January 31, 2018

Jonathan Dixon
Secretary General
International Association of Insurance Supervisors (IAIS)
Centralbahnplatz 2
CH-4051 Basel
Switzerland

RE: IAIS consultation on Revised Insurance Core Principles (ICPs) 8, 15, and 16, and related ComFrame Material

Dear Mr. Dixon,

The Institute of International Finance (IIF) and the Geneva Association (GA) would like to thank the IAIS for the opportunity to provide comments to the Public Consultation on Revised ICP 8, 15, 16 and ComFrame materials in these ICPs. The IIF/GA membership is, as always, committed to engage in ongoing dialogue with the IAIS in the insurance standard-setting process and we stand ready to provide industry input to the important project of ICP and ComFrame revision.

As an overarching comment, we appreciate the improvement in structure and clarity of the document. While we have detailed comments on some of the items, we support the exercise of clearly and consistently defining terminologies throughout standards, guidance and other papers produced by the IAIS.

<u>Consistency across IAIS' standards and policy frameworks</u>

In line with our overarching comment to previous consultations, we would like to emphasize the importance of consistency among IAIS' policy frameworks including the ICPs, ComFrame, and the ICS as well as guidance for systemic risk management. The IAIS should take a holistic approach to standard setting and ensure the policy objectives, requirements and guidance are proportionate. In particular regarding requirements in ComFrame, we believe the increased prescriptiveness of requirements and how it is linked to the global nature of an IAIG should be rationalized.

In the particular context of ICPs 8, 15 and 16, while it is important to streamline the structure and language of the ICPs by reducing duplication and incorporating related ComFrame materials, we believe a task of greater significance is to recognize the value of established regulatory requirements in the areas of risk management and investment as key components of insurance prudential regulation and supervision. As the IAIS develops the quantitative measure for solvency for IAIGs (ICS), it should continue to recognize that in addition to adequate capital, sound risk management and investment practices are foundational and effective micro-prudential tools and deserve an important place within solvency frameworks, reducing reliance on capital and producing a more transparent and comprehensive evaluation of a firm's solvency position. Other important risk management tools employed by companies internally, such as ORSA and economic capital models, while they should not be subject to detailed prescriptions in ComFrame, can provide useful insights to both firms and supervisors, both about the company's identification of risk and, as the ICS is developed, as a way of testing the proposed calibrations.

In addition, in the recently published Public Consultation on an Activities-based Approach (ABA) to Systemic Risk, the IAIS identified ICP and ComFrame materials regarding risk management, ERM/ORSA, and investment requirements as established policy measures that serve both a micro- and macro-prudential purpose. A coherent set of views and requirements on issues such as liquidity risk management should be aligned across all relevant ICPs and standards, including in particular ICP 24 on Macroprudential Supervision, in conjunction with the upcoming development of an ABA policy framework.

<u>The ICPs and ComFrame should focus on providing outcome-based principles</u>

Given the local market-oriented nature of the insurance business and global platforms in which large internationally active insurers operate, the ICP and ComFrame materials should focus on achieving comparable regulatory outcomes across jurisdictions.

The existence of different group structures, product features and legal conditions in local markets should be reflected in the standards and guidance of the ICPs and related ComFrame material. We have taken note that some of the requirements in revised ICPs 15 and 16 are overly prescriptive and should better reflect the fact that the material will be applied in these diverse conditions. While we have also provided detailed comments on specific items in the comment templates, we would like to make a general comment and urge the IAIS to reorient the standards so that they more squarely focus on regulatory and supervisory outcomes. Relatedly, the objective of focusing on appropriate outcomes can be reinforced by adjusting the lead-in language "group wide supervisor requires" to "the group-wide supervisor ensures ..."

<u>General comments on Risk Management and ERM</u>

Similar to our comments made above, a major issue we identified in risk management and ERM-related ICP/CF material is the excessive prescriptiveness in the requirements. For example, there seems to be an increased level of prescriptiveness in requirements around ORSA. In the context of an international standard, language around the ORSA is most effective when flexibility is allowed for it to support the open and transparent dialogue internally as well as with the supervisor. Additionally, while we welcome the IAIS' intention to improve alignment of ORSA requirements across jurisdictions, insurers should be encouraged to harness existing processes and approaches required for their legal entities by their local supervisors before that exercise takes place.

Another example is the definition of risk categories in related ICP and CF material. We believe that various definitions of certain risk types and different approaches to categorizing risks exist across insurers and jurisdictions. The IAIS should therefore keep risk categorization and definitions at a sufficiently high level to be able to adequately account for these regional and local variations. In the template, we provide detailed comments regarding specific items.

In addition, given future field testing exercises and the 5-year monitoring period starting in 2019/2020, we understand that the ICS will continue to be developed and changes will be made to certain aspects of the framework, including shock calibrations. For example, when conducting a solvency projection over a 3- to 5-year time horizon, this will have implications on the accuracy of future available and required capital as well as the solvency ratios. The fact that the ICS is not yet determined should be borne in mind when making any business or strategic decisions on the basis of an ORSA exercise.

General comments on Investment

As a general comment on investment requirements, we believe it is important to keep in mind the difference between insurance liabilities and bank liabilities and, therefore, regarding asset-liability management and investment management.

Unlike banks, which are funded by depositors and other short-term creditors who expect payment on demand, policyholders pay premiums upfront, and contractual payments are generally made only if and when an insured event has occurred; thus, the large majority of insurance liabilities are not prone to sudden withdrawals[1]. Furthermore, typical insurance policies and other insurance products are generally either not "surrenderable" or contain terms, like surrender charges and tax penalties, that create powerful disincentives to surrender or early withdrawal. ICP 15 should acknowledge that, given the duration and illiquidity of insurance liabilities, investments in private, relatively less liquid assets, where prudently underwritten, are often entirely appropriate.

Another key point we would like to make concerns ALM. ICP 15 focuses on criteria aiming to have insurers select investments with the objective to keep asset-liability mismatches/ gap risk within certain limits. The ICP seems to consider liabilities as a given (as in "liability driven investments"), while advanced ALM is generally based on an integrated analysis/ view of assets and liabilities. For instance: the insurer should start the assessment of available investments and related risks in a specific market which may well influence product features and future liabilities during product development, and not wait for the liabilities to be on the insurer's book. We would urge the IAIS to take ALM developments more closely into account.

Last but not least, the IAIS may want to consider an overarching prudency principle: with respect to the whole portfolio of an insurer's assets, the principle would promote investment solely in assets and instruments whose risk the firm can properly identify, measure, monitor, manage, control and report, and appropriately consider in the assessment of its overall solvency needs. In addition, assets should be invested appropriate to the nature and duration of insurance liabilities, as well as to ensure the security, quality, liquidity and profitability of the portfolio as a whole. Furthermore, investments should be made in the best interests of policyholders and beneficiaries to avoid any potential conflicts of interest.

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The Joint IIF/GA ICP Working Group is strongly committed to continuing the constructive dialogue and cooperation with the IAIS. Given the number of critical issues highlighted, we believe it is important to continue the direct dialogue with the IAIS in the on-going process of ICP/CF revisions before the 2019 adoption. The IIF and GA stand ready to provide additional views or clarifications. Should you

[1] *Insurance and Financial Stability, IAIS, November 2011.*

have any questions on the issues raised in this letter, please contact Ningxin Su (nsu@iif.com), George Brady (gbrady@iif.com), Peter Skjoedt (peter_skjoedt@genevaassociation.org), or Dennis Noordhoek (dennis_noordhoek@genevaassociation.org).

Very truly yours,

George Brady

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