IAIS Consultations

Print view of your comments - Date: 31.07.2012, Time: 16:10

Organisation	American Academy of Actuaries
Jurisdiction	
Role	Other
Name	Financial Regulatory Reform Task Force
Email	getachew@actuary.org
Phone	
Treat my comments as confidential	No

Q-Nr.	Reference	Question
	I.	**I. Introduction**
Q-1	I.	**General Comments** The Financial Regulatory Reform Task Force ("Task Force") of the American Academy of Actuaries (Academy) is pleased to provide the following comments on the International Association of Insurance Supervisors (IAIS) Proposed Assessment Methodology for Global Systemically Important Insurers (G-SIIs). We intend our comments to provide objective advice to the IAIS as it prepares to carry out its efforts to establish a method to identify insurers whose distress or disorderly failure would cause significant disruption to the global financial system and economic activity. We recognize that this is an important and developing conversation where many are still developing their thoughts on this, within both the actuarial and regulatory communities. The Task Force applauds the IAIS on this proposed methodology, and is in agreement with its general conclusion that insurers, operating under traditional insurer models, are unlikely to pose systemic risk. It is appropriate to focus on non-traditional activities, especially those that do not typically fall under the purview of functional insurance regulators. The assessment method borrows from the Basel Committee G-SIB methodology. While this is a good framework to consider, we are concerned that not all indicators will apply to insurers either at all or to the same extent. Of the comments we make herein, we would particularly like to highlight the following: 1. The Task Force recommends that the IAIS consider size and global activity as prerequisites to identifying insurers as G-SII candidates, and not as assessment indicators themselves. 2. We agree with the observation that insurers in the traditional model are unlikely to experience a "sudden cash run". For this reason, many of the interconnectedness indicators may not contribute to systemic risk in the same manner as, say, banks. Some of these factors may be unnecessary or worthy of a much smaller weighting. Likewise, some non-traditional activities may be better indicators of increased likelihood of failure rather than measures of contribution to systemic risk. 3. The cut-off point to identify G-SIIs from a ranking based on the indicators should be based on a threshold level as opposed to a relative point that separates G-SIIs from non-G-SII candidates. We are unable to reconcile the notion that G-SIIs should be discouraged from a relative methodology that would always identify G-SIIs. The Task Force disagrees that G-SII regulatory policy measures should disincentivize companies from being or becoming G-SIIs. Additional policy measures that are financially sound should reduce the likelihood of G-SIIs contributing to economic instability, but they should not be punitive. These comments of the Task Force are offered in the spirit of improving upon the valuable progress already made to date on this topic. It is the Task Force's understanding that the IAIS will expose policy measures applicable to G-SIIs at a later date. We look forward to commenting on those at that time.
Q-2	1.	**Please comment**
Q-3	2.	**Please comment**

Q-4	**3.**	**Please comment**
Q-5	**4.**	**Please comment**
Q-6	**5.**	**Please comment**
Q-7	**6.**	**Please comment**
	A.	**IAIS position on insurance and financial stability issues**
Q-8	**7.**	**Please comment**
Q-9	**8.**	**Please comment**
Q-10	**9.**	**Please comment**
Q-11	**10.**	**Please comment** In place of "less likely" the Task Force recommends "unlikely". The likelihood of a "sudden cash run" is not being compared to anything.
Q-12	**11.**	**Please comment** In place of "less likely" the Task Force recommends "unlikely". The likelihood of a "sudden cash run" is not being compared to anything.
Q-13	**12.**	**Please comment** While non-traditional or non-insurance activities may contribute risk to traditional insurance companies, financial guaranty insurance should not be included as one of these activities. For companies that write financial guaranty insurance, often through single product charters under the purview of a functional regulator, this business is fundamental. The functional regulator normally supervises contract terms, risks assumed and reserve requirements. The product may be worthy of special attention for substitutability or other reasons, but they are not non-traditional and they are not comparable to the other financial products cited here.
Q-14	**13.**	**Please comment** The critical word here is "illustrative". Table 1 may be helpful to describe the industry, but as pointed out, it will vary by jurisdiction. Importantly, the categorization of products between traditional, semi-traditional or non-traditional can be somewhat arbitrary and should not denote a relative level of inherent riskiness. There is no relationship of relative contribution to systemic risk when categorized in this manner.
Q-15	**14.**	**Please comment** While they may contribute to industry stability, reinsurers are subject to many of the same risks as primary companies including exposures to non-traditional or non-insurance businesses.
Q-16	**15.**	**Please comment**
Q-17	**16.**	**Please comment**
Q-18	**17.**	**Please comment** The Task Force concurs
Q-19	**18.**	**Please comment** The Task Force agrees with ongoing vigilance by the IAIS.
Q-20	**19.**	**Please comment**
	II.	**II. Assessment methodology for systemic importance of G-SIIs**
Q-21	**II.**	**General Comments**
Q-22	**20.**	**Please comment** The Task Force has specific concerns that some indicators do not reflect the unique characteristics of insurers. Our comments on the indicators reflect this view.

Q-23	21.	**Please comment**
Q-24	22.	**Please comment**
Q-25	23.	**Please comment** The Task Force shares the IAIS concern that it is often difficult to obtain financial information on a consistent basis between jurisdictions. The IAIS should proceed with caution and continue this transparent process of developing an assessment methodology. This will enable industry professionals, including actuaries, to provide constructive feedback. For instance, it is not clear how indicators that include both absolute amounts and ratios will be combined to form rankings.
Q-26	24.	**Please comment** The Task Force notes the absence of a definition of the insurance groups that are included in the scope of this assessment as potential G-SIIs. Does it include groups comprised of insurance assets in excess of some amount? Are conglomerates in excess of some total size included if insurance assets comprise any part of the total? We think a definition of which groups are in scope should be included.
	A.	**Data issues**
	(A)	**Scope of data collection**
Q-27	25.	**Please comment** The Task Force repeats its concern that it is often difficult to obtain financial information on a consistent basis between jurisdictions. The IAIS should proceed with caution and continue this transparent process of developing an assessment methodology. This will enable industry professionals, including actuaries, to provide constructive feedback. For instance, it is not clear how indicators that include both absolute amounts and ratios will be combined to form rankings. In addition, there is no precedent for combining the financial values of insurance companies and other financial companies for the intended purpose.
Q-28	26.	**Please comment**
	(B)	**Data quality**
Q-29	27.	**Please comment**
Q-30	28.	**Please comment**
Q-31	29.	**Please comment**
	B.	**Methodical assessment process**
Q-32	30.	**Please comment** Size and global activity should be used to identify companies that enter the G-SII assessment process. They should not be part of the assessment itself. Companies that do not meet a size and global activity threshold should not go through the assessment process. Size should be above some threshold, the amount of which could disrupt global economic activity in the event of distress. Global activity should be based on significant market presence in a multiplicity of jurisdictions. For example, the threshold might be expressed as a company of more than $X billion in assets with a top [5] market share in more than [3] jurisdictions. Alternative expressions are possible, such as a company that is a local SIFI in more than [3] jurisdictions. Jurisdictions might take in to consideration only the G-20 economies. Companies that do not meet this type of threshold are highly unlikely to disrupt the global economy. The Task Force's comments also reflect the fact that insurance companies are not as interconnected as other financial services companies, in general and banks, in particular. Further, the emphasis on non-traditional activities should focus on those that contribute to systemic risk rather than those activities that increase the risk of failure of a global insurer.
	(A)	**Indicator-based assessment approach**
Q-33	31.	**Please comment**
Q-34	32.	**Please comment**

		Size and global activity should be used to identify companies that enter the G-SII assessment process. They should not be part of the assessment itself. Companies that do not meet a size and global activity threshold should not go through the assessment process. Size should be above some threshold, the amount of which could disrupt global economic activity in the event of distress. Global activity should be based on significant market presence in a multiplicity of jurisdictions. For example, the threshold might be expressed as a company of more than $X billion in assets with a top [5] market share in more than [3] jurisdictions. Alternative expressions are possible, such as a company that is a local SIFI in more than [3] jurisdictions. Jurisdictions might take in to consideration only the G-20 economies. Companies that do not meet this type of threshold are highly unlikely to disrupt the global economy. The Task Force's comments also reflect the fact that insurance companies are not as interconnected as other financial services companies, in general and banks, in particular. Further, the emphasis on non-traditional activities should focus on those that contribute to systemic risk rather than those activities that increase the risk of failure of a global insurer.
Q-35	**33.**	**Please comment**
Q-36	**33.1**	**Total assets** **Please comment** Use as a qualifier, not in assessment per our comment to paragraph 32
Q-37	**33.2**	**Total revenues** **Please comment** Use as a qualifier, not in assessment per our comment to paragraph 32
Q-38	**33.3**	**Revenues derived outside of home country** **Please comment** Use as a qualifier, not in assessment per our comment to paragraph 32
Q-39	**33.4**	**Number of countries** **Please comment** Use as a qualifier, not in assessment per our comment to paragraph 32
Q-40	**33.5**	**Intra-financial assets** **Please comment** In this proposal it has already been established that a sudden cash run is unlikely. In that case, this measure is not needed or should be less weighted.
Q-41	**33.6**	**Intra-financial liabilities** **Please comment** We observe that for public debt, ownership by other financial institutions is outside the control of the issuing company.
Q-42	**33.7**	**Reinsurance** **Please comment**
Q-43	**33.8**	**Derivatives** **Please comment**
Q-44	**33.9**	**Large exposures** **Please comment**
Q-45	**33.10**	**Turnover** **Please comment** Members of the Task Force are not aware of any relationship between investment turnover and risk. This measure may be more appropriate for financial companies such as banks. More appropriately, rapid growth in sales may be a indicator of aggressive company actions to capture market share. Therefore, an indicator based on growth in market share in a [many] jurisdiction[s] may be a better measure.
Q-46	**33.11**	**Level 3 assets** **Please comment** In this proposal it has already established that a sudden cash run is unlikely. So a fire sale should not happen. But if it does, it is not clear how this would disrupt the global economy. The harm would be to the company itself but not to the industry.
Q-47	**33.12**	**Non-policy holder liabilities and non-insurance revenues** **Please comment**

		To the extent that data is possible, it would be informative to consider the number of disparate NTNIAs present at a company. Each of these has the potential to divert management attention and increase the complexity of developing sound risk management practices.
Q-48	**33.13**	**Derivatives trading** **Please comment**
Q-49	**33.14**	**Short term funding** **Please comment** These measures are more applicable to a lending institution such as a bank, not a self-funding institution such as an insurance company. It will only be relevant if the size of the non-insurance members of the group is disproportionate in relationship to the insurer.
Q-50	**33.15**	**Financial guarantees** **Please comment** Note there seems to be some overlap with 33.18. See our comments in 33.18.
Q-51	**33.16**	**Variable annuities** **Please comment** Variable annuities are historically a low risk product since investment risk has been transferred to the policyholder. Only VA´s that include investment guarantees for living or death benefits above some level should be included. At the same time it is not clear how variable annuities would contribute to systemic risk. The presence of insurance guarantees may cause these products to persist in times of market distress, and thereby dampen market volatility.
Q-52	**33.17**	**Intra-group commitments** **Please comment**
Q-53	**33.18**	**Premiums for specific business lines** **Please comment** This measure appears to be largely redundant with 33.15. Perhaps this substitutability measure should be based on premiums (or other measures) from products that have a market share above some threshold. If there are concerns about specific products, they should be addressed in 33.15.
Q-54	**34.**	**Please comment** Liquidity of liabilities is only a concern if there is insufficient liquidity of assets. Liquid liabilities are not inherently risky in their own right.
Q-55	**35.**	**Please comment**
Q-56	**36.**	**Please comment** Size and global activity should not be used in the calculation at all - they should only be used to identify G-SII candidates.
Q-57	**37.**	**Please comment**
Q-58	**37.1**	**Size** **Please comment**
Q-59	**37.2**	**Global activity** **Please comment**
Q-60	**37.3**	**Interconnectedness** **Please comment**
Q-61	**37.4**	**Non-traditional insurance and noninsurance activities** **Please comment**
Q-62	**37.5**	**Substitutability** **Please comment**
Q-63	**38.**	**Please comment**
Q-64	**39.**	**Please comment**

	(B)	**IFS assessment approach**
Q-65	40.	**Please comment**
Q-66	41.	**Please comment**
Q-67	42.	**Please comment**
Q-68	43.	**Please comment**
	(C)	**Cut-off point**
Q-69	44.	**Please comment** The description of a cut-off seems to imply that there is always some number of G-SIIs versus non-G-SIIs. We are unable to reconcile this with the objective of disincentivizing G-SIIs. It seems clear to us that the cut-off should be an absolute, rather than a relative threshold.
	(D)	**Incorporating supervisory judgment and validation**
Q-70	45.	**Please comment**
Q-71	46.	**Please comment**
Q-72	47.	**Please comment**
Q-73	48.	**Please comment**
Q-74	49.	**Please comment**
Q-75	50.	**Please comment**
Q-76	51.	**Please comment**
Q-77	52.	**Please comment**
Q-78	53.	**Please comment**
	III.	**III. Policy measures for G-SIIs**
Q-79	III.	**General Comments**
Q-80	54.	**Please comment**
	A.	**Overview**
Q-81	55.	**Please comment** The Task Force disagrees that G-SII policy measures should disincentivize companies from being or becoming G-SIIs. Additional policy measures that are financially sound should reduce the likelihood of G-SIIs contributing to economic instability, but they should not be punitive. Large, global insurance companies offer market capacity and risk pooling that promotes economic prosperity, creating value for policyholders and shareholders. As cited in the comments to paragraph 44 above, the Task Force is especially concerned with the manner in which the cut-off point will be determined. The Task Force looks forward to reviewing policy measures when they are exposed for comment in the future. We would especially welcome clarity around the acceptable level of probability of failure assigned to G-SIIs.
Q-82	56.	**Please comment**

Q-83	57.	Please comment
Q-84	58.	Please comment
	B.	**ICPs, Enhanced supervision (SIE) and Key Attributes (KA)**
	(A)	**Enhanced supervision**
Q-85	59.	Please comment
Q-86	60.	Please comment
	(B)	**Removal of barriers to orderly resolution**
Q-87	61.	Please comment
Q-88	62.	Please comment
Q-89	63.	Please comment
	C.	**Additional measures**
	(A)	**Structural measures**
Q-90	64.	Please comment
	(B)	**Higher loss absorbency (HLA)**
Q-91	65.	Please comment
Q-92	66.	Please comment
	(C)	**Restrictions**
Q-93	67.	Please comment
Q-94	68.	Please comment
	(D)	**Criteria for applying G-SII measures**
Q-95	69.	Please comment
	D.	**Timeline**
Q-96	70.	Please comment
Q-97	71.	Please comment
	IV.	**IV. Future Steps**
Q-98	IV.	General Comments
Q-99	72.	Please comment
Q-100	73.	Please comment

Q-101	74.	Please comment
Q-102	75.	Please comment
Q-103	76.	Please comment
	Annex	**Annex – IFS Assessment Approach**
Q-104	A1	Please comment
Q-105	A2	Please comment
Q-106	A3	Please comment
Q-107	A4	Please comment
Q-108	A5	Please comment
Q-109	A6	Please comment
Q-110	A7	Please comment
Q-111	A8	Please comment
Q-112	A9	Please comment