IAIS Consultations

Print view of your comments - Date: 31.07.2012, Time: 15:55

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Treat my comments as confidential	No

Q-Nr.	Reference	Question
	I.	**I. Introduction**
Q-1	I.	**General Comments** We support the direction to focus on Non-traditional Insurance and Non-insurance activity based on the key concept that the traditional insurance business model differs from banking and is not a cause of systemic events. The methodology suggested in the draft still has room for fine-tuning, but we expect that can be readily finalized by the IAIS. Consistent with the concept that the traditional insurance business model is not a cause of systemic events, it is reasonable to compare the Non-insurance business with that of the current 29 G-SIBs in the discussion about the cut-off point. As with the methodology presented in the paper, we expect that the policy measures will also be discussed along with the concept, which focuses on the Non-Traditional Insurance and Non-insurance activity.
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**
Q-12	11.	**Please comment**

Q-13	12.	**Please comment**
Q-14	13.	**Please comment**
Q-15	14.	**Please comment**
Q-16	15.	**Please comment**
Q-17	16.	**Please comment**
Q-18	17.	**Please comment**
Q-19	18.	**Please comment**
Q-20	19.	**Please comment** We agree with the message on the need to monitor for elements not currently significant. Products and services provided by the banking, insurance and financial markets, irrespective of whether they are regulated or non-regulated, continue to evolve and become complex. Groups (including conglomerates) are becoming more complex as they are structured to provide a range of services on a global basis. This could introduce greater susceptibility to higher tail correlations across product lines as market participants assume more speculative market positions. These scenarios could lead to entities from the insurance sector being a cause of, or a participant in, a systemic risk event. The postulation that insurance sector entities will not be a source of future systemic risk events could lead to the failure to identify, assess, monitor and mitigate the critical trends and signs of future systemic risk events.
	II.	**II. Assessment methodology for systemic importance of G-SIIs**
Q-21	II.	**General Comments** While the methodology suggested in the draft is consistent with the basic concept that traditional insurance is not a cause of systemic events, the methodology still has room for fine-tuning as follows. 1. The weight of some indicators: a. The weight of Non-Traditional Insurance and Non-Insurance activities should be increased further, while that of interconnectedness should be decreased. Since insurance business, in general, has less interconnectedness in the financial market than banking business, there is little need to use a higher weight than that used in banking (20%). b. The methodology for insurance should focus on liabilities more than on assets. Unlike the assets, which have an indirect impact through the fire sales of the assets, liability settlement doesn't necessarily happen immediately due to the lengthy duration of the policy liabilities., Liabilities can have a direct impact on other financial institutions in case of bankruptcy. In addition, it should be noted that even sound insurers would sell the ´other financials' assets if the assets were included in the methodology for G-SIIs. Therefore, the weight of the assets should be less than that of the liabilities. 2. The consideration of feasibility We recognize the need for feasibility in data collection, such as the treatment of Level 3 assets and of the small entity in a group. The methodology will need to manage so as not to pursue too precise definitions or too detailed data, while satisfying the purpose of the framework. For example, it is preferable that the scope of the data collection be limited to the material entities in the group.
Q-22	20.	**Please comment**
Q-23	21.	**Please comment**
Q-24	22.	**Please comment**
Q-25	23.	**Please comment**
Q-26	24.	**Please comment**
	A.	**Data issues**

(A) **Scope of data collection**

Q-27	25.	**Please comment**
Q-28	26.	**Please comment**

(B) **Data quality**

Q-29	27.	**Please comment**
Q-30	28.	**Please comment**
Q-31	29.	**Please comment** We recognize the need for feasibility in data collection, such as the treatment of Level 3 assets, especially for the jurisdiction in which the disclosure of classes of assets is not currently introduced. The methodology will need to manage so as not to pursue too precise definitions or too detailed data, while satisfying the purpose of the framework. For example, it is preferable that the scope of the data collection be limited to the material entities in the group.

B. **Methodical assessment process**

Q-32	30.	**Please comment**

(A) **Indicator-based assessment approach**

Q-33	31.	**Please comment**
Q-34	32.	**Please comment**
Q-35	33.	**Please comment**
Q-36	33.1	**Total assets** **Please comment**
Q-37	33.2	**Total revenues** **Please comment**
Q-38	33.3	**Revenues derived outside of home country** **Please comment**
Q-39	33.4	**Number of countries** **Please comment**
Q-40	33.5	**Intra-financial assets** **Please comment** The methodology for insurance should focus on liabilities more than on assets. Unlike the assets, which have an indirect impact through the fire sales of the assets, liability settlement doesn’t necessarily happen immediately due to the lengthy duration of the policy liabilities. Liabilities can have a direct impact on other financial institutions in case of bankruptcy. In addition, it should be noted that even sound insurers would sell the ´other financials’ assets if the assets were included in the methodology for G-SIIs. Therefore, the weight of the assets should be less than that of the liabilities.
Q-41	33.6	**Intra-financial liabilities** **Please comment**
Q-42	33.7	**Reinsurance** **Please comment**

		The IAIS paper ´Reinsurance and Financial Stability´ issued on 19 July concludes that there is a weak interconnectivity between insurers and reinsurers. It is therefore strange to see reinsurance given equal weight with the other elements under interconnectivity. Also, the other elements address connectivity of insurers with the other financial sectors.
Q-43	**33.8**	**Derivatives** **Please comment**
Q-44	**33.9**	**Large exposures** **Please comment**
Q-45	**33.10**	**Turnover** **Please comment**
Q-46	**33.11**	**Level 3 assets** **Please comment** We recognize the need for feasibility in data collection, such as the treatment of Level 3 assets, especially for the jurisdiction in which the disclosure of classes of assets is not currently introduced. The methodology will need to manage so as not to pursue too precise definitions or too detailed data, while satisfying the purpose of the framework.
Q-47	**33.12**	**Non-policy holder liabilities and non-insurance revenues** **Please comment**
Q-48	**33.13**	**Derivatives trading** **Please comment**
Q-49	**33.14**	**Short term funding** **Please comment**
Q-50	**33.15**	**Financial guarantees** **Please comment**
Q-51	**33.16**	**Variable annuities** **Please comment**
Q-52	**33.17**	**Intra-group commitments** **Please comment**
Q-53	**33.18**	**Premiums for specific business lines** **Please comment**
Q-54	**34.**	**Please comment**
Q-55	**35.**	**Please comment**
Q-56	**36.**	**Please comment**
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**

		The weight of Non-Traditional Insurance and Non-Insurance activities should be increased further, while that of interconnectedness should be decreased. Since insurance business, in general, has less interconnectedness in the financial market than banking business, there is little need to use a higher weight than that used in banking (20%).
Q-61	**37.4**	**Non-traditional insurance and noninsurance activities** **Please comment** The weight of Non-Traditional Insurance and Non-Insurance activities should be increased further, while that of interconnectedness should be decreased. Since insurance business, in general, has less interconnectedness in the financial market than banking business, there is little need to use a higher weight than that used in banking (20%).
Q-62	**37.5**	**Substitutability** **Please comment**
Q-63	**38.**	**Please comment** IAIS should consider that an insurer may represent a significant percentage of the sum of all insurers in the sample, but have a significantly reduced presence when non sample insurers are taken into account or when the activity of Non-insurance groups is included.
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** Consistent with the concept that the traditional insurance business model is not a cause of systemic events, it would be reasonable to compare the Non-insurance business with that of the current 29 G-SIBs in the discussion about the cut-off point.
	(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**

		As with the methodology presented in the paper, we expect that the policy measures will also be discussed along with the concept, which focuses on the Non-Traditional Insurance and Non-insurance activity.
Q-80	**54.**	**Please comment** Higher loss absorbency for G-SIIs needs to reflect not only the risks they hold but also the type of risk management controls in place. Risk mitigation measures and a risk control system are primary features of insurance business and may or may not be reflected in the practices of other business models. Any measures should consider that sound risk management may provide better protection than more capital
	A.	**Overview**
Q-81	**55.**	**Please comment**
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** Restriction is not the only way to control risk. The use of ERM by the insurer to mitigate and control risk needs to be taken into consideration. Incentives for good risk management can also be effective tools.
Q-94	**68.**	**Please comment** Restriction would not be the only way to control the risk. The use of ERM by the insurer to mitigate and control risk needs to be taken into consideration. Incentives for good risk management can also be effective tools.
	(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** There is a need for consideration and flexibility concerning the schedule of data collection especially for jurisdictions that have different fiscal year-ends.
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** Subsequent to this draft IAIS issued on 19 July its paper ´Reinsurance and Financial Stability´. Para 4 of the paper notes that ´ … The findings also apply to the bulk of non-traditional (re)insurance and particularly to ART activities. While ART comprises characteristics of financial market products and derivatives, in most cases, ART does not intermediate credit. Consequently, the failure of a reinsurer engaged in ART will not undermine a larger credit pyramid, and it is unlikely to affect other financial market participants or the real economy.´ The reference to non-traditional in Table 2 is not consistent with this subsequent view from IAIS. (Para 2 of the paper notes that ART includes Finite Reinsurance). We suggest a narrower definition or, if a wider definition is retained, that this score is carefully evaluated in the judgment and validation phase.
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**