January 25, 2018

Mr. Jonathan Dixon
Secretary General
Dr. Victoria Saporta
Chairperson
International Association of Insurance Supervisors
Centralbahnplatz 2
CH-4051 Basel
Switzerland

Re: Holistic Framework for Systemic Risk in the Insurance Sector – Public Consultation Document

Dear Mr. Dixon and Dr. Saporta:

The Institute of International Finance (IIF) and its insurance members appreciate the opportunity to comment on the International Association of Insurance Supervisors' (IAIS) Public Consultation Document on the Holistic Framework for Systemic Risk in the Insurance Sector (the Holistic Framework) issued on November 14, 2018. The IIF and its members have commented on related materials, including in our February 15, 2018 response to the IAIS Public Consultation on an Activities-Based Approach to Systemic Risk. We appreciate the opportunities to comment as the Holistic Framework is being developed by the IAIS, including at the January 15, 2019 stakeholder meeting, and we look forward to continued opportunities to engage in dialogue with IAIS members on the Holistic Framework. The IIF and its members are committed to continuing to work constructively with the IAIS and its members as the Holistic Framework continues to be elaborated in a multi-year, multi-stage process.

We acknowledge the important role of the IAIS in the development by international standard setters of a comprehensive approach to systemic risk in the insurance sector that recognizes cross-sectoral aspects of systemic risk assessment. The IAIS brings sector-specific regulatory and supervisory expertise to the cross-sectoral discussions of systemic risk at the Financial Stability Board (FSB) and we encourage the IAIS to continue this important dialogue with FSB members. We encourage the IAIS to participate in FSB committees and working groups tasked with assessing financial system vulnerabilities and in meetings of the other international financial services standard setters, including the Basel Committee on Banking Supervision (Basel Committee) and the International Organization of Securities Commissions, jurisdictional supervisors (including through the supervisory college mechanism), and ministries of finance and other authorities with responsibility for financial sector systemic risk policy. Through such participation, IAIS members can provide important insights to the FSB and other international and jurisdictional standard setters regarding the important risk absorbing and risk mitigating role of the insurance sector, the conservative insurance industry risk culture and sound risk management, the comprehensive supervisory approach at the individual insurer and insurance group levels, and, as a result, the relatively small systemic risk footprint of the sector when compared to other financial services sectors. Participation in these discussions would also enhance the cross-sectoral perspective of IAIS members, which would be beneficial in conducting global monitoring exercises.

We appreciate the continued evolution of the IAIS' approach to assessing and mitigating potential systemic risk in the insurance sector, including the creation of the Holistic Framework. We encourage the IAIS to continue to refine its approach, building upon and in alignment with the Insurance Core Principles (ICPs) and ComFrame and, to the extent appropriate, integrating into the Holistic Framework, elements of the parallel work that is being conducted in many IAIS member jurisdictions to address macroprudential objectives and financial stability concerns.

The Holistic Framework contains a number of less developed elements, or placeholders, that require continued refinement (e.g. the proposed liquidity and stress testing components). We would encourage the IAIS to use the time between November 2019, when the Holistic Framework is currently scheduled to be adopted, and November 2022, when the Holistic Framework is scheduled to be reviewed, to further refine the framework. We understand that additional clarification and refinement of the Holistic Framework will be communicated through Application Papers. We look forward to engaging constructively with the IAIS on the issues raised in those consultations.

We support the IAIS' on-going movement towards an activities-based approach (ABA) and more absolute measures of risk. We believe that the transition towards greater reliance on an ABA represents a move towards a more effective method of preventing insurance sector risk exposures and vulnerabilities from propagating systemic risk to the global financial system or real economy. An ABA also addresses the flaws of the entity-based approach (EBA) and its attendant designations of insurers as systemically important, including the use of factors that may have an indirect or attenuated connection to systemic risk and the application of uniform weightings that may not be conducive to precise calibration given differences among insurers and insurance markets. In moving towards an ABA, the IAIS should clearly identify the linkages among activities and the potential for the propagation of systemic risk to the wider global financial system or real economy.

Key Themes

- We believe that the on-going transition towards greater reliance on an ABA represents a move towards a more effective method of preventing insurance sector risk exposures and vulnerabilities from propagating systemic risk to the global financial system or real economy.
- The linkage between insurer risks and exposures and the potential material impact on the global financial system and real economy should be better articulated.
- The proposed supervisory policy measures, the supervisory powers of intervention and data collections should be better aligned with the potential sources and transmission channels of systemic risk as well as with the overall supervisory objectives of the Holistic Framework.
- We agree with the IAIS' assessment that microprudential tools can play an important role in achieving macroprudential objectives in addition to their primary goal of protecting policyholders.
- In designing and implementing policy measures, the IAIS should consider how the application of certain microprudential tools could serve to reduce macroprudential risk. The IAIS should consider additional macroprudential tools only to the extent that there is a gap in microprudential measures that cannot be filled with additional or expanded microprudential tools. In designing any necessary macroprudential measures, the interplay of microprudential and macroprudential

tools should be assessed and care should be taken to avoid the unintended consequences of macroprudential measures on insurers and/or their policyholders.

- In particular, the powers of intervention proposed in Section 3.5 may be beneficial in addressing problems at an individual insurer or group but could have negative unintended consequences if applied for macroprudential objectives. Supervisory powers of intervention should be viewed as extraordinary, far-reaching emergency measures to be applied in a limited and proportional manner to insurers conducting activities that are giving rise to systemic risk concerns.
- We appreciate the IAIS' effort to enhance the cross-sectoral nature of its approach to insurance systemic risk analysis; however, we believe there is room for improvement and have some concrete suggestions for further enhancements and refinements to the IAIS' approach.
- We encourage the IAIS not to use the insurance capital standard (ICS) as a monitoring and assessment element during the Monitoring Period, as it is still in development, has not been tested adequately, and, thus, is not yet fit for purpose.
- Material changes to the ICS and robust ICS impact assessments are needed ahead of and during the five-year ICS monitoring period. This work is necessary to inform whether and how the ICS would fit into the Holistic Framework and how the ICS interacts with other IAIS and jurisdictional policy measures.
- We welcome additional clarification from the IAIS on the application of the proportionality principle.

General Comments

The IIF believes the Holistic Framework represents the continued positive evolution of the IAIS' approach to systemic risk and we encourage continued development of this work. In particular, we support the IAIS' ongoing shift towards an ABA and more absolute measures of risk, as they provide more effective methods of assessing and mitigating insurance sector risk exposures and vulnerabilities from propagating systemic risk to the global financial system or real economy. As the IIF has previously noted, we believe that an appropriately designed ABA would address many of the flaws of the EBA.

As noted in Paragraphs 21 and 49 of the Holistic Framework, the FSB, the International Monetary Fund and the Bank for International Settlements define systemic risk as the risk of widespread disruption to the provision of financial services that is caused by an impairment of all or parts of the financial system, and which can cause serious negative consequences for the real economy. Fundamental to the definition is the notion of negative externalities from a disruption or failure in a financial institution, market or instrument. See *IMF-FSB-BIS Elements of Effective Macroprudential Policies, Lessons from International Experience*, 31 August 2016. Generally, insurers act as a source of stability to financial markets by serving as a stable source of investment funding and by assuming risks that consumers otherwise would bear. While insurers may be impacted by extreme market conditions, their stable business model and prudent risk management reduce the likelihood that they would propagate systemic risk to the broader financial markets or the real economy.

The IAIS should focus on the risk exposures and activities of insurers that have the greatest potential to propagate systemic risk to the wider global financial system or to the real economy through the asset liquidation and exposure transmission channels. This should be done keeping in mind that liquidity and

interconnectedness are two key pillars that are essential to the financial system as a whole and through which insurers (and other actors) are able to contribute positively to the functioning of the financial system. The IAIS should further articulate the linkages among these risks and exposures and the impact on the global financial system and real economy (for example, in Figure 1). Supervisory policy measures, the supervisory powers of intervention and data collection efforts would benefit from a closer alignment with the sources and transmission channels of insurance systemic risk that the measures are intended to address, as well as with the overall supervisory objectives of the Holistic Framework. This also applies to consideration of how microprudential measures are envisioned to help address macroprudential supervisory objectives. Enhancing these linkages would greatly enhance transparency and facilitate stakeholder input.

We agree with the IAIS' assessment that microprudential tools can play an important role in achieving macroprudential objectives in addition to their primary goal of protecting policyholders. In analyzing the usefulness of microprudential tools in meeting macroprudential objectives, the IAIS could consider and reference various jurisdictional efforts to assess the value and effectiveness of microprudential tools in accomplishing macroprudential goals.

In designing and implementing policy measures, the IAIS should consider how the application of certain microprudential tools could serve to reduce macroprudential risk and should adopt additional macroprudential tools only to the extent that there is a gap in microprudential measures that cannot be filled with additional or expanded microprudential tools. The IAIS should conduct a refined analysis of each of the macroprudential supervisory tools and powers of intervention to determine how each meets the objectives of systemic risk mitigation and avoids unintended consequences and negative impacts on insurers and their policyholders. In particular, the powers of intervention proposed in Section 3.5 may be beneficial in addressing problems at an individual insurer or group but could have negative unintended consequences if applied to address macroprudential objectives and financial stability.

We encourage the IAIS to allow jurisdictional and group-wide supervisors discretion to apply the important principle of proportionality, as these supervisors are best placed to understand the risk profiles of the activities conducted by companies under their jurisdiction and to weigh the relative merits of various tools to mitigate systemic risk in their markets. We would welcome additional clarification from the IAIS on the application of the proportionality principle.

We appreciate the IAIS' effort to enhance the cross-sectoral nature of its approach to insurance systemic risk analysis; however, we believe there is room for improvement and we have some concrete suggestions for further enhancements and refinements to the IAIS' approach. It is important to consider the likelihood of systemic risk arising from the insurance sector, compared to the likelihood of systemic risk arising from other financial services sectors, and to tailor the policy measures accordingly. We appreciate the IAIS' focus on considering the potential systemic risk of insurers relative to other parts of the financial system, notably the banking sector (Paragraph 1). However, we would encourage further refinements to the indicators, focusing on indicators that are fit for purpose for the insurance business model, rather than on consistency with the Basel Committee's banking indicators, which reflect a very different business model and the banking sector's relatively larger systemic risk footprint.

Comments Related to Sources of Insurance Systemic Risk

Paragraph 37 of the Holistic Framework states that macroeconomic exposure in the insurance sector can accumulate through some types of insurance liabilities, including savings-oriented products, financial guarantee products, or products embedding features that automatically trigger asset sales, or as a result of insurers having significant unmatched guarantees. We acknowledge the need for careful risk management of these exposures and the importance of reviewing firms' risk management policies, practices and controls through the microprudential supervisory process, but would caution against an overly reductive and product-driven macroprudential treatment of long-term products and investments that does not recognize differences in product characteristics and the ability of firms to mitigate risks through sound risk management policies, practices and controls. The IAIS should clearly demonstrate that the nature and materiality of the potential impact on financial stability from specific insurance sector exposures or activities justifies the imposition of a particular macroprudential policy measure or power of intervention.

When considering sources of insurance systemic risk, it is important to recognize that insurers are, in large part, the recipients of in-bound risks and exposures from other parts of the global financial system or real economy. Insurers generally act as shock absorbers, rather than transmitters, of systemic risk. Insurance supervisors should consider macroprudential interventions only where insurance exposures or activities have the clear potential to transmit material systemic risk to the broader financial system or real economy. In assessing the materiality of a particular source of insurance systemic risk, due consideration should be given to how a particular risk is managed actively in the insurance sector or by a particular insurer or insurance group.

As the IAIS is well aware, insurers play a critical role in the support of economic growth and sustainability through the provision of long-term products and the advancement of long-term investment, including infrastructure investment. The IAIS should be mindful of unintended consequences that may disincent socially desirable products and transfer long-term risks to individuals poorly suited to mitigate those risks. A well designed and articulated Holistic Framework should allow insurers to manage their risks in a confident and prudent manner, allowing them to mobilize investment resources into the real economy, consistent with their role as long-term investors and promoters of sustainable economic growth.

Paragraphs 45 and 48 reference cyber and climate risks, respectively. While we encourage the IAIS to continue its work with respect to these two important risks and their linkages to financial and systemic risk, we note that these risks do not emanate from the insurance sector or from the activities of insurers. Given that the purpose of the Holistic Framework is to address systemic risk arising from both the collective activities/exposures of insurers at a sector-wide level as well as from the distress or disorderly failure of individual insurers (see Paragraph 1), the Holistic Framework may not be the ideal vehicle for addressing these in-bound risks to insurers. We appreciate the comments made at the January 15, 2019 stakeholder meeting that specific measures are not contemplated at this time with respect to these risks, in recognition of the need to gather data and conduct further analysis. We look forward to future opportunities to consult on these emerging risks and respectfully suggest that they may be best addressed outside of the Holistic Framework.

We appreciate the recognition in Paragraph 58 that "liquidity risk may become a systemic concern if the sudden liquidation of assets happens on a scale that exacerbates market movements and contributes to asset price volatility." We would welcome similar language throughout the Holistic Framework, emphasizing the need to consider materiality in the design of policy responses to potential systemic risk.

Comments Related to the Transmission Channels of Systemic Risk

The IAIS has identified three main transmission channels of systemic risk: asset liquidation, macroeconomic or counterparty exposure channels, and critical functions. We acknowledge that systemic risk can be propagated to the global financial markets or the real economy through sudden and significant asset liquidations. However, we believe that, in general, the asset liquidation transmission channel is significantly more material for banks and asset managers than it is for insurers, as a result of insurers' relatively matched books, illiquid and long-dated liabilities, recurring premium flows and annual repricing, contractual disincentives for policyholders to redeem contracts, and lower levels of leverage and trading activities.

The example of systemic risk transmission via the counterparty exposure channel arising from derivatives contracts (Paragraph 55) should focus on the provider of the derivatives product, rather than the end user that generally employs derivatives to hedge liability positions. A focus on the end user could disincent sound risk management through hedging. It is incumbent upon the provider of derivatives products to mitigate counterparty risk. The assessment of potential systemic risk related to derivatives transactions and the development of policy measures to address that risk should also reflect the considerable recent enhancements to the derivatives markets designed to reduce the potential for systemic risk arising from these activities. (These enhancements are discussed in Paragraph 103.)

We continue to question the importance of the critical functions transmission channel. It could be argued that insurers do not perform any global critical functions, although they may perform critical functionsat the local level. If and to the extent that an insurer performs critical functions at the local level, jurisdictional supervisors are best placed to design appropriate policy measures that reflect local markets. The IAIS should focus its attention on global critical functions, which we submit are rare if they exist at all.

With respect to the interruption of insurance services referenced in Paragraph 57, the substitutability indicator of systemic risk is not as relevant to the insurance sector as it is to the banking sector. We do not necessarily agree with the statement in Paragraph 42 that substitutability is a "key" concern. The potential systemic impact related to the interruption of insurance products or services should recognize that, when a disruption occurs (e.g. large catastrophe losses), prices have a tendency to harden due to lower capacity and increased risk premiums, and increased premiums attract new sources of capital from both traditional insurers and alternative providers. When an insurer withdraws from or reduces its participation in a market or line of business, other insurers and market participants fill the void and, in this respect, insurance markets are self-correcting. In the rare case that insurers leave a market completely, it is likely due to the fact that the market is no longer sustainable.

Comments Related to Supervisory Policy Measures

The supervisory policy measures would benefit from a closer alignment of each of the measures to the objectives of the Holistic Framework and to the sources and transmission channels of insurance systemic risk that each measure is intended to address. We would suggest the expansion of Figure 1, Systemic risk transmission mechanism, to include, in addition to exposures and transmission channels, the particular policy measures that are designed to be responsive.

We appreciate the statements made by the IAIS that the supervisory policy measures should be applied proportionately, based on the insurer's level of participation in an activity and taking into account actions by the insurer to mitigate the risks of that activity. We urge the IAIS to better reflect in the Holistic Framework how a proportional approach to the policy measures should be and could be applied in practice. The Holistic Framework would also benefit from a fuller explanation of how the supervisory policy measures could be applied to insurers that are not part of an internationally active insurance group.

The IAIS has noted that it is intentionally blurring the line between microprudential and macroprudential policy measures, given the potential role that microprudential measures can play in achieving macroprudential objectives. We agree with the IAIS' assessment that microprudential tools can play an important role in achieving macroprudential objectives in addition to their primary goal of policyholder protection. However, if applied inappropriately, certain tools, particularly the powers of intervention proposed in Section 3.5, could have negative impacts on macroprudential risk and financial stability or could result in conflicts with the objective of policyholder protection. For example, the management of an insurer may find that a liquid asset buffer is beneficial, but a uniform regulatory requirement for a buffer could incent liquidity hoarding that would have negative macroprudential implications. A buffer could also be a blunt instrument if the implementation of the buffer does not take into consideration the insurer's liquidity risk management plans and enterprise risk management (ERM). An ICS that is overly sensitive to market movements could propagate or exacerbate procyclicality and systemic risk. Counterparty exposure limits could unduly restrict the role of insurers as investors and providers of funding. (We note that the IAIS has acknowledged that counterparty and concentration risk already receive considerable attention within the IAIS supervisory material and, thus, it may not be necessary to expand these measures.) We encourage the IAIS to consider the potential unintended consequences of these supervisory powers of intervention on the IAIS' stated microprudential and macroprudential goals and objectives as it continues to develop the Holistic Framework.

In developing the Holistic Framework, the IAIS should consider jurisdictional approaches and requirements in order to avoid duplicative and burdensome requirements on both insurers and supervisors. To that end, we welcome the inclusion of a gap analysis in the four-step approach outlined in Paragraph 9. Supervisors should have the flexibility to adopt those policy measures that are best suited to their supervisory objectives and best address the nature, scale and complexity of insurers in their local markets or insurance groups for which they act as the group-wide supervisor.

We encourage the IAIS not to use the ICS as a monitoring and assessment element during the Monitoring Period, as it is still in development, has not been tested adequately, and, thus, is not yet fit for purpose. Material changes to the ICS and robust ICS impact assessments are needed ahead of and during the five-

year ICS monitoring period. This work is necessary to inform whether and how the ICS would fit into the Holistic Framework and how the ICS interacts with other IAIS and jurisdictional policy measures.

Paragraph 79 proposes a supervisory Standard to establish a framework, including appropriate metrics, for measuring vulnerabilities at the individual insurer and aggregate, sector-wide level. Guidance related to this Standard would call for the development of supervisory stress testing to implement this framework. Potentially three types of stress tests are identified: (i) those that are undertaken by insurers to support their ERM; (ii) top-down supervisory stress tests; and (iii) bottom-up supervisory stress tests. Potentially three data collection and analysis exercises are identified: (i) data collection and analysis supporting the assessment of liquidity risk; (ii) data collection and analysis supporting the assessment of macroeconomic exposure; and (iii) data collection and analysis supporting the assessment of counterparty risk. We would urge the IAIS to further refine this ambitious proposal by considering the utility of the different types of stress tests and data collection and analysis exercises in light of: (i) the specific insurance activities and exposures and transmission channels that are most likely to propagate systemic risk to the broader global financial system; (ii) the most relevant shocks to risk factors and/or macroeconomic scenarios; (iii) the need to reflect the asset and liability profiles and business planning horizons of different types of insurers; (iv) the need to balance model sophistication and detail with data limitations and the risks of estimation uncertainty; and, importantly, (v) resource allocation concerns and a thorough analysis of the usefulness of a particular type of stress test, particularly if that stress test is proposed to be applied on an industry-wide basis.[1] We would also encourage the IAIS to consider the extent to which existing jurisdictional stress testing frameworks could be leveraged effectively for this purpose.

In analyzing the results of stress tests, we would caution against a rigid pass/fail approach and would advocate for both a quantitative and qualitative assessment of the results. Similarly, a less than optimal stress test result should not result automatically in the imposition of additional prudential measures, such as a capital add-on, but should form the basis for a supervisory conversation with the affected firm to discuss how to address the risk exposures that gave rise to a suboptimal stress testing result.

Paragraphs 77, 90, 94 and 105 propose the collection from insurers and analysis by supervisors of granular data on liquidity risk, macroeconomic exposures, and counterparty risk. As a general matter, the insurer's own risk and solvency assessment (ORSA) should be the source of information on an insurer's risk management and further information should be required only on an exception basis. The collection by supervisors of significant amounts of additional granular data would impose substantial burden on both insurers and supervisors.

We encourage the IAIS to refrain from imposing a Standard that supervisors require insurers to develop separate liquidity plans. In many jurisdictions, liquidity planning is part of the ORSA and ERM framework and a requirement for separate liquidity plans would be duplicative and burdensome. As noted in Paragraph 85, the management of liquidity risk is integral to ERM.

It would be more appropriate to limit the dissemination of more granular information and metrics on liquidity risk to supervisors. With respect to disclosures to supervisors (i.e. regulatory reporting), the

[1] For example, while we acknowledge the importance of liquidity stress testing at the insurer or insurance group level, we question the usefulness of industry-wide liquidity stress tests for the insurance sector.

insurer's ORSA should be the primary source of information and supplemental reporting of capital, solvency measures and liquidity generally should not be necessary or required. For example, the reporting contemplated by Paragraphs 77 and 94 should be covered by the ORSA, where those risks and exposures are material to the insurer.

Paragraphs 93 and 94 propose the addition of a Standard to ICP 20 that the supervisor requires quantitative and qualitative liquidity risk disclosures, in order to give more prominence to liquidity risk in disclosure requirements. Further requirements for liquidity risk disclosures to the market may not be particularly helpful and could lead to confusion, as market participants generally have a limited understanding of liquidity risk measures and metrics. Moreover, the IAIS should acknowledge and reflect the fact that market regulators generally impose disclosure requirements related to liquidity risk (and other key risks). Any liquidity risk disclosure standards should also consider differences among business models, national and regional markets, and focus on the unmet needs, if any, of investors and the general public for information. Supervisors should not impose contradictory or duplicative requirements.

We have raised a number of issues in our response to the IAIS' Draft Application on Recovery Planning, which we will not repeat here, but we would request amendment of the language in Paragraph 112 of the Holistic Framework that refers to a "roadmap" for how the insurer could re-establish its financial position. A recovery plan is not a roadmap but a set of plausible options to restore an insurer to financial health. The precise course of action under a recovery plan cannot be determined until a particular stress event occurs.

Benchmarking of recovery plans (Paragraph 113) should be conducted in a manner that recognizes the unique risk profiles of insurers and insurance groups, as well as the broad range of acceptable approaches to recovery planning and the wide scope of possible recovery options. Moreover, any benchmarking exercises should be conducted with due consideration of confidentiality and the need to protect proprietary information.

Comments Related to Supervisory Powers of Intervention

We appreciate the helpful clarification of the supervisory powers of intervention provided at the January 15, 2019 stakeholder meeting and would encourage the IAIS to memorialize the clarification that these powers are temporary actions to be taken at the discretion of the national supervisor in response to specific circumstances, with appropriate consultation with other affected jurisdictions.

Supervisory powers of intervention should be viewed as extraordinary, far-reaching emergency measures to be applied in a limited and proportional manner to insurers conducting activities that are giving rise to systemic risk concerns. Any use of the supervisory powers of intervention should be based on objective criteria and due consideration of other, less invasive supervisory measures that could be used to address the risk. Supervisors should consider the interests of a wide range of stakeholders before electing to use supervisory powers of intervention; supervisors should consider, at a minimum, the interests of policyholders, shareholders, debtholders, the market in which the insurer operates, the global insurance sector and the financial services sector. Supervisors should be encouraged to identify and quantify the materiality and potential systemic risk impact of an exposure or activity before imposing a supervisory

power of intervention, justify in writing the use of the supervisory power of intervention, and provide a clear time limitation for the discontinuation of or, at a minimum the review of, the use of the power. Any application of the supervisory powers of intervention should be at the individual insurer or insurance group level to avoid overbroad application to the entire sector or a particular sub-sector and potential unintended consequences.

Altering a company's sales practices, imposing large exposure limits, restricting the transfer of assets, restricting the activities of a subsidiary, freezing assets, imposing stays on surrenders, or lowering the maximum rate of guarantees would likely result in grave harm to an insurer's franchise and to the entire industry through the abrogation of contracts and reduced market and policyholder confidence. Any measures that would restrict the ability of an insurer to offer particular products could interfere with the provision of necessary long-term products and shift risks to policyholders ill-suited to absorb those risks. Capital add-ons generally should be avoided, as they are a blunt instrument, as is suggested by the admonition that supervisors should clearly document the rationale for an add-on, explain the specific risk it is designed to mitigate, and restrict the use of an add-on to a pre-determined fixed period.

Paragraph 123 states that a supervisor may need to intervene on macroprudential grounds, even in cases where every individual insurer still operates in a manner that is consistent with microprudential requirements. Supervisors should be cautioned that any such intervention could risk significant unintended consequences and any such action should be considered only in the most extreme circumstances and only after full consultation with other macroprudential authorities in the relevant jurisdiction(s). We appreciate the acknowledgement by the IAIS at the January 15, 2019 stakeholder meeting that the supervisory powers of intervention may have procyclical impacts and that, as the Holistic Framework continues to be developed, IAIS members are committed to reviewing the potential for such impacts in order to mitigate procyclicality.

Paragraph 124 calls for a report on the management of systemic risk as a way to integrate elements of the Systemic Risk Management Plan (SRMP) into the supervisory toolbox. At the outset, we would suggest that the SRMP is largely duplicative of insurers' ERM frameworks and generally does not provide significant added value or additional insights. We would also caution against developing a list of systemically risky activities that does not take into consideration, in a holistic manner, the materiality of those activities and whether and to what extent the conduct of those activities could transmit systemic risk to the wider global financial system.

Comments Related to Global Monitoring Exercises

The consideration of the cross-sectoral aspects of systemic risk (e.g. Paragraphs 152 and 153) is intended to compare the potential systemic risk of insurers with other parts of the financial system, notably the banking sector. However, the discussion of the cross-sectoral dimension needs to acknowledge that insurers are considerably less systemic than banking organizations and are more likely to be affected by in-bound systemic risk from other parts of the financial services sector than to be the source of financial stability concerns. Even where activities of insurers can potentially give rise to systemic risk concerns, the level of those activities in the insurance sector often pales in comparison to the conduct of those activities in other sectors. The discussion of the cross-sectoral aspects of systemic risk is an important discussion

that should be further elaborated with respect to the relative contributions of the sectors to potential systemic risk.

Any assessment of insurance systemic risk needs to be based on the materiality of the exposures or activities that have potential systemic risk impacts on the global financial markets or the real economy and on a comparison of the level of the activity or exposure in the insurance sector to the activity or exposure across the market including, where appropriate, the entire financial services market (e.g. including banking organizations and asset managers). The exclusion of banking data proposed in Paragraph 153 would not allow for such a comparison. The suggestion to use only insurance data would not reflect global financial activity and could result in distorted and potentially less meaningful results, especially considering the much larger size of the banking sample and the relative contributions of banks and insurers to systemic risk.

The IAIS' plans for data collection need to be better articulated as to what data would be collected and from whom (firms or regulators), the level of data granularity and, importantly, the dissemination and use of the data in light of confidentiality concerns and the need to protect proprietary information. Any data collection exercise should be well coordinated in order to avoid unnecessary or duplicative data requests and take into consideration the cumulative impact of jurisdictional, regional and global data collection and monitoring exercises. The IAIS should clarify which template would be used for data collection. Paragraph 19 references the 2016 G-SII data collection template but changes have been made to that template to increase the scope and granularity of the data collection exercise.

More broadly, the recommendations for data collection need to be better aligned with the sources and transmission channels of systemic risk and based on plausible thresholds for potential emerging systemic risk concerns. We acknowledge that the IAIS is proposing some appropriate changes to the indicators and weighting in Section 4.1.1. of the Holistic Framework but we believe that the indicators, even as revised, continue to represent to a large extent a proxy for size and continue to be based on a Basel Committee construct that does not reflect well the business model and risks of an insurer. While we welcome the effort to develop a cross-sectoral view of the potential sources of systemic risk, the interest in cross-sectoral consistency needs to be balanced carefully with the importance of ensuring that the framework is suitable for the insurance business model. The indicators are also closely tied to specific products, such as derivatives and securities financing transactions, which may be relevant at a particular point in time but may lose relevance as products and markets change. We believe that a focus on risk exposures, rather than particular products, may be more relevant and adaptable over time.

The IAIS should reconsider its proposed retention of a scoring approach in connection with the indicators. In our view, a scoring approach is unnecessary in light of the suspension of designations of potentially systemically risky insurance groups. Moreover, a scoring approach does not take into consideration the materiality and risk management of the activities and exposures, both of which are critical considerations in determining whether the insurer poses the potential for systemic risk propagation to the global financial system or real economy. If a scoring approach is retained, the mechanics of the scoring calculation (Paragraph 150) should be based on absolute values reflective of the global financial markets and consistent with the methodology for specific indicators in the 2016 G-SII data collection.

The aggregation of data under a macroprudential framework, which may be appropriate for a relatively homogeneous banking industry, is less meaningful for insurers with very different product mixes, business models and asset and liability profiles and different approaches to and tools for risk management. The aggregation of insurance data risks creating inaccuracies in and misunderstanding of the data as a result of differences across companies. This has been demonstrated in the information collections for the G-SII designation process with respect to data on derivatives trading. (See Paragraph 47 of the 2016 Updated G-SII Assessment Methodology.) We urge the IAIS to limit the aggregation of data to circumstances where there is a clear demonstration that the aggregation of specific data points would advance specific supervisory interests and would not lead to inaccuracies or misunderstanding of the data as a result of differences across companies.

The authority of the national or group-wide supervisor should not be impaired by the collective discussion of the results generated by individual insurers as part of a global monitoring exercise (see Paragraphs 134 and 173). Consideration of an appropriate supervisory response should be the responsibility of the national or group-wide supervisor, not a collective decision of IAIS members. We encourage anemphasis on jurisdictional or supervisory college exercises, the high-level results and global implications of which could be discussed by IAIS members, subject to confidentiality and the protection of proprietary information. The IAIS should focus its monitoring efforts on carefully aggregated insurance data and should also consider aggregated data from other financial services sectors in order to develop a robust cross-sectoral perspective. The IAIS should focus on the global (as opposed to local) implications for systemic risk and financial stability, consider the materiality of those risks and threats to financial stability, and recognize that risks and threats within an insurer or among insurers in a particular jurisdiction do not necessarily pose risks and threats to other insurers, to the global financial system or to the real economy.

We agree with the proposal in Paragraph 145 to drop the non-policy holder liabilities, non-insurance revenues and turnover indicators and to combine and rescale the short-term funding and liability liquidity indicators. This change should allow the IAIS to focus on the indicators that are most meaningful in light of the business model and activities of the insurance sector, rather than to focus on consistency with the Basel Committee or other international standard setters. For insurers conducting a banking business, the assessment of the systemic nature of the banking-insurance group could be conducted under separate evaluations of the banking and insurance businesses using the Basel Committee and IAIS methodologies, respectively, which then could be reviewed jointly by the two standard-setting bodies.

The proposal in Paragraph 145 to exclude securities financing transactions (SFTs) from the short-term finance measure only when the reuse or re-hypothecation of collateral is explicitly contractually prohibited would lead to the inappropriate inclusion of SFTs where the actual practice is not to reuse or re-hypothecate collateral. We propose to reword this Paragraph to exclude SFTs when either the contract prohibits collateral re-use or re-hypothecation or the insurer's actual practice is not to re-use or re-hypothecate collateral.

The proposed continued inclusion of Level 3 assets (Paragraph 145) is inappropriate in the context of insurers' asset liability management and liquidity management practices and in light of the duration of the liabilities that Level 3 assets are held to match. The absolute value of Level 3 assets is not a meaningful indicator of asset liquidation risk, absent an analysis of the liabilities they match. Where Level 3 assets

are held to match illiquid liabilities, there is no material liquidity risk. Moreover, use of this indicator could disincent long-term investments, which serve important societal purposes, as well as help insurers match long-term illiquid liabilities. We suggest that the IAIS eliminate this indicator.

The inclusion of a derivatives indicator and short-term funding and liability liquidity indicator would effectively double count derivatives exposures and the methodology should be amended to eliminate this duplication. Moreover, the indicators do not reflect the situation in which other sources of liquidity may increase when markets move against a given position and, thus, the posting of variation margin or collateral would be less of a strain on liquidity. A net measure of impact or exposure would be much more meaningful. Moreover, these indicators should differentiate between activities in which insurers are end-users and activities where insurers are providers, and focus on the latter category.

The Holistic Framework timeline (Paragraph 19) states that the IAIS will continue the annual global monitoring exercise, including the disclosure, "to the extent relevant" of a Public Report, as described in the transparency paragraphs of the 2016 Updated G-SII Assessment Methodology. Paragraph 83 of the 2016 Updated G-SII Assessment Methodology provides for a public release of information following the annual publication by the FSB of a G-SII list, if any. We continued to be concerned about any release of information to the public as such publication could expose confidential and/or proprietary information. Moreover, the Holistic Framework fails to provide any details of the types of information that could form part of a public disclosure proposal and, therefore, stakeholders are unable to provide meaningful input at this point in time. If a public disclosure element is included in the Holistic Framework, more detail should be released for public consultation, including details about the types of information to be disclosed and the manner and timing of such disclosure.

Comments Related to Annex 1

The IAIS has proposed revisions to the EBA indicators, which represent an improvement to the current methodology. However, the focus should be, in the first instance, whether and to what extent an individual insurer is engaging in systemically risky activities. The indicators can then be used to help determine how risk could be transmitted to the wider global financial system and real economy.

Measuring an insurer's activity in the derivatives market using the notional value of OTC derivatives (Paragraph 3 of Annex 1) would produce an inappropriately inflated value of those activities and is inconsistent with the net measure used in the intrafinancial assets and liabilities measure (Paragraph 1 of Annex 1). Netting is a commonly accepted and utilized method of reducing OTC derivatives exposure that is consistent with sound risk management and should not be disincented by measuring exposures on a gross basis. Net exposure is recognized with respect to the infrafinancial assets and liabilities indicator and a comparable treatment should be accorded to OTC derivatives.

Table 5 proposes a combination of time restraints and economic penalties for the short-term funding and liability liquidity indicators. We would encourage the IAIS to assess liability liquidity in a more holistic manner, giving due consideration to factors such as premium payment structures and economic penalties for cancellation. The rationale for the weightings in Table 5 is not clear and some of the proposed weights could give rise to significant cliff effects.

Comments Related to Annex 2

Annex 2 to the Holistic Framework elaborates the elements that may be included in a forthcoming Application Paper on liquidity risk management and planning. We caution against adopting the conceptual approaches used in current banking supervisory frameworks. In developing guidance on liquidity risk management and planning, we encourage the IAIS to focus on the indicators on liquidity risk that are most meaningful in light of the business model and the activities of the insurance sector. In adopting liquidity risk management tools, the IAIS should avoid rigid, one-size-fits-all measures that do not reflect the risk profile of an insurer, or simplistic asset-bucketing approaches that ignore the more impartial but risk-based insurance supervisory regimes in place in many jurisdictions, and that could have negative impacts on macroprudential objectives and financial stability.

We understand that the Geneva Association (GA) also is filing a response to the Holistic Framework consultation and we would like to express our support for and alignment with the GA response.

We appreciate the IAIS's consideration of our comments and the dialogue between the IIF and the IAIS on these important topics.

Should you wish to discuss this response, please contact Mary Frances Monroe (mmonroe@iif.com) or Ningxin Su (nsu@iif.com).

Yours sincerely,

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