August 15, 2019

Dr. Victoria Saporta
Chairperson
Mr. Jonathan Dixon
Secretary General
International Association of Insurance Supervisors
Centralbahnplatz 2
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Re: Public Consultation of IAIS Supervisory Material

Dear Dr. Saporta and Mr. Dixon:

The Institute of International Finance (IIF) and its insurance members welcome the opportunity to comment on the June 14, 2019 draft supervisory material related to the Holistic Framework for Systemic Risk in the Insurance Sector (Holistic Framework) and the revisions to the supervisory material published for comment (collectively, the IAIS Supervisory Material). On January 25, 2019, the IIF commented on the Holistic Framework consultation document and we wish to reaffirm and reiterate the key themes raised in that comment letter.

Our response is organized as follows. We first offer comments on the draft supervisory material related to the Holistic Framework in Insurance Core Principles (ICP) 24, 10, 16, 9 and 20 and related ComFrame material. We then provide comments related to the other revisions to the IAIS Supervisory Material in ICP 7 and the Glossary.

Introductory Comments

As noted in our January 25, 2019 comment on the Holistic Framework, the IAIS brings an important insurance perspective to the cross-sectoral discussions of systemic risk at the Financial Stability Board (FSB) and we encourage the IAIS to continue and enhance its dialogue with the private sector, FSB members, members of the other financial services standard setting bodies, and with ministries of finance and other authorities responsible for financial sector systemic risk supervision and oversight. We also encourage the IAIS to continue its movement towards an activities-based approach to systemic risk (ABA) based on more absolute measures of risk and clear linkages among activities and the potential for the propagation of material levels of systemic risk to the global financial system or real economy through the transmission channels of asset liquidation and counterparty exposure. We believe that an ABA represents a more effective method of preventing insurance sector risk exposures and vulnerabilities from propagating systemic risk. We further believe that it serves as a more appropriate approach for jurisdictional supervisors to employ to gain insight into and to assess potential vulnerabilities and material sources of systemic risk within their respective markets.

Additionally, we understand that while this consultative document covers a portion of the Holistic Framework, further work on other elements is continuing, including content regarding the role of the IAIS.

Given the interconnections among these components, our comments should be reviewed in a comprehensive manner and considered in light of both the current material subject to consultation and the Holistic Framework as a whole.

Comments on Draft Supervisory Material Related to the Holistic Framework

ICP 24 (Macroprudential Supervision) (and related provisions of ICP 10 (Preventive Measures, Corrective Measures and Sanctions))

General Comments

As noted above, the current material subject to consultation provides an incomplete view of the Holistic Framework that the IAIS intends to adopt in November, which makes it difficult to fully assess its appropriateness. In light of this point, we note the importance of distinguishing between the expected responsibilities of local supervisors and the anticipated role of the IAIS, particularly its Macroprudential Committee. We believe that local supervisors should be tasked with identifying activities that could be potential material sources of systemic risk in their respective markets. Local supervisors are best positioned to exercise judgement on how the proportionality principle should be applied in practice. In parallel, and by leveraging the work of jurisdictional supervisors to the greatest extent possible, the IAIS should focus on determining if potential sources of systemic risk are approaching aggregate levels that could threaten global financial stability.

At both the jurisdictional and global levels, this work should include appropriate consideration of the insurance sector relative to other financial services sectors. A cross-sectoral perspective on systemic risk is of critical importance, as activities that may contribute to potential systemic risks often are not conducted by one sector alone and may be conducted by entities outside of the financial services regulatory perimeter. A broad view of activities across markets would help to identify all sources of potential systemic risk and assist in determining the materiality of insurance sector activities and their relative contribution to market-wide activities that are of concern to financial services supervisors.

The IIF believes that for any activity to be systemically risky, there must be evidence of a connection via the transmission channels of asset liquidation or counterparty exposure and the magnitude of the risk transmitted must be material in terms of the potential impact on the financial system or real economy. We would propose revising ICP 24 to reflect the channels through which systemic risk can be transmitted to the broader financial markets or real economy, as follows:

> *The supervisor identifies, monitors and analyzes market and financial developments and other environmental factors that may impact insurers and the insurance sector, uses this information to identify vulnerabilities that could be transmitted to the global financial system or real economy via the systemic risk transmission channels of asset liquidation or counterparty exposure and addresses, where necessary, the build up of those risks where they could materially impact the financial system or real economy.*

Similarly, we would revise the second sentence of ICP 24.0.2 to refer to the buildup of vulnerabilities in the sector as a whole that can be transmitted to the financial sector or real economy through the transmission channels of asset liquidation or counterparty exposure where they could materially impact the financial system or real economy.

Throughout the standards and guidance in ICP 24, the reference to "the supervisor" should be clarified to refer to the group or lead supervisor in the case of insurance groups. This would clarify that the group or lead supervisor is responsible for coordinating an overall group-wide view of potential systemically important activities and avoid the possible perception that host supervisors should conduct an independent assessment of the systemic importance of insurance entities under their jurisdiction.

Comments Related to Introductory Guidance

The introductory guidance to ICP 24 diverges from the description of macroprudential surveillance contained in Paragraph 69 of the Holistic Framework released for public consultation on 4 November 2018, which reads as follows:

> *Macroprudential surveillance can be considered the starting point for the supervisory process of mitigating systemic risk, providing a powerful diagnostic tool for risks that are building up either at a sector-wide level or at the level of an individual insurer. It also provides for a solid foundation for the use of policy measures based on a macroprudential concern. Finally, Macroprudential surveillance serves as a basis to assess the effectiveness of policy measures.*

The reference to size, complexity, lack of substitutability and/or interconnectedness of a distressed or failing insurer in the first sub-bullet under the second bullet of ICP 24.0.3 is inconsistent with the IAIS' decision to move away from a binary approach in which certain additional policy measures are only applied to a relatively small group of insurers". ICP 24 should reflect the IAIS proposal to adopt an approach "with a proportionate application of an enhanced set of policy measures to address activities and exposures that can lead to systemic risk targeted to a broader portion of the insurance sector." (See 3d Bullet, Paragraph 1, Executive Summary, IAIS Holistic Framework Consultation Document 4 November 2018). We therefore recommend the deletion of this sub-bullet, or the replacement of this language with the following: "a build up of vulnerabilities in the insurance sector that can transmit material levels of systemic risk to the broader financial system or real economy through the systemic risk transmission channels of asset liquidation or counterparty exposure."

The second sub-bullet properly focuses on activities and should be retained. In addition to a focus on activities, ICP 24.0.3 should also focus on how the activity is managed and the extent to which mechanisms exist to mitigate the risks of the activity. As explained in Paragraph 59 of the 4 November 2018 IAIS consultation, it is not the size of an activity alone, but also how it is managed, that determines the level of risk.

Comments Related to Data Collection

In the absence of full information about contemplated data collections under the Holistic Framework, it is not possible to fully comment on the appropriateness of this section of the ICPs. That said, we believe the focus of the IAIS should be on providing broad guidance on the types of information that could be helpful to local supervisors and jurisdictions in achieving macroprudential objectives. The IAIS should encourage the use of publicly available data and/or information within existing supervisory tools or reports whenever practical and possible. Such an approach should also be employed for purposes of any data collection the IAIS performs as part of its efforts to identify, assess and mitigate potential aggregate sources of risk that could disrupt global financial stability.

An overarching issue with respect to data collections is the sharing of data among the jurisdictional supervisors and with the IAIS. We believe that ICP 24 should focus on the sharing of aggregate industry data that could point to collective exposures that may give rise to systemic risk. We understand that the IAIS has initiatives underway to resolve impediments to data sharing and would encourage those efforts, along with appropriate measures to preserve the confidentiality of insurer data.

We appreciate the language in ICP 24.1.1 regarding the efficiency of data collections. In designing data calls, supervisors should carefully consider what data is needed, from what source(s) and for what purpose. A primary focus should be on data that is likely to assist supervisors with the identification of vulnerabilities that could be transmitted to the broader financial markets and real economy through the asset liquidation and counterparty exposure transmission channels. Data points that are collected or available from public sources or from insurers' regulatory reports should not be overlooked and, when there is a need to gather data from insurers beyond what is already available, data calls should be carefully tailored to avoid undue burden and to protect confidential or commercially sensitive information or data that is subject to privacy rules. The overly broad language in ICP 24.1 (and, particularly, ICP 24.1.5) runs counter to the IAIS' stated goal of first surveying publicly available information before imposing burdensome data calls on the industry.

The microeconomic information collection referenced in ICP 24.1.5 lacks a necessary forward-looking macroeconomic context for the assessment of systemic risk and does not link with the preceding sections that focus on liquidity risk, macroeconomic exposures and counterparty risk. The broad list of data is insurance-specific, historical and backward-looking, and does not include the full range of cross-sectoral, cross-market activities or exposures that could potentially contribute to systemic risk (e.g. excessive leverage). Moreover, the collection of this microeconomic data would not further the interests of the IAIS in collecting consistent information across jurisdictions for the purpose of assessing sources of potential insurance sector systemic risk. A better articulation of the types of information that would be useful to supervisors is contained in ICP 24.2.9. In this section, both inward and outward risks are considered, and a clearer macroeconomic link is established. These provisions could be augmented by a recognition of the need to consider activities across the broader market (including activities conducted by non-insurers). We encourage the IAIS to replace existing ICP 24.1.5 with the following language:

> *The supervisor should consider forward-looking data on the activities of insurers, including data related to non-insurance activities, when assessing insurers' exposures to liquidity risk, interconnectedness (macroeconomic and counterparty exposure) and other risks, both inward and outward. The supervisor should also consider similar data on these activities across the financial services sector (e.g. activities conducted by banks and asset managers) in order to determine the materiality of the activities of insurers compared to other financial services sectors. The supervisor should only consider actions to limit the activities of insurers in cases where it is demonstrated*

clearly that (i) the activity has the clear potential to transmit systemic risk to the global financial system or real economy, and (ii) insurers are engaged in those activities to a significant and material extent.

Comments Related to Insurance Sector Analysis

While, in general, horizontal reviews can provide useful insights into sector-wide vulnerabilities and potential sources of systemic risk, supervisors should consider carefully the need for and benefits to be gained from large-scale industry horizontal reviews. ICP 24.2.4 should be reworded to state that, "the supervisor may consider horizontal reviews…" as one of many different methods of quantitative analysis (as noted in ICP 24.2.2). The language of ICP 24.3.4 regarding the need to consider carefully the composition of insurer peer groups is equally appropriate in the design of horizontal reviews and should be repeated in this section.

ICP 24.2.4 raises the implication that an outlier firm should be targeted for a supervisory response, which may not necessarily be an appropriate conclusion. A firm may be an outlier for a number of reasons related to its business model or mix of activities or its focus on a niche market. Supervisors should be encouraged to first engage in a discussion with the identified firm to better understand the reasons for the outlier results, to assess whether the firm has measures in place to mitigate any risks arising from the outlier activities, and to determine whether a formal supervisory response is required.

With respect to ICP 24.2.12, it is not clear why "macroeconomic exposure in insurance liabilities" would be a function of the "complexity of the underlying risk/legal environment." We encourage the IAIS to clarify this reference or delete the phrase.

Comments Related to Assessing Systemic Importance

The language of ICP 24.3 and the first sentence of ICP 24.3.1 are inconsistent with the IAIS proposal to abandon a binary approach for an approach "with a proportionate application of an enhanced set of policy measures to address activities and exposures that can lead to systemic risk targeted to a broader portion of the insurance sector" (See 3d Bullet, Paragraph 1, Executive Summary, IAIS Holistic Framework Consultation Document 4 November 2018). Therefore, consistent with our earlier comment, the language of ICP 24.3 and the first sentence of ICP 24.3.1 should be revised substantially to reflect this new direction.

Moreover, use of the term "supervisor" implies that each jurisdictional supervisor should have a system in place to assess the systemic importance of individual insurers operating in its jurisdiction as well as to assess the systemic importance of the sector as a whole. This could have the knock-on effects of multiple designations of individual insurers, a lack of supervisory resources and, in some jurisdictions, a conflict where a non-insurance regulator or a committee of financial regulators has jurisdiction over systemic risk supervision. We would amend this reference to the supervisor to refer to "the group supervisor or other appropriate authority" and suggest the following revisions to 24.3 and 24.3.1:

24.3 The group or lead supervisor, or other appropriate authority, has an established process to assess the build-up of material risks and exposures from the activities of insurers and to demonstrate potential links to systemic risk transmission channels in the insurance sector.

24.3.1. The group or lead supervisor, or other appropriate authority should take a balance sheet approach when considering material risks and vulnerabilities from the activities of insurers and link these risks and vulnerabilities to identified and agreed systemic risk transmission channels and, consistent with Paragraph 59 of the 4 November 2018 Holistic Framework Consultation, the effective mitigation or management of such material risks or vulnerabilities. Supervisors may want to consider including derivatives trading and reliance on short-term funding and other banking-like market activity in assessing insurance sector risks and vulnerabilities. The supervisor should also consider the interconnectedness of insurers with other financial institutions, and the role of the insurance sector within the broader financial system.

The concept of materiality should be incorporated into Standard 24.3 and the related guidance. Standard 24.3 should refer both to the potential systemic importance of the sector and the materiality of potentially systemic activities and exposures in light of the activities and exposures across the financial services market.

The focus on derivatives activities in ICP 24.3.2 should distinguish between the activities of insurers as end-users of derivatives for appropriate asset/liability management and non-risk management purposes and other derivatives activity that could lead to excessive leverage or concerns regarding interconnected exposures.

We welcome the focus on cross-sectoral coordination and encourage its reflection in other guidance under ICP 24, as noted above. We also agree with the focus on changes in economic conditions or technical changes that may affect the insurance sector's risk exposure. However, we believe ICP 24.3.3 should be amended as follows in order to place the emphasis properly on the materiality of the activities of one or more insurers:

"As part of its assessment, the supervisor should consider recent developments, such as changes in economic conditions or technological changes that may affect the insurance sector's risk exposures. Additionally, the supervisor should cooperate and coordinate with other financial sector supervisors (such as banking, securities and pension supervisors, central banks and government ministries) to gain additional perspectives on the nature, scale and materiality of activities/exposures in the context of the size of the market as a whole in considering whether those activities/exposures have the potential to give rise to systemic risk, and on the potential change in the risk exposures of insurers stemming from evolutions of other markets."

Comments Related to Supervisory Response

In line with our comments above, ICP 24.4 does not reflect the Holistic Framework concept set out in the 4 November 2018 Holistic Framework Consultation. The ICP should be reworded to refer to the potential systemic importance of insurance activities, rather than to the potential systemic importance of individual insurers.

As we noted in our January 25, 2019 comments on the Holistic Framework, supervisors should first assess the efficacy of microprudential supervisory tools before adopting new macroprudential measures. Moreover, the guidance in ICP 10.2.6 should emphasize that preventive measures should be proportionate and targeted to address the activities and risks that are of concern.

Further, the IAIS and local supervisors and jurisdictions must be mindful of the need to appropriately balance the responsibilities of protecting policyholders and preserving financial stability when developing and implementing macroprudential policy measures or taking related supervisory actions. Measures that may seem fully justified from a macroprudential standpoint, such as counterparty limits or restrictions on business activities or products, may have negative impacts on policyholders and may impact the availability of socially necessary or desirable products. The ICPs should emphasize the protection of policyholders as a important supervisory objective and supervisors should be advised to adopt measures that minimize adverse impacts on policyholders.

ICP 24.4.4 references ICP 10, which provides for an extensive list of preventive and corrective measures and sanctions. ICP 10.2 and ComFrame 10.2.a provide that a supervisor should require preventive measures if the insurer seems likely to operate in a manner that is inconsistent with regulatory requirements. In effect, the IAIS seems to be suggesting that supervisors should have extensive powers to restrict, manage and dictate to insurers even if no legal requirement has been violated. We submit that the standard in ICP 10.3 is the correct standard (i.e. the supervisor requires corrective measures if the insurer fails to operate in a manner that is consistent with regulatory requirements). ICP 10.2 and ComFrame 10.2.a should be rephrased to direct supervisors to require the insurer or the Head of the IAIG to take preventive measures if the insurer or group operates in a manner that is inconsistent with regulatory requirements. We submit that the first bullet of ComFrame 10.2.a (a legal entity within the IAIG seems likely to operate in a manner that would have a material adverse effect on the IAIG as a whole) is unduly vague and subjective and should not form the basis for the imposition of such punitive measures. At a minimum, this bullet should be rephrased to refer to a legal entity that operates in a manner that has a material and quantifiable adverse impact on the IAIG as a whole.

The broad supervisory powers in ICP 10.2 and, in particular, ICP 10.2.6, are at odds with the context of Principle 10.2, which is preventive measures. These sweeping powers could fundamentally disrupt an insurer's business based on a potentially faulty assumption that the company is likely to operate in a manner that does not meet regulatory requirements. Moreover, a perceived lack of supervisory confidence in a major insurer could also have contagion effects that would negatively impact the insurer's peers. It is true that, even in a typical "business as usual" situation, supervisors frequently act as gatekeepers in relation to an insurer's activities through review and approval mechanisms. However, that gatekeeper role is far from the role that supervisors could play if supervisors had the discretion to impose the far-reaching measures of ICP 10.2.6, which would enable supervisors to disrupt lawful business even absent a clear finding of a regulatory violation. For example, lifetime bans of key personnel or transfers of liabilities are inappropriate absent a clear violation of law or regulation. If a supervisor is concerned that an insurer seems likely to operate contrary to regulatory requirements, it should first engage in a discussion with senior management prior to taking potentially unwarranted action. The Introductory Guidance to ICP 10 emphasizes a proportionate, tailored and flexible approach to preventive and corrective actions and this approach should be carried through the subsequent ICPs and related guidance.

ICP 10.2 should provide more appropriate differentiation between preventive and corrective measures and identify the appropriate use of each set of measures. Language should be added to ICP 10.2 that requires any preventive or corrective measure to be related to and proportionate to the underlying supervisory concern. As ICP 10.2 is currently drafted, supervisors could take actions that are not relevant to the underlying supervisory concern. For example, capital surcharges and buffers are blunt instruments of limited usefulness in addressing sources of insurance systemic risk. Capital measures can also be procyclical and distort level playing fields. The IAIS should describe how each measure in the supervisory toolkit can be responsive to potential sources of systemic risk; other measures could be described as possible measures that could be taken when they can demonstrably address a specific supervisory concern (e.g. the use of a capital surcharge to address concerns about excessive leverage).

We fundamentally disagree with the view that individual insurers can pose systemic risk to the financial system or real economy and that jurisdictions should pursue designations of individual insurers. To this end, ICP 24.4.3 should be redrafted to align with the IAIS' view that an ABA negates the need for the designation of individual insurers. Supervisory measures within this guidance should focus on the activities of groups of insurers that collectively may have the potential to cause material levels of systemic risk. In particular, the final sentence should be amended to read, "The supervisor should extend certain requirements as necessary to address activities in the market that are of concern based on its assessment of the materiality of the potential systemic risk taking into consideration the nature, scale and complexity of the activities."

Consistent with our past comments, supervisors should be advised to review existing supervisory measures and only impose new measures when existing measures are shown to be inadequate or ineffective. Supervisory measures, particularly emergency measures, should be time-limited and subject to regular review as to whether they continue to be needed and, if so, whether they are effective in meeting the objectives for which they were designed.

The language in ICP 24.4.5 on "time-varying requirements" references cyclical measures, which could be rules-based or discretionary. We are concerned that ICP 24.4.5 introduces the concept that supervisors may develop requirements that are time varying in nature depending on the economic cycle. We believe supervisors should exercise extreme caution in considering such measures as they potentially risk creating incentives for procyclical behavior. The IAIS should consider deleting this guidance.

Comments Related to Transparency

Any publication of high-level aggregate and anonymized data and statistics on the insurance sector should protect confidential or commercially sensitive information. Anonymization of data related to IAIGs may not be sufficient to conceal the identity of the reporting company, given that there are a limited number of directly comparable IAIGs in a heterogeneous market.

Other Comments on ICP 10 (Preventive Measures, Corrective Measures and Sanctions)

As noted above, ICP 10 provides nearly unlimited discretionary powers to supervisors that could severely disrupt the business of individual companies and groups and impact negatively the insurance sector as a whole and, importantly, policyholders. The potential that the imposition of these measures and sanctions could have a direct and deleterious impact on policyholders and other stakeholders should not be overlooked (see e.g. ICP 10.2.7) and supervisors should be cautioned that many of these measures and sanctions should be considered only as a last resort when supervisory discussions have failed.

ICP 10.2.6 provides for supervisory powers to restrict exposures to individual counterparties, sectors or asset classes. ICP 16.6 properly reflects that it is the duty of management to establish counterparty limits. Accordingly, the first sub-bullet under the second major bullet point of ICP 10.2.6, which refers to supervisors having the power to restrict exposures to a counterparty, should be recast to refer to directions to the insurer to review its counterparty exposures and limits in light of supervisory concerns.

Measures and sanctions should be tied directly to the source of systemic risk that the measure is designed to address and/or to the underlying failure to meet supervisory requirements. Measures and sanctions should also be proportionate to the underlying concern. Flexibility and proportionality should be emphasized and consideration should be given to replacing the word “should” with the word “may” throughout this ICP (and others).

The imposition of measures and sanctions should be based on objective criteria and supported by a written statement of the circumstances that have given rise to a material, identifiable and quantifiable systemic risk impact and/or the perceived serious failure of the company to adhere to supervisory standards. The written statement should be provided to the company in advance of the imposition of measures or sanctions and the company should have a reasonable period of time in which to respond in order to correct any misstatements or misperceptions or to take appropriate remedial action. Providing notice to the company would serve the two-fold purpose of avoiding severe unintended consequences or unwarranted action and providing appropriate due process to the affected company.

We strongly encourage the IAIS to advise supervisors to focus first on preventive measures and rely on corrective measures or sanctions only in the case that preventive measures prove ineffective or in the case that a company continually fails to comply with supervisory requirements. The focus on less severe measures in ICP 10.0.6 is helpful guidance that can facilitate a proportionate and appropriate supervisory response in many cases and may avoid harmful public disclosures of relatively minor supervisory concerns and possible contagion effects across the industry if those supervisory concerns are misinterpreted as a sign of industry weakness.

ICP 16 (Enterprise Risk Management for Solvency Purposes)

Comments Related to Introductory Guidance

ICP 16.0.3 should use the broader term “contingency planning,” rather than “recovery planning,” as one of the components of the ERM framework. Contingency planning can include recovery planning, contingency risk measures and liquidity risk measures.

ICP 16.0.9 should note that contingency plans should provide a set of plausible options to a company to limit business disruption and losses resulting from an adverse financial event or operational event. The exact course of action to be taken under a contingency plan depends upon the nature, timing and impact of the event and cannot be determined in advance. Management should have the discretion and flexibility to take the course of action it deems most appropriate under the circumstances, coordinating with the insurer’s primary or group supervisor.

The foregoing comment is also relevant to, and should be reflected in, ComFrame 16.9.c.2, ICP 16.15 and ComFrame 16.15.a.

Comments Related to Risk Identification

We would encourage the IAIS to delete the reference to the “real economy” in ICP 16.1.4, as we believe it is beyond the realistic goals of macroprudential supervision to consider the impact of product options and guarantees on the real economy. (Our comments on this ICP should be considered in conjunction with our comments above on ICP 24.)

Comments on ERM Framework – Quantitative Techniques to Measure Risk

ICP 16 contains references to the “total balance sheet” which are unclear (e.g. ICPs 16.2 and 16.2.3). If these references are intended to reflect a consolidated, enterprise-wide view of the company or group, we encourage the IAIS to reflect a proportionate focus on those activities that are material to the operations of the company or group and that have the potential to give rise to material levels of systemic risk, taking into account any risk mitigants.

ICP 16.2.23 and ComFrame 16.2.b.2 enumerate specific activities that can give rise to accumulated macroeconomic exposure in the insurance sector. As we noted in our January 25, 2019 response to the IAIS consultation on the Holistic Framework, we acknowledge the need for careful risk management of these exposures 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. Focusing on one type of exposure or activity could result in a disproportionate emphasis on that exposure or activity, to the exclusion of other exposures or activities (particularly those that may be new to the market).

Macroeconomic exposure is not simply linked to a particular liability or activity but, rather, is dependent on the asset/liability management (ALM) strategies used to mitigate the risk. A simple liability with a poorly managed ALM strategy can give rise to as much macroeconomic exposure as a well-hedged complex liability. The proper focus should be on the management of the risk on both sides of the balance sheet and the resulting impact on capital and liquidity.

We would propose deleting ICP 16.2.24 as we believe stress testing is part of a firm's internal ERM framework. It should be up to the insurer to decide what frequency, scope and type of stress testing is appropriate for the firm.

Comments on Asset-liability management, investment, underwriting policies and liquidity risk management

ICP 16.6 provides that the supervisor should require the insurer to include in its ERM framework an explicit investment policy that, as necessary, includes a counterparty risk appetite statement. We believe that insurers should have the flexibility to document their risk appetites in the manner that best fits their ERM framework, for example, by documenting the counterparty risk appetite alongside the capital and liquidity risk appetite in the ERM framework. Counterparty risk limits, which are appropriately included in an investment policy, are referenced in ICP 16.6.4. ICP 16.6.4 should note that counterparty risk limits should take into consideration counterparty collateral requirements. Exposure to a counterparty that is in a stressed financial position with robust collateral in place is very different than exposure to a stressed counterparty without those collateral arrangements.

ComFrame 16.7.d.4 should replace the term "base assumptions" with "key or material assumptions," as assessing the consistency of each assumption used to derive technical provisions with each assumption used to derive capital requirements, economic capital models, or the forward-looking view in the ORSA would be unduly burdensome and unlikely to produce meaningful insights.

In addressing the nature and amount of risks to be underwritten, the underwriting policy should also cover the analysis of market risks, including unexpected rate changes, and this should be reflected in ICP 16.7.4.

With respect to ICP 16.8.1, we note that the assumptions used in an insurer's liquidity analysis are expansive, reflect the unique characteristics of the insurer's liability mix, and involve a high degree of judgment based on extensive management experience. We would therefore recommend that this ICP be reworded to focus supervisory attention on the internal framework and practices used in developing these assumptions, rather than on the assumptions themselves.

ICP 16.9.1 outlines examples of activities that could generate unexpected liquidity needs and then states that these activities may contribute to systemic risk. We note, firstly, that the actual liquidity risk of these activities will vary greatly based upon a variety of factors, including the specific attributes of insurance products with cash value. Secondly, while these activities do need to be managed carefully, the magnitude and impact of these activities across the sector would have to be considerable in order to damage the broader financial system or real economy. We would emphasize the need for careful management of these activities and delete the reference to these activities contributing to systemic risk.

The reference to "unencumbered high-quality liquid assets" in the second bullet point under ICP 16.9 and ComFrame 16.9.b is unduly subjective and the reference to "high quality" should be removed. Whether or not a particular asset is acceptable should be determined in accordance with the insurer's liquidity risk appetite, which is set by senior management with board approval and oversight, and subject to supervisory review and discussion between management of the insurer and the supervisor. An insurer's liquidity risk appetite could, for example, permit the inclusion of certain assets subject to appropriate haircuts and stresses, depending on the time horizon over which the insurer's particular liquidity needs are forecasted. The use of the term "high quality" could also incent undue reliance on credit ratings, which have been shown to be unreliable under certain market conditions. Given that setting the company's liquidity risk appetite is a matter for senior management with board approval and oversight, the final sentence of ICP 16.9.5 should be deleted.

ComFrame 16.9.a.4 should include the likelihood of a stress or scenario materializing among the considerations for an IAIG in designing stresses. This consideration is important in the design of plausible scenario analyses and in prioritizing and allocating resources to stress testing and scenario analyses. A consideration of likelihood is consistent with ICP 16.2.1, which notes that the level of risk is a combination of the impact of the risk and the probability of the risk materializing. ComFrame 16.9.a.4 should also clarify the scope of stress testing and scenario analysis and the purposes for which those tests and analyses should be conducted.

In line with our comment about the time horizon over which the insurer's particular liquidity needs are forecasted, ComFrame 16.9.b.4 should state that assets that the IAIG relies on for short-term liquidity should be unencumbered. Longer-term liquidity needs could be matched with encumbered assets under appropriate circumstances and with suitable review, controls and monitoring.

The second bullet point under ICP 16.9 should include the words "in appropriate locations" at the end of the sentence for consistency with ComFrame 16.9.b.

ICP 16.12 calls for the supervisor to require the insurer's ORSA to, as necessary, assess aggregate counterparty exposures and analyse the effect of stress events on material counterparty exposures through scenario analysis or stress testing. While we acknowledge the need to assess aggregate counterparty exposures and take into consideration the effect of stress events on material exposures, we do not believe that scenario analysis or stress testing is well suited to this assessment. We believe that risk limits, combined with a review of exposures both gross and net of reinsurance, represents what is feasible and reasonable to address counterparty risks. Insurers generally have limited information on counterparties and this information may change rapidly, rendering any scenario analysis or stress test obsolete.

ICP 9 (Supervisory Review and Reporting)

The second sentence of ComFrame 9.6.a.2 should include guidance to supervisors to both inform and cooperate with local supervisors prior to approaching an insurance legal entity as part of an on-site inspection.

ICP 20 (Public Disclosure)

While we agree in principle to the value of public reporting of high-level, easily understandable quantitative information on risk exposures – including liquidity - we caution against an undue emphasis on quantitative information that is not well understood by the average investor or policyholder. At a more fundamental level, public disclosure requirements for many insurers and nearly all insurance groups are dictated by the securities regulators and/or listing authorities and it is not necessary or appropriate for insurance supervisors to impose duplicative and potentially conflicting requirements which could confuse end-users. (This latter point is relevant in particular to ICP 20.11.)

Careful consideration should be given to the types of information that are appropriate for public disclosure and information that should be restricted to regulatory reporting to the jurisdictional or group-wide supervisor. The latter category includes information that is confidential or commercially sensitive, as well as detailed quantitative information that may be confusing to broader market participants, the disclosure of which could be destabilizing to a company or to the broader sector.

Comments on Other Revisions to the IAIS Supervisory Material

ICP 7 (Corporate Governance)

The last sentence of ICP 7.1.3 should be revised to state, "[W]here individuals undertake functions for more than one legal entity within a group, the group should have in place appropriate measures in order to mitigate conflicts of interest between the different roles to be performed by such individuals." Avoiding any and all conflicts of interest could impose a standard that is extremely difficult, if not impossible, to achieve. Language similar to ICP 7.3.7 could be used to redraft this ICP. We also believe the following sentence, "The effective oversight of the executive functions should be performed by the non-executive members of the Board, because they are not involved in the day-to-day management of the insurer." is unnecessary in light of other provisions of ICP 7.1.1. Further, the reference to "executive functions" is inconsistent with other components of the ICP, which refer to "Senior Management".

Glossary

We appreciate the inclusion of a Glossary in the IAIS Supervisory Material, as it serves to establish a common understanding of the scope and definition of key terms. That said, the definition of certain terms (e.g. financial conglomerate) may differ across jurisdictions. It may be appropriate to include a lead-in paragraph to the Glossary that explains that some definitions will vary across jurisdictions and among supervisors due to the manner in which insurance activities are conducted, managed and supervised.

The definition of solvency is overbroad and would serve instead as a good definition of financial soundness. The definition of solvency should be limited to assets in excess of liabilities that are available to meet a company's future obligations as they come due.

We note that the Glossary lacks a definition of several terms that are used in the ICPs and we would welcome the opportunity to comment on proposed definitions of these terms:

- Credit risk
- Concentration risk
- Conduct risk
- Group risk
- Insurance risk
- Investment risk
- Legal risk
- Market risk
- Model risk
- Operational risk
- Political risk
- Reputational risk
- Strategic risk

We appreciate the opportunity to comment on the IAIS Supervisory Material and would be pleased to elaborate or discuss any of our comments with you and other IAIS members. Should you have any questions, please contact Mary Frances Monroe (mmonroe@iif.com) or Ningxin Su (nsu@iif.com)

Respectfully submitted,

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