IAIS Consultation

Print view of your comments on "Draft Application Paper on Macroprudential Supervision " - Date: 06.05.2021, Time: 23:21

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Treat my comments as confidential	No

	Question
	Q1 General Comment on the draft Application Paper
Answer	The IAA understands the rationale for, and supports the development of, good standards of practice for macroprudential supervision. Indeed, the ICP 24 principle statement provides a succinct and fitting summary of macroprudential supervision. While the paper contains much useful content for supervisors, the IAA suggests some important messages are given insufficient focus while others are afforded a disproportionately large portion of the paper. Messages that the IAA suggests could be made more strongly with additional elaboration include: • A fundamental purpose of macroprudential supervision is to identify sources of systemic risk that involve the insurance sector and its role within the wider economy. Consequently, macroprudential supervision should seek to identify the transmission and build-up of various risks that may have systemic impact a) on the insurance sector and/or b) on the wider economy due to activities in the insurance sector. • While the paper gives a good overview of the different considerations in establishing and developing tools for macroprudential supervision, the IAA feels that in places the paper currently is too high level. More detail could usefully be added to enable supervisors to understand which tools to use in what circumstance and how to make choices where different approaches are described in the paper. The IAA suggests that the paper gives disproportionate weight (and space) to the topic of identifying the systemic importance of insurers. Section 4 is focused on this topic and occupies about 40% of the entire paper (excluding annexes). The opening sentence of Section 4 indicates that "identification of [the] systemic importance in the insurance sector is one of the paramount objectives of macroprudential supervision". While the IAA agrees on the need to identify the systemic importance of insurers, such important work is just one part of macroprudential supervision (e.g., identification of transmission paths and build-up of inward and outward systemic risks). A further example of the need for improved balance in the paper relates to section 2.2.1 which covers the development of a risk dashboard. Two examples are included in Annex 2. Paragraph 24 recommends the use of key risk indicators without going into any detail of the criteria which could be used to identify what the key risk indicators might be. More guidance could be given on identifying what the indicators are going to be used for, the ability to calibrate on a regular and timely basis, how good a proxy they are for underlying distributions and their predictive power. In some cases, in the paper (for example, in Annex 2), examples are given of how items are used is some jurisdictions but without describing the rationale for them and the possible actions taken based on those dashboards. The IAA also suggests that a mapping of the main purposes of macroprudential monitoring, possible indicators and mitigation actions would be a useful addition to the paper.
	Q2 Comment on section 1 Introduction
Answer	

	Q3 Comment on paragraph 1
Answer	
	Q4 Comment on paragraph 2
Answer	The IAA is supportive of the aims of macroprudential supervision as described in this paragraph. Macro-prudential surveillance is vital in gaining a higher-level perspective of cross-sectoral inter-connectivity and transmission of risk. The IAA is supportive of the paper's discussion of both inward and outward transmission of risks but suggests the paragraph concludes with a statement that macroprudential supervision helps the supervisor to Identify systemic risk issues and concentrations of relevance to the insurance sector or wider economy.
	Q5 Comment on paragraph 3
Answer	
	Q6 Comment on paragraph 4
Answer	
	Q7 Comment on paragraph 5
Answer	
	Q8 Comment on section 1.1 Terminology
Answer	
	Q9 Comment on paragraph 6
Answer	
	Q10 Comment on section 1.2 Scope of application
Answer	
	Q11 Comment on paragraph 7
Answer	
	Q12 Comment on paragraph 8
Answer	
	Q13 Comment on section 1.3 Proportionality
Answer	
	Q14 Comment on paragraph 9
Answer	
	Q15 Comment on paragraph 10
Answer	
	Q16 Comment on section 1.4 Structure

Answer

Q17 Comment on paragraph 11

Answer

Q18 Comment on paragraph 12

Answer

Q19 Comment on section 2 Data collection for macroprudential purposes

Answer

Q20 Comment on section 2.1 Consideration of data to collect

Answer

Q21 Comment on paragraph 13

Answer

Q22 Comment on paragraph 14

Answer

Q23 Comment on paragraph 15

Answer

Q24 Comment on paragraph 16

Answer

Q25 Comment on section 2.2 Risk dashboard for monitoring key macroprudential indicators

Answer

Q26 Comment on paragraph 17

Answer

Q27 Comment on paragraph 18

Answer

Q28 Comment on paragraph 19

Answer

Q29 Comment on paragraph 20

Answer

Q30 Comment on paragraph 21

Answer

Q31 Comment on section 2.2.1 Constructing a risk dashboard

Answer

Q32 Comment on paragraph 22

Answer

Q33 Comment on paragraph 23

Answer

Q34 Comment on paragraph 24

Answer

As noted in the answer to Q1, in the IAA's view, more detail could usefully be given on the choice of key risk indicators. It is suggested that an indicator might be "how the industry is perceived by financial markets" but there is no explanation of how this qualitative information might be collected or used.

Q35 Comment on paragraph 25

Answer

It is not clear to the IAA how a risk assessment scale might be calibrated – the paper says that: • "The scale may be based on the historical distribution. "but there is no discussion on the need to understand the applicability or accuracy of historical data. • "supervisors should use expert judgement and/or statistical means… " - the IAA believes it would be helpful to expand on this, possibly with some practical examples • "some risk indicators may not lend themselves to historical distributions .."– the IAA believes it would be helpful to go into some more detail on why this may be the case • "..and the assessment scale may be qualitative or subjective in nature" – it would be useful to explain the implications of this

Q36 Comment on paragraph 26

Answer

The IAA suggests adding in some more detail on considerations for deriving weights for each indicator. Adjusting the weight down of indicators that are highly correlated can be justified to avoid any overlap over the indicators, but those indicators might on the contrary be adjusted up in order to represent any tail correlation and systemic risk. The IAA believes it would be useful to consider both situations.

Q37 Comment on paragraph 27

Answer

It would be useful to add some guidance as to the relevant time horizon to infer a trend depending on the risk considered and what would be good practice if there were to be a change in methodology.

Q38 Comment on section 2.2.2 The use of a risk dashboard

Answer

Q39 Comment on paragraph 28

Answer

Q40 Comment on paragraph 29

Answer

The IAA does not understand why a risk dashboard would be used as a tool to document analyses of the insurance sector and financial markets. The risk dashboard may be part of the analysis but usually the risk dashboard is the starting point for further work (perhaps as described in paragraph 30) to understand more what is happening in specific parts of the dashboard.

Q41 Comment on paragraph 30

Answer

Q42 Comment on paragraph 31

Answer

Q43 Comment on section 3 Insurance sector analysis

Answer

Q44 Comment on section 3.1 Steps and approaches for insurance sector analysis

Answer

Q45 Comment on paragraph 32

Answer

This is another paragraph where the IAA believes that more detail would be helpful to explain the considerations supervisors might take into account in deciding on the most appropriate method of analysis to use.

Q46 Comment on paragraph 33

Answer

Q47 Comment on paragraph 34

Answer

Q48 Comment on paragraph 35

Answer

Q49 Comment on paragraph 36

Answer

This paragraph attempts to cover quite a lot in terms of risk assessment in a relatively short space and gives a couple of quite specific example such as “second-round effects that resulted in premium increases". The IAA believes this section could be developed to talk more about the risk assessment process itself, which might then be illustrated with some examples.

Q50 Comment on paragraph 37

Answer

Similarly, this paragraph mentions that “supervisors should apply qualitative and quantitative methods of analysis" without explaining the uses, advantages or disadvantages of either method.

Q51 Comment on paragraph 38

Answer

An extra topic that could be subject to an in-depth analysis is cyber risk.

Q52 Comment on paragraph 39

Answer

Q53 Comment on paragraph 40

Answer	
	Q54 Comment on section 3.2 Common quantitative analysis methods
Answer	
	Q55 Comment on section 3.2.1 Trend analysis
Answer	
	Q56 Comment on paragraph 41
Answer	It is not clear how the key insurance and financial variables suggested would be used in the context of insurance sector risk analysis – for example, Return on Equity. Perhaps for each of the variables there could be a short commentary on their usage
	Q57 Comment on paragraph 42
Answer	It is clear that trends can be monitored with different frequencies but again there could be additional commentary of what data might be looked at more or less often.
	Q58 Comment on paragraph 43
Answer	
	Q59 Comment on paragraph 44
Answer	
	Q60 Comment on paragraph 45
Answer	The concept of resilience should be further clarified: does it refer to any recovery plan in case of regulatory capital breach and its feasibility?
	Q61 Comment on section 3.2.2 Stress testing
Answer	
	Q62 Comment on paragraph 46
Answer	
	Q63 Comment on paragraph 47
Answer	
	Q64 Comment on paragraph 48
Answer	
	Q65 Comment on paragraph 49
Answer	
	Q66 Comment on paragraph 50
Answer	

Q67 Comment on paragraph 51

Answer

Q68 Comment on paragraph 52

Answer

In Table 2, the IAA does not believe that, given the right instructions, insurers would intentionally produce biased results so would suggest removing the last Bottom-Up disadvantage.

Q69 Comment on paragraph 53

Answer

Q70 Comment on paragraph 54

Answer

Q71 Comment on paragraph 55

Answer

Q72 Comment on paragraph 56

Answer

Q73 Comment on paragraph 57

Answer

The IAA understands that stochastic scenario and loss generators can be used but it is not clear whether these are being recommended or not. Also, the term “passive side" should be defined.

Q74 Comment on paragraph 58

Answer

The IAA notes that, in the context of assessing the financial risks arising from climate change, much longer periods than 5 years are being considered. They may be “less reliable" in the sense that the results may not necessarily be predictors of the future, but they can still provide supervisors useful information on the potential (range of) impacts of different scenarios. There is also an implication that stochastic projections are being used, which may not always be the case.

Q75 Comment on section 3.2.3 Sensitivity analysis

Answer

Q76 Comment on paragraph 59

Answer

Q77 Comment on paragraph 60

Answer

The IAA does not understand what “The data extracted by insurers should always follow the same criteria…" means, so it is suggested that this is rephrased or expanded on. The concept of “sampling" in this context should also be further clarified.

Q78 Comment on paragraph 61

Answer	It is noted that the example given uses a duration approach and the IAA notes there are disadvantages of using this which could be discussed.
	Q79 Comment on section 3.3 Common qualitative analysis methods
Answer	The IAA notes that there are several instances in this section of things supervisors “could" do without any guidance on when they would be useful (or when not).
	Q80 Comment on paragraph 62
Answer	
	Q81 Comment on section 3.3.1 Market intelligence and risk workshop with stakeholders
Answer	
	Q82 Comment on paragraph 63
Answer	
	Q83 Comment on paragraph 64
Answer	
	Q84 Comment on paragraph 65
Answer	
	Q85 Comment on paragraph 66
Answer	
	Q86 Comment on section 3.4 Common quantitative and qualitative analysis methods
Answer	
	Q87 Comment on paragraph 67
Answer	
	Q88 Comment on section 3.4.1 Vulnerability analysis
Answer	
	Q89 Comment on paragraph 68
Answer	
	Q90 Comment on paragraph 69
Answer	
	Q91 Comment on paragraph 70
Answer	
	Q92 Comment on section 3.4.2 Horizontal reviews

Answer

Q93 Comment on paragraph 71

Answer

Q94 Comment on paragraph 72

Answer

Q95 Comment on paragraph 73

Answer

Q96 Comment on paragraph 74

Answer

It would be helpful here to give some examples of indicators of “vulnerability" as it may not be apparent what is meant by this.

Q97 Comment on paragraph 75

Answer

Q98 Comment on paragraph 76

Answer

Q99 Comment on paragraph 77

Answer

Q100 Comment on section 4 Assessing systemic importance

Answer

The IAA suggests that Section 4 unduly focuses on assessing the systemic importance of an insurer or the insurance sector. The section begins with, "identification of systemic importance in the insurance sector is one of the paramount objectives of macroprudential supervision."

Q101 Comment on paragraph 78

Answer

Q102 Comment on paragraph 79

Answer

Q103 Comment on paragraph 80

Answer

Q104 Comment on paragraph 81

Answer

Interconnectedness can also arise due to common service providers eg outsourcers who provide significant services to multiple insurers.

Q105 Comment on paragraph 82

Answer

	Q106 Comment on paragraph 83
Answer	
	Q107 Comment on paragraph 84
Answer	
	Q108 Comment on paragraph 85
Answer	
	Q109 Comment on section 4.1 Assessing systemic importance of an individual insurer
Answer	
	Q110 Comment on paragraph 86
Answer	
	Q111 Comment on section 4.1.1 Indicator-based approach
Answer	
	Q112 Comment on paragraph 87
Answer	
	Q113 Comment on paragraph 88
Answer	
	Q114 Comment on paragraph 89
Answer	
	Q115 Comment on paragraph 90
Answer	
	Q116 Comment on paragraph 91
Answer	
	Q117 Comment on paragraph 92
Answer	
	Q118 Comment on paragraph 93
Answer	
	Q119 Comment on paragraph 94
Answer	Systemic risk activities could also include coverage of natural catastrophes.
	Q120 Comment on paragraph 95
Answer	

	Q121 Comment on paragraph 96
Answer	
	Q122 Comment on paragraph 97
Answer	
	Q123 Comment on paragraph 98
Answer	
	Q124 Comment on paragraph 99
Answer	
	Q125 Comment on paragraph 100
Answer	
	Q126 Comment on paragraph 101
Answer	The indicators of macroeconomic impacts are likely to vary by jurisdiction. For example, in most economies, an insurer is unlikely to employ a high enough proportion of the population for employment to be a key factor. Also, the relevance of footnote 19 is not clear.
	Q127 Comment on paragraph 102
Answer	
	Q128 Comment on paragraph 103
Answer	
	Q129 Comment on section 4.1.2 Assessing systemic risk using the indicator-based approach
Answer	
	Q130 Comment on paragraph 104
Answer	
	Q131 Comment on paragraph 105
Answer	Footnote 20 relating to the Z-score could be explained as this term may not be known to all readers
	Q132 Comment on paragraph 106
Answer	
	Q133 Comment on paragraph 107
Answer	
	Q134 Comment on paragraph 108

Answer

Q135 Comment on paragraph 109

Answer

Q136 Comment on section 4.1.3 Reduced-form approach

Answer

There should be more commentary on the weaknesses of reduced-form approaches – pros and cons are given in Table 9 in paragraph 124 but there needs to be some commentary on their use in practice e.g., to say when they may or may not be applicable.

Q137 Comment on paragraph 110

Answer

Q138 Comment on paragraph 111

Answer

Q139 Comment on paragraph 112

Answer

Q140 Comment on paragraph 113

Answer

Q141 Comment on paragraph 114

Answer

Q142 Comment on paragraph 115

Answer

Q143 Comment on paragraph 116

Answer

Q144 Comment on paragraph 117

Answer

Q145 Comment on paragraph 118

Answer

Q146 Comment on paragraph 119

Answer

Q147 Comment on paragraph 120

Answer

Q148 Comment on paragraph 121

Answer	It might be useful to further clarify the definition and scope of financial market return in this context.
	Q149 Comment on paragraph 122
Answer	
	Q150 Comment on paragraph 123
Answer	
	Q151 Comment on paragraph 124
Answer	
	Q152 Comment on section 4.1.4 Comparison between indicator-based and reduced form identification
Answer	
	Q153 Comment on paragraph 125
Answer	
	Q154 Comment on paragraph 126
Answer	
	Q155 Comment on paragraph 127
Answer	
	Q156 Comment on paragraph 128
Answer	
	Q157 Comment on paragraph 129
Answer	
	Q158 Comment on paragraph 130
Answer	
	Q159 Comment on paragraph 131
Answer	
	Q160 Comment on section 4.2 Assessing systemic importance of the insurance sector
Answer	
	Q161 Comment on paragraph 132
Answer	
	Q162 Comment on paragraph 133
Answer	

	Q163 Comment on section 4.2.1 Macroprudential sector-wide stress tests
Answer	
	Q164 Comment on paragraph 134
Answer	
	Q165 Comment on paragraph 135
Answer	
	Q166 Comment on section 4.2.2 Sector-wide systemic risk assessment
Answer	
	Q167 Comment on paragraph 136
Answer	
	Q168 Comment on paragraph 137
Answer	
	Q169 Comment on section 4.2.3 Evaluation of recovery and resolution plans
Answer	
	Q170 Comment on paragraph 138
Answer	
	Q171 Comment on paragraph 139
Answer	
	Q172 Comment on paragraph 140
Answer	
	Q173 Comment on section 4.2.4 Evaluation of the sector-wide exposure to systemically risky activities
Answer	
	Q174 Comment on paragraph 141
Answer	
	Q175 Comment on paragraph 142
Answer	
	Q176 Comment on section 4.2.5 Cross-sectoral analysis
Answer	
	Q177 Comment on paragraph 143
Answer	

	Q178 Comment on paragraph 144
Answer	
	Q179 Comment on section 5 Supervisory response
Answer	
	Q180 Comment on section 5.1 Introduction
Answer	
	Q181 Comment on paragraph 145
Answer	
	Q182 Comment on paragraph 146
Answer	
	Q183 Comment on paragraph 147
Answer	
	Q184 Comment on paragraph 148
Answer	
	Q185 Comment on paragraph 149
Answer	
	Q186 Comment on paragraph 150
Answer	
	Q187 Comment on section 5.2 Types of supervisory responses
Answer	
	Q188 Comment on paragraph 151
Answer	
	Q189 Comment on paragraph 152
Answer	
	Q190 Comment on section 5.2.1 Strengthening the ERM framework
Answer	
	Q191 Comment on paragraph 153
Answer	
	Q192 Comment on paragraph 154
Answer	
	Q193 Comment on paragraph 155

Answer	
	Q194 Comment on paragraph 156
Answer	
	Q195 Comment on section 5.2.2 Crisis management and planning
Answer	
	Q196 Comment on paragraph 157
Answer	
	Q197 Comment on paragraph 158
Answer	
	Q198 Comment on paragraph 159
Answer	
	Q199 Comment on paragraph 160
Answer	
	Q200 Comment on section 5.2.3 Preventive and corrective measures
Answer	
	Q201 Comment on paragraph 161
Answer	
	Q202 Comment on paragraph 162
Answer	
	Q203 Comment on paragraph 163
Answer	
	Q204 Comment on paragraph 164
Answer	
	Q205 Comment on section 6 Transparency
Answer	
	Q206 Comment on section 6.1 Importance of transparency
Answer	
	Q207 Comment on paragraph 165
Answer	
	Q208 Comment on paragraph 166

Answer	
	Q209 Comment on section 6.2 Possible macroprudential reporting
Answer	
	Q210 Comment on paragraph 167
Answer	
	Q211 Comment on paragraph 168
Answer	
	Q212 Comment on paragraph 169
Answer	
	Q213 Comment on paragraph 170
Answer	
	Q214 Comment on section 6.2.1 Financial stability report (FSR)
Answer	
	Q215 Comment on paragraph 171
Answer	
	Q216 Comment on paragraph 172
Answer	
	Q217 Comment on paragraph 173
Answer	
	Q218 Comment on section 6.2.2 Other forms of macroprudential reporting
Answer	
	Q219 Comment on paragraph 174
Answer	
	Q220 Comment on paragraph 175
Answer	
	Q221 Comment on paragraph 176
Answer	
	Q222 Comment on section Annex 1: Example indicators and data elements

Answer	This Annex would be more useful if there was some commentary on when and why particular indicators are typically used. Some additional indicators could be considered, e.g.: 1.Macro a. Solvency i. Changes in volatility indices ii. Changes in local regulation (taxes, dividends, profit sharing,…) but also in the global prudential framework b. Profitability i. Change in reinvestment rates versus guaranteed rates ii. ROE 2. Micro a. General data i. Changes in underwriting clauses ii. Changes in legal coverages b. Data related to specific events i. Changes in asset allocation ii. Switch to marked-to-model valuations following illiquid markets iii. Changes in operations and business continuity 3. Liquidity a. Liability: litigation and reputational risk

	Q223 Comment on section Annex 2: Example risk dashboards
Answer	

	Q224 Comment on section Annex 3: Example topics for analysis
Answer	In the box “Examples that may be identified for liquidity monitoring", it might be useful to add, for the most significant exposures, cashflow projections (and their source: insurance and investment with and without investment in line with Strategic Asset Allocation). This could be performed at regular intervals over the business plan horizon and at yearly level afterwards. With regards to. reinsurance analysis, it might be useful to collect additional data for leading insurance companies on their reinsurance program (e.g., top 5 reinsurers, their ratings, the reinsurance coverage (type of transferred risk, reinsurance structure and location, related capital charge reduction)

	Q225 Comment on section Annex 4: Example of ORSA analysis
Answer	