| Metropolitan Life Insurance Company (MetLife) | 31.9 | Comments that follow also cover Paragraphs 32 - 34 (Q-40 - Q-42)<br><br>We believe higher loss absorbency as a blanket capital charge at group level is not an appropriate tool for management of insurers eventually determined to be systemically important. We continue to stress that an approach that combines risk-based capital, prudential measures (and potentially restrictions if necessary) is more appropriate and effective management of any systemic risk in the insurance sector. Because the traditional insurance business is not a source of systemic risk, it is important that any additional policy measures are specifically designed to focus only on those non-traditional and non-insurance activities that pose systemic risk. A blanket capital surcharge may raise the cost of offering traditional insurance products and result in reduced availability of products currently meeting social needs. Thus, we agree higher loss absorbency may be appropriate in limited circumstances if applied net of mitigated activities to identified systemically risky activities.<br><br>That said, as mentioned in comments to Executive Summary (Q-1) and to Paragraph 17 (Q-23) above, structural separation is not necessary to target HLA which could easily be applied to independent capital calculations or translated into a reserve factor.<br><br>Our comments at Q-1 and Q-23 describe the significant disadvantages of structural separation of NTNI activities; disadvantages that in our opinion outweigh any advantage proposed by, for example, IAIS Paragraph 17. Indeed, in certain instances, it may be impossible to separate the NT or NI activity from the core business.<br><br>We propose alternatives tools to achieve the objectives of structural separation, be they improved resolvability, protection against contagion or reduction of systemic importance. These alternative tools include,<br><br>- HLA targeted to identified NTNI and applied to independent capital calculations or included as a reserve factor (mentioned above)<br><br>Liquidity stress testing as an alternative tool to verify that cash available necessary for traditional business is not supporting activities determined to expose companies to systemic failure. We propose supervisors could rely on internal liquidity models approved by regulators.<br><br>- Engagement with companies to fully understand internal risk management, asset-liability matching and other such risk-mitigating/management devices such that these can be adequately taken into consideration as risk reducing mechanisms. |
| Metropolitan Life | 32 | We suggest that an analysis of existing supervisory intervention ladders, capital levels, and internal risk management practices, including asset-liability matching |

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| Insurance Company (MetLife) | | and regularly performed stress-testing be taken into account. |
| Metropolitan Life Insurance Company (MetLife) | 33 | As stated in our comments to Executive Summary (Q-1) and Paragraph 17 (Q-23) and General Comments to this Section 3.4 (Q-39) HLA can be targeted to identified NTNI through application to independent capital calculations or inclusion as a reserve factor. We would reiterate that tools other than separation of NTNI activities as enumerated in the above mentioned comments are more likely to be effective in achieving goals of improved resolvability (if necessary), protection from contagion and risk reduction. |
| Metropolitan Life Insurance Company (MetLife) | 34 | We agree with this statement notwithstanding our comments on the inappropriateness of HLA requirements that are not restricted to unmitigated systemically important activities only. We are particularly concerned when we see references to IFRS or US GAAP/J-GAAP with bridges to IFRS as a basis for regulation. This would require preparation of an entire company balance sheet on both an IFRS and US GAAP basis, which could be problematic given the significant differences between the boards positions. |
| Metropolitan Life Insurance Company (MetLife) | 35 | We reiterate comments made in General Comments to this Section 3.4 (Q-39) above. In our opinion, higher loss absorbency as a blanket capital charge at group level is not an appropriate tool for management of insurers eventually determined to be systemically important.<br>We propose an approach that combines risk-based capital, prudential measures (and potentially restrictions if necessary) is more appropriate and effective management of any systemic risk in the insurance sector. As all seem to agree, traditional insurance business is not a source of systemic risk. It is therefore important that any additional policy measures are specifically designed to focus only on those non-traditional and non-insurance activities that pose systemic risk. A blanket capital surcharge may raise the cost of offering traditional insurance products and result in reduced availability of products currently meeting social needs.<br><br>This said, higher loss absorbency may be appropriate in limited circumstances if applied net of mitigated activities to identified systemically risky activities.<br><br>However, as mentioned in comments to Executive Summary (Q-1) and to Paragraph 17 (Q-23) above, we would disagree that structural separation is necessary to target HLA which could easily be applied to independent capital calculations or translated into a reserve factor.<br><br>We further propose that there are significant disadvantages of structural separation of NTNI that activities that have not been taken into consideration and propose that these disadvantages outweigh any advantages proposed. Please see our comments at Q-1 and Q-23 that also make suggestions for alternatives tools to achieve the objectives of structural separation, be they improved resolvability, protection against contagion or reduction of systemic importance. |
| Metropolitan Life Insurance Company (MetLife) | 36 | We would also propose HLA assessment take into account internal risk management and asset liability matching and capital built into reserves backing liabilities. |
| Metropolitan Life Insurance Company (MetLife) | 37 | No comment. |
| Metropolitan Life Insurance Company (MetLife) | 38 | No comment |
| Metropolitan Life Insurance | 39 | We would agree that HLA could be applied as form of higher ‘PCR’ that applies to unmitigated systemically risky activity only. |

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| Company (MetLife) | | |
| Metropolitan Life Insurance Company (MetLife) | 40 | See comment to Q-47 above. |
| Metropolitan Life Insurance Company (MetLife) | 41 | See General Comments to this Section 3.4 (Q-39) above regarding the relative disadvantages of separation and alternatives for targeting HLA without structural separation which meet the stated objectives of separation (risk reduction, increased resolvability, protection against contagion).<br><br>We would add that making certain NTNI activities more expensive could result in reduced availability of investment-related products that currently serve savings and retirement needs and supplementation of this need by less diversified non-GSIIs. |
| Metropolitan Life Insurance Company (MetLife) | 42 | No comment |
| Metropolitan Life Insurance Company (MetLife) | 43 | If bank like activities are conducted within an insurance regulated entity, and insurance risk management principles apply (e.g. asset liability management) the current Basel III rules would be inappropriate. For example, the current risk weights for assets do not appropriately risk weight certain asset classes (e,g. corporate bonds). |
| Metropolitan Life Insurance Company (MetLife) | 44 | ) It is statements such as these in Paragraph 44 that give rise to concerns that the unavoidable implementation of G-SII policy measures, and HLA measures in particular, through national supervisors in accordance with national frameworks is a source of potential inconsistent application of any measures finally decided which could exacerbate the competition issues recognized by the IAIS in Paragraph 34. We note that the Executive Summary states 'Implementation of G-SII policy measures should be monitored by an IAIS peer review process in order to ensure international consistency' (see Implementation Timeframe, Page 8) and are encouraged by this remark. However, as mentioned in our comments to Paragraph 9 (Q-12) we would urge that an evaluation of how policy measures would be implemented under national, subnational or regional frameworks be undertaken prior to imposition of measures on any G-SII. |
| Metropolitan Life Insurance Company (MetLife) | 45 | We have pointed out in several instances that because a blanket capital surcharge may raise the cost of offering traditional insurance products (which all agree are NOT a source of systemic risk) and result in reduced availability of products currently meeting social needs, it is important that any additional policy measures are specifically designed to focus only on those non-traditional and non-insurance activities that pose systemic risk.<br>Therefore, it follows that we strongly suggest that if the appropriate HLA requirement is set for unmitigated systemically risky activities within an enterprise, there is not only no need for an additional group level HLA, but more importantly, that a group level HLA could have unintended consequences on availability of products that serve a social purpose.<br>What is more, imposing a capital charge on only a few well capitalized and managed insurers on the basis of their potential systemic importance could result in well diversified and capitalized insurers that today deliver products and investments which benefit societies and economies retrenching or withdrawing from markets. This could create the unintended consequence of distorting market effects by pushing certain potentially systemically relevant activities to less diversified non-G-SII firms. |
| Metropolitan Life Insurance Company (MetLife) | 46 | Proposals at 46 (i) or (ii) could apply as long as the 'uplift' is reasonable and limited to unmitigated systemically risky activities only. (See our comment at Q-53 and other related comments above). |
| Metropolitan Life | 47 | No comment |

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| Insurance Company (MetLife) | | |
| Metropolitan Life Insurance Company (MetLife) | 48 | Most insurance companies are very well capitalized. However all our comments on HLA (Q-39-59) apply. |
| Metropolitan Life Insurance Company (MetLife) | 49 | See response to Q-56 above. |
| Metropolitan Life Insurance Company (MetLife) | 50 | No comment |
| Metropolitan Life Insurance Company (MetLife) | 51 | Provided it is not a blanket group capital charge, we suggest that any HLA held for unmitigated NTNI should sit at holding company level as this would provide the most flexibility to deploy where needed, especially if HLA applies to activities in more than one legal entity. |
| Metropolitan Life Insurance Company (MetLife) | 52 | No comment |
| Metropolitan Life Insurance Company (MetLife) | 52.9 | Without prejudice to our above-noted strong objections to structural separation, given the legal complexities of separation of activities from a core business, creation of separate entities and licensing and other regulatory and policyholder approvals we would suggest that 18 months for implementation of an SRRP is an unrealistic timeframe. |
| Metropolitan Life Insurance Company (MetLife) | 53 | Again, without prejudice to our above-noted strong objections to structural separation the above timetable does not appear to take into account the fact that G-SIIs will have 18 months to develop and 18 months to implement SRRPs. |
| Metropolitan Life Insurance Company (MetLife) | 54 | We suggest earlier than later discussion with the G-SII to understand how drivers of G-SII status may be managed under existing risk management, ALM and other risk-mitigation processes such as stress-testing.<br><br>Please also see General Comments to Section 3.4 (Q-39) above regarding the relative disadvantages of separation and alternatives for targeting HLA without structural separation which meet the stated objectives of separation (risk reduction, increased resolvability, protection against contagion). |
| Metropolitan Life Insurance | 55 | No further comment |

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| Company (MetLife) | | |
| Metropolitan Life Insurance Company (MetLife) | 56 | We reiterate our concerns regarding the assessment process outlined in comments to the Executive Summary (Q-1) above. We emphasize that any unmitigated potentially systemically important activities be compared to other financial institutions for relative systemic importance prior to final G-SII designation. |
| Metropolitan Life Insurance Company (MetLife) | 57 | We welcome the development of frameworks that will provide for efficient provision and full protection of non-public company data especially in jurisdictions where companies can be sued for compelled disclosure of non-public information made available to non-regulators or other parties authorized to receive non-public information |
| Metropolitan Life Insurance Company (MetLife) | 58 | Please see our comments at Paragraphs 9 (Q-12) and 44 (Q-52) where we suggest that this review of how measures will be implemented under national, subnational, or regional frameworks be conducted prior to the imposition of measures on any G-SII. |
| NAIC | 0.9 | On page 6 under Effective Resolution, 1st paragraph, 4th line, an 's' is missing -- should read, '?systemically significant or critical if it fails.'<br><br>Please note, comments made on the body of the Paper also apply to any relevant part of the Executive Summary. Any resulting changes to the body of the Paper will need to be reflected in the Executive Summary as well. |
| NAIC | 7 | The difference between insurers and banks could be made clearer when discussing identification of the systemic risks in relation to core business of insurers vs. banks (i.e. that bank core activities are more apt to be systemically important and designation is driven more by size of the bank vs. target systemic activities for insurers where overall size of the insurer may not be as critical a factor in designation). Suggest:<br><br>"G-SIIs are different to Global Systemically Important Banks (G-SIBs), in part because the traditional insurance core activities are ~~business model is~~ not inherently systemically important. Thus bank designation tends to be driven by sheer size, while size is less important for traditional insurers. Insurers vary widely from banks in their structures and activities and consequently in the nature and degree of risks they pose to the global financial system. The ~~activities or~~ variations on the traditional insurance activities ~~business model~~ that would make an insurer a G-SII can differ ~~vary~~ greatly from one insurer to another but are generally related to their non- traditional or non- insurance activities. This requires a policy response designed to address the specific nature and source of systemic importance and the different drivers of possible negative externalities." |
| NAIC | 9 | Another aspect of unintended consequences is that increased HLA / capital requirements could add cost to traditional insurance products as the impact of those requirements is passed along. This can create an environment where consumers pay higher prices for perceived safety. This could create a false sense of security and could reduce competition, further adversely impacting consumers. Suggest:<br>"The financial strength rating assessment by credit rating agencies and the bespoke ratings assigned by investment banks and repo dealers today do not assume any implicit state guarantee for insurers. Conversely, a dual regulatory structure could bring additional cost through HLA / capital requirements. This, combined with perceived safety could drive up cost for consumers and disadvantage competitors in the traditional insurance market. During implementation of the policy measures for G-SIIs, potential unintended consequences should be considered and avoided where possible." |
| NAIC | 11.9 | With respect to restrictions under enhanced supervision, the NAIC has favored legal separation of, and / or restrictions on, the activity generating the systemic risk based on a position that we should not encourage systemic non-traditional / non-insurance (NTNI) risk in an otherwise non-systemically risky industry.<br><br>In discouraging retention of systemic risk in an insurer, care needs to be taken as to what activities are considered to be NTNI and consideration given as to how |

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| | | existing regulation and supervision already mitigates potential risk of long-standing insurer activities. In our previously submitted comments on the assessment methodology, we noted certain activities such as writing variable annuities (which are well-established and regulated insurance products) should be given lower weight and that use of derivatives for hedging purposes (which mitigates risk) should similarly receive a lower weight in the assessment process. Thus, as with the assessment methodology, the policy measures need to focus on those activities that increase systemic risk.<br><br>As the measures need to be targeted to the activities that cause systemic risk -- that necessarily is tied to the assessment process, therefore there needs to be a continuing correlation between the assessment methodology and the policy measures. |
| NAIC | 14 | 2nd to last bullet. The NAIC has been supportive of a supervisory college framework for insurance groups and this concept can be applied to insurance dominated G-SII groups as well. However, there needs to be further discussion and clarity around what is meant by phrases such as '?legal right or ability to review the group entities including non-regulated entities (including parents and/or affiliates)' and 'Consolidated supervisory blind spots can be created when there are entities within the regulated firm that the consolidated supervisor does not have access to or influence over'. Specific criteria for acceptable levels of 'authority to review' and 'access to or influence over' need to be further discussed and developed. |
| NAIC | 28 | Not sure why this particular risk is singled out for Measures paper. Seems like it should first be discussed in context of assessment; even the paragraph itself alludes to the need for further examination. Regardless, as a matter of flow, this paragraph would perhaps work better after paragraph 31 which deals with future work as well. |
| NAIC | 31.9 | We suggest dropping group-wide HLA as a mandatory element since it (along with the 'consistency' language) suggests ultimately leading to a group-capital requirement for insurers when such an issue has yet to be discussed in depth at the IAIS. Consideration could be given to adding a third step to the two-step approach included in the Paper, whereby group-wide HLA is applied after separation and after all other measures are applied in Step 2. Consideration should also be given to whether a targeted HLA rather than group-wide HLA is more appropriate, at least as a first measure. |
| NAIC | 52.9 | While we support public disclosure, disclosure of data submitted by all groups subject to the assessment and not just those designated would not be appropriate given the data gaps and the potential unintended consequences of disclosing insurers who were part of the assessment. |
| NAIC | 53 | April 2013 is 'First G-SIIs designated (with annual designations thereafter expected each November)' but we may want to clarify here that annual designation begins with November 2014 - initial designation is April 2013, with annual thereafter, but the first November exercise is done in would be November 2014, not 2013.<br><br>Further down the timeline chart, 'November 2014 to 2016 ? G-SIIs designated annually' is followed by 'November 2017'. Is there a reason these two items are split out separately on the timeline, as one could have one item: 'November 2014 to November 2017 ? G-SIIs designated annually (with HLA applicable from 2019)'. |
| National Bank of Belgium | 0.9 | The National Bank of Belgium (NBB) strongly supports the work of the IAIS to develop a set of internationally consistent standards for the regulation and supervision of G-SIIs. The NBB would like to thank the IAIS for the work conducted up to now.<br><br>Enhanced supervision and comprehensive group-wide supervision of G-SIIs are essential measures, which follow logically from a risk sensitive approach to supervision as promoted, for instance, in the European Union by the forthcoming Solvency II project and globally by the IAIS ComFrame project.<br><br>Recovery and resolution plans prepared for a G-SIFI should serve as a guidance to firms and authorities in a recovery or resolution situation. The NBB sees the merit to apply this logic to G-SIIs, while recognising the need to take into account the specificities related to the insurance sector vis-□is the banking sector due to the nature of the insurance business model. The NBB believes that policy measures applied to G-SIIs should incentivise groups and companies to reduce their systemic importance.<br><br>In order to be consistent with the underlying logic of, for instance, Solvency II and ComFrame, the NBB is convinced that supervisory analysis and decisions on policy measures for G-SIIs should be based on a group-wide approach. However, supervisory measures including HLA should in the first place be targeted to |

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| | | activities which are considered to be systemically risky, e.g. NTNI activities. In this view, a combination of a group-wide and a legal entity approach is needed to deal with systemically important insurers.<br><br>In relation to HLA, the NBB supports the proposed 2-step approach where targeted HLA is considered at the legal entity level where NTNI activities are conducted, supplemented by a group-wide HLA assessment. The group-wide supervisor in consultation with involved supervisors should assess whether the HLA capacity held at the NTNI entities is sufficient or needs to be further increased at the group level. The group-wide approach should also consider the interconnectedness of risks within the group and with other sectors of the financial system, a.o. in the context of enhanced liquidity planning and management. The NBB notes that the consultation document does not fully address interconnectedness in the proposed policy measures despite the fact that it is a significant factor in determining the designation of the undertaking or group as a G-SII.<br><br>Other supervisory measures such as the restructuring of G-SII activities and the potential prohibition of certain activities should not be ruled out as policy options. However, they should be based on very careful analysis. Only if the assessment of the SRRP would show that there is no effective separation or decrease of systemically risky activities, additional structural measures at a group level may be required such as, e.g., portfolio transfers or restrictions. Also, due consideration should be given to company restructurations that could drive certain activities into non-regulated entities or that would run counter to the principles of sound risk management. Any risks and potential spill-over effects from such actions should be adequately considered in the overall assessment of the HLA needed at the group level (step 2).<br><br>The NBB supports the approach that HLA requirements should be covered by high quality capital and recognises that further work is needed in the area of own funds requirements, e.g., in joint cooperation with IAIS SSC. |
| National Bank of Belgium | 0.91 | The NBB is concerned about the current status of work on the definition of NTNI activities, as this is an important factor in the credibility and acceptance of supervisory measures for G-SII. At present, the definition of NTNI activities continues to have a grey area where it is not completely clear how certain activities would be classified. This is non-trivial and further work is welcomed in this area.<br><br>The NBB also observes an imbalance between addressing the NTNI activities and risks relating to the interconnectedness of financial institutions and services. In this regard, the IAIS is encouraged to work further on responses to address the risks of interconnectedness and the NBB proposes the adoption of a group-wide approach, including on risk concentrations. |
| National Bank of Belgium | 11.9 | In the view of the NBB, the systemic relevance of an insurer should be taken into account in framing the objectives of insurance supervision, incl. the extension of mandate if necessary. Effective group-wide supervision should be ensured and all obstacles should be identified and removed. |
| National Bank of Belgium | 24.9 | Recovery plans and resolution plans should be further defined in the proposals. Key areas that ought to be covered include scope, level of detail, content, security of information and trigger points, inter alia. It should be clarified at which stage each of these apply.<br><br>The FSB continues to consider questions of group structure and intra-group transactions as part of its on-going work on resolvability. Therefore, the NBB believes this should be also addressed in IAIS G-SII policy measures document as structural factors may limit the authorities' choice of resolution options. |
| National Bank of Belgium | 25 | With regard to the outcomes of effective resolution the NBB suggests to redraft the 3rd bullet and make it stronger: 'to ensure that policyholder protection is not weakened'. |
| National Bank of Belgium | 31.9 | In the long term, the methods used to define HLA, the capital instruments to fulfill HLA, the measurement of technical provisions, ? should be based on common international standards. |
| National Bank of Belgium | 46 | The NBB sees a group-wide approach to HLA as the most effective way to deal with the risks of NTNI activities and interconnectedness. Not only would such an approach be consistent with other developments such as ComFrame and Solvency II, it also allows for the adoption of a granular approach in the determination of supervisory measures. |

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| | | The lack of a global standard for PCR cannot be ignored and represents a significant challenge to the adoption of a group approach. This, however, should not be used as a reason to avoid the development of an HLA approach that incentivises firms to deal with the risks of NTNI activities and interconnectedness.<br><br>The NBB believes that there are two areas that would benefit from further exploration in order to develop a workable group approach. These are:<br>- Development of a balance sheet measure to ensure comparability and a level playing field for G-SIIs. The HLA could then be calculated and applied using the balance sheet as a base.<br>- Definition of capital surcharges applied to PCRs across jurisdictions in order to develop a common charge related to a given magnitude of risks for NTNI activities or interconnectedness risks.<br><br>In the longer term, the NBB believes that a global standard for group capital requirements should include a systemic risk component to better reflect the risks of the NTNI business and interconnectedness. Such standard could also address the question of the recognition of diversification effects. |
| National Bank of Belgium | 50 | Referring to the part on acceptable instruments (3.4.3), the final G-SII policy measures should further elaborate on the expected requirements for own funds. The NBB agrees that it is the role of the supervisor to judge on the eligibility of capital instruments for own funds purposes. Clear criteria included in the G-SII policy measures would foster consistency of supervisory approaches. In this work due consideration should be given to the largely harmonised approach for own funds which is being developed under ComFrame, while taking into account that perhaps not all G-SIIs may be identified as IAIGs. |
| Property Casualty Insurers Association of America (PCI) | 0.9 | The Property Casualty Insurers Association of America (PCI) appreciates the opportunity to comment on the policy measures that should be applied to global systemically important insurers (G-SIIs), if any are so designated. PCI has over 1,000 member insurers and reinsurers that write nearly 40% of annual U.S. property/casualty premium, and many of our members also provide coverage around the world.<br><br>PCI urges the IAIS to focus the proposed policy measures on the non-traditional and non-insurance activities (NTNIA) that may be of systemic importance. We appreciate and agree with the IAIS' general position that traditional insurance business is not systemically important. A number of the proposed policy measures, however, could negatively affect G-SIIs as they carry out their traditional insurance activities, increasing costs for their policyholders and reducing their ability to compete with other insurers. We believe the policy measures applied to G-SIIs should follow the following principles:<br>- They should be directed at the NTNIA activities that are actually systemically important, and should aim to reduce the systemic risk of those activities by improving risk management, rather than induce insurance groups not to engage in those activities.<br>- NTNIA should be more carefully defined, so that only activities that pose systemic risk are included in the definition. There should be a clear link between NTNIA and the measures designed to reduce their risk, and that definition should allow insurers certainty as they decide whether or not to engage in those activities.<br>- They should not be applied on a uniform, one-size-fits-all basis, but should be applied only as needed, based upon an individual G-SII's particular circumstances.<br>- The IAIS should state that these are extraordinary measures that should not be applied to insurers that are not systemically important.<br>- Any additional capital requirements (higher loss absorbency, or HLA) should be applied only to the NTNIA that pose systemic risk. No HLA should be applied at the group level, where such a capital add-on would be harmful to traditional insurance activities, as well as the policyholders they serve.<br><br>Finally, we urge the IAIS to grant a brief public re-exposure period when the draft paper is revised. We believe this is necessary to make sure that the final policy measures are most likely to work effectively. For the same reason, this exposure period should include opportunity to comment on a final draft of the selection methodology for G-SIIs as well. |
| Property Casualty Insurers Association of America (PCI) | 7 | We strongly agree with this comment. |
| Property Casualty Insurers Association of America (PCI) | 8 | We agree with bullets 1 and 3. We do not believe the policy measures should seek to be a disincentive for insurance groups to engage in NTNIA. The policy measures should be designed to de-risk those activities through proper risk management, and leave to the insurer's management the question as to whether to engage in those activities. |

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| Property Casualty Insurers Association of America (PCI) | 9 | No insurance group of which we are aware wants to be designated as a G-SII. We do not believe that this will denote an implicit state guarantee for insurers, and in the U.S. policyholders are already given significant protection from insurer failure through the state guaranty fund system. |
| Property Casualty Insurers Association of America (PCI) | 10 | We reiterate our earlier comment that policy measures should not be applied on a uniform, one-size-fits-all basis, but should be applied only as needed, based upon an individual G-SII's particular circumstances. |
| Property Casualty Insurers Association of America (PCI) | 11 | We strongly agree. |
| Property Casualty Insurers Association of America (PCI) | 14 | In the second paragraph dealing with 'improved standards and methods', it is unclear what 'performance expectations' of key senior management officials means. This should be clarified. |
| Property Casualty Insurers Association of America (PCI) | 16 | The SRRP, if required of a particular G-SII, should promote de-risking through proper risk management of systemically important NTNIA activities, and should not be biased toward reducing or eliminating those activities. Where other relevant resources exist (such as an ORSA, for example), they should be used and not duplicated within the SRRP. |
| Property Casualty Insurers Association of America (PCI) | 24.9 | We believe that the IAIS should perform further work to determine how the FSB's 'Key Attributes of Effective Resolution Regimes' apply to resolutions of insurance groups. Current insurance resolution regimes should continue to apply with regard to the resolution of individual insurers within a G-SII. Current insurance resolution regimes protect policyholders and absorb systemic risk through resolution over long time periods, avoiding the need for rapid resolution that applies to banks. The U.S. Congress recognized this in the recent Dodd-Frank Act, and provided that resolutions of insurer members of systemically important financial institutions would continue to be conducted under state insurance law. |
| Property Casualty Insurers Association of America (PCI) | 30 | See our general comments above with regard to resolution of insurer members of G-SIIs. |
| Property Casualty Insurers Association of America (PCI) | 31.9 | We strongly believe that any HLA requirement should apply only to the specific NTNIA activities that are systemically important, and should not be applied at the group level. Higher capital requirements only provide additional protection when they are available with respect to the activity that causes the additional risk that the capital add-on is designed to offset. Otherwise HLA additions can be a drag on the entire organization, reducing its ability to operate efficiently and penalizing it with regard to its competitors. HLA add-ons at the group level will restrict insurers' abilities to carry out their traditional insurance activities that generate no systemic risk, increasing costs for policyholders and potentially reducing insurance capacity for individuals and businesses around the world. |
| Property Casualty Insurers Association of America (PCI) | 32 | We do not believe there is any implicit or explicit funding subsidy linked to G-SII status, at least in the U.S. |
| Property Casualty Insurers | 34 | These differences are another reason why group HLA is not advisable. |

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| Association of America (PCI) | | |
| Property Casualty Insurers Association of America (PCI) | 35 | We agree with Step 1, if it is determined that HLA is an appropriate response to the risk that the NTNIA in question actually presents. We do not agree that Step 2 is appropriate. |
| R Street Institute | 0.9 | The R Street Institute welcomes the opportunity to provide input on the International Association of Insurance Supervisors' proposal for regulation and resolution of global systemically important insurers. R Street is a non-profit, non-partisan public policy research institution that supports free markets; limited, effective government; and responsible environmental stewardship.<br><br>Our research into insurance markets has focused primarily on property and casualty insurance and reinsurance, particularly with respect to market inefficiencies fomented by state rate controls and large state-controlled residual market entities. We appreciate the IAIS conclusion that traditional reinsurance is not likely to cause, or to amplify, systemic risk.<br><br>We have not conducted extensive analysis of the life, health, title, mortgage, or financial guaranty insurance industries, nor do we have a view on the IAIS' determination that 'non-traditional and non-insurance' activities by insurers and insurance groups should be regarded as significant indicators of systemic risk.<br><br>We would, however, like to bring to the IAIS' attention our concerns about the potential systemic risks posed by state-controlled insurance enterprises. Our analysis focuses mostly on those sponsored by state governments in the United States or by the U.S. federal government, but could also be relevant to such structures as the United Kingdom's Pool Reinsurance Co. Ltd. or the MultiCat Program sponsored by the government of Mexico. In the U.S. market, most of these residual property insurance market mechanisms--35 states maintain a total of 37 of them?have little or no significance. However, in some states, they have grown large enough that any comprehensive review of systemic risk in the insurance sector must take them into account.<br><br>In the United States, most residual market entities have their origins in state rate controls, which leave prohibit insurers in some markets from charging what would otherwise be market-clearing prices. Rate regulation of personal lines property and casualty insurance exists in some form for some lines of insurance in all fifty states as well as all U.S. possessions.<br><br>The largest state-controlled entities, such as Florida's Citizens Property Insurance Corp., operate as a director competitor to private market insurers. In fact, Citizens ranks as the largest homeowners' insurer in that state. Other entities -- like Louisiana Citizens Property Insurance Corp., the Texas Windstorm Insurance Association, and the California Earthquake Authority - are likewise significant competitors and in some cases are the only entities willing to write coverage in some regions or for some specific perils.<br><br>In the IAIS' proposal, the association marks 'interconnectedness' as one of the two most important factors for assessing the systemic importance of insurers. The typical post-catastrophe funding mechanisms of large U.S. residual market entities must raise concerns about interconnectedness. Rather than setting aside actuarially appropriate reserves to prepare for the risks they take on, entities like Florida Citizens rely on post-event borrowing as a source of liquidity following a major event. The loans taken out by these entities are then to be serviced over time using funds raised by assessments on private market insurers, which are then typically passed on to consumers.<br><br>However, in a market like Florida, where several entities - Citizens, the Cat Fund, and the Florida Insurance Guaranty Association, which is charged with resolving private insurers that become insolvent - all rely on post-event assessments to make up for funding shortfalls, private carriers may respond to such assessments by exiting the market. This leaves a smaller assessable base of private insurers to bear the burden of the shortfalls, and the potential for cascading insolvencies that ripple out through the market exists.<br><br>While this precise scenario has not yet manifested itself, there have been close calls. In 2008 and 2009, several small insurers and one of the ten largest U.S. |

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| | | property insurance carriers withdrew from the North Carolina property insurance market, rather than run the risk of sizeable assessments that the state's Beach Plan could then impose on the market. Likewise, most major national property insurers have ceased writing new policies in coastal areas of Florida, and new carriers have been similarly reluctant to enter the Texas market.<br><br>The case for closer oversight of these entities by national and international regulators is bolstered by the potential for regulatory conflicts of interest. In many U.S. states, the state-controlled entities are overseen by the same regulators who oversee private insurers. Where such officials are elected, or directly accountable to elected officials, political pressures to suppress rates in the short-term can be overwhelming.<br><br>We invite the IAIS to expand its definition of G-SIIs so that it could conceivably include state-controlled insurers and reinsurers. |
| Swiss Financial Market Supervisory Authority (FINMA) | 0.9 | FINMA welcomes the opportunity to comment on the proposed policy measures for G-SIIs during the public consultation period. The proposed policy measures conform to the framework set out by the FSB for reducing the moral hazard and risk to the global financial system posed by SIFIs.<br><br>A few key points are nonetheless worth emphasizing from FINMA's standpoint -<br><br>1) The policy measures set out for insurers appear more comprehensive than the policy measures proposed for banks. This may be due to the addition of SRRPs and other optional policy measures proposed for G-SIIs whereas the policy measures proposed for G-SIBs are closely following the FSB framework. FINMA welcomes both the SRRPs and some optionality in the proposed policy measures. The IAIS may however want to articulate the incentives for optional policy measures more firmly; otherwise the value-added of the optional policy measures will never materialize (see also paragraph 11: 'Measures should be directed at the source of systemic importance and linked to the assessment methodology.').<br><br>2) Liquidity deserves more attention in the policy measures proposed by the IAIS, especially in regard to its contingent manifestation, e.g. margin requirements, rating triggers etc. as well as in regard to liability acceleration risk, e.g. the massive policy surrenders and contractual features. In comparison to other proposed policy measures liquidity appears to be addressed marginally. While many of the other characteristics of liquidity risk and the possible requirements the IAIS may propose to mitigate liquidity risk are mentioned in paragraph 15, they are not developed any further.<br>The understanding of liquidity is rather well established and shared among the three Standard-Setting Bodies and therefore may be leveraged as a unifying factor among the constituents of the financial sector, at least in the SIFI context. Also, the industry appears to recognize the role of liquidity in the SIFI context; e.g. paragraph 5.2.2 (p. 73) on strengthening liquidity risk management of the special report of The Geneva Association on systemic risk in insurance.<br><br>3) The separation of NTNI business is an important targeted policy measure which accounts for the differentiated nature of traditional insurance and non-traditional / non-insurance business, e.g. in regard of liabilities and liquidity. If separation proves difficult or impossible, complementary policy measures that target the risks directly (see paragraph 11: 'Measures should be directed at the source of systemic importance and linked to the assessment methodology') ought to be preferred to ones that target the risks indirectly in order of effectiveness, i.e. prohibition, restrictions or specific underpinning with additional capital, yet acknowledge jurisdictional differences in regard of legal or even constitutional constraints in the adoption of such policy measures. The latter requires however that these targeted policy measures are accounted for in the G-SII framework, either in the assessment approach e.g. prohibition and restrictions or in the policy measures e.g. targeted HLA. The requirement for increased HLA capacity ought to be an outcome of the policy measures not an objective in and of itself. A prime candidate for complementary targeted policy measures appears to be the interconnectedness category.<br>In this context the IAIS must provide further guidance on what type of business may or may not be considered for separation. Specifically, the IAIS followed different approaches to the recognition of semi-traditional and non-traditional insurance business as proposed in table 1 of the Insurance and Financial Stability report. For example, in the indicator-based assessment approach, the category labeled NTNI comprises among others an indicator for variable annuities (VA) business, which actually features in table 1 (IFS report) as semi-traditional. FINMA does not consider VA a product category in need of separation.<br><br>4) The consultation document rightly mentions the issue of unintended consequences, but associates them mostly with the policy measures (i.e. not with the identification; see Global Systemically Important Insurers: Proposed Assessment Methodology) and it falls short of addressing them. For the FSB and the national authorities to make an informed decision on an issue as relevant as the identification of G-SIIs, it may be necessary for the IAIS to address unintended |

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| | | consequences of both the G-SII identification and the policy measures for G-SIIs more fully. In particular the question of the effect of a G-SII designation on the (possibly transitional) necessity for explicit or implicit state guarantees to the benefit those insurers appears of relevance. Paragraph 9 touches upon the issue: ‘For example, the G-SII designation of insurers could result in giving G-SIIs access to lower funding costs. The financial strength rating assessment by credit rating agencies and the bespoke ratings assigned by investment banks and repo dealers today do not assume any implicit state guarantee for insurers.’, but leaves it as that.<br><br>5) There are numerous repetitions in the public consultation document which may distract from the essence of the proposed policy measures. The IAIS should aim to streamline the final document on policy measures. |
| Swiss Financial Market Supervisory Authority (FINMA) | 2 | See Q-1 (items 1 and 3 in particular) in regard of the recognition of those adjustments in the G-SII framework. |
| Swiss Financial Market Supervisory Authority (FINMA) | 4 | See Q-1 (item 3) on the recommendation to identify targeted policy measures for interconnectedness. |
| Swiss Financial Market Supervisory Authority (FINMA) | 7 | See Q-1 (items 1 and 3 in particular). |
| Swiss Financial Market Supervisory Authority (FINMA) | 8 | See Q-1 (item 3) on targeted policy measures. |
| Swiss Financial Market Supervisory Authority (FINMA) | 9 | See Q-1 (item 4). |
| The Financial Services Roundtable | 0.9 | December 14, 2012<br>Via Electronic Submission<br><br>International Association of Insurance Supervisors<br>c/o Bank for International Settlements<br>CH-4002 Basel<br>Switzerland<br><br>Re: Global Systemically Important Insurers: Proposed Policy Measures<br><br>Ladies and Gentlemen:<br>The Financial Services Roundtable (the ‘Roundtable’) welcomes the opportunity provided by the International Association of Insurance Supervisors (the ‘IAIS’) to comment on its proposed policy measures (the ‘Proposal’) for global systemically important insurers (‘G-SIIs’). |

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| | | The Financial Services Roundtable represents 100 of the largest integrated financial services companies providing banking, insurance, and investment products and services to the American consumer. Member companies participate through the Chief Executive Officer and other senior executives nominated by the CEO. Roundtable member companies provide fuel for America's economic engine, accounting directly for $98.4 trillion in managed assets, $1.1 trillion in revenue, and 2.4 million jobs. More at fsround.org.<br><br>IV. Conclusion<br>Whatever course of action the IAIS chooses, we ask that it make every effort to avoid outcomes that merely add to insurers' compliance burden without clear systemic benefits, or that create competitive inequality or disadvantage insurers in a particular jurisdiction. Minimizing opportunities for regulatory arbitrage is an important principle in the development of international regulatory frameworks, and we believe this principle is particularly important when establishing enhanced regulatory frameworks for systemically significant financial institutions, whether they be insurance companies or other financial institutions.<br><br>We thank the IAIS for the opportunity to comment. If you have any questions, please feel free to contact Peter Freeman at (202) 289-4322. |
| The Financial Services Roundtable | 0.91 | An electronic document that combines the content of this comments is available upon request. Please contact Robert Hatch, Robert@fsround.org 202-589-2429 with any questions |
| The Financial Services Roundtable | 1 | I. Introduction<br>We do not believe there is any empirical evidence that the policy measures will reduce systemic risk, either with respect to individual G-SIIs or the financial system as a whole. Indeed, looking at this Proposal along with the IAIS assessment methodology for the designation of G-SIIs, we question whether there is sufficient empirical evidence to support the emphasis on 'non-traditional and non-insurance' activities ('NTNI activities') as an indicator of systemic risk. As discussed in greater detail below, we do not believe that all NTNI activities inherently present greater risk than other lines of insurance business. In fact, we believe that in many circumstances NTNI activities provide important risk-mitigating benefits.<br>In particular, we note that some G-SIIs may be important providers of retirement products and services, such as annuities. In an era of increasing demographic pressures and aging populations, providing adequate retirement income should be an important global policy objective. We are concerned that inappropriate implementation of the Proposal may prevent potential G-SIIs from providing these crucial products and services.<br>Finally, the Roundtable notes its agreement with the IAIS conclusion that traditional reinsurance activities are unlikely to cause, or amplify, systemic risk. |
| The Financial Services Roundtable | 3.9 | II. Indicators of Systemic Importance<br>In the Proposal, the IAIS states that 'the two most important factors for assessing the systemic importance of insurers are [NTNI] activities and interconnectedness.' The Proposal assumes that NTNI activities create systemic risk, and that insurers engaged in NTNI activities pose greater global systemic risks than insurers that do not engage in these activities. Furthermore, the Proposal does not clarify the G-SII assessment methodology, nor does it or provide needed additional guidance to help companies determine what activities the IAIS considers to be systemically relevant NTNI activities.<br><br>Lumping together non-bank and non-insurance activities (as we believe the IAIS to understand them) into a single NTNI activities category fails to recognize the risks and benefits of each type of activity. While applying Basel III-like standards to bank-like non-insurance activities may be appropriate in certain circumstances, e.g., if the activity is conducted outside of a regulated insurer, that analysis should certainly not be applied to 'non-traditional' insurance activities.<br><br>The types of insurance traditionally offered may differ by market, and the categorization of activities in the assessment methodology and continued in the Proposal disadvantages certain markets and products by making judgments about what activities are 'traditional.' The IAIS puts into the 'non-traditional' category some insurance products, like financial guaranty insurance and variable annuities, that are not sold in all markets around the globe, but are common products in the markets where they are available.<br><br>The IAIS needs to recognize the value and efficiency of existing regulatory regimes. This should give pause to any reflexive impulse to separate non-traditional activities out of regulated entities, where such activities are currently subject to oversight and supervision. Individual jurisdictions best understand their own |

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| | | markets and merit significant deference on matters relating to currently regulated activities. The IAIS should not undermine this system by requiring separation of non-traditional products or regulation of such products by a non-insurance supervisor in contradiction of the established practices of local jurisdictions.<br><br>Furthermore, the IAIS should consider that other ongoing insurance regulatory initiatives may be in tension with the Proposal. For example, the European Union's Solvency II initiative explicitly favors the diversification of activities within an insurance group, including potentially NTNI activities. We believe this incongruity should lead the IAIS to revisit its fundamental assumption about the nature of NTNI activities.<br><br>We also question whether 'interconnectedness,' without more, is a good indicator of global systemic risk. As with the NTNI activities presumption, we do not believe there is any empirical evidence that interconnectedness necessarily increases systemic risk for insurers. The use of 'interconnectedness' as a proxy for systemic risk fails to recognize the effective regulation of an insurer in its home jurisdiction. Insurers in highly regulated jurisdictions could well be more interconnected than insurers based in other jurisdictions, and some interconnections create less risk than others. Linking interconnectedness to systemic risk in this way could lead to increased regulation of insurers where it is least necessary. |
| The Financial Services Roundtable | 9.9 | III. G-SII Policy Measures<br><br>The Proposal would apply three key policy measures to G-SIIs: (A) enhanced supervision (including separation of traditional insurance and NTNI activities); (B) effective resolution; and (C) higher loss absorption capacity. We offer specific comments on each of these policy measures below. |
| The Financial Services Roundtable | 11.9 | A. Enhanced Supervision<br>(i). Consolidated Group Supervision<br><br>The IAIS proposes that each G-SII have a consolidated group supervisor. We believe it is essential that any group-wide supervisory regime avoid duplication of cost and effort. Given the extensive network of existing insurance regulators, the mandate of any new consolidated supervisor must be carefully defined to focus specifically on inter-entity issues that raise systemic risks to avoid degrading the effectiveness and efficiency of the existing regime. The local knowledge and expertise of insurance regulators is a great strength of the current system. A consolidated supervisor should not undermine that effectiveness in the absence of clear systemic risks, nor should it impose burdens that could needlessly raise costs to consumers of insurance products and services.<br>The proposed consolidated supervisor would be identified based on the results of several other workstreams currently under development, including the Insurance Core Principles, the Common Framework for the Supervision of Internationally Active Insurance Groups, and the Financial Stability Board's recommendations on supervisory intensity and effectiveness. It is essential that these other regulatory processes be finalized before the IAIS finalizes policy measures for G-SIIs. This is of particular concern in the group supervision context, as the premature imposition of a consolidated group supervision requirement could lead to a G-SII's inability to identify who its consolidated group supervisor will be. Individual regulators could compete to become the G-SII's lead supervisor, potentially initiating a 'race to the bottom' and resulting in disparate regulatory outcomes and competitive inequality among jurisdictions. This would be particularly unfortunate in light of the lessons other current initiatives may provide the IAIS regarding best practices that could be applied to G-SIIs.<br>The Proposal would also require a G-SII to engage in systemic risk reduction planning. While insurers must always be attentive to risk, the Proposal would substitute a consolidated group supervisor's judgment for the company's business judgment. A regulated company that holds proper reserves, is transparent about its activities and financial condition, and otherwise complies with prudential regulations should be left to make its own business decisions.<br>The Roundtable supports regulatory transparency. At the same time, we remain concerned about the risks involved when insurers provide highly sensitive information to a growing number of regulators, particularly as rules regarding business confidentiality and professional secrecy vary from jurisdiction to jurisdiction. To address these risks, the IAIS and its member supervisors should adopt appropriate controls to insure that intellectual property and other confidential business and consumer data provided by insurers to supervisors is protected from disclosure and dissemination. |
| The Financial Services Roundtable | 15 | (ii). Separation of NTNI Activities<br><br>The Proposal would impose specific measures to separate NTNI activities from traditional insurance activities, including potentially requiring NTNI activities to be conducted in 'separate legal entities that are structurally and financially self-sufficient.'<br>We disagree that separation of NTNI activities within a G-SII (or any insurer) is a desirable outcome. Requiring the separation of NTNI activities could increase |

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| | | rather than decrease the systemic risk presented by an individual insurer. For example, prohibiting an insurer from engaging in NTNI activities, or requiring the separation of those activities from other lines of business, could meaningfully complicate risk management activities, such as entering into derivatives contracts to mitigate risks associated with long-term liabilities held on its balance sheet. As noted above, the E.U. recognizes diversification in the Solvency II context as a desirable risk-mitigating factor. At the very least, the IAIS should reconsider its assumption that separating NTNI activities will reduce the systemic risk of an insurer.<br>Furthermore, a regulatory framework emphasizing separation of NTNI activities could have significant negative effects on a G-SII's business model and on consumers. Restrictions on NTNI activities could hinder a G-SII's ability to innovate and offer new products and services to consumers.<br>Finally, as argued above, we believe that 'non-insurance' activities, which in certain circumstances may be appropriately supervised with Basel III-like regulation, should not be treated in the same manner as 'non-traditional' activities. In the various insurance markets around the globe, there is variation in what products are traditionally offered. In the United States, for example, variable annuities are a standard and traditional product, even if they are not in other markets. We believe, therefore, that it would be inappropriate to have a single list of non-traditional insurance activities. Instead, the IAIS should give discretion to local insurance supervisors to determine what products are and are not traditional insurance in a particular market. |
| The Financial Services Roundtable | 16 | B. Effective Resolution<br>The Proposal would require G-SIIs to create regimes for recovery and resolution planning. We agree that effective resolution planning for large financial institutions is a good idea. However, before requiring a G-SII to produce a resolution plan, the IAIS must provide certainty as to what resolution regime a G-SII must plan against. Without knowing which resolution regime the Proposal would apply, a G-SII could expend significant time, money and effort creating a recovery or resolution plan that would be of little practical use. In addition, it will be necessary for any resolution planning regime for G-SIIs to take into account existing resolution arrangements in individual jurisdictions, including in particular insurance guarantee funds in the United States. |
| The Financial Services Roundtable | 17 | (ii). Separation of NTNI Activities<br><br>The Proposal would impose specific measures to separate NTNI activities from traditional insurance activities, including potentially requiring NTNI activities to be conducted in 'separate legal entities that are structurally and financially self-sufficient.'<br>We disagree that separation of NTNI activities within a G-SII (or any insurer) is a desirable outcome. Requiring the separation of NTNI activities could increase rather than decrease the systemic risk presented by an individual insurer. For example, prohibiting an insurer from engaging in NTNI activities, or requiring the separation of those activities from other lines of business, could meaningfully complicate risk management activities, such as entering into derivatives contracts to mitigate risks associated with long-term liabilities held on its balance sheet. As noted above, the E.U. recognizes diversification in the Solvency II context as a desirable risk-mitigating factor. At the very least, the IAIS should reconsider its assumption that separating NTNI activities will reduce the systemic risk of an insurer.<br>Furthermore, a regulatory framework emphasizing separation of NTNI activities could have significant negative effects on a G-SII's business model and on consumers. Restrictions on NTNI activities could hinder a G-SII's ability to innovate and offer new products and services to consumers.<br>Finally, as argued above, we believe that 'non-insurance' activities, which in certain circumstances may be appropriately supervised with Basel III-like regulation, should not be treated in the same manner as 'non-traditional' activities. In the various insurance markets around the globe, there is variation in what products are traditionally offered. In the United States, for example, variable annuities are a standard and traditional product, even if they are not in other markets. We believe, therefore, that it would be inappropriate to have a single list of non-traditional insurance activities. Instead, the IAIS should give discretion to local insurance supervisors to determine what products are and are not traditional insurance in a particular market. |
| The Financial Services Roundtable | 24.9 | B. Effective Resolution<br>The Proposal would require G-SIIs to create regimes for recovery and resolution planning. We agree that effective resolution planning for large financial institutions is a good idea. However, before requiring a G-SII to produce a resolution plan, the IAIS must provide certainty as to what resolution regime a G-SII must plan against. Without knowing which resolution regime the Proposal would apply, a G-SII could expend significant time, money and effort creating a recovery or resolution plan that would be of little practical use. In addition, it will be necessary for any resolution planning regime for G-SIIs to take into account existing resolution arrangements in individual jurisdictions, including in particular insurance guarantee funds in the United States. |
| The Financial Services | 31.9 | C. Higher Loss Absorption Capacity<br>The Proposal recommends requiring G-SIIs to demonstrate higher loss absorption capacity, either by holding higher amounts of regulatory capital or increasing |

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| Roundtable | | loss absorption capacity by some other unspecified means.<br>We believe that application of a non-specific higher loss absorption standard would create uncertainty for insurance providers. The IAIS itself notes in the Proposal that currently 'there is no global solvency standard for insurance groups upon which to build higher loss absorption capacity requirements to apply across jurisdictions.' If the IAIS finalizes higher loss absorption requirements for G-SIIs in the absence of such standards, insurers could be forced to 'over-reserve' against potential designation, resulting in an inefficient and wasteful allocation of capital. Before applying a higher loss absorption standard to G-SIIs, the IAIS should provide more concrete guidance about such issues as what capital would be eligible to meet any higher loss absorption standard.<br>Additionally, we believe that the IAIS should tailor the higher loss absorption requirements to specific risks. Keeping the increased reserves on an activity and entity basis will allow higher loss absorption capacity to be targeted, will give clarity on where those reserves should be held, and will, in the case of a stress event, facilitate resolution activities.<br>Further, we believe that the IAIS should not impose higher loss absorption requirements on a group-wide basis, as additional capital at the holding company level could only be effective and efficient if there were meaningful fungibility of capital across multiple jurisdictions, which generally is not the case.<br>Finally, we believe that higher loss absorption requirements could be satisfied without requiring functional or legal separation of NTNI activities. |
| The Financial Services Roundtable | 58 | IV. Conclusion<br>Whatever course of action the IAIS chooses, we ask that it make every effort to avoid outcomes that merely add to insurers' compliance burden without clear systemic benefits, or that create competitive inequality or disadvantage insurers in a particular jurisdiction. Minimizing opportunities for regulatory arbitrage is an important principle in the development of international regulatory frameworks, and we believe this principle is particularly important when establishing enhanced regulatory frameworks for systemically significant financial institutions, whether they be insurance companies or other financial institutions.<br>We thank the IAIS for the opportunity to comment. If you have any questions, please feel free to contact Peter Freeman at (202) 289-4322. |
| The General Insurance Association of Japan | 0.9 | We strongly support the IAIS's approach to set out G-SII policy measures that focuses on NTNI in line with its long standing position that traditional insurance does not pose systemic risk.<br><br>We believe priority should be given to the application of 'basic measures', i.e. more enhanced supervision and effective resolution. Whilst we do not deny the need to look at targeted HLA for NTNI, we stress that there is no need for group-wide HLA. The effects of the first two measures (enhanced supervision and effective resolution) should be properly measured/recognized before any group-wide HLA is considered. |
| The General Insurance Association of Japan | 13 | We believe it is crucial for all jurisdictions to have consolidated group-wide supervision in place and supervisors to have direct powers over holding companies, especially from a level playing field perspective. This is a necessary premise as G-SII measures need to be uniformly implemented. Given that there are still some jurisdictions that do not have this, we would ask the IAIS to give this issue appropriate consideration.<br><br>We seek clarification on the 'additional stress testing' in the 4th bullet point, and its difference from stress testing for non-G-SIIs. |
| The General Insurance Association of Japan | 16 | We seek clarification on the objective/intent of imposing SRRPs. Is the ultimate objective (or end game) to make firms change their balance sheets and/or risk profile and thereby become ineligible as a G-SII (based on the identification methodology)?<br><br>In developing the SRRP and the RRP, due consideration should be given to the nature of insurance activities, and sufficient discussions should be made between supervisors and insurers. |
| The General Insurance Association of Japan | 17 | Regarding the separation (ring-fencing) of NT/NI activities, we ask for the following:<br>1. There first needs to be a global agreement on the definition of NT/NI. This needs to be done swiftly. It is also imperative the industry be included in discussions on deciding what is and what isn't subject to separation.<br>2. Simply making it mandatory to separate (or ring-fence) all and any NT/NI activities for all firms is too broad and high-level as a measure. Such separation requirements need to be subject to workable terms and conditions. Also, it is important that any separated NT/NI entities be appropriately regulated/supervised.<br>3. There also needs to be exclusions to NT/NI that are subject to this forced separation. For instance, certain transactions such as derivatives and other transactions used for hedging and ALM purposes should be excluded from the scope of such separation measures. |

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| | | 4. There needs to be an impact assessment to properly assess and understand the feasibility/necessity of such a separation measure and how it could affect markets. |
| The General Insurance Association of Japan | 20.9 | (General Comments for section 3.2.3.2)<br>We are against outright restrictions and prohibitions of certain activities and transactions. We can understand the need for, for instance, supervisors undertaking a review of individual capital charges for NT/NI under existing solvency regimes, or policymakers considering imposing governance and/or monitoring requirements tailored to NT/NI, but any overall ban of NT/NI is 'regulatory overkill' and would simply diminish the financial sector and its robustness. Simply banning NT/NI would go against the interests of the wider economy and society as a whole.<br><br>Also, one needs to recognize that once you ban G-SIIs from the NT/NI market, then the non-G-SII firms will simply take over their market share, thereby creating a new group of potential G-SIIs. There seems to be a lot of unintended consequences inherent in this measure and these needs to be looked into with more care. |
| The General Insurance Association of Japan | 23 | As an example for prior approval, Intra-group Transactions (IGTs) is provided in footnote 24, but this should be applied only under certain terms and conditions along with our proposal in paragraph 17 (2nd point). |
| The General Insurance Association of Japan | 26 | It is still a little unclear to us why we need to have a separate CMG in addition to the regular supervisory college. For instance, would it not be sufficient to discuss crisis management within the supervisory college? |
| The General Insurance Association of Japan | 27 | Regarding cross-border resolution, international cooperation agreements should provide grounds (a legal framework) for non-discriminatory protection of creditors (i.e. the same group/category of creditors should receive the same level of protection regardless of nationality or place of residence, etc.). This is essential to facilitate and ensure an effective cross-border resolution. |
| The General Insurance Association of Japan | 31 | The industrys participation should be ensured in the discussion on a template for assessing resolvability. |
| The General Insurance Association of Japan | 37.9 | (General comments for section 3.4.2)<br>We support the IAIS's proposal on HLA that focuses on NTNI.<br><br>We understand the need to look at NTNI based on the underlying principle of applying same capital charges to same risks. It is also important to recognize not all NTNI (e.g. derivatives for risk-hedging) necessarily pose a systemic risk and measures need to reflect the differences in the nature of the NTNI.<br><br>We are against any uniform group-wide HLA. Any need for a group-wide HLA (which essentially amounts to an exceptional change to a firm's capital requirement that diverges from the standard requirement under the existing solvency regime) should be ultimately left to the decision of the group-wide supervisor, while playing a leading role in the supervisory college. The implementation of RRP, should address the need for additional capital (for stability purposes) if any. It would essentially provide a mechanism that allows supervisors to assess the loss absorbency of each G-SII on a firm by firm basis. Only in such a context should the need for any capital surcharges should be discussed. Any HLA needs to be decided, through mutual discussions between regulators and insurers based on a review of such assessments, fully taking the characteristics of respective insurers into consideration. Such assessment should naturally take account of existing local policyholder protection schemes and resolution schemes. |
| The General Insurance | 47 | Any prescriptive requirements in terms of the quality of capital for G-SIIs need to take account of the differences in existing local solvency regimes and policyholder protection schemes. On this issue, it would suffice for the IAIS/FSB to set out high-level principles that national supervisors can reference. |

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| The General Insurance Association of Japan | 49 | We understand that 'HLA capacity' refers to capital add-ons to the PCR. However, given that existing requirements on quality of capital are different among jurisdictions, 'HLA capacity' should conform to each country's existing requirements for their specific capital characteristics. |
| The General Insurance Association of Japan | 52 | It should be made clear and stated in the schedule that another public consultation will be conducted when the IAIS finalizes discussions on development of a concrete proposal for HLA. |
| The General Insurance Association of Japan | 53 | Discussions on group-wide HLA for G-SIIs should be made after the effectiveness of basic measures such as enhanced supervision and effective resolution are examined. Thorough discussions should take place to secure the understanding of from the industry. |
| The General Insurance Association of Japan | 58 | The peer review process should be timely and effective, and thus it needs sufficient discussion. |
| The Geneva Association | 0.9 | The Geneva Association would like to make a number of overall comments. There isn't a specific section for this, so these comments are included here. Specific comments on the Executive Summary from the consultation paper are included after these.<br><br>The Geneva Association appreciates the opportunity to comment on the International Association of Insurance Supervisors (IAIS) Global Systemically Important Insurers: Proposed Policy Measures , issued 17 October 2012.<br><br>The Geneva Association position<br>Introduction<br>We acknowledge the work the Financial Stability Board (FSB) and the IAIS are doing to enhance financial stability through the assessment of vulnerabilities of the financial system, identifying and overseeing actions to address these and promoting the coordination and exchange of information to assist in this effort.<br>Developing and promoting effective regulatory, supervisory and other financial sector policies to reduce systemic risk and address information gaps is vital to ensure the smooth functioning of the global financial sector.<br>However, The Geneva Association is concerned that the current proposed IAIS methodology and policy measures do not sufficiently match the specifics of the insurance industry and therefore will have significant negative consequences on the industry, and the valuable functions and services that insurers provide to the economy and society.<br>The IAIS has defined Globally Systemically Important Insurers (G-SIIs) as 'insurers whose distress or disorderly failure, because of their size, complexity and interconnectedness would cause significant disruption to the global financial system and economic activity.'<br>As a precondition, it is critical for the IAIS to set forth a more clear set of criteria that identify the types of activities that may pose systemic risk in order to apply appropriate and targeted policy measures. The proposed methodology provides some guidance on non-traditional and non-insurance (NTNI) activities but does not clearly articulate which of these are considered to be systemically relevant activities. There are many listed non-insurance (NI) activities which are not systemically relevant activities (e.g. third party asset management or insurance linked securities). The Geneva Association does not consider there to be a category of activities called non-traditional (NT) activities, as all of these activities have the same characteristics of traditional insurance activities as explained later in this response. The Geneva Association research has highlighted that activities with the potential to create immediate liquidity stresses due to maturity transformation combined with large leverage must be the focus of any systemic risk regulation. |

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| | | Implementing policy measures for G-SIIs<br>The G-SII policy measures should target the real causes of systemic risk (the systemically relevant activities) to meet the objectives for the policy measures set out in the consultation paper.<br>The Geneva Association suggests the following process for applying appropriate policy measures to insurers using a ‘ladder of intervention’.<br>- First, positively identify, and explain the rationale for selecting, the NTNI activities that are Systemically Relevant (SRAs), i.e. check whether an activity has the potential to be systemically relevant. These activities involve maturity/liquidity transformation creating money-like liabilities or leverage. The recent release of shadow banking consultation papers may be a useful basis to fine tune the identification of non insurance SRAs. As discussed in The Geneva Association paper on liquidity , these activities do not include the surrender of insurance products where policyholders either face direct penalties, including tax penalties, or opportunity costs when surrendering.<br>Where the activity is considered systemically relevant, an assessment of the scale of the activity and risk management arrangements in place should be undertaken, and enhanced supervision could be applied. This could comprise additional reporting, more on-site inspections and enhanced liquidity and risk management planning as necessary. In general terms, this first step would be to consider whether the insurance group can appropriately handle the SRA through its internal processes, risk governance and capital position. This assessment and determination should fall to the supervisory college at the direction of the group supervisor.<br>- The second step would be to ensure that the SRA is appropriately considered and that it would not impact the insurance activities. The IAIS refers to segregation of systemically relevant activities. At present there is no clear definition of segregation thus The Geneva Association is assuming that it means ‘no infection from SRAs to non-SRAs’.<br>The Geneva Association considers that the lack of clarity (and thereby potentially broad scope of) as to what are ‘activities that cause systemic risk’ (and therefore could be considered for separation) could result in significant distortions in commonly accepted methods of group management. Structural separation is a very complex and lengthy process, and, where separation is even possible, it may offer multiple disadvantages and few (if any) advantages.<br>The management of the risks associated with the SRAs can be achieved via internal risk management programmes and practices, governance, and enhanced supervision and reporting, that would result in ‘virtual’ separation and eliminate the need for structural separation and its adverse consequences.<br>There are other regulatory tools which are currently available to meet the IAIS objectives of reducing systemic risk, including:<br>- Liquidity stress testing and asset liability matching for short term funding to ensure that cash available for traditional insurance is not supporting activities determined to expose an insurer to systemic risk, and<br>- Focus on internal risk management, asset liability matching and other risk-mitigating processes and existing regulatory treatment and capital requirements.<br><br>The Geneva Association considers that direct restriction, structural segregation, or prohibitions especially of non-insurance activities which have clearly proven to be systemically relevant might be considered if the enhanced supervision measures enumerated under ‘step 1’ - including Enterprise Risk Management (ERM) and microprudential supervision - are insufficient. It is key that feasibility is taken into account and proportionality is warranted.<br>- The third step would ensure that the company’s liabilities and capital for all SRAs address all material categories of risk associated with that activity. This may be through higher loss absorption (HLA) targeted to specific SRAs where the current requirements are deemed inadequate. An approach for HLA that combines risk based capital and prudential requirements would be more effective for the insurance sector, rather than considering HLA in isolation. The HLA should target the SRA using advanced risk based solvency regimes (and avoid group-wide application) and build on existing regimes and avoid conflicting, cumulative and uncoordinated requirements. The targeted HLA should be applied net of mitigated activities contained in step two.<br>Targeted HLA may act as an incentive for designated G-SIIs to reduce any SRAs. At the same time they could create a unique opportunity for non-designated systemic players in the market to substitute G-SIIs in these systemic activities - this must be avoided. The targeted HLA should be strictly targeted on genuine SRAs to avoid competition distortions within the insurance sector and with other sectors.<br><br>The Geneva Association does not support group-wide HLA which is not an appropriate tool to manage systemic risk in insurance and is counterproductive for insurance from a macro-economic, micro-economic and business model perspective. Insurers have technical provisions/reserving - which is the case for all insurance activities, both traditional and non-traditional. This must be considered before applying any HLA to a sector whose role it is to absorb loss and risk, and to protect capital.<br>The IAIS should reflect on the implications of global measures on top of local domestic requirements. The consultation paper does not comment on this aspect and the industry remains concerned that duplicative and excessive local requirements may be added on top of any global or group measures. |

Solvency regimes differ widely across jurisdictions. As a consequence, the potential introduction of capital surcharges would be implemented internationally in a completely misaligned way, with disproportionate impact on different firms and distorting competition.
The Geneva Association supports an approach which allows for the specifics of the group and the local regulatory regimes under which it operates.
Aligning policy measures and designation methodology
Existing insurance supervisory and regulatory regimes have developed over many years taking full account of the specifics of insurance business, both traditional and non-traditional. It allows management and supervisors to control the impact of major events on the insurer and develop resolution processes, which proved to be extremely efficient in the past. The existing insurance regulation has the protection of policyholders as its major focus and we suggest that this should not be changed. The regulatory regimes are based on an insurance business model with the following characteristics:
- The inverse production cycle where premiums are received in advance of benefits payments,
- The unique timing characteristics of insurance business with the lag between the triggering event and its financial impact on the insurer,
- Holding of technical provisions/reserves for policyholder liabilities,
- Asset and liability matching approach,
- A supervisory ladder of intervention,
- A focus on capital protection and conservation, and
- The focus on effective and robust ERM within the firm.

When considering the impact of any potential policy measures on policyholders and insurers, it is worthwhile considering the valuable role insurance plays in protecting customers from various risks, encouraging and managing essential long term savings and retirement income and the social implications that may stem from a lack of insurance capacity. The Geneva Association recently published a paper discussing the social and economic value of insurance . The key findings are briefly outlined below:
- The insurance mechanism involves the management and mitigation of risk through services and financial compensation, and is based on a principle of shared responsibility between insurer and insured. It also sends pricing signals that lead to improved risk-resilient behaviour.
- Insurance plays a crucial role to the social protection of consumers by enhancing their financial security and peace of mind through protecting them against adverse events (e.g. catastrophes) and by providing vehicles for long term savings and investment and providing retirement income. These services are crucial for economic growth and social welfare of whole populations.
- Insurers are long-term investors who contribute to stabilising financial markets by providing liquidity at critical times when those markets dry up. As such, they act as a powerful counter-cyclical force and provide social benefits generated by their investments in addition to long-term investment gains.

Both the designation methodology and the respective policy measures can create unintended shortcomings if not aligned to the insurance specificities:
- Costly policy measures based on a designation methodology that indiscriminately focuses on size, regardless of the activities, will limit insurers' ability to pool risks and underwrite large risks (including mortality and longevity risk).
- Applying policy measures to non-systemically relevant, traditional or non-traditional insurance, activities will lead to an unjustified higher pricing for risk protection, lower risk coverage and capacity, and scarcer, more expensive capital for insurers, all of which undermine their role in supporting economic growth and will diminish the insurers' potential to offer products of social importance.
- Forcing separation of activities will introduce constraints on group capital management by eliminating the benefits of diversification and by limiting the fungibility of the group balance sheet.
- There may be unintended consequences for the insurance sector, as well as for the wider economy, from measures that will change inter alia, the investment incentives, the competitive landscape and underwriting practices of the insurance industry.

Methodology for assessing and designating G-SIIs
The Geneva Association sees a disconnect between statements made in the paper on Financial Stability in Insurance (Nov 2011) and in the methodology paper (May 2012) regarding the activities that may create systemic risk and the proposed indicator methodology. We strongly request that the IAIS review the methodology with the objective of clearly focusing on systemically relevant activities, and how these could create systemic risk, and include consideration of internal risk mitigation programmes and practices.
Similarly, the inclusion of reinsurance as a criterion for identifying G-SIIs (under the 'interconnectedness' item of the designation methodology) appears

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| | | inconsistent with the conclusions of the IAIS paper on Reinsurance and Financial Stability (July 2012).<br>In the consultation paper on shadow banking the FSB provides guidance to focus on activities involving maturity/liquidity transformation, imperfect credit risk transfer, leverage, and regulatory arbitrage concerns. These activities have the potential to lead to bank-like activities involving maturity/liquidity transformation, creating money-like liabilities or leverage, the key triggers of systemic risk events, as they can create immediate liquidity needs. The Geneva Association, in its research, identified and called the activities that have these characteristics potentially systemic risky activities (pSRAs).<br>It is important to distinguish between activities that are systemically relevant and activities that are not systemically relevant. The IAIS and FSB currently only highlight NTNI activities without stating which ones are potentially systemically relevant. Non-traditional insurance activities are subject to the same high standard national and jurisdictional solvency, capital and risk insurance regulatory requirements and risk management as traditional insurance activities, e.g. both require holding technical provisions and required capital to ensure that the insurer can continue to meet its commitments to its policyholders even in stressed conditions. On the liabilities' side, both traditional and NT activities are often accounted for as insurance. These points should be adequately addressed in the assessment process and, consequently, the policy measures.<br>Just because an activity is considered non-traditional or non-insurance does not mean it has systemic relevance (e.g. third party asset management or insurance linked securities).<br><br><br>* * * * * * * * * * * * * * *<br>The following comments relate to the Executive Summary in the consultation paper :<br>- It is of upmost importance that IAIS communicates clearly which activities will lead to a G-SII designation. Only with this understanding can the industry comment precisely on the proposed policy measures.<br>- The Geneva Association considers it important to draw a line between insurance activities and non-insurance activities. 'Non-traditional' insurance activities, as defined by IAIS, are regulated as insurance activities. They are conducted under the existing, high standard national and jurisdictional insurance solvency, capital and risk regulatory requirements. In addition, substantial risk management and governance requirements also apply to these activities. Non-insurance activities can be carried out by separate entities within the group. We do not consider there to be a distinction between non-traditional insurance activities and traditional insurance activities, as long as the activities comply with the characteristics of traditional business as described in the IAIS paper 'Insurance and Financial Stability' (Nov. 2011). If indeed an insurance product departs from the insurance characteristics as explained above and resembles a bank deposit product, then it should be considered a non-insurance product. This would require liabilities which can be liquidated immediately without restrictions.<br>- We assume that references to 'supervisor' mean the group supervisor.<br>- Separating non-traditional insurance activities reduces risk diversification and pooling and would be counterproductive to the objectives of reducing systemic risk.<br>- A group-wide HLA undermines the activity based approach as it would largely be determined on the value of insurance business which is not a source of systemic risk. We strongly suggest the IAIS reconsider step 2 as indicated in the paper and consider not only restrictions or prohibition as other measures but also existing risk-management tools.<br>- Targeted HLA should only be considered where a systemically relevant activity has been identified. The targeted HLA should be calibrated to the activity (where not already reflected under national risk based capital regimes) and not the balance sheet of the entity in which the activity is undertaken to ensure that the capital charge is appropriate to the nature of the risk. |
| The Geneva Association | 0.91 | Research from The Geneva Association has already highlighted the activities (and their characteristics) that it found to be systemically relevant (including derivatives speculation and mis-management of short term funding), the details of which have been previously discussed. All of these activities involve maturity or liquidity transformation creating money-like liabilities or leverage, the real sources of systemic risk events and may create situations of regulatory arbitrage |
| The Geneva Association | 4 | Refer to NTNIA perspective discussed above.<br>First sentence: We do not agree that NT and NI are the two most important factors for assessing the systemic importance of insurers. Rather, the focus should be on activities that are potentially systemically relevant and, subsequently on activities that are systemically relevant (i.e. SRAs).<br>Second sentence: It is simply too vague and subjective to state that for NTNI activities the longer timeframe over which insurance liabilities can normally be managed may not be present. We kindly ask the IAIS to refine further the assessment of NTNI to focus on identifying potential systemically risky activities.<br>Liabilities for variable annuities are long term and their liquidation would not trigger a systemic risk event.<br>With respect to interconnectedness with the banking sector we disagree with the current statement and would like to know in more detail why the IAIS believes |

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| | | that this can amplify the impact of stress events. The past crisis has shown that (re-) insurers acted rather as stabilisers. Interconnectedness is not a cause of systemic risk in insurance as the characteristics of insurance mean that it can be resolved in an orderly manner; therefore it would not give rise to sudden shocks that could be a source of transmission of contagion. To understand the degree of interconnectedness with the rest of the financial sector, a comparison must be made at the level of the whole financial sector, not only within the insurance sector. Failing to do so would overstate the potential of insurance to create systemic risk through interconnection due to the relative lack of interconnections between the insurance and the broader global financial sector. |
| The Geneva Association | 6 | This underlies the importance of having a correct assessment and designation process capturing the real sources of systemic risk. |
| The Geneva Association | 7 | Where does the IAIS consider traditional insurance to be systemically important (see 'not inherently')? Just because an activity is NTNIA does not make it systemically relevant |
| The Geneva Association | 8 | Need to prove that insurance failure is 'disorderly' - so if an insurer can be resolved in an orderly manner then it cannot be G-SII. In order to achieve the objectives set out earlier in the paper - the IAIS must demonstrate what the causes of systemic risk are. This underlies the importance of having a correct assessment and designation process where only systemic relevant activities are part of the methodology. Inappropriate policy measures can create additional moral hazards like shifting activities into the shadow banking area |
| The Geneva Association | 9 | The consequences considered are from a banking perspective. Distortion from competition coming from HLA measures (in particular group HLA) will only be reflected in an increased cost to consumers. A G-SII status will not provide the insurer with the same benefit as G-SIBs. The value of a potential governmental guarantee would be significantly lower for insurers than for banks. It is not given that G-SII will benefit from lower funding costs as the market perception may be different from banks. Should it be true, any benefit would be significantly reduced as insurers have much less third party financed compared to banks. Further, banks benefit from direct access to central banks which allow them to reinstall their balance sheets at good conditions. As insurers do not benefit from a systemic importance status to the same extent as banks, this must be reflected in the policy measures. |
| The Geneva Association | 9.9 | See detailed comments under enhanced supervision, effective resolution and higher loss absorption |
| The Geneva Association | 11 | The Geneva Association agrees with the points raised however it should be considered that policyholder protection should remain the main focus of insurance regulation |
| The Geneva Association | 11.9 | The extensive scope of potentially separated activities associated to the strict concept of segregation and self-sufficiency may result in huge disturbances in the effective management of insurance groups. It could have the following consequences for activities that are not considered systemically relevant:<br>- Make operational management of NTNI activities - some of which support and enable the cost-effective provision of insurance products that meet consumer and government needs - very complex and costly in terms of potentially setting up and capitalising the entity.<br>- Introduce additional constraints on group capital management by further limiting the fungibility of the group balance sheet and by eliminating the benefits of diversification from NTNI portfolios.<br>- Make group support arrangements between group entities very complex, if not impossible. Requiring detailed segregation/self-sufficiency will unnecessarily remove tools for effective management of group resources.<br>- Introduce, at the level of group supervision, very intrusive supervision with holding companies in group structures (including the ultimate parent holding company of a group) possibly subject to direct regulation by the Group supervisor which goes beyond supervision of systemic activities. Regulatory powers over holding companies may become far in excess of those existing today and may include prior approvals for a whole variety of pure management duties and diligences in excess of defined thresholds.<br>- Weaken the holding company's ability to secure external funding and the capacity of the group to support M&A operations with any prohibition on cross-default provisions (or similar mechanisms) likely to severely weaken or effectively eliminate the ability of a parent holding company to obtain external financing (bank lines of credit or market financings).<br>- Introduce a wrong concept of group supervision which should remain primarily at an economic and consolidated level and not at a non-economic legal entity level. Such measures may show to be very difficult or impossible to implement in many cases as the purpose of an activity may necessitate that it is conducted in the insurance entity and reflected in its balance sheet for legitimate risk management reasons (e.g. derivatives within asset liability matching). |

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| | | - Diversification benefits between traditional insurance business and other businesses needs to be considered and continue to be part of effective risk management, unless the activities involved create systemic risk |
| The Geneva Association | 12 | Insurance activities do not involve risk concentration, in fact the opposite is the case - insurers diversify risk. Risk concentration exists in banking or banking-like activities, as banks have a transaction view as opposed to insurers, which have a portfolio view driven by the law of large numbers and the alignment of assets and liabilities. This underlines the importance of having a correct assessment and designation process focusing on the real reasons for systemic important insurers |
| The Geneva Association | 13 | Risks imposed by the SRA (not the G-SII). This underlies the importance of having a correct assessment and designation process to identify the systemically risky activities of an insurer. IAIS refers to increased disclosure/stress testing without saying what these are - IAIS should consider this only for SRAs |
| The Geneva Association | 14 | G-SII should not be the ‘pretext’ for creating intrusive supervision, additional reporting requirements, etc. and further macro prudential supervision - The Geneva Association suggests the IAIS should first consider what is already in place before introducing any new requirements (in terms of supervisory powers, reporting requirements, etc.). Supervision should only be enhanced when appropriate for SRAs with the enhancements considered for the additional risks posed and implemented adequately. The Geneva Association agrees with the focus on group-wide supervision. Any additional data requirements must be appropriate and consider the risk to the system (i.e. avoid excessive granularity). |
| The Geneva Association | 15 | The Geneva Association takes note of enhanced liquidity discussion. Liquidity risk within insurance manifests differently to banks due to the difference in business models - this needs to be adequately reflected in any considerations. Liquidity management is part of normal insurance liquidity risk management - refer to Chief Risk Officer Forum paper on liquidity best practices within insurers (The Chief Risk Officer Forum, Liquidity Risk Management Best Risk Management Practices, October 2008). Liquidity risk management of SRAs has to be part of a high-standard risk management |
| The Geneva Association | 16 | - The Geneva Association questions the usefulness of SRRPs or separation of NTNI activities while the IAIS has yet to clearly establish what characteristics of NTNI activities could give rise to potential systemic relevance<br>- The IAIS must be clear that SRRPs and other restrictions or prohibitions are aimed only at systemically relevant activities which have been clearly articulated.<br>- If the IAIS intends on applying these measures to non-systemic activities then The Geneva Association disagrees with the SRRP approach as it gives regulators/supervisors an overreach of authority within the SRRP and the whole concept of entity separation is inappropriate.<br>- As part of the SRRP, the IAIS should consider the insurer’s existing risk management practices before requiring any further measures. |
| The Geneva Association | 17 | - The Geneva Association questions the usefulness of SRRPs or separation of NTNI activities while the IAIS has yet to clearly establish what characteristics of NTNI activities could give rise to potential systemic relevance<br>- The IAIS must be clear that SRRPs and other restrictions or prohibitions are aimed only at systemically relevant activities which have been clearly articulated.<br>- If the IAIS intends on applying these measures to non-systemic activities then The Geneva Association disagrees with the SRRP approach as it gives regulators/supervisors an overreach of authority within the SRRP and the whole concept of entity separation is inappropriate.<br>- As part of the SRRP, the IAIS should consider the insurer’s existing risk management practices before requiring any further measures. |
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| The Geneva Association | 21 | - There is no evidence that interconnectedness within insurance (traditional & non-traditional) business generates systemic risk. Experience shows rather the contrary that insurance absorbs the spreading of systemic risk. The second sentence rightly refers (for the first time) to ‘systemically important activity’.<br>- Direct restrictions or prohibitions of particular activities, which have clearly proven to be systemically relevant, might be considered if enhanced supervision measures, including ERM and microprudential supervision, are insufficient. It is key that feasibility is taken into account and proportionality is warranted. Regulation should first set the right capital and risk management incentives to insurers to minimise potentially systemic activities rather than arbitrarily prohibiting or restricting certain activities or legal structures.<br>- The IAIS needs to consider the extent that any restrictions and prohibitions are in line with current solvency regulations (e.g. restrictions on asset limits for large exposures).<br>The IAIS should ensure the recognition and efficacy of the group supervisor and avoid duplication of global measures at domestic level (e.g. as is currently happening with banking developments). The decision of the group supervisor should be supported by the college |
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| The Geneva Association | 24.9 | - The Geneva Association has published research on insurance resolution the main messages of which are summarised below:<br>- All necessary recovery and resolution tools are already available for all insurance operations<br>- Any wider development of arrangements for re-organisation and winding down of cross border insurance undertaking should be based on an extension of existing practices rather than imposing a framework designed to resolve banking problems<br>- The resolution of insurers can take place in an orderly fashion, especially if compared with banks which often require almost immediate intervention.<br>- The insurance balance sheet does not react to stresses in the same way as the banking balance sheet<br>- Insurance resolution processes are well established in the different jurisdictions<br>- No accelerated wind-down processes are required as insurance liabilities cannot be triggered voluntarily by policyholders and only manifest themselves over time and as a consequence of largely uncorrelated occurrences.<br>- All systemic resolution tools should target systemically relevant activities and not duplicate existing regulatory tools<br>- The consultation paper does not reflect the efforts and initiatives that regulators and government officials need to undertake in order to address (and remove) international legal barriers to effective resolution. The IAIS and FSB should drive these efforts. The consultation paper mentions efforts from companies (e.g. RRPs, separability assessments) and national regulators, but does not comment on international and cross-border efforts expected from regulators. |
| The Geneva Association | 25 | - We believe that (re-)insurers can be wound-down without severe difficulties due to the unique nature of the insurance business: technical provisions, pre-funding, no insurance runs allowing more time available for resolving the business (i.e. no action over the weekend required).<br>Second bullet point: Largely unclear to us as to what ‘vital economic functions’ are being provided by insurers and through what ‘mechanisms’ these should be protected. |
| The Geneva Association | 26 | - We take note that a Crisis Management Group should be established. We generally support the fact that supervisors intend to work more closely together. Effective recovery and resolution approaches exist in jurisdictions across the world to address the risk posed through insurance failure. The requirements for banks are fundamentally different and must not be applied to insurers.<br>- CMGs are useful to for regulators to manage the potential effects from a crisis on G-G-SIIs:<br>- Members of the CMG should be drawn from the college of supervisors to ensure appropriate understanding of group and key risks<br>- There is a need for common standards on what is meant to ‘be prepared’ (under enhanced preparedness)<br>- This is potentially covered under ComFrame (however it is unclear how these requirements can be applied to non ComFrame G-SIIs e.g. emerging markets through the ICPs)<br>- The home authority should be the single point of contact between the CMG and the insurer for actions within the scope of group supervision<br>- Institution-specific cross-border cooperation agreements should form part of the group supervision processes<br>- Resolvability assessments<br>- Resolvability assessments can be useful for regulators to anticipate the potential impacts from the failures of a G-SII<br>- However the resolvability assessment needs to be done in the context of the entities operating SRAs and only for the SRAs<br>- There is a need for proper consideration of group support and group reinsurance for these entities<br>The group resolvability assessment should be considered by the group supervisor in the college (because that is where the expertise resides) |
| The Geneva Association | 27 | Existing regulatory regimes already deal with RRPs. IAIS should consider the conclusion of the CRO Forum paper on ‘insurers risk management systems: preparing for recovery’ in assessing the need for any change in this area.( The Chief Risk Officer Forum, Insurers’ Risk Management Systems - Preparing for Recovery, July 2012) It is questionable whether additional requirements are necessary at all. |
| The Geneva Association | 28 | The Geneva Association considers that a large derivatives portfolio held by an insurer engaged in mainly traditional insurance does not materially impact the ability for the insurance business to be resolved in an orderly manner. |

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| | | Over the counter (OTC) derivatives transactions will be subject to an International Standard Derivatives Agreement (ISDA) between the insurer and the derivatives counterparty. The ISDA will contain a number of standard terms and a schedule of additional terms negotiated between the counterparties including any early termination rights. The ISDA will cover all (netted) OTC derivatives transactions with a given counterparty.<br>In the event of early termination, normal market disciplines would apply with any negative mark to market value being paid to the relevant counterparty. To the extent that the majority of derivative transactions are fully collateralised, any resultant cash call on the insurer would be dependent on the value of uncollateralised derivatives and whether the position of the contract was to the favour of the insurer or to the counterparty at the point of termination. Where the insurer is in the money on the derivative then early termination would result in receipt of cash from the counterparty, rather than a cash call.<br>The default risk arising from derivatives liabilities, which can generate a spillover of significant losses to other financial institutions, should be addressed by regulating the derivatives market. Requiring centralised clearing with daily/weekly margin calls for derivatives, which so far have been traded OTC, is currently market practice. This largely eliminates the impact of any default. The FSB, which has set up a separate work stream for the regulation of the OTC derivatives market, European Market Infrastructure Regulation and Dodd Frank regulation, will further contribute to secure this framework.<br>It should also be considered that derivatives counterparties are large financial institutions which all impose reciprocal credit limits. In that case, the consequences on derivatives counterparties of a large insurance run off, involving the unwinding of derivatives positions, would be quantitatively limited and manageable from a systemic perspective.<br>In light of the above, particularly that insurance resolution tools can be applied to an insurer as a going concern without formal insolvency, and that the majority of derivatives are collateralised in any case we do not consider that a large derivatives portfolio held by an insurer engaged in mainly traditional insurance materially impacts the ability for the insurance business to be resolved in an orderly manner were such an insurer to get into difficulty.<br>The Geneva Association offers to work with the IAIS for any further clarification |
| The Geneva Association | 30 | We agree that the interpretation of the key attributes should reflect insurance specificities and that this should not be limited solely to the resolution tools but also consider the wider requirements of the attributes. Regarding separation of NTNI please see our comment made earlier in this paper |
| The Geneva Association | 31.9 | - Insurers hold technical provisions and required capital to ensure that they can continue to meet their commitments to policyholders even in stressed conditions<br>- These are there to protect capital not to 'use' capital as in the case of banks.<br>- The relation of loss and reduction of capital in insurance is not necessarily directly linked as often changes in the value of the assets are linked to changes in the value of technical provisions (where policyholder benefits are related to assets).<br>- Insurance specifics (including technical provisions and required capital) should be considered before applying any HLA to a sector whose role it is to absorb loss and risk especially regarding the activities to which HLA may apply.<br>- HLA (in the context of the G-SII discussion) is a capital surcharge to address financial stability concern and should be limited to that extent only. It should be distinguished from 'micro prudential' capital charge for the purpose of policyholder protection described above.<br>There is no common global capital standard in the insurance industry to which a systemic capital surcharge could be consistently applied without creating strong competition distortions and uneven playing field situations |
| The Geneva Association | 32 | |
| The Geneva Association | 33 | A targeted capital approach is the correct approach, provided that it is based on the actual risk of the activity and calibrated using a risk based approach. Separation is not required to impose risk-based capital. This can be done through analytical' separation not legal entity separation. Entity separation may not be appropriate for the reasons discussed earlier in the response.<br>However it should be considered that targeted HLA could miss the objective to lessen the systemicity of the financial system. Targeted HLA could make NTNIs unprofitable for designated G-SIIs which will act as an incentive for their disposal. In the same manner, targeted HLA could create an unique opportunity for non-designated systemic players in the market to substitute G-SIIs in systemic activities |
| The Geneva Association | 35 | - A targeted capital approach is the correct approach, provided that it is based on the actual risk of the activity and calibrated using a risk based approach. Separation is not required to impose risk-based capital. This can be done through analytical' separation not legal entity separation. Entity separation may not be appropriate for the reasons discussed earlier in the response.<br>- However it should be considered that targeted HLA could miss the objective to lessen the systemicity of the financial system. Targeted HLA could make NTNIs |

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| | | unprofitable for designated G-SIIs which will act as an incentive for their disposal. In the same manner, targeted HLA could create an unique opportunity for non-designated systemic players in the market to substitute G-SIIs in systemic activities.<br>Group HLA would not be an effective measure to deal with systemic issues, whether based on capital requirements or a total balance sheet approach |
| The Geneva Association | 45 | - A targeted capital approach is the correct approach, provided that it is based on the actual risk of the activity and calibrated using a risk based approach. Separation is not required to impose risk-based capital. This can be done through analytical' separation not legal entity separation. Entity separation may not be appropriate for the reasons discussed earlier in the response.<br>However it should be considered that targeted HLA could miss the objective to lessen the systemicity of the financial system. Targeted HLA could make NTNIs unprofitable for designated G-SIIs which will act as an incentive for their disposal. In the same manner, targeted HLA could create an unique opportunity for non-designated systemic players in the market to substitute G-SIIs in systemic activities. |
| The Geneva Association | 46 | - Excessive and unjustified calibration of HLA. Any risk-based capital should take into account existing national and regional solvency regimes. The proposed approach for calibration of targeted HLA is inappropriate as it is based on the entity in which the activity is undertaken rather than calibrated to the risk of the activity. Any HLA should be calibrated to the activity to ensure that the capital charge is appropriate to the nature of the risk.<br># ii - We disagree that this approach has the advantage of being more global, more comparable and more consistent. As long as the underlying accounting standards are different this is not more comparable than (i) |
| The Geneva Association | 49 | 'Highest Quality Capital' requirement seems punitive. If the capital requirements are higher, the same split between tiers should be acceptable for normal capital. No reason that the quality should be different for the additional buffer |
| The Geneva Association | 52.9 | - Timeline to have first G-SII designation in April 2013 and initiation of enhanced supervision/resolution methods is ambitious given revision of proposed methodology and further development of G-SII policy measures<br>- The Geneva Association suggests that the IAIS first develop a clear articulation of the activities that are systemically relevant NTNI. This articulation could follow the FSB details on shadow banking. (The Financial Stability Board, Consultative Document: Strengthening Oversight and Regulation of Shadow Banking, 18 November 2012)<br>- The Geneva Association offers to engage in further dialogue with the IAIS and FSB around developing the articulation |
| The Life Insurance Association of Japan | 0.9 | We, The Life Insurance Association of Japan (LIAJ), would like to express our respect and gratitude to the IAIS for its efforts in developing G-SIIs policy measures. We are also grateful to you for providing observers with the opportunity to submit comments.<br>First, we would like to share general comments on the main topics below. With regards to the respective details and other items, please refer to each of the following sections. We also appreciate our comments being incorporated into the IAISs deliberation on G-SIIs issues.<br>- Considering that the G-SII assessment methodology under deliberation focuses on non-traditional insurance and non-insurance (NTNI) activities, we believe that the G-SII policy measures should also be such that specifically focus on NTNI activities which directly contribute to mitigating systemic risk. Thus, we support the current direction of the IAISs deliberation.<br>- However, when focusing on NTNI activities, there may be a gray area within NTNI activities when distinguishing activities without systemic risk from those with systemic risk. We believe that authorities should identify activities that are highly likely to generate systemic risk among all NTNI activities by more precisely supervising business operation of insurers and, afterwards, develop policy measures specifically for those activities.<br>- We support the IAISs concept that insurance specificities should be taken into account when assessing national resolution regimes. In this regard, we believe that any assessment should be conducted with consideration given to each industrys specificities - insurance specificities are different from banking ones - rather than by assessing industry regimes with different risk profiles through a uniformed perspective only. Similarly, if certain jurisdictions have national resolution regimes in place and have used them before, such jurisdictions should make the best use of the existing regimes. We believe that each jurisdiction should be allowed to implement resolution regimes based on their discretion and in accordance with the principle based approach rather than encouraging the implementation of a new, single regime around the world.<br>- With regards to capital add-on requirements, we believe that such requirements should be applied only for NTNI activities that may generate systemic risk in order to enhance incentives to mitigate systemic risk; group-wide capital add-on requirements should not be implemented as they would result in imposing additional regulation on activities with no regards to systemic risk. Therefore, amongst the NTNI activities, we propose that the IAIS only apply HLA to activities considered impossible to suspend and where suspension is recognized to have immediate impact on the financial system. Furthermore, we hope that the IAIS will |

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| | | provide global stakeholders with the opportunity and sufficient time to submit comments in the course of elaborating and developing policy measures and before finalizing them. |
| The Life Insurance Association of Japan | 9 | Although it is stated that the G-SII designation of insurers could result in giving a perceived implicit state guarantee , the basis is not clear. Thus, we believe that the basis or background should be described in detail. If not, this phrase should be deleted. |
| The Life Insurance Association of Japan | 11.9 | As the G-SII assessment methodology under deliberation focuses on NTNI activities, we believe that the G-SII policy measures should also be such that specifically focus on NTNI activities which directly contribute to mitigating systemic risk. Thus, we support the current direction of IAISs deliberation.<br>However, when focusing on NTNI activities, there may be a gray area when distinguishing activities without systemic risk from those with systemic risk. We believe that authorities should identify activities that are highly likely to generate systemic risk among all NTNI activities by more precisely supervising business operation of insurers and, afterwards, develop policy measures specifically for those activities.<br>In addition, we urge the authorities to make public such activities, including the basis for identification, in order to enhance the predictability of supervision as well as the incentives for mitigating systemic risk. |
| The Life Insurance Association of Japan | 13 | Within the paragraph, it is stated that '?requiring the G-SII to have the ability to aggregate and identify risk exposures and concentrations quickly and accurately at the group-wide level, across business lines and legal entities, and to other firms'. However, we believe that the scope of G-SIIs supervision should focus on NTNI activities and take into account the limits of managing non-controlled and/or non-consolidated entities with regards to the feasibility and purpose of G-SIIs. |
| The Life Insurance Association of Japan | 14 | Built on the 'FSBs recommendations for Intensity and Effectiveness of SIFI Supervision (SIE recommendations)', the paragraph stipulates that the supervisors should adopt proactive approaches towards succession planning and performance expectations for key positions within G-SIIs. However, we believe that if a jurisdiction already has well-functioning regulation in place (based on its Companies Act), the implementation of such a regime should be allowed based on the discretion of supervisors in the jurisdiction rather than through the implementation of a uniform regime. Such an allowance would avoid undue burden imposed on both supervisors and insurers. |
| The Life Insurance Association of Japan | 15 | This paragraph presents the items to be included in liquidity risk management policies, such as management of foreign currency liquidity needs (at the group level) and the management of intra-day liquidity where NTNI activities exist. However, we believe that the scope of G-SIIs supervision should focus on NTNI activities and take into account the limits of managing non-controlled and/or non-consolidated entities with regards to the feasibility and purpose of supervising G-SIIs. |
| The Life Insurance Association of Japan | 16 | In this paragraph, the development of structural measures and the Systemic Risk Reduction Plan (SRRP) is required, and it is stated that 'Where feasible and appropriate, the SRRP may include effective separation of systemically important NTNI activities from traditional insurance business and/or restrictions or prohibitions of specified systemically important activities or any other measures.' However, we believe that contents to be included in the SRRP, including specific examples regarding feasibility and appropriateness, should be presented. Moreover, we believe that the scope of business subject to restrictions or prohibitions should be set based on each jurisdictions supervisory regulation purpose, its degree and feasibility. |
| The Life Insurance Association of Japan | 30 | We support the IAISs concept that insurance specificities should be taken into account when assessing national resolution regimes as described in this paragraph. However, insurance specificities listed therein should also considered based on the premise that: 1. traditional insurance business is unlikely to contribute to systemic risk; and,<br>2. insurers retain sufficient assets and reserves to meet the incurrence and dispersal of future insurance and policy claims over long time periods, suggesting that a fire sale or run on would not occur. As a result, insurance would not generate the same short-term liquidity risk as posed by the banking industry.<br>Thus, we believe that any assessment should reflect each industrys specificities, particularly those that differ between the insurance and the banking industries. Such an assessment should be done instead of through uniformed perspectives employed across industry regimes, which have different risk profile(s).<br>Similarly, if certain jurisdictions have national resolution regimes in place and have used them previously, such jurisdictions should make the best use of their existing regime(s). We believe that each jurisdiction should be allowed to implement resolution regimes based on their discretion and in accordance with the principle based approach rather than encouraging the implementation of a new, single regime around the world.<br>Furthermore and in the case of Japan, authorities can order the suspension of surrender of contracts of an insurer facing difficulties that may compromise the continuation of their operations. We want the IAIS to include the existence of measure to suspend surrender in the list as an insurance specificities to be taken |

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| | | considered. |
| The Life Insurance Association of Japan | 31.9 | Regarding capital add-on requirements, we believe that requirements should be applied only to NTNI activities that may generate systemic risk in order to enhance incentives to mitigate such systemic risk. Group-wide capital add-on requirements, which may result in the imposition of additional regulation on activities without regard to systemic risk, should not be implemented.<br>However, when focusing on NTNI activities, there may be a gray area within NTNI activities when distinguishing activities without systemic risk from those with systemic risk. We believe that authorities should identify and make public those activities among the NTNI activities that are highly likely to generate systemic risk by closely supervising the business operations of insurers and then sharing recognition of such supervisory interactions with authorities and other insurers. Authorities should be allowed to apply HLA to those activities that they cannot curtail, separate, or prohibit only after attempts to do so.<br>An example of such an activity is impossible to suspend - a situation where suspension is recognized to have an immediate impact on the financial system following a detailed examination of the G-SII business and in light of whether or not the financial system in the affected jurisdiction can absorb the impact of suspended business. Therefore, we propose that the IAIS apply HLA for such activities only.<br>If the HLA is widely applied without limits, there may be concerns that it provides incentives and encourages insurers to sell their assets to pursue businesses with higher returns over the short-term that are matched to their higher capital requirements. Such action could lead to an adverse impact on financial stability and consumer protection. |
| The Life Insurance Association of Japan | 41 | When focusing on NTNI activities, there may be a gray area within NTNI activities when distinguishing activities without systemic risk from those with systemic risk. We believe that authorities should identify and make public those activities among the NTNI activities that are highly likely to generate systemic risk by closely supervising the business operations of insurers and then sharing recognition of such supervision interactions among authorities and insurers. Authorities should be allowed to apply HLA to those activities that they cannot curtail, separate, or prohibit only after attempts to do so.<br>An example of such an activity is impossible to suspend - a situation where suspension is recognized to have an immediate impact on the financial system following a detailed examination of the G-SII business and in light of whether or not the financial system in the affected jurisdiction can absorb the impact of suspended business. Therefore, we propose that the IAIS apply HLA for such activities only.<br>If the HLA is widely applied without limits, there may be concerns that it provides incentives and encourages insurers to sell their assets to pursue businesses with higher returns over the short-term that are matched to their higher capital requirements. Such action could lead to an adverse impact on financial stability and consumer protection. |
| The Life Insurance Association of Japan | 45 | Regarding capital add-on requirements, we believe that requirements should be applied only to NTNI activities that may generate systemic risk in order to enhance incentives to mitigate such systemic risk. Group-wide capital add-on requirements, which may result in the imposition of additional regulation on activities without regard to systemic risk, should not be implemented. |
| The Life Insurance Association of Japan | 53 | According to the implementation timeframe, the implementation of enhanced supervision and effective resolution is to commence in 2013, while the HLA capacity requirements will be fully applied from January 2019, synchronized with banks. We want the IAIS to consider providing sufficient time to implement them in each jurisdiction, with cascading implementation of such actions, in order: to avoid duplicated regulations, to ensure a level playing field and to ensure the elimination of adverse impact(s) on real economy.<br>With regards to the timing of data collection, it is intended that relevant data will be collected around the May-June period as stated in the Proposed Assessment Methodology for public consultation. This is based on the premise that G-SIIs will be designated in November alongside banks (G-SIBs). However, we think that the IAIS needs to set a timeframe that takes into account that some jurisdictions have a different accounting periods (e.g. many Euro-American insurers accounting period end in December, while the accounting period in Japan ends in March) and that some insurers may not be prepared to submit data. Therefore, we urge the IAIS to consider the feasibility of data collection and reduce any burden related to such an imposition on supervisors and insurers. For example, while similar timings for data submission are not necessary for designation as G-SIBs, postponing the publication of the G-SIIs list (currently in November) should be considered. Furthermore, we want the IAIS to narrow the range of insurers likely to be designated as G-SIIs by, if policy measures focus on NTNI activities, making elements of NTNI activities a condition of those selected insurers to be subject to exercise data collection. |
| The Life Insurance Association of Japan | 55 | The paragraph states that ‘Regarding the proposed policy measures on HLA, the IAIS will elaborate and develop a concrete plan by the end of 2013’. We want the IAIS to provide global stakeholders with the opportunity and sufficient time to submit comments in the course of elaborating and developing policy measures and before finalizing them. |

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| The Life Insurance Association of Japan | 57 | Although the paragraph states that 'the IAIS expects all participating insurers to disclose relevant data', we are concerned about the term 'disclose'. If disclose means public disclosure, we think that requiring entities subject to data collection for G-SIIs identification to disclose data - data not disclosed in their own jurisdictions - would not ensure a level playing field with entities that are not subject to data collection. We think it is sufficient for entities to disclose data necessary to G-SIIs identification only to supervisors in their own jurisdictions and, in doing so, data confidentiality between relevant supervisors can be assured. |
| U.S. Chamber of Commerce | 0.9 | The U.S. Chamber of Commerce ('Chamber') is the world's largest business federation representing the interests of more than three million companies of every size, sector, and region. The Chamber is perhaps unique as a commenter. While we do have globally active insurance companies as members, perhaps more importantly we have globally active companies that rely on insurance products. Therefore, we are supportive of the goal of broadly safeguarding against systemic risk; however, we are very concerned with certain aspects of the IAIS consultation and the overall G-SII designation and supervision process.<br>The Chamber's overarching concern is that it is difficult to support the implementation of insurance systemic risk measures while so many critical issues of the G-SII assessment methodology remain undecided. As a result, IAIS' implementation timeline for its G-SII initiative should not be rushed and should take into consideration the need for prior clarity as to what the characteristics of non-traditional and non-insurance activities are and consideration of how these activities are managed through internal risk management programs and practices and regulatory treatment. The IAIS should wait until G-SII assessment methodology is in place before proceeding with its initiative. Once there is more certainty in place, IAIS should revisit its G-SII Policy Measures and seek further public comment to ensure any final approach is appropriately directed at systemic risk-related activity, consistent with broader G-SII assessment methodology, and avoids unintended adverse impacts.<br>Further, our members have serious concerns with the references to the ComFrame that are contained in the proposed G-SII Policy Measures. These references only serve to blur the distinction between G-SIIs and internationally active insurance groups, something that should specifically be avoided. IAIS need to remove these references, but at a minimum clearly clarify that ComFrame is a principles based initiative.<br>Finally, with regard to any capital requirements, the Chamber believes any requirement should be limited to systemically risky, unmitigated non-insurance activities of those companies and would propose that structural separation is not necessary to so direct any additional capital. In addition, the Chamber would not support a global capital standard for international insurers as a blanket surcharge could increase the cost of traditional insurance products and result in reduced offerings of products that support individuals, families and businesses.<br><br>The Chamber appreciates the opportunity to comment and recognizes the important work IAIS has undertaken with its proposal, but it is imperative that the IAIS move forward only after there is greater certainty with regard to the G-SII assessment methodology. Once better understood, IAIS should revisit its initiative, take into account the input it receives from stakeholders through this consultation, and reissue an updated proposal again for comment before concluding. |