

IAIS Consultation

Print view of your comments on "Draft Application Paper on Liquidity Risk Management " -
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	Question
Answer	<p>Q1 General Comment on Application Paper on Liquidity Risk Management</p> <p>The American Academy of Actuaries' Solvency Committee appreciates the opportunity to comment on the Application Paper on Liquidity Risk Management.</p> <p>We acknowledge and congratulate the IAIS on their effort to compile guidance reflecting liquidity risk management best practices.</p> <p>Material legal entity is not defined but it should be noted that in some situations it would make sense to treat an internal quota-share pool in total as a "material legal entity". This would reflect a common situation for US property/casualty groups where such internal pools are common.</p> <p>We also have some suggestions on how this paper could be enhanced which are detailed in the balance of our submission.</p>
Answer	<p>Q2 Comment on Section 1: Introduction</p>
Answer	<p>Q3 Comment on Paragraph 1</p>
Answer	<p>Q4 Comment on Paragraph 2</p>
Answer	<p>Q5 Comment on Paragraph 3</p>
Answer	<p>Q6 Comment on Section 1.1: Rationale</p>
Answer	<p>Q7 Comment on Paragraph 4</p>

Q8 Comment on Paragraph 5

Answer

Q9 Comment on Paragraph 6

Answer

Q10 Comment on Paragraph 7

Answer

Q11 Comment on Section 1.2: Terms

Answer

Q12 Comment on Paragraph 8

Answer

Q13 Comment on Section 1.3: Scope

Answer

Q14 Comment on Paragraph 9

Answer

Q15 Comment on Paragraph 10

Answer

Q16 Comment on Paragraph 11

Answer

We agree that an activity-based approach is appropriate and that each insurer should be evaluated based on its products, services, investment and risk management strategy.

Q17 Comment on Paragraph 12

Answer

Q18 Comment on Section 1.4: Proportionality

Answer

Q19 Comment on Paragraph 13

Answer

Q20 Comment on Paragraph 14

Answer

While testing of contingency fund plans can illustrate tactics and strategies it is important to note that simulation in a non-stressed environment does not "ensure that plans will be executed" in a stressed environment .

Q21 Comment on Section 1.5: Supervisory Review

Answer

Q22 Comment on Paragraph 15

Answer

Q23 Comment on Paragraph 16

Answer

Q24 Comment on Paragraph 17

Answer

Q25 Comment on Paragraph 18

Answer

It would be helpful to clarify that "should" does not override the concept of proportionality. In addition we suggest adding the words "where applicable" following "particularly" so that the sentence reads, "In considering stress scenarios, the supervisor should also consider the appropriateness of the time horizons used by the insurer in its liquidity risk assessments, the key assumptions used in cash-flow projections and stress testing, particularly where applicable economic variables, capital markets conditions, differences in lapse sensitivity, debt issuance and refinancing, new business and mortality."

Q26 Comment on Paragraph 19

Answer

Q27 Comment on Paragraph 20

Answer

Q28 Comment on Paragraph 21

Answer

Q29 Comment on Paragraph 22

Answer

Q30 Comment on Section 1.6: Structure

Answer

Q31 Comment on Paragraph 23

Answer

Q32 Comment on Section 2: Governance

Answer

Q33 Comment on Paragraph 24

Answer

Q34 Comment on Paragraph 25

Answer

Q35 Comment on Paragraph 26

Answer	
	Q36 Comment on Paragraph 27
Answer	
	Q37 Comment on Section 3: Liquidity stress testing
Answer	
	Q38 Comment on Paragraph 28
Answer	Recommend replacing "comprehensive robust" with "appropriate" so that it lessens the implied prescription and does not create any proportionality issues
	Q39 Comment on Paragraph 29
Answer	It would be helpful to make clearer that the prescription in this paragraph does not supersede proportionality considerations
	Q40 Comment on Paragraph 30
Answer	
	Q41 Comment on Paragraph 31
Answer	
	Q42 Comment on Paragraph 32
Answer	
	Q43 Comment on Paragraph 33
Answer	
	Q44 Comment on Paragraph 34
Answer	
	Q45 Comment on Paragraph 35
Answer	
	Q46 Comment on Section 3.1: Liquidity risk drivers
Answer	
	Q47 Comment on Paragraph 36
Answer	
	Q48 Comment on Paragraph 37
Answer	
	Q49 Comment on Paragraph 38

Answer	We suggest that a materiality element be added to balance the prescription within paragraph 38, possibly by amending as follows "...and should also include liquidity needs arising from both life and non-life products where material to the analysis"
	Q50 Comment on Paragraph 39
Answer	
	Q51 Comment on Paragraph 40
Answer	
	Q52 Comment on Paragraph 41
Answer	
	Q53 Comment on Paragraph 42
Answer	
	Q54 Comment on Paragraph 43
Answer	
	Q55 Comment on Paragraph 44
Answer	
	Q56 Comment on Paragraph 45
Answer	
	Q57 Comment on Section 4: Liquidity portfolio
Answer	
	Q58 Comment on Section 4.1: Scope of liquidity portfolio
Answer	
	Q59 Comment on Paragraph 46
Answer	
	Q60 Comment on Section 4.2: Composition
Answer	
	Q61 Comment on Paragraph 47
Answer	
	Q62 Comment on Paragraph 48
Answer	
	Q63 Comment on Paragraph 49
Answer	

Q64 Comment on Paragraph 50

Answer

Q65 Comment on Paragraph 51

Answer

Q66 Comment on Paragraph 52

Answer

Q67 Comment on Paragraph 53

Answer

We agree with the need to avoid double counting in liquidity stress testing, however the wording in this paragraph would benefit from clarification. For example, it would make sense to avoid including future cash from an asset which had been previously sold in a given scenario. Thus an examination of cash uses and sources would be preferable to a prescribed omission of coupon paying assets from the liquidity portfolio.

Q68 Comment on Section 4.3: Other portfolio considerations

Answer

Q69 Comment on Paragraph 54

Answer

Q70 Comment on Paragraph 55

Answer

Q71 Comment on Paragraph 56

Answer

Q72 Comment on Paragraph 57

Answer

We agree that fungibility should be considered for purposes of liquidity assessment. We also note that fungibility is also a consideration for capitalization assessment, however, ICS 2.0 treats all funds as fungible.

Q73 Comment on Paragraph 58

Answer

Q74 Comment on Section 5: Contingency funding plan

Answer

Q75 Comment on Paragraph 59

Answer

Detailing possible options in an emergency situation, including the chain of responsibility (and backups) is useful. Specific detailed action plans required to be followed in case of an emergency can cause delay in responding to the emergency due to attempt to fulfill plans that are no longer feasible or optimal (due to a change in the underlying conditions).

Q76 Comment on Paragraph 60

Answer	While testing can illustrate tactics and strategies it is important to note that simulation in a non-stressed environment does not “ensure that plans will be executed” in a stressed environment .
	Q77 Comment on Paragraph 61
Answer	The requirement for the contingency funding plan to “define a variety of circumstances in which it would be executed” should be modified to require action (in general) or heightened evaluation rather than a specific set of actions. Forcing action based on a plan developed in a non-stress situation will prevent consideration of how the environment has been modified by the stress. As such, the forced action might make the situation worse (based on the particular facts & circumstances surrounding the stress).
	Q78 Comment on Paragraph 62
Answer	While we agree with the section of the paragraph describing overall governance issues (e.g., responsibilities, lines of communication), we disagree with the first sentence requiring a set of specific actions to take at specific times. Such a dictate would impair the ability of management to reflect the particular facts & circumstances of the emergency (which generally cannot be fully anticipated). We recommend deleting the first sentence of this paragraph.
	Q79 Comment on Paragraph 63
Answer	
	Q80 Comment on Paragraph 64
Answer	
	Q81 Comment on Section 6: Liquidity risk management report
Answer	
	Q82 Comment on Paragraph 65
Answer	
	Q83 Comment on Paragraph 66
Answer	
	Q84 Comment on Paragraph 67
Answer	
	Q85 Comment on Section 6.1: Risk appetite and risk limits
Answer	
	Q86 Comment on Paragraph 68
Answer	
	Q87 Comment on Paragraph 69
Answer	

Q88 Comment on Paragraph 70

Answer

Q89 Comment on Paragraph 71

Answer

Q90 Comment on Paragraph 72

Answer

Q91 Comment on Section 6.2: Liquidity risk management framework

Answer

Q92 Comment on Paragraph 73

Answer

Q93 Comment on Paragraph 74

Answer

Q94 Comment on Paragraph 75

Answer

The phrase "securities financing transactions" is repeated in the first sentence. One occurrence should be deleted.

The first sentence presumes that all reinsurance results in collateral needs. This is not the case, and thus we suggest changing "reinsurance" to "certain reinsurance agreements".

Q95 Comment on Paragraph 76

Answer

Suggest changing "challenges" to "considerations" in the first sentence. Groups may actually face fewer challenges due to greater operational flexibility and resources than single entity operations.

Q96 Comment on Section 6.3: Analysis of the insurer's liquidity profile

Answer

Q97 Comment on Paragraph 77

Answer

Q98 Comment on Paragraph 78

Answer

The first sentence says "the supervisor should also require the insurer to consider means of raising cash". We see this phrase as ambiguous and potentially misleading (as liquidity management deals with both sources and uses of cash, and this phrase seems to imply a focus only on finding new sources). This phrase could also be read to imply that insurer's existing sources are inadequate. We suggest instead that insurers' liquidity management plans be required to document the various ways they envision raising cash levels when needed, i.e., through some combination of reducing cash uses, increasing cash from existing sources or finding new sources. We recommend that the first half of this paragraph be rewritten to reflect this new focus on how cash levels can be raised (through a combination of actions reflecting both sources and uses of cash)

Q99 Comment on Paragraph 79

Answer

We recommend adding the phrase "where relevant and material" after the word "incorporate". Some of the items in the list are not always relevant and might not be material. For example, non-life products typically do not have policy loans.

Q100 Comment on Section 6.4: Reporting to the supervisor

Answer

Q101 Comment on Paragraph 80

Answer

Q102 Comment on Paragraph 81

Answer

Q103 Comment on Paragraph 82

Answer

This requirement to report the ratio of the liquidity portfolio to net stressed cash outflows "under each time horizon, as produced by the stress test(s)" might be unnecessary for companies with liabilities that have no call provisions, have high levels of liquid assets, and are not exposed to high levels of possible immediate cash demands. We recommend that the supervisor's judgement be relied upon for determining the level and extent (if any) of any stress test reporting.

Q104 Comment on Paragraph 83

Answer

Typo. "insures" should be "insurers" in the body of the illustration.