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## Compiled Comments<sup>1</sup> on *Consultation Document on a proposed updated G-SII Assessment Methodology*

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<sup>1</sup> *This compilation of comments reflects the original text submitted by each respondent. The IAIS does not make any editorial revisions to these submissions prior to publication.*

Organisation	Jurisdiction	Confidential	Comments
<b>1 - Is the use of absolute reference values appropriate for the indicators for reinsurance, financial guarantees, and derivatives trading (CDS sold)?</b>			
CLHIA	Canada	No	We welcome the use of absolute reference values for certain indicators as this will measure the significance of insurers' activities in the context of the financial system rather than relative to other insurers. Absolute reference values should be combined with absolute thresholds.
China Association of Actuaries	China	No	We agree on the necessity of the introduction of absolute reference values which can properly reflect market size and development, but would recommend IAIS to clarify how to adopt it (especially elaborating the interaction with quantitative threshold setting in Phase II). In addition, replacing some of the indicators with absolute values will virtually reduce the weights for those indicators of which the rationale may be questionable; also, consequently the sample insurers' scores will not add up to 1.
China Insurance Regulatory Commission	China	No	We agree that, in terms of reflecting the overall market movements, absolute reference values are appropriate and feasible.  However, we have the following concerns: 1) It is very unclear how the absolute reference values will be applied, so it is difficult to assess its accuracy and effectiveness. We suggest IAIS provide more details of the proposed calculation approach, ideally with numerical examples. 2) Simply replace the sum of sample with absolute reference values, in denominators of selected indicators, it may virtually reduce the sensitivity of these indicators to the overall score (i.e. the total score will be very insensitive to these indicators); also, the sample insurers' scores will not add up to 1. 3) The approach should be consistent with how the quantitative threshold is determined in Phase II. If indicators are scored with absolute reference values, so should be the threshold. Otherwise, if the threshold is set based on the relative values at the end, it is less effective to reflect absolute reference values in indicators.
Insurance Europe	Europe	No	The Global Federation of Insurance Associations (GFIA) welcomes the use of absolute reference values for certain indicators. Moving towards the use of truly absolute values, and away from the relative ranking system of the current G-SII assessment methodology would greatly improve the process in the future because it would more accurately reflect a company's potential exposure to or transmission of systemic risk to the financial system instead of a relative ranking of companies against each other. Absolute values would also further increase transparency and certainty.  GFIA would highlight that the use of absolute reference values needs to be combined with an absolute threshold for the level of activity that would lead a company to be considered systemic. Activity below this level should be excluded from the assessment score as it would not be a relevant contributor towards systemic risk. This absolute threshold should be set in the context of all participants in the financial system and should not be based on a relative ranking of insurers under the new method. Otherwise, the purpose of assessing the contribution of the insurance industry to global systemic risk would be defeated because only a measure of contribution relative to other insurers would be provided. In addition, more transparency regarding the threshold which divides the sample of insurers into candidates and non-candidates is needed.

			<p>The proposed methodology only uses absolute reference values for three indicators: derivatives trading (credit default swaps sold), financial guarantees and reinsurance. GFIA believes this is not sufficient and that absolute reference values should be applied to more indicators and particularly when insurers are one of the many participants in the financial system.</p> <p>Finally, it would be helpful if the IAIS would include in the methodology a numerical example including a hypothetical insurance group that would show how the quantitative methodology, with absolute reference values for some indicators, would work. This would clarify the operation of the formula.</p>
Insurance Europe	Europe	No	<p>Insurance Europe welcomes the use of absolute reference values for certain indicators if the systemic risk potential of insurers will end up rightfully being assessed in relation to the financial system or the relevant market, as opposed to a sample of approximately 50 other insurers. On the assumption that the IAIS intends to implement absolute reference values in its quantitative assessment approach, Insurance Europe believes that additional indicators should be amended, particularly when insurers are one of the many participants in the financial system (See answer to Question 2).</p> <p>Insurance Europe would highlight that the use of absolute reference values needs to be combined with an absolute threshold (set for example in the context of all participants in the financial system) for the level of activity that would lead a company to be considered systemic. Activity below this level should be excluded from the assessment score as it would not be a relevant contributor towards systemic risk. The quantitative assessment will remain relative in nature if an absolute threshold is not introduced and in this case the purpose of assessing the contribution of the insurance industry to global systemic risk would be defeated because only a measure of contribution relative to other insurers would be provided. In addition, more transparency regarding the threshold for dividing the sample of insurers into candidates and non-candidates is needed.</p> <p>Insurance Europe notes that the use of absolute reference values for some indicators only would implicitly and artificially change the weights of the other indicators (typically by increasing them). Therefore, in Insurance Europe's view, it would be preferable to change the entire assessment into an absolute one or to limit the potential variation of indicators and categories for which relative values are still used. A way to address the implicit weight changes of absolute indicators and their impact on other indicators could be to re-balance the weights within their categories, so as to not affect the entire assessment approach.</p> <p>Insurance Europe would point out that the magnitude of an insurer's activity in relation to the absolute reference value (i.e. the denominator representing the total respective market) for the same activity, should be the main indicator for determining whether this involvement would give rise for systemic concerns.</p> <p>A combination of financial or insurance sector-wide denominators with either a change in the total score to be allocated or a change in the way the total score is apportioned (e.g. a concentration rather than a market share approach) would ensure that absolute reference values truly have an impact on the quantitative assessment. For example, the total score per indicator could reflect a year-on-year evolution of the business volume or assumed riskiness in the sample.</p>
European Insurance and Occupational Pensions Authority	European Union	No	<p>EIOPA acknowledges some of the technical issues which derive from the 2013 Methodology highlighted in the Consultation document (e.g. sample bias).</p> <p>The introduction of absolute reference values may be a workable solution to mitigate the impact of those issues, as long as it is implemented in a technically sound manner, especially in cases, where the absolute reference value is a good proxy of the total market value of a certain activity. This means, for example, that:</p>

			<p>- The scope of the absolute reference value should be aligned with the activities that are captured under the indicator for which it is applied.</p> <p>- The reference date used for the absolute reference value should be consistent with the reference date of the data collected to support the assessment exercise, to the maximum extent possible. Any material lag may introduce significant distortions in the outcome of the methodology and generate relevant concerns about its validity;</p> <p>It is fundamental to ensure the technical soundness of the final solutions agreed by IAIS, to avoid that absolute reference values are perceived by stakeholders and the public in general as a mechanism used to lower the scores of prospective G-SIIs in selected areas.</p> <p>In particular, EIOPA does not fully support one of the arguments presented against the current methodology, in Paragraph 16 of the Consultation document. At least to some extent, systemic risk is a relative concept, as the systemic importance of any given institution will depend not exclusively of its own actions, but also of the behaviour of its peers and the broader economy. Therefore, conceptually it is desirable that the score of a prospective G-SII would increase in the situation where it maintains a systemic level of a certain activity, whereas the volume of the market as a whole is decreasing (meaning that its market share is increasing). From our point of view, this is a desirable feature of the Methodology, which should be retained even after the introduction of absolute reference values.</p> <p>As highlighted in our previous comments, EIOPA is of the opinion that the data underlying absolute reference values should be reviewed annually, to be as up-to-date as the indicators against which they are being used. If this is not the case, the IAIS should detail how absolute reference values will be updated, on a regular basis, to avoid significant distortions in the outputs of the methodology. The use of historical data points for the adjustment (the size of the particular market during a year in the past), as suggested in Paragraph 18, would be inappropriate, from our point of view. Fixing the absolute reference values using historical figures, potentially obtained during market peaks, would severely limit the responsiveness of the whole methodology to market developments and lead to artificial results which could be largely under- or overestimated.</p>
GDV - German Insurance Association	Germany	No	Yes. Systemic risk can't be measured properly by calculating scores which solely provide for relative rankings among the undertakings involved in the assessment exercise. Absolute reference values are clearly preferable to relative values for financial guarantees and derivatives trading.
Munich Re	Germany	No	Absolute reference values are clearly preferable to relative values for financial guarantees and derivatives trading. However, using absolute reference values is the second best option. The first best option would be to use as an indicator for each asset class (receivables, derivatives, government bonds, corporate bonds, etc.) the exposure to individual counterparties in absolute values. If absolute reference values would be the preferred option we would suggest to benchmark the reference values to the whole industry (including the banking sector) to make the real impact of systemic relevance transparent. As far as reinsurance is concerned, please refer to our answer to question 6.
Global Federation of Insurance Associations	Global	No	The Global Federation of Insurance Associations (GFIA) welcomes the use of absolute reference values for certain indicators. Moving towards the use of truly absolute values, and away from the relative ranking system of the current G-SII assessment methodology would greatly improve the process in the future because it would more accurately reflect a company's potential exposure to or transmission of systemic risk to the financial system instead of a relative ranking of companies against each other. Absolute values would also further increase transparency and certainty. GFIA would highlight that the use of absolute reference values needs to be combined with an absolute threshold for the level of activity that would lead a company to be considered systemic. Activity below this level should be excluded from the assessment score as it would not be a relevant contributor towards systemic risk. This absolute threshold should be set in the context of all participants in the financial system and should not be based on a relative ranking of insurers under the new

			<p>method. Otherwise, the purpose of assessing the contribution of the insurance industry to global systemic risk would be defeated because only a measure of contribution relative to other insurers would be provided. In addition, more transparency regarding the threshold which divides the sample of insurers into candidates and non-candidates is needed.</p> <p>The proposed methodology only uses absolute reference values for three indicators: derivatives trading (credit default swaps sold), financial guarantees and reinsurance. GFIA believes this is not sufficient and that absolute reference values should be applied to more indicators and particularly when insurers are one of the many participants in the financial system.</p> <p>Finally, it would be helpful if the IAIS would include in the methodology a numerical example including a hypothetical insurance group that would show how the quantitative methodology, with absolute reference values for some indicators, would work. This would clarify the operation of the formula.</p>
Institute of International Finance/ The Geneva Association	Global	No	<p>Yes. The use of absolute values needs to be combined with a threshold for the level of activity that would lead a company to be considered systemic. The use of absolute measures combined with a relative ranking approach, as currently used in the designation methodology, would not bring about any significant change.</p>
AIA Group	Hong Kong	No	<p>The general thrust of using absolute reference values seems to be to reflect the position of the insurer relative to the market as a whole rather than to the sample of 50 companies from which data is collected. This would presumably be more reflective of the insurer's contribution to global systemic risk. While this general principle seems appropriate, the CD does not describe the process for determining an insurer's score in any detail and it is therefore difficult to answer this question with certainty. We believe the calculation of the score should be completely transparent and we urge the IAIS to disclose the formula for calculating the score.</p>
Global Reinsurance Forum	International	No	<p>Absolute reference values that are derived from aggregate market data and/or industry market share appear to be a better indicator of the level of SRAs than relative values based on the sample of insurers in the designation exercise, whose business volume may not be representative of the overall market for these activities. However, more clarity about the concrete deployment of reference values by IAIS would be needed prior to have a final view on this issue. Of the three activities for which absolute reference values are proposed, Reinsurance has never led to a systemic event, which is a fact that should be taken strongly into consideration for the setting of the absolute indicator. Therefore, the absolute reference value for the reinsurance indicator should reflect the prevailing consensus* that reinsurance activities do not contribute to systemic risk given the current market composition.</p> <p>In general, the methodology for designating G-SIIs should identify and assess the extent of SRAs carried out by G-SIIs. In setting the threshold for a specific SRA, the decisive question should be, "how much of this activity can be allowed to fail until (due to direct consequences or via amplification) significant disruption is caused?" This is the critical amount of SRA. In this manner, reasonable absolute reference values for selected indicators can be introduced. In some cases, it may make sense to express the critical amount of SRA as a percentage of the total amount of the activity in the market. This is especially true if the relative importance of the activity for the well-being of the global financial system and economic activity does not change.</p> <p>* see the IAIS report "Reinsurance and Financial Stability" dated 19 July 2012</p>

on behalf of the European GSIs, Aegon, Allianz, Aviva, Axa and Prudential	International	No	- The use of absolute reference values needs to be combined with a threshold for the level of activity that would lead a company to be considered systemic. The use of absolute measures combined with a relative ranking approach, as currently used in the designation methodology, would not bring about any significant change.
General Insurance Association of Japan	Japan	No	- How to adjust the score calculation process following the introduction of the absolute reference values should be clarified. - If the absolute reference values are introduced, the assessment process should ensure that, if the insurance sector continues to reduce systemic risk by decreasing NTNI activities, etc., the number of G-SIs will accordingly be reduced. - Therefore, in order to appropriately reflect each insurer's efforts to reduce systemic risk, the relevant indicator weightings that decrease as a result of the use of the absolute reference values should not be adjusted either within each category or on an overall basis, but should be subject to an absolute assessment. We are concerned that the right balance among the indicators will not be ensured if adjustments are made to the indicator weightings within each category or on an overall basis to maintain the sum of the weighting percentages at 100%.
The Life Insurance Association of Japan	Japan	No	·Given the significant impact of G-SIs identification on insurers' business strategies and capital policies, predictability of G-SIs designation is critically important. The LIAJ supports, at least in terms of predictability, the general direction taken by the IAIS's to modify the current methodology that only uses relative reference values and refer to absolute reference values for certain indicators. ·The LIAJ also recognizes the need to address new issues that would arise from the limited use of absolute reference values only for specific indicators. We would like the IAIS to give further consideration to these issues, without excluding the possibility of introducing additional measures.  -The LIAJ is concerned that indicators using absolute reference values could be weighted too heavily or lightly for assessment purposes compared to indicators using relative reference values. For instance, there is a possibility that indicators such as CDS protection sold and financial guarantees, that are deemed to be the main causes for 2008 financial crisis, could be weighted lighter than indicators for traditional insurance activities such as size and global activity. In order to address this issue, we would like the IAIS to consider additional measures such as introduction of floor and cap for each indicator that uses absolute reference values. -The LIAJ is also concerned that, for instance, an insurer's scores for indicators that use relative reference values could be increased even when it maintains stable exposure to relevant activities, if other insurers in the sector reduce their exposures. For another instance, we are concerned about the possibility that a score would not decrease even when the whole insurance sector reduces its total exposure. In light of these issues, we would like the IAIS to consider appropriate measures such as introduction of cap for specific indicators. In addition, we would request the IAIS to give flexible consideration to the possibility of introducing absolute reference values to other indicators that currently use relative reference values, based on analysis of changes in exposure of the whole insurance sector to each of those indicators.
Swiss Re	Switzerland	No	Swiss Re understands G-SIs as organizations whose distress or disorderly failure would cause significant disruption to the global financial system and economic activity. Moreover, we consider Systemically Risky Activities (SRAs) as those activities whose failure or interruption could cause or amplify significant disruption to the global financial system and economic activity.  Therefore, the methodology for designating G-SIs should identify and assess the extent of SRAs carried out by G-SIs. In

			<p>setting the limit for a specific SRA (i.e. the level beyond which the IAIS considers an insurer's involvement in a particular activity systemically risky), the decisive question should be, "how much of this activity can be allowed to fail until significant disruption is caused?" When asking this question, the IAIS should always strive to take into account the financial sector in its entirety, as opposed to the focusing solely on the insurance sector. Individual firms who contribute significantly to this critical amount of SRA potentially pose a systemic risk.</p> <p>Therefore, a process for arriving at useful comparable scores for each indicator could be as follows:</p> <ul style="list-style-type: none"> <li>- For each indicator with a public measure for the aggregate market activity (cross-sectorial, where possible, or restricted to the insurance sector), the IAIS determines the ratio of the G-SII's activity to this aggregate measure. This means that the aggregated amount serves as a denominator. Where it prove impossible to base the denominator on market data, the IAIS should use the aggregate over the tested population of potential G-SIIs (and possibly G-SIBs) as a denominator.</li> <li>- Following the logic laid out above, the IAIS defines a limit for the ratio in each indicator as a level at which an insurer's involvement in this activity becomes systemically risky.</li> <li>- This limit serves to arrive at "normalized" scores; i.e. before aggregating, the ratio is divided by the corresponding limit to arrive at the score. Thus, a score value below 1 means little systemic relevance, while a value above 1 indicates higher relevance.</li> <li>- The IAIS assesses the potential for systemic risk measured by the indicator, e.g. for traditional reinsurance, the limit can be e.g. 5% of aggregated technical insurance provisions, while for the "derivatives" indicator, the limit may be set at a lower value, e.g. 1% of total exposure. The difference is justified since reinsurance has never led to a systemic event and is unlikely to do so (see the IAIS report "Reinsurance and Financial Stability" dated 19 July 2012).</li> </ul> <p>This methodology also ensures that the weights in the subsequent aggregation are meaningful and can be kept stable.</p> <p>The proposed denominators seem suitable for reinsurance, financial guarantees, and derivatives trading (CDS sold). The IAIS should set corresponding limits deliberately and transparently.</p>
Aegon N.V.	The Netherlands	No	<p>We infer from the consultation that the use of absolute reference values has the effect of adjusting the potential impact or weighting of the indicators to which absolute reference values apply. Given this understanding, we regard the use of absolute reference values as a modest evolution and improvement of the existing framework. That said, we have two concerns about absolute reference values. First, we have some concern that absolute reference values are being applied to selected indicators. If the IAIS decides that absolute reference values are preferable to static weights, they should be applied to all indicators. More significantly, absolute reference values have the counterintuitive effect of adjusting the weights of all other indicators. We do not believe that it should be possible for an insurer's G-SII score to be impacted by changes to weights of unrelated indicators.</p> <p>In addition, absolute reference values do not address our broader concerns about an assessment methodology in which the actions of one insurer can impact the perceived systemic footprint of other insurers. This shortcoming can be resolved only by developing an assessment methodology that avoids entirely the comparison of one insurer to another.</p>

Center for Economic Justice	U.S.	No	The Center for Economic Justice is unable to submit comments by tonight's deadline due to unforeseen circumstances. We request the opportunity to submit comments by end of day of 26 January.
Institute and Faculty of Actuaries	UK	No	Absolute reference values for these indicators are appropriate as this approach allows the pitching of reference values at a suitable level appropriate for individual insurance companies, but also for the broader pool of globally systemically important financial institutions.
KPMG	UK	No	<p>A limitation of the 2013 G-SII assessment methodology is that an insurer's score for a particular indicator reflects the systemic importance of that insurer relative only to the sample population of insurers, rather than to the insurance industry's contribution to that indicator of systemic risk. In this way, the G-SII scores of insurers has previously only allowed a comparison of the relative systemic risk posed by G-SIIs rather than an absolute level of systemic risk.</p> <p>We support the use of absolute reference values where sufficiently reliable aggregate industry figures can be obtained. This would allow better understanding of whether the industry's systemic footprint is increasing or decreasing and also whether the population of potential G-SIIs have retained or reduced their relative share of the exposure. Given one of the aims of the G-SII classification is to encourage G-SIIs to reduce their systemic activities, this would enable the IAIS to ascertain whether this is in fact happening.</p> <p>The three indicators for which this is proposed appear to be those where reliable aggregate market data should be available, and we would encourage the IAIS to continue to seek data to enable the use of more absolute reference values in the future.</p> <p>However, this introduces two further questions that are not addressed in the paper.</p> <p>Firstly, it is not fully clear how this will operate in practice from a quantitative perspective and how it will improve the methodology by solving the issue of "relative systemic risk".</p> <p>Secondly, this raises the question of how the IAIS will respond if the aggregate across the population of groups assessed only contributes a small percentage of the overall industry absolute reference value. Will the IAIS seek to understand the major contributors that are not in the population with a view to potentially including them within the potential G-SII assessment pool? Or will it reassess whether the relevant area should remain on the G-SII assessment criteria or be removed, potentially increasing the weighting given to other factors?</p>
Prudential plc	UK	No	We welcome the use of absolute reference values for certain indicators as this will measure the significance of insurers' activities in the context of the financial system rather than relative to other insurers. However, restricting this to three indicators, i.e. derivatives trading (CDS sold), financial guarantees and reinsurance is not adequate. This will only serve to reduce the G-SII scores of insurers who undertake these activities that had contributed significantly to distress amongst insurance groups in 2008/09.
Allstate Insurance Company	United States	No	Yes, however, we recognize that obtaining global measures of most financial activities is difficult which limits the precision of these measures.



American Council of Life Insurers	United States	No	<p>We would prefer an assessment methodology based on absolute amounts instead of the current methodology, which ranks firms in relation to the population sampled according to limited industry data and relative to pre-determined perceived systemic risk levels. We do not think relative scoring, whether of potential G-SIIs (the 50 firms in Phase I) or actual G-SIIs is the appropriate way to assess systemic risk. We support the use of absolute amounts of all metrics included in the Phase II quantitative assessment.</p> <p>We also think the terminology in the consultation, which refers to "absolute reference values," is potentially misleading because it could lead observers to believe that the modified reference values are truly an absolute measure. It's our understanding that the "absolute reference values" will function as a scalar to the weights for the selected indicators, but that the underlying framework is still a relative assessment of firms within the data pool.</p> <p>We strongly encourage the IAIS to undertake a determination of what absolute values indicate systemic risk. A study would be a good first step. The ultimate goal should be to have a GSII Assessment Methodology which is based on absolute amounts of systemic risk and not a relative ranking of firms in the insurance sector.</p>
National Association of Mutual Insurance Companies	United States	No	<p>General Comments (also included in response to Q30)</p> <p>This submission represents the collective comments of the membership of the National Association of Mutual Insurance Companies (NAMIC) in the United States. NAMIC is the largest property/casualty insurance trade association in the country, serving regional and local mutual insurance companies on main streets across America as well as many of the country's largest national insurers. NAMIC's 1,300 property/casualty insurance company members write \$208 billion in premium and serve more than 135 million policyholders in the U.S. NAMIC members serve 48 percent of the personal lines (automobile/homeowners) market and 33 percent of the business insurance market. Over 200,000 people are employed by NAMIC member companies.</p> <p>NAMIC participated in the comments submitted by the Global Federation of Insurance Associations and those of the U.S. Chamber of Commerce and supports these comments in relation to the GSII Criteria Consultation Draft. The responses to questions by these two organizations provide a more detailed focus on specific questions. NAMIC provides in the comments below important areas of emphasis and areas of concern for our membership that may not be fully addressed in the GFIA or U.S. Chamber remarks.</p> <p>Improvements to the GSII Criteria  NAMIC supports the emphasis on cross-sectoral comparisons in the criteria for GSII designations. Systemic risk does not necessarily apply to the largest entities in each financial sector. The largest insurers do not have nearly the same systemic impact as the smallest of GSIBs. The IAIS correctly stated in its November 2011 paper entitled, Insurance and Financial Stability, "for most lines of business there is little evidence of traditional insurance either generating or amplifying systemic risk within the financial system or in the real economy." Consequently the effort of the IAIS to focus GSII criteria on cross-sectoral comparisons is appreciated by NAMIC. There are additional revisions in the consultation draft that would further the goal of a cross-sectoral comparison for systemic risk.</p> <p>To further the efforts toward a more complete cross-sectoral comparison, NAMIC also agrees with increased use of absolute reference values in the data collection for designation. Taking this to the next step, by using absolute values on more than a</p>

		<p>limited basis and assuring that the absolute reference values are used and compared in the cross-sectoral analysis will help place insurers in the proper perspective to banks. To further improve the designation process other changes are recommended to the five phase process:</p> <p>1. Phase I - Size Without International Activities: Also following the lead of the IAIS NAMIC asserts that the first phase of the analysis should not randomly look at the top 50 insurers based solely on asset size and draw relative comparisons between the top 50, but should consider the asset size as compared to the asset size of the banks designated as GSIBs. If insurance organizations remain outside the scope of the banking impact on systemic risk and their products do not generally create systemic risk then it seems unreasonable to select insurers for GSII designation without more evidence of systemic risk.</p> <p>The changes suggested in this draft in Phase I move further away from the goal of reducing systemic risk. The change in criteria to include a large insurer with over \$200B in assets with no international insurance writings even ignores the actual definition of the designation that is being developed. The focus is on a "Global" Systemically Important Insurer, not a non-global insurer. Allowing asset size alone to dominate Phase I without even a consideration of whether the insurer is involved in the global market goes beyond the scope of the FSB charge and the IAIS role in identifying global financial institutions that might cause systemic risk. A company with no international business should be left to the analysis of their country of domicile. We suggest, at a minimum, there must be a clarification that an insurance organization must have at least 1% of their business written in foreign jurisdictions.</p> <p>2. Factors Unrelated to Probability of Failure: The focus of the revised criteria seems to be on the effect of an insurers' global failure and not on the probability of that failure. Similar to the points made in the NAMIC comments on the NTNI definition document, individual insurers' ERM practices and investment strategies should be considered in determining GSII status as well. At the very least the probability of failure should be a key factor under the qualitative portion of the analysis. Focus on the strengths of companies: Strong ERM, Strong Governance; Conservative Business and investment Strategies etc. can provide a means to assess probability of failure. Without considering probability of failure the IAIS will be engaging unnecessarily with insurance organizations through the various phases of the process, resulted in wasted time for the IAIS, for the prudential regulator and for the organization. But most importantly the IAIS will not be impacting systemic risk in any meaningful way.</p> <p>3. Property/Casualty Not Correlated with Systemic Risk: NAMIC agrees with the IAIS analysis in the NTNI definition that conclude that most property/casualty lines of insurance show no connection to systemic risk, no substantial market risk and no correlation with the movements of the market. We support revision of the GSII criteria to eliminate such traditional insurance products from the analysis as well.</p> <p>Exit Ramp The goal of reducing or eliminating systemic risk from the global economy is laudable and worthy of pursuit. However, requiring GSII designated organizations to maintain high levels of capital and loss absorbency, to meet voluminous resolution planning requirements, and to comply with other enhanced prudential requirements that effect those organizations on a public, competitive and financial level is a mechanism that should be used sparingly and should only be applied as long as it is needed to achieve the goal of systemic risk reduction. As soon as an organization has made changes that remove it from qualifying as a GSII they should be allowed to exit from the enhanced prudential requirements. Requiring an organization to remain designated for no less than 2 years does not address the real goal of the designation and does not reward an organization that has taken action to eliminate or significantly reduce any potential systemic risk they may have created.</p>
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RAA	United States and many other jurisdictions	No	<p>Yes, the use of absolute reference values for reinsurance, financial guarantees and other indicators is preferable to relative values. The use of absolute reference values will measure these activities in the context of the broader financial system rather than only these activities' relative importance to a limited selection of the insurance industry subject to the GSII evaluation process. However, in order to obtain a true picture of the systemic risk potential of insurer activities, the absolute values should be measured in the context of the entire financial system, including the banking sector.</p> <p>With respect to reinsurance, the absolute reference values should to be evaluated in the context of the total insurance risk transfer market, including ILS type contracts transacted with banks, hedge funds, pension funds and other insurance risk bearing counterparties.</p>
American Insurance Association	United States of America	No	<p>The IAIS Should View All Relevant Risk Indicators on an Absolute Basis: the IAIS should analyze insurance groups on a cross-sectoral basis. While the Updated G-SII Methodology's shift to absolute reference values for three risk indicators is a good start, it is insufficient. Using relevant risk indicators to only compare insurance groups to one another does not place the issue of "systemic" risk in proper perspective.</p> <p>Consistent with our comments in favor of absolute reference values, AIA would support a cross-sectoral analytic approach that compares potential G-SIIs to systemically important firms in other financial sectors. AIA believes that such an approach would show that, with respect to systemic risk indicators, insurers are significantly smaller with respect to those indicators than banks.</p>
Prudential Financial, Inc.	United States of America	No	<p>Prudential Financial, Inc. (Prudential) would like to thank the IAIS for the opportunity to comment on the November 25, 2015 Global Systemically Important Insurers: Proposed updated Assessment Methodology consultation document.</p> <p>Prudential continues to remain committed to the further development of global regulatory standards for insurance and believes such standards are important for promoting effective and appropriate supervisory and regulatory practices. Such standards will contribute to our shared goals of effective policyholder protection, financial stability, sound regulatory outcomes, and more vibrant insurance markets.</p>

			<p>However, the evolution of global regulatory standards, including the refinement of the Global Systemically Important Insurers (G-SII) assessment methodology, must be carried out in a measured, comprehensive, and transparent manner. Further, it is critical that the IAIS consider the potential for their policy measures to adversely impact the ability of insurers to continue to offer socially necessary products to consumers and a steady flow of long term capital investment to financial markets. Every effort must be made to avoid such unintended consequences. We offer the following general comments on the consultation and request the IAIS review the comments we have provided to the consultation in conjunction with those we submitted on the separate consultation on Non-traditional Non-insurance (NTNI) Activities and Products.</p> <ul style="list-style-type: none"><li>+ Prudential supports the IAIS efforts to continue to refine their suite of policy measures and in particular the G-SII assessment methodology. While the consultation offers incremental steps in the right direction, further improvement is needed. The IAIS should commit to further refinements more frequently than every three years. These refinements should be done as a serial exercise between 2017 and 2019 that more accurately focus on the externalities of systemic risk from the insurance sector.</li><li>+ The assessment methodology should better reflect the IAIS stated mission of preventing the insurance sector from adversely impacting the global financial system.</li><li>- The relative ranking of insurers among the population sampled remains a core underpinning of the assessment methodology. Such an approach overstates the risk the insurance industry presents to the global financial system as it ignores the overall low systemic impact of the insurance industry relative to banking.</li><li>- An insurer should have complete control over their G-SII designation status, meaning they should have sufficient knowledge on the basis for their designation to determine actions that - should they chose to implement them - would shed designation. Under a relative ranking approach, a firm that implements such actions may still be designated as they are tied to other firms in the sample population who may be undertaking similar measures. While we support the introduction of absolute reference values as an initial step away from a relative ranking approach, their limited and nuanced use in the current proposal does not provide a firm sufficient autonomy.</li><li>- The proposed assessment methodology and framework for assessing activities and products should more clearly articulate that the IAIS is focused solely on the propensity of a firm to transmit systemic risk to the financial system and not on a firm's probability of failure. The current proposals include undue emphasis on analyzing the micro-prudential risks of a firm, while failing to account for risk management practices.</li><li>- The broad nature of the IAIS' stated mission calls for taking a holistic approach to analyzing firms under consideration for designation - one that takes full account of risk management practices, including risk mitigation accomplished through the use of derivatives. Failure to sufficiently account for risk management practices will lead to an over statement of a firm's potential to cause significant disruption to the global financial system and economic activity. Such a holistic approach should carry through the assessment methodology to underpinning elements such as the proposed framework, for assessing activities and products which explicitly ignores an insurer's efforts to hedge market risk.</li><li>- The concept of proportionality is often discussed in the context of determining the population of insurers the measures of the IAIS should apply to. We believe proportionality is a critical element of regulation and in particular the calibration of standards.</li></ul>
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MassMutual Financial Group	USA	No	<p>Yes, we view the addition of absolute reference values as a positive step toward an overall improved framework. That said, we believe absolute reference values that reflect the contribution to global systemic risk should be used for all quantitative metrics. We encourage the IAIS to ensure absolute reference values account for global systemic risk exposure across the global financial system, and not be limited to the assessment within the insurance industry.</p> <p>The IAIS has noted that "at the next scheduled three-year review, the proposed methodology may move toward using more absolute reference values, where appropriate, to assure that the indicators adequately capture changes in the industry's systemic footprint and the potential threat to global financial stability posed by insurers as compared to other financial firms." It would be helpful to state why only three of the metrics were selected for this methodology at this time. While we support the direction in which the IAIS is moving, we believe the IAIS should go further to include the use of absolute reference values for all metrics included in the quantitative assessment.</p>
MetLife, Inc.	USA	No	<p>MetLife suggests that all indicators proposed under the four categories (size, interconnectedness, substitutability and asset liquidation) in the proposal referenced in response to Question 30, including reinsurance, be scored on an absolute basis. Once aggregated, there should also be an absolute reference point for the overall threshold for phase II. Designating firms on a relative basis produces results that have meaning only within the context of the G-SIIs and do not properly measure risk to the overall financial system.</p> <p>Furthermore, an assessment conducted on an absolute basis would provide the transparency that would permit insurance groups to understand how to avoid designation or re-designation in future assessments.</p>
Property Casualty Insurers Association of America (PCI)	USA	No	<p>Yes. The reliance on relative rankings between insurers is a major flaw in the current methodology, and moving away from that is a positive development. The use of absolute reference values should be expanded to highlight where cross-sectoral risk actually exists, and are clearly preferable for financial guarantees and derivatives (CDS) trading. Another option that could be considered here is the use of exposure to individual counterparties in absolute values.</p>
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	<p>Yes, the use of an absolute reference value for credit default swaps (CDS sold) and financial guarantee is preferred to the current relative ranking approach which produces the same scores even if there has been a significant market wide decline/de-risking in the activity. Another related benefit of absolute reference values is that the value can reflect the size of the overall market for all financial institutions that engage in a particular activity rather than just limiting the comparison to other insurers within the scope of the G-SII exercise who engage in an activity. This comparison provides additional needed perspective for assessing the systemic footprint of insurance firms included in the analysis. In addition, as it relates to CDS and financial</p>

			<p>guarantees, consideration should be given to combining these indicators given that they provide economically similar financial coverage.</p> <p>Absolute reference values may also be beneficial for reinsurance, but the impact will depend on the degree to which the sample of insurers that are already included represent a significant portion of the total market. In addition, the use of absolute references values should help to address any major shifts in the size of the overall reinsurance market going forward.</p> <p>The benefits of using absolute reference values can be better assessed once it is determined more precisely how such value will be used to adjust the existing indicators and how those adjusted indicators will be integrated within a formula that remains predominately based on a relative ranking.</p>
Financial Services Roundtable	Washington, DC	No	The full text of our comments, which respond to both the G-SII and NTNI consultation are included in Box #30. For a pdf. version of these comments, please send a message to Robert.Hatch@FSRoundtable.org.
<b>2 - Should the IAIS consider measuring other indicators by absolute reference values? If yes, identify the indicator, explain the absolute reference value that can be used and explain why the use of the absolute reference value would improve the Proposed Methodology in the future.</b>			
CLHIA	Canada	No	The arguments for the benefits of absolute values rather than relative ranking are so compelling that we recommend the use of absolute values wherever possible.
China Insurance Regulatory Commission	China	No	We suggest use absolute values in Size, NTNI, Substitutability and Derivatives, but with the same concerns as we responded in Question 1.
Insurance Europe	Europe	No	Use of absolute reference values is the more appropriate method to determine the contribution of insurers to the global financial system, especially where insurers are one of many participants (eg in the use of derivatives). GFIA believes it is not sufficient to use absolute reference values for three indicators only and would strongly suggest that these should be applied to more indicators. Relative measures are not suitable as they do not determine the potential risk to the global financial system. Applying absolute references to all suitable indicators will help the IAIS determine whether the insurance sector's specific activity is sufficiently significant to be considered an appropriate indicator of systemic risk. In particular, absolute reference values should be applied to several indicators related to size, interconnectedness and NTNI activities. As mentioned in the response to question 1, the use of absolute references needs to be combined with an absolute threshold for the level of activity that would lead a company to be considered systemic.
Insurance Europe	Europe	No	On the assumption that the IAIS intends to implement absolute reference values in its quantitative assessment approach, Insurance Europe believes that additional indicators should be amended, particularly when insurers are one of the many participants in the financial system. Relative measures are not suitable, as they do not determine the potential risk to the global financial system. This change would help the IAIS determine whether the insurance sector's specific activity is sufficiently significant to be considered an appropriate indicator of systemic risk. In Insurance Europe's view, absolute reference values should be applied to the following indicators:



			<ul style="list-style-type: none"> <li>- Size: total assets</li> <li>- Interconnectedness: derivatives</li> <li>- NTNI: <ul style="list-style-type: none"> <li>o Short term funding - indicators for securities lending and repo.</li> <li>o Securities lending - reference values from the International Securities Lending Association (ISLA) market report which sets out the value of aggregate global securities lent.</li> <li>o Repos - reference values could be based on activity reported to the European Repo Council for its Repo Market Survey.</li> </ul> </li> </ul>
European Insurance and Occupational Pensions Authority	European Union	No	In theory, any indicator can be subject to an adjustment based on the application of an absolute reference value. However, EIOPA believes that such solution should only be implemented in cases where it is technically justifiable due to problems such as sample bias, where these are material and cannot be corrected through other means, such as the addition of a limited number of relevant insurers to the data collection exercise.
GDV - German Insurance Association	Germany	No	Yes. Given the conceptual consistency of using absolute reference values the IAIS should explore the availability of such values for other indicators, too. Referring to the decision to use absolute reference values for CDS sold, it seems to be obvious to consider this approach for derivatives and other non-insurance specific indicators as well (e.g. total assets, intra-financial assets, intra-financial liabilities, turnover, level 3 assets). We believe that the BIS should be prepared to gather the required numbers to determine the notional amounts of outstanding derivatives on a cross-sectoral and global basis. The same may apply to the short term funding indicator of NTNI. In addition, numbers on the global scale of securities lending -understood as a subcategory of short term funding- may be provided by the International Securities Lending Association (ISLA).
Munich Re	Germany	No	See answer to question 1. Given the conceptual consistency of using absolute reference values, IAIS should explore the availability of such values for other indicators, too. Given IAIS's decision to use absolute reference values for CDS sold, it seems to be obvious to consider this approach for derivatives and other non-insurance specific indicators as well. We believe that the BIS should be prepared to gather the required numbers to determine the notional amounts of outstanding derivatives on a cross-sectoral and global basis. The same may apply to the short term funding indicator of NTNI. In addition, numbers on the global scale of securities lending - understood as a subcategory of short term funding- may be provided by the International Securities Lending Association (ISLA).
Global Federation of Insurance Associations	Global	No	Use of absolute reference values is the more appropriate method to determine the contribution of insurers to the global financial system, especially where insurers are one of many participants (eg in the use of derivatives). GFIA believes it is not sufficient to use absolute reference values for three indicators only and would strongly suggest that these should be applied to more indicators. Relative measures are not suitable as they do not determine the potential risk to the global financial system. Applying absolute references to all suitable indicators will help the IAIS determine whether the insurance sector's specific activity is sufficiently significant to be considered an appropriate indicator of systemic risk. In particular, absolute reference values should be applied to several indicators related to size, interconnectedness and NTNI activities. As mentioned in the response to question 1, the use of absolute references needs to be combined with an absolute threshold for the level of activity that would lead a company to be considered systemic.
Institute of International	Global	No	Yes, we urge that absolute reference values be used for any indicator where insurers are one of many participants in the financial system. For indicators only reflecting activities of the insurance sector, values should reflect the activity in the entire

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insurance sector. We advocate that the G-SII regime identify the contribution of the insurance sector to systemic risk in the financial system, rather than compare the risk profiles of insurer against insurer. The introduction of absolute reference values is a step in that direction.

In contrast, relative indicators may provide a misleading picture of a firm's systemic risk score, especially when overall risk is low. Moreover, sample-based reference values create an artificial sensitivity of a firms' systemic risk scores with the actions of another firm because the denominator reflects the scores of a sample of firms.

The introduction of absolute reference values can lead to some practical problems in the G-SII assessment methodology's quantitative assessment, as it leads to an implicit change in the indicator weights. This issue is currently not addressed by the IAIS in the G-SII methodology consultation document. For any indicator, moving from reference value reflecting a sample of firms to one reflecting the entire financial system (or where appropriate the entire insurance sector) will increase the denominator. As the individual insurer's score for this indicator will now be divided by a larger denominator, the outcome of the indicator will decrease in size. When not all indicators in the G-SII assessment are being changed to absolute reference values, this implies that indicators with sample-based references will have a relatively larger impact on the total G-SII score, because their denominator is likely smaller.

This issue illustrates the importance of the IAIS making clear choices on how to implement absolute reference values in the methodology. Yet the current proposal leaves open a possibility of (some) relative scoring, even using absolute reference values (8). We advocate that the IAIS implements absolute reference values in a way to reflect "absolute", system-wide risk. Only in that way can the contribution of the insurance sector to systemic risk in the financial system be measured. It is thus crucial that the IAIS carefully assess the impact of the introduction of absolute references on the relative impacts of all indicators, the category weights, and on the total G-SII score. Two options could be considered in this regard.

1. Adjusting the weights of indicators to bring the impacts on the total G-SII score of those indicators based on system-wide variables in line with those based on samples.
2. Introduce absolute reference values for all indicators.

The use of absolute values needs to be combined with a threshold for the level of activity that would lead a company to be considered systemic. The use of absolute measures combined with a relative ranking approach, as currently used in the designation methodology, would not bring about any significant change. It is also important that the denominators will be broadly defined, in order to properly account for the heterogeneity of the business models of insurers(9).

Without prejudice to our challenge of the systemic link of level 3 and intra-financial assets, absolute reference values reflecting cross-sectoral values could be applied to the following indicators:

1. Size - total assets
2. Interconnectedness - intra-financial assets
3. Interconnectedness - intra-financial liabilities
4. Interconnectedness - level 3 assets (10)
5. Interconnectedness - reinsurance (11)
6. Interconnectedness - derivatives
7. NTNI - short term funding

		<p>8. NTNI - financial guarantees</p> <p>At the same time, we challenge the relevance of some other indicators used in the G-SII assessment methodology.</p> <ul style="list-style-type: none"> <li>- Intra-financial assets and level 3 assets do not transmit systemic risk to the broader financial system and therefore should be removed from the assessment. Intra-financial assets expose insurers to systemic risk, but do not create or amplify it, and thus represent a micro-prudential issue.</li> <li>- If intra-financial assets were to remain part of the G-SII assessment methodology, we would have the following recommendation. A more accurate asset/liabilities picture would emerge for the financial system if the FSB and the international sectoral standard setting bodies (IAIS, BCBS and IOSCO) would establish a ground to share information on intra-financial assets and liabilities. Firms know the counterparty on the intra-financial assets they hold, but they can only make a more or less informed guess about the intra-financial liabilities they owe to the investors. By pulling all intra-financial assets together in the financial system, the FSB and standard setting bodies could complete the intra-financial assets/liabilities picture.</li> <li>- Level 3 assets are not a suitable indicator for potential fire sale risk as assets and liabilities cannot be viewed in isolation. Level 3 assets may be backing non-liquid liabilities and therefore in such circumstances fire sale concerns do not arise. We consider that this indicator should be deleted. However, if the IAIS chose to retain the indicator, a net asset-liability liquidity view should be taken, as discussed above. Further, we consider Level 3 assets as micro-prudential issues and not relevant for systemic risk generation.</li> <li>- Liability liquidity should distinguish between the theoretical possibility of surrender, and the actual expected behavior of policyholders based on product characteristics such as guarantees and surrender penalties. We advocate that the "liability indicator" in the G-SII methodology is made consistent with the approach to liquidity risk in the NTNI proposal, which includes a set of qualitative/ancillary factors determining a product's liquidity risk (12). This approach should also include the presence of guarantees as a disincentive to surrender.</li> <li>- Using "derivatives" as an indicator for systemic risk in the "interconnectedness" category creates disincentives for hedging. Insurers hardly use derivatives for income-generating purposes; in some jurisdictions this is even prohibited by regulation in insurance licensed entities. However, most insurers use derivatives to hedge important risks in insurance like interest rate and duration/ALM mismatch risk. As such, derivatives are a crucial element of sound insurer risk management. Using this indicator as a measure of systemic risk in effect would penalize risk hedging.</li> <li>- The underlying assumption that "reinsurance" contributes to systemic interconnectedness does not take into account the risk mitigating benefits inherent in the use of reinsurance.</li> </ul> <p>FOOTNOTES:</p> <p>(8)As the G-SII assessment consultation document states in paragraph 15, p. 9: "For indicators with absolute reference values, the absolute reference value will either replace the sum of responses from the sample insurers in the denominator of the</p>
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			<p>indicator score calculation or add a factor to the indicator score calculation that reflects market developments" (emphasis added by IIF/GA). The proposal thus leave open the possibility of (some) relative scoring in the methodology.</p> <p>(9)For example, a broad definition of financial guarantees would be able to capture the range of different guarantees provided by insurers.</p> <p>(10)We prefer to exclude level 3 assets from the G-SII methodology (see further on in our answer to Q2); however, if the IAIS were to keep level 3 assets as an indicator in the G-SII assessment methodology, we advocate absolute reference values are used.</p> <p>(11)The use of an absolute reference values for reinsurance may provide a better indication as to the level of reinsurance used by the sample of insurers relative to the reinsurance market as a whole, rather than a subset thereof.</p>
AIA Group	Hong Kong	No	In theory, it would seem that other indicators such as intra-financial assets and liabilities and derivatives should be treated in a similar fashion. The justification is the same as for the three indicators already selected, namely that an absolute indicators would be more reflective of the insurer's contribution to global systemic risk.
Global Reinsurance Forum	International	No	Given the conceptual consistency of using absolute reference values the IAIS should explore the use and availability of such values also for other indicators, e.g. "Derivatives" and "Level 3 assets" in the "Interconnectedness" category. As stated by the IAIS in Section V paragraph 30 of the consultation, "the G-SII identification process focuses on how an insurers failure or distress would impact the global financial system, not the probability that an insurer will experience failure or distress." Since investments in derivatives and level 3 assets are carried out by the entire financial sector, the absolute reference values based on the overall market size for these investments should be used. For derivatives, the Bank for International Settlements provides robust market statistics for both exchange-traded and OTC derivatives. The IAIS should consider the current exposure to a derivative counterparty adjusted to reflect legally-enforceable netting (e.g. - via ISDA agreements) and collateral arrangements.
on behalf of the European GSIs, Aegon, Allianz, Aviva, Axa and Prudential	International	No	<p>- Yes</p> <p>- Within the concurrent consultation on NTNI, section 2.8 considers exposure channels that could allow a shock to spread more easily to other financial institutions or markers (interconnectedness) therefore to determine if such a shock could be material to the global financial system, there should be absolute measures against the global market. This would help the IAIS determine whether the insurance sector's specific activity is sufficiently significant to be considered an appropriate indicator of systemic risk</p> <p>- The indicators set out below within the interconnectedness and NTNI categories should be measured by absolute reference values</p> <p>Global Activity</p> <p>- Global activity alone is not a source of systemic relevance. We suggest to exclude the indicators revenues derived outside of home country</p> <p>Interconnectedness</p>

			<ul style="list-style-type: none"> <li>- Because the systemic relevance of interconnectedness arises through the financial system's exposure to the insurance group and an insurer's holdings of certain asset types and related counterparty exposure does not transmit systemic risk to the broader financial system, we suggest to exclude Intra-financial assets and level 3 assets. We also exclude the indicator "turnover ratio" as it has no direct linkage to systemic relevance.</li> <li>- In addition for intra-financial assets, there is a need to consider the difference between insurer's exposure to systemic risk and the potential transmission of systemic risk. The focus should be on the latter. We consider that potential asset disposals would be unlikely to be a source of systemic risk unless an insurer's holdings of a particular asset represented a material proportion of the market capitalisation of that asset type. For Intra-financial liabilities BIS consolidated statistics for debt securities could be used as a proxy.</li> <li>- For derivatives, again BIS consolidated statistics for derivatives can be used as an absolute reference value</li> </ul> <p>NTNI</p> <ul style="list-style-type: none"> <li>- For short term funding the indicators for securities lending and repo should be measured by absolute reference values.</li> <li>- For securities lending the reference value that can be used is the International Securities Lending Association (ISLA) market report which sets out the value of aggregate global securities lent.</li> <li>- For repos the reference value could be based on activity reported to the European Repo Council for its Repo Market Survey</li> </ul>
Swiss Re	Switzerland	No	<p>Please see Swiss Re's answer to Question 1: Swiss Re supports measuring the ratio of the G-SII's activity relative to the total market, industry or sector activity for each indicator. Moreover, Swiss Re requests that the IAIS defines a limit for each indicator as a level at which an insurer's involvement in this activity is considered as systemically risky.</p> <p>For example, the Bank for International Settlements provides robust market statistics for both exchange-traded and OTC derivatives, which should serve as a denominator for a derivatives indicator. The IAIS should consider the current exposure to a derivative counterparty, adjusted to reflect legally-enforceable netting (e.g. via ISDA agreements) and collateral arrangements.</p>
Institute and Faculty of Actuaries	UK	No	<p>It would also be appropriate to use absolute reference values in respect of size - total assets and total revenues. This would remove the bias of the relative size of the insurer to the insurance market and place the focus back on the potential influence or impact of the insurer on the overall financial system.</p>
KPMG	UK	No	<p>It could be argued that absolute reference indicators should be used for those indicators where either the aggregate industry exposure or the assessment pool's contribution can change significantly over time rather than remain fairly stable. Therefore, the use of absolute reference values could potentially be extended to indicators such as level of short term funding and asset/liability liquidity. Similar to the indicators discussed in the consultation document, market level data can be used as the absolute reference values.</p> <p>As above, IAIS needs to be clearer on benefits of using absolute reference values.</p>
Prudential plc	UK	No	<p>We believe that absolute reference values should be applied to all indicators within the Interconnectedness category. The purpose of this category is to assess whether the failure of an insurer will transmit significant risk to the system and therefore needs to be assessed in the context of the size of the system. A similar argument will apply to the non-insurance category, where insurers are one of the many participants in the financial system. We propose that the following indicators be measured</p>

			<p>on the basis of absolute reference values.</p> <ul style="list-style-type: none"> <li>- Size - total assets</li> <li>- Interconnectedness - intra-financial assets</li> <li>- Interconnectedness - intra-financial liabilities</li> <li>- Interconnectedness - Derivatives</li> <li>- Interconnectedness - Turnover of assets</li> <li>- Interconnectedness - Level 3 assets</li> <li>- NTNI - short term funding</li> </ul> <p>While we propose absolute reference values for the above indicators, we do not believe that all these indicators are suitable for assessment of systemic relevance of insurers. Please refer to our response to Q12, where we have provided views on indicators that we consider unsuitable.</p> <p>We recognise that determining absolute reference values for all indicators may be challenging. We however believe that the IAIS, BCBS and IOSCO together can develop absolute reference values for the indicators.</p> <p>We have the following suggestions:</p> <ul style="list-style-type: none"> <li>- Intra-financial liabilities - the absolute reference value should be an indicator of the total assets of all financial institutions. Such an reference value could be based on publicly disclosed accounts of the financial institutions that are identified to correspond to a significant proportion of the financial system. An alternative simpler mechanism may be to consider the sum total of the size data for all banks, insurers and other non-banks that are collected for the purpose of assessing systemic riskiness and designation.</li> <li>- Derivatives - the absolute reference may be based on BIS statistics. If any problems are identified with this, an alternative simplification would be the total of all derivatives exposures of banks that submit data to the BCBS for designation.</li> <li>- Turnover of assets - instead of measuring the turnover of assets relative to own balance sheet size and comparing with insurance peers, we suggest that turnover of assets be measures relative to asset trading volumes in the markets that the insurers operate in. This would better capture whether the asset trading activities of the insurer are material in the context of the market. The trading volumes may be available from the identified exchanges. Where assets are not traded on exchanges, other sources of trading volume data should be explored.</li> <li>- Level 3 assets - we believe that fire sale concerns of Level 3 assets will not arise if an insurer owns a very small proportion of the total Level 3 assets in the market. We suggest that the absolute reference can be based on the total of Level 3 assets reported by insurers and banks for the purpose of designation.</li> <li>- Short-term funding The underlying components could be summed using data submitted by insurers and banks for designation purposes. Some other sources of data that could be used to supplement this include commercial paper issued - US Federal Reserve data (<a href="http://www.federalreserve.gov/releases/cp/volumestats.htm">http://www.federalreserve.gov/releases/cp/volumestats.htm</a>).</li> </ul>
Allstate Insurance Company	United States	No	<p>We believe the IAIS should be identifying products and relationships that produce or amplify systemic risk. Systemic risk for insurers and reinsurers is that which has the ability to impact the entire market or a substantial market segment. Systemic risk manifests itself by way of restricting liquidity or impairing capital and surplus through the recognition of losses. Historical examples of systemic risk in the insurance industry include derivatives with exposure to contingent collateral requirements,</p>

			mortgage and financial guarantees supporting the issuance of mortgage-backed and other securities, long-term care insurance with direct exposure to mortality improvements and the cost and impacts of treatment advances, traditional life insurance exposure to pandemics, and annuity products exposure to mortality improvements. In addition to insurance products originated, purchased reinsurance also carries with it systemic risk generated by assuming reinsurers that may grow to such a size that their failure could create systemic risk as it could impact the entire insurance market or a substantial market segment.
American Council of Life Insurers	United States	No	<p>As we noted in our answer to question 1, we believe the ultimate goal should be a GSII Assessment Methodology which is based on absolute amounts, not a relative ranking of firms in the populations sampled.</p> <p>The proposed use of "absolute reference values" is not truly an absolute measure, because the methodology is still based on a relative ranking of firms.</p> <p>Moving towards to the use of truly absolute values, and away from the relative ranking system would greatly improve the proposed methodology because it would more accurately reflect a company's potential exposure or transmission of systemic risk to the financial system, instead of a relative ranking of companies against each other. Absolute values would also further transparency and certainty.</p>
RAA	United States and many other jurisdictions	No	Yes, the use of absolute reference values is theoretically superior in identifying the systemic risk potential of all financial market participants, including potential GSII's. The use of absolute values would be an improvement for all indicators and especially for the non-insurance specific indicators in the NTNI category, which involve activities of other financial services sectors where insurance participation is only a part.
American Insurance Association	United States of America	No	<p>As noted in Question 1, the IAIS should analyze insurance groups on a cross-sectoral basis. While the Updated G-SII Methodology's shift to absolute reference values for three risk indicators is a good start, it is insufficient. Using relevant risk indicators to only compare insurance groups to one another does not place the issue of "systemic" risk in proper perspective.</p> <p>Consistent with our comments in favor of absolute reference values, AIA would support a cross-sectoral analytic approach that compares potential G-SIIs to systemically important firms in other financial sectors. AIA believes that such an approach would show that, with respect to systemic risk indicators, insurers are significantly smaller with respect to those indicators than banks.</p>
Prudential Financial, Inc.	United States of America	No	Please see our response to question 1.
MassMutual Financial Group	USA	No	Please see our response to Question 1. We believe absolute reference values that reflect the contribution to global systemic risk should be used for all quantitative metrics.
MetLife, Inc.	USA	No	Please see our response to Question 1 above. We support the exploration of appropriate financial industry-wide measures that would accurately demonstrate the significantly smaller financial market impact that the failure of an insurance company compared to global systemically important banks.
Property Casualty	USA	No	The IAIS should explore expanding use of absolute values to other non-insurance indicators (such as total assets, intra-financial assets, intra-financial liabilities, level 3 assets, etc.).

Insurers Association of America (PCI)			
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	<p>For the same reasons articulated above (capturing the total market and shifts in the market over time), many of the indicators would benefit from the use of absolute reference values, except perhaps those indicators that are expressed as ratios e.g. Level 3 Assets/Total Assets. Priority should be given indicators that measure activities in areas where there have been significant market wide changes in the overall level of activity, and to indicators for which the sample of insurers included in the analysis represents a small portion of the overall market for that activity.</p> <p>In the absence of readily available market-wide figures for determining absolute reference values, comparisons to the banking sector (eg the lowest bucket of the global systemically important banks) would provide additional insights assuming that they are also engaged in a particular activity. Additionally a review of other methodologies for determining systemic importance may provide further insights for establishing absolute thresholds e.g. the thresholds established by the Financial Stability Oversight Council in the US for non-bank financial institutions to enter Stage 2 of the analysis.</p> <p>For example, absolute references values for G-SII intra-financial liabilities, Level 3 assets and intra-financial assets, short-term and gross notional amount of derivatives could be informed by considering the GSIB methodology and/or FSOC thresholds for similar indicators.</p> <p>Paragraph 15 of the consultation document notes the use of absolute reference values to either replace the sum of the values from the sample of insurers in the denominator of the indicator score calculation or to add a factor to the indicator score calculation that reflects market developments. As the methodology is refined over time, and to the extent it shifts away from a relative ranking, consideration should be given to using absolute reference values to narrow the scope of insurers included in the analysis. This would necessarily involve, however, determining appropriate cut-offs.</p>
<b>3 - What information or data could be used as an absolute reference value for the financial guarantees indicator?</b>			
European Insurance and Occupational Pensions Authority	European Union	No	<p>EIOPA believes that any absolute reference value which is used should comply with the technical quality requirements put forward in our response to Question 1 (timeliness and consistency).</p> <p>In this case, it should capture the total market value of the variables included in the relevant indicators as closely as possible: Sum of: (a) Gross notional amount of debt securities including structured finance insured for financial guarantee. Not including CDS protection sold or surety bonds, and (b) Risk in force for mortgage guarantee insurance, which is the gross mortgage default amount covered by all mortgage insurance policies issued.</p>
Institute of International Finance/ The Geneva Association	Global	No	<p>Market-wide data on financial guarantee insurance volume, provided by a rating agency or a basket of broker reports may be used.</p>
AIA Group	Hong Kong	No	<p>We have no comment in this regard.</p>



Global Reinsurance Forum	International	No	The proposed approach seems appropriate for lack of a more suitable alternative.
Swiss Re	Switzerland	No	See answer to Question 4.
Prudential plc	UK	No	No response
Allstate Insurance Company	United States	No	
American Council of Life Insurers	United States	No	We suggest that a possible source of information on financial guarantees may be available from Nationally Recognized Statistical Rating Organizations (NRSRO).
Prudential Financial, Inc.	United States of America	No	We believe the focus must be on expected loss and net exposure - relative to the entire market rather than the insurers sampled for assessment purposes - may be a more appropriate measure.
MetLife, Inc.	USA	No	<p>Please see our response to Question 1 above. MetLife views the Financial Guarantees indicator as relevant as a systemic risk measure only within the Interconnectedness criteria, where it indicates counterparty exposure to the firm held by other market participants. These exposures as defined by the IAIS (which includes Mortgage Insurance and select guarantees on debt securities) are non-surrenderable and hence less relevant to the Asset Liquidation criteria.</p> <p>Consequently, MetLife encourages the IAIS to define the indicator for Financial Guarantees in a manner consistent with the counterparty exposure to other financial markets participants. This would include the following factors:</p> <ul style="list-style-type: none"> <li>- Whether the bearer of the exposure is a financial market participant</li> <li>- Portfolio-wide measures of Probable Maximum Loss (PML) or Potential Future Exposure (PFE) dependent on the type of Financial Guarantee</li> <li>- Seniority in the capital structure, as many financial guarantees have policyholder seniority and hence have a very high anticipated recovery rate</li> </ul>
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	The absolute reference value for financial guarantee should consider the exposure of other products that provide similar economic benefits e.g. CDS. A potential absolute value benchmark such as notional value of bonds guaranteed or peak financial guarantee plus CDS exposures before the financial crisis.
<b>4 - Is structured finance bonds insured an appropriate denominator or should the denominator reflect the notional value of bonds guaranteed by the broader financial sector via non insurance products?</b>			

CLHIA	Canada	No	Before we can comment appropriately we would appreciate a definition of "structured finance" bonds.
China Insurance Regulatory Commission	China	No	We suggest IAIS provide a detailed definition for "structured finance bond".
Insurance Europe	Europe	No	A clear definition of structured finance bonds is required, in case that the absolute reference value takes only structured finance bonds into consideration. Moreover, the concept of bonds guaranteed via non-insurance products should be explained.
European Insurance and Occupational Pensions Authority	European Union	No	The fundamental issue is the necessary alignment between the absolute reference value and the indicator to which it applies. In this case, the absolute reference value should capture the total market value of insured debt securities including structured finance (excluding CDS protection or surety bonds), as these are the securities captured by the indicators included in the methodology.
GDV - German Insurance Association	Germany	No	A clear definition of structured finance bonds is required, in case that the absolute reference value takes only structured finance bonds into consideration. Moreover, the concept of bonds guaranteed via non insurance products should be explained.
Munich Re	Germany	No	The IAIS should provide a clear definition of structured finance bonds. Moreover, the IAIS should provide a clear explanation of the concept of bonds guaranteed via non-insurance products.
Institute of International Finance/ The Geneva Association	Global	No	Since these activities are not necessarily contained in the insurance sector, the denominator should reflect the notional value of bonds guaranteed by the broader financial sector via non-insurance products. We would like to ask the IAIS to provide a clear definition of structured finance bonds.
AIA Group	Hong Kong	No	We have no comment in this regard.
Global Reinsurance Forum	International	No	A clear definition of structured finance bonds is required. Since these activities are not necessarily contained in the insurance sector, the denominator should reflect the notional value of bonds guaranteed by the broader financial sector via non-insurance products.
Swiss Re	Switzerland	No	The IAIS should provide a clear definition of structured finance bonds. Moreover, the IAIS should provide a clear explanation of the concept of bonds guaranteed via non-insurance products. Since these activities are not necessarily contained in the insurance sector, the denominator should reflect the notional value of bonds guaranteed by the broader financial sector via non-insurance products.

Institute and Faculty of Actuaries	UK	No	All financial guarantees, not just structured finance bonds, should be included in the denominator e.g. any loans of guarantees which are not classified as structured finance bonds. For the avoidance of doubt, the requirement should apply to the nature of the financial guarantee rather than the form. This would reduce the likelihood of packaging similarly structured finance transactions in different forms to avoid falling within the Financial Guarantees Indicator.
KPMG	UK	No	It is important to understand the insurance industry's contribution to the systemic risk that exists in the market. As such, we would welcome approaches that, where possible, enable the extent of insurance participation compared to other financial sector's participation to be made. For this reason, we would welcome the use of the total financial sector guaranteed amount.
Prudential plc	UK	No	No response
Allstate Insurance Company	United States	No	
Prudential Financial, Inc.	United States of America	No	We believe the focus must be on expected loss and net exposure - relative to the entire market rather than the insurers sampled for assessment purposes - may be a more appropriate measure.
MetLife, Inc.	USA	No	No comment
Property Casualty Insurers Association of America (PCI)	USA	No	The amount of structured finance bonds is inappropriate as a denominator. Structured finance is too small a sector and ignores insurers' roles in the municipal finance market. Using it as a denominator also ignores pure corporate debt. If it is used, a clear definition is needed.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Non-insurance products that provide similar coverage such as CDS should also be considered in the denominator. Consideration should be given to establishing separate indicators for muni and structured finance bonds.
<b>5 - Are BIS statistics on the overall global CDS market an appropriate absolute reference value for the derivatives trading (CDS sold) indicator? If so, how should this absolute reference value be used by the IAIS? What other information or data could be used as an absolute reference value for the derivatives trading (CDS sold) indicator?</b>			
CLHIA	Canada	No	We believe the use of BIS statistics is potentially an appropriate absolute reference value but we suggest that it should be first validated in the data call process before a decision is made.
China Insurance	China	No	BIS data is appropriate, we suggest use for example, the number of financial derivatives, the historical position and transaction amounts, held by insurance companies.

Regulatory Commission			We also suggest IAIS consider use potential credit default losses of CDS products,as absolute referencevalues.
Insurance Europe	Europe	No	It would make sense to build a ratio between the CDS sold by the sample insurer and the overall global CDS market. The Bank of International Settlements (BIS) statistics provide the only public and quantified data on traded derivatives. However, the BIS data should be tested against information submitted by the Global-Systemically Important Banks (G-SIBs) on CDS to ensure their reliability.
Insurance Europe	Europe	No	The BIS statistics provide the only public and quantified data on traded derivatives. However, the BIS data should be tested against information submitted by the Global-Systemically Important Banks (G-SIBs) on Credit Default Swaps (CDS) to ensure their reliability. It would also make sense to build a ratio between the CDS sold by the sample insurer and the overall global CDS market.
European Insurance and Occupational Pensions Authority	European Union	No	EIOPA believes that BIS statistics could be a readily available source with sufficient quality to be used as the starting basis for the determination of this absolute reference value. Regarding how it may be used, we believe the absolute reference values should introduce in the calculation an adjustment based on the comparison between the size of the activities carried within the sample with the overall market, using appropriate data. Where justifiable, the size of the activities within the sample could be replaced by the size of the activities within the entire insurance market. This will lower the score which is obtained for each insurer, as intended, reflecting the smaller dimension of the sample when compared to the broader market for the relevant financial product.
GDV - German Insurance Association	Germany	No	Yes. It would make sense to build a ratio between the CDS sold by the sample insurer and the overall global CDS market.
Munich Re	Germany	No	It would make sense to build a ratio between the CDS sold by the sample insurer and the overall global CDS market, using BIS data. However, using absolute reference values is the second best option. The first best option would be to use as an indicator the exposure to individual counterparties in absolute values.
Global Federation of Insurance Associations	Global	No	It would make sense to build a ratio between the CDS sold by the sample insurer and the overall global CDS market. The Bank of International Settlements (BIS) statistics provide the only public and quantified data on traded derivatives. However, the BIS data should be tested against information submitted by the Global-Systemically Important Banks (G-SIBs) on CDS to ensure their reliability.
Institute of International Finance/ The Geneva Association	Global	No	The BIS statistics provide the only public and quantified data on traded derivatives that we are aware of. However, the BIS data should be tested against information submitted by the G-SIBs on CDS notional to ensure they are reliable. The focus of this indicator should be on the trading of derivatives as opposed to holding/buying derivatives for hedging or replication purposes.  Since the crisis, significant reforms of derivatives markets have been implemented, which have vastly contained risks previously present in these markets. This should be reflected in both derivatives indicators. We strongly advocate derivatives risk measurement should first be netted and then take into account the amount and quality of collateral, following FSB

			<p>guidance, before being measured as a source of systemic risk.</p> <p>As a cross-sectoral benchmark the BIS statistics would help assess the impact of individual insurers in comparison to the total CDS market. As stated above, the sole re-indexing of the firms' CDS volumes (in-sample, out-of-sample) may not yield the desired improvement. Such a re-indexing may have to be complemented with the introduction of a threshold.</p>
AIA Group	Hong Kong	No	<p>We do not have enough knowledge about how the BIS data are compiled so we are not in the best position to confirm whether their statistics are reliable. A CDS sold on a sovereign risk could well be part of the regular investment management, e.g. selling CDS on the US is equivalent to buying a US Treasury. A differentiation should also be made for these circumstances, As well, in case a financial institution also buys CDS or Credit Default Swaptions to offset the CDS sold, then the real exposure will be smaller.</p>
Global Reinsurance Forum	International	No	<p>We believe the BIS statistics on the overall global CDS market are an appropriate indicator. The absolute reference value should reflect the fact the systemic risk can only emerge when an individual market participant achieves a significantly high market share, such that the risk of contagion in the event of default is high and/or the participant is no longer substitutable in the event of a sudden inability to provide the services.</p>
on behalf of the European GSIs, Aegon, Allianz, Aviva, Axa and Prudential	International	No	<p>The BIS statistics provides the only public and quantified data on traded derivatives that we are aware of. However, the BIS data should be tested against information submitted by the GSIBs on CDS notional to ensure they are reliable.</p> <p>Reinsurance Indicator</p> <p>For reinsurance, it may be regarded as very surprising that IAIS retains such indicator for primary insurers while the reinsurance status under the light of systemic risk has never been clarified.</p>
General Insurance Association of Japan	Japan	No	<p>From the perspectives of completeness, objectivity, reliability, etc., it is appropriate to use the BIS statistics as an absolute reference value. (However, if completeness is valued, various types of data offered by private enterprises and organizations including Markit, DTCC, and the International Swaps and Derivatives Association are also available. It is worth noting that, in times of further centralization of clearing, data gathered by clearing houses such as DTCC could be utilized, in addition to those collected from banks.)</p>
Swiss Re	Switzerland	No	<p>We believe the BIS statistics on the overall global CDS market are an appropriate indicator. The absolute reference value should reflect the fact that systemic risks can only emerge when an individual market participant achieves a significantly high market share, such that the risk of contagion in the event of default is high and/or the participant is no longer substitutable in the event of a sudden inability to provide the services.</p>
KPMG	UK	No	<p>Yes. See also our response at question 4.</p>
Prudential plc	UK	No	<p>The BIS statistics provide the only public and quantified data on traded derivatives that we are aware of. We also believe that BIS data for all derivatives should be used as an absolute reference values for the Derivatives indicator in the interconnectedness category.</p>

Allstate Insurance Company	United States	No	
American Council of Life Insurers	United States	No	Total derivatives traded and/or held is not a measure of potential systemic risk exposure. For example, some CDS are used purely for hedging or replication. Net potential future exposure minus collateral would be an appropriate starting point for the analysis of the potential impact on counterparties to measure the impact of a firm's failure.  Also, the potential systemic risk exposure must consider credit support and collateral agreements that are frequently risk offsets to exposures to counterparties, transmitted, and some other risks.
American Insurance Association	United States of America	No	AIA notes that the Updated G-SII Methodology separately includes "gross notional" credit default swaps sold (CDS) as a non-traditional, non-insurance activity (NTNIA) indicator entitled "derivatives trading," although the amount of CDS traded on any particular insurance company is outside the control of the reference entity and is prone to subjective short-term investment decisions by those third parties. As such, while the indicator is put in the category of NTNI, it is really an assessment of interconnectedness. In particular, using an indicator to assess interconnectedness that is determined by others may not be valid without first fully understanding the nature of the interconnectedness with a third party, as the over-reliance on a single insurer also puts the third party at risk. This approach also opens opportunities for third parties to game the system and act in a manner that adversely affects non-bank financial companies while putting the third party at risk. Further, assessing the "gross notional" value of CDS contracts exacerbates the problem by adding volume purchased and sold, rather than netting out the institutional exposure to a reference entity. We respectfully recommend that the IAIS assess the net notional value of CDS contracts for a reference entity rather than gross notional value.
Prudential Financial, Inc.	United States of America	No	We believe it is critical that the IAIS distinguish between CDS sold and CDS bought and net exposure - relative to the entire market rather than the insurers sampled for assessment purposes - may be a more appropriate measure.
MetLife, Inc.	USA	No	Please see our response to Questions 1 - 3 above.
Property Casualty Insurers Association of America (PCI)	USA	No	Yes. BIS data could be used to build a ratio between the CDS sold by the insurance group and the amount sold in the global CDS market.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	This will depend on the portion of the overall market captured by BIS statistics. If BIS statistics capture only a portion of the much larger CDS market, academic studies that estimate the size of the market could be used to inform an adjustment to BIS statistics.

**6 - Are total global reinsurance premiums written an appropriate absolute reference value for the reinsurance indicator? If so, how should this absolute reference value be used by the IAIS? What other information or data could be used as an absolute reference value for the reinsurance indicator?**

<p>ABIR Association of Bermuda Insurers &amp; Reinsurers</p>	<p>BERMUDA</p>	<p>No</p>	<p>The Association of Bermuda Insurers and Reinsurers (ABIR) represents the public policy interests of Bermuda's international insurers and reinsurers that protect consumers around the world. With headquarters and operations in Bermuda and with operating subsidiaries in the United States and Europe, these carriers do business in more than 150 countries.</p> <p>We appreciate the opportunity to provide comments on the IAIS Proposed Updated Assessment Methodology for Global Systemically Important Insurers (the Paper) and acknowledge the IAIS commitment to evaluate the ways and extent to which the assessment methodology should be reviewed and revised.</p> <p>Determinants of which companies should qualify as a GSII is a complex issue and not an easy one to resolve and whilst the current consultation paper seeks to make certain revisions the selection criteria predominantly remain a factor of size and global activity. ABIR would like to comment specifically on the IAIS proposal to include the reinsurance indicator and the reinsurance supplemental assessment.</p> <p>It is difficult to understand why reinsurance is a factor for consideration of systemic risk when the IAIS itself has studied and researched reinsurance in detail and concluded that "traditional reinsurance is unlikely to cause, or amplify, systemic risk." Additionally, there have been numerous other well respected academic and technical papers produced that are consistent with the conclusion the IAIS reached.</p> <p>The reinsurance indicator and the reinsurance supplemental assessment implies that reinsurance is an activity that contributes to systemic risk. Reinsurance is used as a risk mitigation tool and as such would require a cautious approach to applying "systemic riskiness" to reinsurance if any. We appreciate that the analysis may provide information on interconnectedness but that information must be carefully understood and weighted given that it has already been concluded that reinsurance is unlikely to cause or amplify systemic risk. ABIR would recommend that the reinsurance indicator be eliminated or significantly reduced.</p> <p>In addition, if the IAIS is looking at interconnectedness, reinsurance premium alone may be an insufficient reference point given the growth in capital markets instruments, such as side cars and cat bonds, which perform some of the risk mitigation functions as insurance.</p>
<p>RenaissanceRe</p>	<p>Bermuda</p>	<p>No</p>	<p>As already discussed within our general comments, we support the IAIS's determination that reinsurance does not pose systemic risk. Therefore, we would like to gain a better understanding as to why a reinsurance indicator is being considered. That said, we respectfully submit that consideration should be given to information submitted by (re)insurers to regulators, particularly in jurisdictions such as Bermuda where capital requirements are robust, insured exposure data is built into regulatory capital requirements, and the legal framework has been established for public filing or dissemination of statutory insurance information.</p>
<p>CLHIA</p>	<p>Canada</p>	<p>No</p>	<p>As we articulated in our July 2012 CLHIA submission to the IAIS we continue to believe that there should not be an indicator for reinsurance assumed. Reinsurance's risk mitigation benefits should not be overlooked.</p>

China Insurance Regulatory Commission	China	No	<p>We view that global reinsurance premiums written is appropriate.</p> <p>Moreover, for reinsurers, other than Size, Global Activity and Substitutability are both key indicators of their interconnectedness to the global insurance market, and therefore system relevance. We suggest IAIS consider increase the weightingsfor Global activity and Substitutability (5% each currently) from reinsurance prospective.</p>
Insurance Europe	Europe	No	<p>GFIA would point out that no case has yet been made for considering reinsurance as giving rise to systemic risk. Therefore, reinsurance should not be included in the list of indicators. Instead, reinsurance should be incentivised as a stabilising factor to the financial system rather than penalised.</p> <p>If the IAIS is determined to retain reinsurance in the list of indicators, it should consider carefully before switching to absolute reference values for reinsurance, as it is difficult to assess what difference this would make. Paragraph 22 suggests that alternative capital sources will constitute an increasing portion of the global reinsurance market; then this will reduce any extent to which reinsurers could possibly give rise to systemic risk and the methodology should take this into account. At the same time, in this scenario, the IAIS should be able to assess such alternative capital sources for systemic riskiness.</p> <p>Global reinsurance premiums need to be placed in the context of all risk intermediation. That is, the indicator should be based on assumed reinsurance premiums as a share of the total primary insurance market. The choice of absolute value for the indicator should recognize that the current reinsurance market is not characterized by any individual reinsurer being a source of global systemic risk. Therefore, the absolute reference value should be set such that no individual reinsurer is designated primarily on account of its traditional reinsurance business.</p> <p>In general, the systemic riskiness associated with reinsurance should not be overstated. On an absolute basis, it should only be possible for the very largest reinsurance premium incomes to give rise to systemic risk scores. The use of absolute reference values for reinsurance may therefore provide a better indication as to the level of use of reinsurance relative to the reinsurance market as a whole rather than a subset thereof. Nonetheless, the underlying assumptions that reinsurance contributes to systemic interconnectedness or that exposure measures can be used which do not take into account the risk mitigating benefits inherent in the use of reinsurance are not appropriate.</p>
Insurance Europe	Europe	No	<p>Insurance Europe would point out that no case has yet been made for considering reinsurance as giving rise to systemic risk. Therefore, reinsurance should not be included in the list of indicators. Instead, reinsurance should be incentivised as a stabilising factor to the financial system.</p> <p>Paragraph 22 suggests that alternative capital sources will constitute an increasing portion of the global reinsurance market; then this will reduce any extent to which reinsurers could possibly give rise to systemic risk and the methodology should take this into account. At the same time, in this scenario, the IAIS should be able to assess such alternative capital sources for systemic riskiness.</p> <p>The use of absolute reference values for reinsurance may provide a better indication as to the level of use of reinsurance relative to the reinsurance market as a whole rather than to a subset thereof. Nonetheless, the underlying assumption that reinsurance contributes to systemic interconnectedness or the use of exposure measures which do not take into account the risk mitigating benefits inherent in the use of reinsurance is not appropriate.</p>



			<p>The choice of absolute value for the indicator should recognise that the current reinsurance market is not characterised by an individual reinsurer being a source of global systemic risk. Therefore, the absolute value of the indicator should reflect a share of the total insurance market that is significantly higher than any single reinsurer currently achieves.</p> <p>With due consideration for all of the above: The IAIS proposes to rely on gross written premia for the indicator. Insurance Europe notes however that a combination of both gross written premia and technical provisions would better capture both current and run-off business.</p>
European Insurance and Occupational Pensions Authority	European Union	No	<p>EIOPA believes that total global reinsurance premiums could be an acceptable source with sufficient quality to be used as the starting basis for the determination of this absolute reference value.</p> <p>Regarding how it may be used, please refer to our response to Question 5.</p>
GDV - German Insurance Association	Germany	No	<p>Reinsurance is not a source of systemic risk: It has positively contributed to financial stability during the crisis and plays a prominent role in mitigating effects of natural disasters that cause huge damages to societies and economies. Our clear preference would be to drop this indicator from the list. Reinsurance should be incentivized as a stabilizing factor to the financial system rather than penalized.</p> <p>As a measure, however, of interconnectedness between reinsurers and insurers, it would be preferable to consider the primary insurer's exposure to reinsurance and the "share of wallet" of the reinsurer regarding the ceded risk from the primary insurer.</p>
Munich Re	Germany	No	<p>Reinsurance is not a source of systemic risk. It positively contributes to financial stability during a financial crisis and plays a prominent role in mitigating effects of natural disasters that cause huge damages to societies and economies. Our clear preference would be to drop this indicator from the list. Reinsurance should be incentivised as a stabilising factor to the financial system rather than penalised.</p> <p>As a measure, however, of interconnectedness between reinsurers and insurers, it would be preferable to consider on the one hand the primary insurer's exposure to reinsurance and on the other hand the reinsurer's share of the insurer's cessions.</p>
Global Federation of Insurance Associations	Global	No	<p>GFIA would point out that no case has yet been made for considering reinsurance as giving rise to systemic risk. Therefore, reinsurance should not be included in the list of indicators. Instead, reinsurance should be incentivised as a stabilising factor to the financial system rather than penalised.</p> <p>If the IAIS is determined to retain reinsurance in the list of indicators, it should consider carefully before switching to absolute reference values for reinsurance, as it is difficult to assess what difference this would make. Paragraph 22 suggests that alternative capital sources will constitute an increasing portion of the global reinsurance market; then this will reduce any extent to which reinsurers could possibly give rise to systemic risk and the methodology should take this into account. At the same time, in this scenario, the IAIS should be able to assess such alternative capital sources for systemic riskiness.</p> <p>Global reinsurance premiums need to be placed in the context of all risk intermediation. That is, the indicator should be based on assumed reinsurance premiums as a share of the total primary insurance market. The choice of absolute value for the indicator should recognize that the current reinsurance market is not characterized by any individual reinsurer being a source of global systemic risk. Therefore, the absolute reference value should be set such that no individual reinsurer is designated primarily on account of its traditional reinsurance business.</p> <p>In general, the systemic riskiness associated with reinsurance should not be overstated. On an absolute basis, it should only be possible for the very largest reinsurance premium incomes to give rise to systemic risk scores. The use of absolute</p>

			reference values for reinsurance may therefore provide a better indication as to the level of use of reinsurance relative to the reinsurance market as a whole rather than a subset thereof. Nonetheless, the underlying assumptions that reinsurance contributes to systemic interconnectedness or that exposure measures can be used which do not take into account the risk mitigating benefits inherent in the use of reinsurance are not appropriate.
Institute of International Finance/ The Geneva Association	Global	No	<p>As much as insurance does not present systemic risk, we would like to stress that a link between reinsurance and systemic risk has not been demonstrated at this point. This conclusion is shared by the IAIS in its report "Reinsurance and Financial Stability" dated 19 July 2012, in which the IAIS concludes "traditional reinsurance is unlikely to cause, or amplify, systemic risk".</p> <p>However, given the fact that the IAIS currently has a reinsurance indicator included in its G-SII assessment methodology, it would be preferable to consider the primary insurer's exposure to reinsurance and the "share of wallet" of the reinsurer regarding the ceded risk from the primary insurer.</p> <p>The IAIS should use a combination of gross written premiums and technical provisions instead of technical provisions on a stand-alone basis to measure and understand the interconnections between an insurer's third party reinsurance activities and other primary insurers and reinsurers. Only the combination of both gross written premiums and technical provisions will capture current and run-off business.</p>
AIA Group	Hong Kong	No	While we believe this is not a perfect measure, it is probably the best measure available. It should include all premiums on reinsurance assumed, including retrocessions.
Global Reinsurance Forum	International	No	<p>Our clear preference would be to drop this indicator from the list. Reinsurance should be incentivised as a stabilising factor to the financial system rather than penalised. Ideally, the measure should be based on primary insurers' exposures to reinsurance and the "share of wallet" of the reinsurer regarding the ceded risk from the primary insurer.</p> <p>If for data availability reasons global reinsurance premiums are to be used as absolute reference value, we would support this, but in that case we would expect to place this indicator in the context of all risk intermediation. That is, the indicator should be based on assumed reinsurance premiums as a share of the total primary insurance market. (Consider for example a reinsurer with a premium income of 1% of the global insurance premium. Then its scoring should be based on this 1% market share.) The choice of absolute value for the indicator should recognize that the current reinsurance market is not characterized by any individual reinsurer being a source of global systemic risk. Therefore, the absolute reference value should be set such that no individual reinsurer is designated primarily on account of its traditional reinsurance business.</p> <p>* see the IAIS report "Reinsurance and Financial Stability" dated 19 July 2012</p>
General Insurance Association of Japan	Japan	No	If total global reinsurance premiums written are used as an absolute reference value, the numerator in the indicator score calculation will be "inwards reinsurance liabilities", causing inconsistency in the nature of the denominator and the numerator. However, changes in both are generally linked. As long as available absolute reference values are limited, total global reinsurance premiums written are an appropriate indicator.
Swiss Re	Switzerland	No	Swiss Re questions that it is meaningful to measure a reasonable contribution to the transmission of systemic risk by considering reinsurance transactions, since reinsurance has never led to a systemic event and is unlikely to do so (see the

			<p>IAIS report "Reinsurance and Financial Stability" dated 19 July 2012). Reinsurers do not add to, but mitigate systemic risk. Therefore, The IAIS should delete the reinsurance indicator from the assessment. The reinsurance indicator does not measure any meaningful contribution to NTNI-Interconnectedness.</p> <p>If the IAIS intends to measure e.g. the systemic risk mitigating effect of reinsurance interconnections, the numerator for this indicator should be "Gross technical provisions for reinsurance assumed business less the effect of sustainable risk mitigation". Premium does not make sense as a numerator for an individual reinsurer. A comparison of reinsurers that specialize on property, casualty, or life reinsurance reveals convincingly that premium is not an appropriate numerator. Comparing a reinsurer that has stopped to write with a reinsurer that has just started to write business yields the same conclusion.</p> <p>The IAIS should not base the denominator on the reinsurance sector alone, but on the overall insurance sector. This ensures that forms of non-reinsurance alternative risk transfer do not disturb the measurement. While ideally "gross technical provisions for insurance assumed business aggregated over the entire market" would be a suitable denominator, we assume that this figure may be difficult to obtain on a regular basis. Swiss Re suggests that the denominator for this indicator should be the written premium of the primary insurance market, since the ratio of total technical provisions and total written premium is presumably very stable over time. The IAIS should consider the latter ratio when setting a "limit"; see also our answer to Question 1.</p>
Institute and Faculty of Actuaries	UK	No	<p>The aim should be to have an indicator that relates to the likely systemic impact on the financial system. Using separate premium indicators for proportional and non-proportional reinsurance should be considered: a combined premium number could be dominated by proportional quota share premiums; thus, masking potential interconnections via excess of loss covers.</p> <p>The use of gross technical provisions (table 1 in appendix) for regular premium long term business may also be misleading; for example, where the reinsurer defaults there is often no significant immediate loss - rather the liabilities revert to the ceding company's balance sheet. For single premiums a "funds withheld" approach often reduces the risk. Unless the default is correlated with claims on the insured event (unlikely for most long term business), the real systemic risk, and consequently a better indicator, is the Outstanding Claims Reserve (OCR).</p>
KPMG	UK	No	<p>Yes. However, the IAIS might also wish to consider whether use of more granular figures may be helpful to understand better whether there are concentrations of risk which could, if triggered, have ramifications for the industry (for example geographical concentrations).</p>
Prudential plc	UK	No	<p>The IAIS should use a combination of gross written premiums and technical provisions instead of technical provisions on a stand-alone basis to measure and understand the interconnections between an insurer's third party reinsurance activities and other primary insurers and reinsurers. Only the combination of both gross written premiums and technical provisions will capture current and run-off business.</p>
Allstate Insurance Company	United States	No	<p>We do not believe total global reinsurance premiums written provide an appropriate absolute reference value for the reinsurance systemic risk indicator. Moreover, as the principal objective is identification of situations where systemic risk is produced or amplified, we believe the principal focus should be on reinsurers as opposed to ceding companies. Specifically, reinsurers should be reviewed for the existence of concentrations where a failure of the reinsurer could produce systemic consequences to the financial system either regionally or globally if a group of ceding companies were to experience an</p>

			<p>impairment of their capital base.</p> <p>On January 19, 2016, the Federal Insurance Office (FIO) filed a notice in the Federal Register announcing its intention, together with the U.S. Trade Representative, to enter into negotiations with the European Union (EU) on a covered agreement (CA) intended to achieve several outcomes including obtaining permanent equivalence of the U.S. regulatory system by the EU to allow for a level playing field for U.S. insurers and reinsurers operating in the EU and affording nationally uniform treatment of EU-based reinsurers operating in the U.S., including with respect to collateral requirements. We note that several of the largest U.S. state regulatory frameworks require that reinsurers that are not licensed in a U.S. jurisdiction to provide collateral or contingent collateral (e.g., a suitable letter of credit) to support the contractual obligations of the reinsurer to allow the ceding company to take credit for the reinsurance in its statutory financial statements. This requirement is contemplated to be removed in connection with the CA negotiations intended to begin in early 2016.</p> <p>The CA if executed as intended would eliminate the existing collateral requirements for foreign reinsurers that meet certain defined conditions. Accordingly, in the event of the failure of a reinsurer, ceding companies would have uncollateralized exposures they would need to resolve directly with policyholders and would not have collateral available to off-set the exposure to the assuming reinsurer. We believe this situation would produce systemic risk where no such risk exists currently with ceding companies domiciled in U.S. jurisdictions. The systemic risk is principally attributable to the assuming reinsurers whose failure could cause systemic risk to the extent it results in a partial impairment of the capital of the ceding companies. To assess the systemic risk created the IAIS will need to consider the most significant relationships reinsurers have in place with both ceding insurers as well as other reinsurers. The systemic risk evaluation should also consider geographic concentrations.</p>
RAA	United States and many other jurisdictions	No	<p>Consistent with our comments on the original GSII consultation in 2012, our members strongly believe that reinsurance activities do not give rise to systemic risk. Instead, reinsurance is a stabilizing factor in the financial system as it provides an effective and efficient means for insurance companies to diversify and manage various risks. Consequently, we continue to believe that assumed reinsurance should be removed as an indicator of interconnectedness. Instead of being penalized under the GSII methodology, use of reinsurance should be incentivized as a stabilizing factor.</p> <p>While reinsurers are interconnected with insurers, both RAA research and the IAIS Reinsurance and Financial Stability Report clearly demonstrate that reinsurance interconnectedness is different from bank interconnectedness, is hierarchical and does not create or amplify systemic risk (see additional comments below).</p> <p>To the extent that the IAIS retains this indicator of interconnectedness, total global reinsurance premiums are probably the best measure. However, in order to capture this element the GSII methodology must include the capital markets' role in providing reinsurance protection. Premium and other consideration paid for catastrophe bonds, sidecars, insurance index products and other insurance-linked securities should be included as part of global reinsurance premiums.</p> <p>Additional Comments:  The RAA has performed extensive quantitative analyses regarding whether property casualty reinsurance is a source of systemic risk. In 2011, we presented our analysis to the IAIS Executive Committee, the IAIS Financial Stability Committee, the IAIS Reinsurance Subcommittee and several other agencies and organizations. Our analysis demonstrated that reinsurance is not a significant source of systemic risk because:  - Our business model is fundamentally different than banks and other financial institutions; as such reinsurance is recognized</p>

			<p>as a traditional insurance activity;</p> <ul style="list-style-type: none"> <li>- Reinsurance does not have significant characteristics of the FSB systemic risk attributes including size, interconnectedness, substitutability and time;</li> <li>- In extreme catastrophe loss scenarios, economic losses, not reinsurance losses are the true source of significant risk; and</li> <li>- Insurance impairments attributed to reinsurance as the cause of failure are historically insignificant and they pale in comparison to systemic risk in the banking industry.</li> </ul> <p>Our conclusions were consistent with the statements of Financial Stability Committee Chairman Peter Braümmüller who said in November 2011, "Based on information analyzed to date, for most lines of business there is little evidence that traditional insurance generates or amplifies systemic risk within the financial system or the real economy. However, supervisors need to monitor very closely those insurance activities that deviate from the traditional insurance business model."</p>
American Insurance Association	United States of America	No	AIA would urge the IAIS to proceed with caution here, and any supplemental assessment of reinsurance should be viewed through the lens of the IAIS's earlier white paper. In this regard, it might be important to focus not simply on aggregate reinsurance activities, but also on whether a single reinsurance provider is connected with a global SIFI.
Prudential Financial, Inc.	United States of America	No	When assessing reinsurance the IAIS must distinguish between the type(s) of risk assumed - which can offer diversification benefits and is managed through existing capital frameworks - and counterparty risk. When considering counterparty risk, the role of collateral must be taken into consideration.
MetLife, Inc.	USA	No	<p>While we support absolute reference values, MetLife does not believe global reinsurance premiums written is the appropriate measure of the reinsurance footprint.</p> <p>We believe interconnectedness could arise through assumed reinsurance due to counterparty losses by the ceding insurer. Therefore, MetLife proposes an approach that measures the absolute loss that may be transmitted via counterparty exposure to other insurance forms, specifically a measure that includes:</p> <ul style="list-style-type: none"> <li>- Gross technical provisions for reinsurance assumed (to capture exposure on existing liabilities)</li> <li>- Probable maximum loss for contingent liabilities (to capture exposure that would arise under an extreme stress event)</li> <li>- A reflection of any collateral held against the reinsurance liabilities</li> </ul> <p>Additionally, MetLife thinks that this revised measure of reinsurance exposure should be included with the broader "interconnectedness" criteria, and not evaluated standalone, because the relevant impact is counterparty loss transmitted to other financial market participants. Because the current formulation focuses on reinsurance premiums alone, remains a relative measure even if expressed in dollar terms.</p> <p>Please also refer to our Response to Question 20 below.</p>
Property Casualty Insurers Association of America (PCI)	USA	No	<p>Reinsurance is not a source of systemic risk. It has increased financial stability during the financial crisis and helps mitigate the effects of natural disasters that have huge impacts on societies and economies. This indicator should be deleted from the list.</p> <p>If it is to remain, however, consideration paid for cat bonds, sidecars, insurance-linked securities and other insurance index products should be included as part of global reinsurance premiums written. As a measure of interconnectedness, a primary</p>

			insurer's exposure to reinsurance and the reinsurer's "share of wallet" regarding the risk ceded by the primary insurer could be considered.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	<p>The current reinsurance indicator is in the interconnectedness category and is based on gross technical provisions. (Net) Technical provisions are a measure of the liability of the firm and thus are an appropriate measure for assessing impact given failure. While premiums could also be used as a proxy, premiums may be better suited for considering substitutability issues rather than interconnectedness.</p> <p>To the extent that the companies in the scope of the analysis currently do not represent the substantial majority of the market, an adjustment to this indicator could be based on premium data for the market which may be more readily available.</p>
<b>7 - To what extent are large exposures an appropriate indicator of an insurer's interconnectedness with the financial system? What is the appropriate way to measure or understand the interconnections between an insurer's large exposures and the financial system?</b>			
RenaissanceRe	Bermuda	No	We believe that exposure data, which is largely captured and reflected on a modelled basis, varies significantly given varying modelling approaches used for identifying and quantifying such risk exposures. We are therefore concerned about the comparability of such modelled exposure data. More generally, consideration should be given to information submitted by insurers to regulators, particularly in jurisdictions such as Bermuda where capital requirements are robust, insured exposure data is built into regulatory capital requirements, and the legal framework has been established for public filing or dissemination of statutory insurance information. We believe such an approach should support an accurate, objective and accountable measurement of risk exposure, should be capable of being executed on a timely basis and would be verifiable by the IAIS since it does not require any subjective judgment and the information can readily be made available. In addition, since these filings are compiled in accordance with standardized regulatory requirements, it is possible an approach developed from information submitted in them would be more consistently derived and more comparable.
CLHIA	Canada	No	We agree with the removal of the large exposures indicator from the quantitative indicator-based component in Phase II. It is important to distinguish between size and concentrations when considering a large exposure as it is the latter that is the potential source of vulnerability.
Insurance Europe	Europe	No	GFIA agrees with the removal of the large exposures indicator from the quantitative indicator-based component in Phase II; however, GFIA disagrees with considering it as an additional indicator during Phase III analysis. Investing large exposures and maintaining interconnections with the financial system comes naturally with insurers acting as institutional investors. GFIA believes that large exposures management is a micro prudential issue, as large exposures do not create linkages that result in the transmission of risk to the system. Consequently, the large exposures indicator cannot provide relevant information for the purpose of systemic risk assessment.
Insurance Europe	Europe	No	Insurance Europe disagrees with considering the large exposures indicator during Phase III analysis. Investing large exposures and maintaining interconnections with the financial system is a natural consequence of insurers acting as institutional investors. Insurance Europe believes that large exposures management is a micro prudential issue, as large exposures do not create linkages that result in the transmission of risk to the system. Consequently, the large exposures indicator cannot provide relevant information for the purpose of systemic risk assessment.

European Insurance and Occupational Pensions Authority	European Union	No	<p>Conceptually, it is reasonable to expect that an insurance group with highly concentrated asset exposures will pose higher systemic risk to the financial markets and the broader economy.</p> <p>This is because such insurer will not benefit from the effect of diversification of exposures and will face substantial difficulties in case of default of any of its significant counterparties. Therefore, its role in the transmission of systemic risk can be expected to be higher than a firm with a more diversified investment portfolio.</p> <p>Against this background, EIOPA believes that there are technical grounds to support the maintenance of this indicator as one of the measures of an insurer's interconnectedness, not only with the financial system but more generally with the broader economy.</p> <p>One possible avenue of refinement could be to enhance the methodology to identify and further penalize large exposures where these have a bi-directional nature (the counterparty is also a substantial source of financing to the insurer). This is because, under such circumstances, the failure of such counterparty would create a double issue to the insurer in question: not only would it lose the value of its large exposure investments, but would also lose one significant source of capital (which it would need to balance the losses faced on the asset side). This would also help to address the identified issue of probability of default vs. impact upon failure. By looking at the degree of concentration of investment of third parties in financial instruments issued by the insurer, the IAIS would be able to assess the impact of the failure of the insurer on such counterparties (due to its inability to repay such assets).</p>
GDV - German Insurance Association	Germany	No	<p>The GDV continues to believe that large exposures have no informative value in terms of systemic risk. Investing large exposures and maintaining interconnections with the financial system comes naturally with insurers as institutional investors. The appropriate way to understand and measure these interconnections is to hold them under ongoing prudential scrutiny, i.e. reporting of risk concentrations as implemented in Solvency II.</p>
Munich Re	Germany	No	<p>The measurement of large exposures of the insurance company that are "under investigation in terms of systemic relevance" has no informative value in terms of systemic risk to the financial system. Large exposures influence the probability of default of a single insurer, not the impact of the insurer's failure on others. Only the latter is relevant for determining potential systemic relevance of the company under investigation.</p> <p>The appropriate way to understand and measure the interconnections described in question 7 is to apply ongoing microprudential (not: macroprudential) scrutiny, i.e. reporting of risk concentrations as implemented, for instance in Solvency II. But once again: This should not have anything to do with the discussion about systemic risk.</p>
Global Federation of Insurance Associations	Global	No	<p>GFIA agrees with the removal of the large exposures indicator from the quantitative indicator-based component in Phase II; however, GFIA disagrees with considering it as an additional indicator during Phase III analysis. Investing large exposures and maintaining interconnections with the financial system comes naturally with insurers acting as institutional investors. GFIA believes that large exposures management is a micro prudential issue, as large exposures do not create linkages that result in the transmission of risk to the system. Consequently, the large exposures indicator cannot provide relevant information for the purpose of systemic risk assessment.</p>
Institute of International Finance/ The Geneva Association	Global	No	<p>Large exposures are a key focus of a company's internal risk management practices. A large exposure does not indicate the impact of the insurer's failure on the financial system, but rather could contribute to an individual insurer's probability of default. We therefore argue that this indicator be removed from the G-SII assessment methodology. It is imperative that the G-SII assessment methodology and its indicators appropriately distinguish between an insurer's exposure to (systemic) risk, and its potential to amplify or create systemic risk.</p>

AIA Group	Hong Kong	No	We have no comment in this regard.
Global Reinsurance Forum	International	No	We agree that this indicator reflects incoming risks that reflect the probability that an insurer will be in distress, rather than the systemic risk from an insurer's failure and therefore support the removal of this indicator.
on behalf of the European GSIs, Aegon, Allianz, Aviva, Axa and Prudential	International	No	<p>We welcome that the IAIS proposes to consider an insurer's exposure to large counterparties only qualitatively as this does not indicate the impact of the insurer's failure on the system. The same principle needs to be applied to other indicators and distinction between insurers' exposure to systemic risk and the system's exposure to insurers needs to be considered.</p> <p>However, as we agree with the observation made in the consultation paper that large exposures are a micro-prudential concern (i.e. they affect the probability that an insurer will be in distress, rather than the impact upon other financial institutions of the insurer's failure), we question the inclusion of this indicator even within Phase III.</p>
The Life Insurance Association of Japan	Japan	No	<p>The LIAJ agrees with the removal of the large exposures indicator from the quantitative indicator-based component in Phase II. In addition, we believe there is no need to consider the large exposures even in Phase III analysis.</p> <p>-The LIAJ agrees with the IAIS's view, "The data on large exposures that were previously collected may largely reflect incoming risks that affect the probability that an insurer will be in distress, rather than the systemic risk from an insurer's failure (impact upon failure) as the indicator is supposed to measure", stated in the paragraph 24. The LIAJ believes that, currently, the large exposures indicator is not the appropriate indicator given the lack of clear relevance from the perspective of systemic risk assessment.</p> <p>-In our view, an insurer's interconnectedness with the financial system is properly captured by the intra-financial assets indicator and the intra-financial liability indicator. Considering the large exposures indicators in addition to the above two indicators could result in double counting of the interconnectedness.</p>
Swiss Re	Switzerland	No	We agree that this indicator reflects incoming risks that reflect the probability that an insurer will be in distress, rather than the systemic risk from an insurer's failure and therefore support the removal of this indicator.
Institute and Faculty of Actuaries	UK	No	We agree that large exposures can be more indicative of the risk an insurer could ultimately be in distress, than the consequent impact on the financial system. It, therefore, is appropriate to consider these under Phase III.
KPMG	UK	No	<p>This is not a perfect measure and we welcome its move from phase 2 to phase 3 of the assessment methodology. In our view, it is more important to understand net exposure levels, both in terms of net exposures to individual counterparties and whether set-off arrangements are in place and also net of any asset protection mechanisms in place. This will be challenging to collect on a consistent basis, supporting our belief that this should be included in phase 3.</p> <p>A satisfactory understanding of the extent of interconnectedness on these exposures would be beneficial, but further analysis and understanding of macro positions would be required.</p>



Prudential plc	UK	No	<p>A large exposure does not indicate the impact of the insurer's failure on the financial system, but rather could contribute to an individual insurer's probability of default. We welcome that the IAIS proposes to consider an insurers' exposure to large counterparties only qualitatively as this does not indicate the impact of the insurer's failure on the system. We however are unable to gauge how the qualitative analysis of large exposures will help assessing the risk from an insurer to the system.</p> <p>The same principle should be applied to other indicators and the distinction between insurers' exposure to systemic risk and the system's exposure to insurers needs to be properly reflected in this regard.</p>
Allstate Insurance Company	United States	No	The large exposures indicator would only be appropriate to consider to the extent large exposures produce or amplify systemic risk. As we do not believe any actual or anecdotal data exists suggesting that large exposures either produce or amplify systemic risk, we would eliminate this indicator.
American Council of Life Insurers	United States	No	Scale is part of an insurance group's enterprise risk management framework. The potential to create systemic risk is not just a function of a company's size. This indicator doesn't belong in Phase II.
RAA	United States and many other jurisdictions	No	We do not believe large exposures are an appropriate indicator of systemic risk. To the extent an insurer has large exposures to a single or a few counterparties it is a matter of solvency relevance for that specific entity and may or may not have any relevance from a systemic risk perspective. To the extent large exposures are considered at all, they should be considered in the qualitative phase of the proposed GSII methodology.
Prudential Financial, Inc.	United States of America	No	We support the removal of the large exposures indicator from the quantitative (Phase II) portion of the assessment process as we do not believe a firm's holdings of certain asset types increases their probability of transmitting risk to the financial system. We believe the consultation correctly states data on large exposures "may largely reflect incoming risk that affect the probability that an insurer will be in distress, rather than the systemic risk from an insurer's failure".
MassMutual Financial Group	USA	No	Having large exposures does not itself indicate a company's potential to create systemic risk. We support the IAIS's decision to move this this indicator to Phase III in order to assess the context of the large exposure.
MetLife, Inc.	USA	No	First, we agree with the IAIS's decision to remove the "large exposures" indicator from Phase II. Our proposed Assessment Methodology also eliminates this indicator as we do not believe that concentrations in an insurer's counterparty exposure transmit systemic risk from an insurer to the broader financial system. As discussed in the opening statement, we support consideration of an institution's vulnerability in Phase III, which could consider "large exposures."
Property Casualty Insurers Association of America (PCI)	USA	No	We agree that large exposures should be removed as an indicator and should only be considered as a qualitative factor. It is relevant here that there is very little correlation between insurance market downturns and general financial or business market downturns.
National Association of Insurance	USA, NAIC	No	Large asset and liability exposures are useful in assessing concentrations of risk in particular financial counterparties but may be better assessed in Phase III rather than as an indicator. To some extent, large exposures may be captured by other indicators e.g., intra-financial assets and liabilities.

Commissioners (NAIC)			
<b>8 - To what extent, if any, are intra-group commitments an appropriate measure of a potential G-SII's systemic relevance?</b>			
RenaissanceRe	Bermuda	No	Intra-group commitments are unlikely to pose systemic risk but may not diminish risk within a (re)insurance group especially if they are not properly understood, captured and measured. We respectfully submit that intra-group commitments could increase the probability of failure by smaller sized (re)insurance groups.
CLHIA	Canada	No	We agree with its transfer out of Phase II, but question its inclusion in any subsequent phase. We view intra-group commitments being more appropriately addressed instead as part of the Resolution construct particularly given the G-SII assessment is done at the "top of the house", a level at which the intra-group exposures net to zero.
China Association of Actuaries	China	No	We recommend IAIS not to remove intra-group commitments from Phase II, as it is the only indicator in GSII methodology measuring the connectedness among insurance, non-insurance and other entities of the group. Intra-group commitment is one of the crucial indicators reflecting the vulnerability of risk spreading across different entities of the group (and subsequently across external financial system). In addition, we suppose intra-group commitments are accessible through financial reports thus the data quality could be reliable. Further, we would recommend IAIS to adopt more indicators measuring the connectedness among entities of the group in further amendment.
China Insurance Regulatory Commission	China	No	From the past assessments, we view that Intra-group commitments is very critical to the systemic importance, and we suggest keep it as a quantitative indicator.  The fall of AIG in 2008 was mostly about the intra-group commitment from AIG group to AIG FP. This indicator represents the connectedness between entities, which is exactly the most important risk transmission channel within a group. Moreover, this is the only indicator in the current methodology reflecting a group's business complexity, and the interconnectedness between insurance and non-insurance, so we suggest not remove it.  From the AIG lesson, we also recommend IAIS consider including more indicators on the risk interconnectedness between insurance and non-insurance entities, for example whether they are ring fenced or separately regulated. Ring fencing is proved to be effective in reducing systemic risks in banking regulation system in both US and UK.  For the data issues raised in the consultation, we suggest IAIS consider provide more data collection guidance and more clear data definitions to improve the data quality.
Insurance Europe	Europe	No	Though intra-group commitments or transactions may certainly affect the financial condition of an insurer, there is no reason to consider this risk systemically relevant. The G-SII framework is meant to avoid dislocation in the global financial system and to prevent adverse economic consequences across a range of countries due to a failure of individual institutions. It is not supposed to eliminate the risk of failure itself. In addition, similar to large exposures or risk concentrations, intra-group commitments are subject to regular reporting requirements which enable supervisory authorities to intervene in a timely manner, if necessary.

European Insurance and Occupational Pensions Authority	European Union	No	<p>As a matter of principle, EIOPA believes that indicators should not be dropped or moved to the qualitative part of the assessment due to the observed lack of data quality in the reporting by prospective G-SIIs (as that would not solve the underlying issue). If the indicator is perceived to have inherent merit, additional efforts should be developed to increase the quality and consistency of data reporting, rather than abandoning the collection of the information.</p> <p>In the case of intra-group commitments, the relevance of the indicator to the assessment of the impact upon failure of the insurer may be questioned given that the assessment is performed at group level. At the same time, a group which exhibits a higher degree of intra-group commitments is more likely to fail as a whole following problems affecting one of its subsidiaries, making the variable relevant for the assessment of systemic risk. The IAIS should better clarify what reasons, besides data quality, justify the proposal to move the indicator out of Phase II.</p>
GDV - German Insurance Association	Germany	No	<p>Though intra-group commitments or transactions may certainly affect the financial condition of an insurer, we do not see any reason to consider this risk systemically relevant. The G-SII-framework is determined to avoid dislocation in the global financial system and prevent adverse economic consequences across a range of countries due to a failure of individual institutions. It is not supposed to eliminate the risk of failure itself. In addition, similar to large exposures or risk concentrations, intra-group commitments are subject to regular reporting requirements which enable supervisory authorities to timely intervene, if necessary.</p>
Munich Re	Germany	No	<p>Though intra-group commitments or transactions may certainly affect the financial condition of an insurer, we do not see any reason to consider this risk systemically relevant. In contrast to banking, intercompany funding in (re)insurance is incidental, rare, and does not form part of the core business model. (Re)insurers are also not part of the payment and settlement system. In addition, intra-group commitments or transactions may certainly affect the financial conditions of an insurance group (probability of default), but they don't tell anything about the impact of the group's default on the "outside world". Therefore, they are useless for determining the potential systemic relevance of the group. Consequently, this indicator should be dropped from the list.</p> <p>In this context it should be mentioned, that intra-group business is highly scrutinized under European and U.S. prudential regulation.</p>
Institute of International Finance/ The Geneva Association	Global	No	<p>Intra-group commitments are a relevant factor in the context of resolution plans for G-SIIs, yet are no indicator of an insurer's potential to create or amplify systemic risk in the financial system.</p> <p>Based on prior consultations and the evolving instructions of the data collection, the industry understands that the IAIS has been primarily interested in the identification of group/conglomerate entities outside the regulated insurance scope, benefiting from group guarantees. While the issue resonates with the industry, we believe that such an analysis is better conducted in the qualitative assessment as many considerations are coming together in this measure. The use of intra-group commitments may or may not in itself be indicative of overreliance of entities within a group and, possibly, inappropriate risk and capital management. It could also be reflective of efficient capital management. Without further analysis, the indicator does not provide the insights sought by the IAIS in its qualitative assessment.</p>
AIA Group	Hong Kong	No	<p>We believe this indicator is of limited relevance for evaluating systemic risk posed by an insurer because any risk created by such commitments does not extend beyond the subject insurance group.</p>

Global Reinsurance Forum	International	No	We support the removal of this indicator. The consultation proposes using intra-group commitments to provide relevant information on an insurer's NTNI activities, however we believe that the NTNI framework should be appropriately robust so that an analysis of intragroup commitments is not needed for this purpose.
on behalf of the European GSIs, Aegon, Allianz, Aviva, Axa and Prudential	International	No	Intra-group commitments serve primarily to manage risk and capital more optimally within insurance groups. The potential risk to which intra-group commitments expose the company to are addressed in resolution planning. We are not aware of evidence that intra-group commitments are positively correlated with NTNI activities. Such commitments are not directly related to outside institutions and systemic impacts and mainly serve the purpose in to manage risk and capital more optimally within an organization. Consequently, this indicator seems to have little value. Therefore, while we support removal of the intra-group commitments indicator from Phase II, we question its proposed inclusion within Phase III.
General Insurance Association of Japan	Japan	No	Although data responsiveness and data quality concerns are pointed out in the consultation document, the importance and appropriateness of the intra-group commitments indicator were made clear during the 2008 financial crisis. For this reason, the IAIS should consider the continued use of the indicator in Phase II, which has a higher degree of objectivity and transparency, by identifying problems that cause data responsiveness and data quality concerns, and making improvements including revisions to the technical specifications and templates as well as clarification of data definitions.
Swiss Re	Switzerland	No	We support the removal of this indicator. The CD proposes using intra-group commitments to provide relevant information on an insurer's NTNI activities in Phase III. However, we believe that the NTNI framework should be appropriately robust so that an analysis of intragroup commitments is not helpful for this purpose.
Institute and Faculty of Actuaries	UK	No	Information on intra-group commitments would be useful to evaluate an insurer's self-sufficiency. However, as noted in the document, collecting this information in a consistent way would be challenging.
KPMG	UK	No	As per our response to question 7.
Prudential plc	UK	No	Intra-group commitments are a relevant factor in the context of resolution planning for G-SIIs. We do not believe that these are an indicator of an insurer's potential to create or amplify systemic risk in the financial system.
Allstate Insurance Company	United States	No	Intra-group commitments are not relevant in assessing systemic risk as they typically pose only idiosyncratic risk; i.e., limited to the consolidated group under evaluation. Data collected should not include intra-group transactions.
American Council of Life Insurers	United States	No	Intra-group commitments are a relevant consideration for resolution planning but do not inform systemic relevance.

Prudential Financial, Inc.	United States of America	No	We support the removal of the intra-group commitments indicator from the NTNI category of the assessment methodology. Further, we believe the IAIS belief that intra-group commitments may "indicate significant NTNI activities and / or a lack of self-sufficiency of NTNI activities" is incorrect. Intra-group commitments provide a tool for managing the capital and liquidity of the insurance group, including through the support of specific transactions or activities. For example, a parent company may be required to guarantee debt issued by its subsidiary in order for that debt to be included in certain statutory capital regimes, despite the subsidiary carrying a higher credit rating than its parent. We believe such tools are essential and must be better understood before being broadly swept into any element of the G-SII Policy Measures as a potential identifier of systemic activities or source of systemic risk.
MetLife, Inc.	USA	No	We believe that intra-group commitments have no direct link to systemic relevance and therefore that they are an inappropriate measure of potential systemic importance.
Property Casualty Insurers Association of America (PCI)	USA	No	The amount of Intra-group commitments is a poor indicator of systemic relevance, and should only be considered in a qualitative analysis because it means little in isolation. It is only meaningful when considered relative to the size of the firm and the purpose of those commitments. For example, guarantees covering a CDS trading entity involve a far different systemic risk profile than a guarantee for an intercompany loan used to purchase long-lived physical assets like equipment or real estate.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Intra-group commitments would also best be assessed in Phase III of the analysis as it is difficult to assess meaningfully across firms using an indicator and the relative ranking framework.
<b>9 - To what extent is the derivatives trading (excluding hedging and replication) in economic terms indicator an appropriate indicator of NTNI activities? What is the appropriate way to measure or understand the systemic importance of speculative derivatives trading?</b>			
CLHIA	Canada	No	<p>We recognize that speculative derivatives trading should be included, but encourage the IAIS to acknowledge in the Methodology that the level of such activity is expected to be extremely low for insurers. Derivative exposures for traditional hedging and risk mitigation should be excluded. Additionally, the remaining focus should be on derivative instruments that are uncollateralized.</p> <p>A number of alternative measures are still being debated by our membership.</p> <p>Please confirm whether the consultation intends to have derivative trading as part of Phase II or Phase III. On page 7 of the consultation, Section 6 of the Introduction seems to indicate inclusion in Phase III, but elsewhere indicators are listed that would imply inclusion in Phase II.</p>
China Association of Actuaries	China	No	We agree that derivative trading (excluding hedging and replication) in economic terms is a significant indicator of NTNI activities. We would recommend IAIS to keep this indicator in Phase II and conduct more investigation on the data quality. For example, IFRS 9 (effective after 1 January 2018) incorporates new hedge accounting requirements which requires the information disclosure of derivatives trading for hedging purposes. This might be useful separating speculative and hedging derivatives trading activities.

China Insurance Regulatory Commission	China	No	<p>Weview derivatives trading (excluding hedging and replication) appropriate for NTNI activities. Speculative derivative trading exposes the insurer to significant market risks, therefore as according to the NTNI principles, it would cause systemic consequences through market exposures.</p> <p>For the data issues raised in the consultation, we suggest IAIS consider provide more data collection guidance and more clear data definitions to improve the data quality.</p>
Insurance Europe	Europe	No	<p>GFIA disagrees with the suggestion that insurers use derivatives for speculative purposes. In most jurisdictions, insurers are prohibited from speculative derivatives trading and these are instead used for hedging and risk management purposes. The focus should be only on derivatives that are uncollateralised. The analysis should also consider structures where the risk isn't materially offset (e.g. offsetting long and short positions within a fund).</p> <p>Gross notional value of derivatives held is considered an indicator of interconnectedness. In GFIA's view, the IAIS should focus on the net fair value of the derivative activity it considers as NTNI and exclude derivatives used for what are deemed traditional purposes from the assessment methodology. When there are specific positions where the gross notional values materially misrepresents the risk, these should be netted down.</p>
Insurance Europe	Europe	No	<p>Insurance Europe disagrees with the suggestion that insurers use derivatives for speculative purposes. In most jurisdictions, insurers are prohibited from speculative derivatives trading, and these are instead used for hedging and risk management purposes. The fact that data reported on CDS was not meaningful is therefore not surprising. Insurance Europe understands that the IAIS may be concerned by the use of derivatives by insurers, however such concerns are only justified only for derivatives that are uncollateralised and have potential for counterparty risk. In fact, given the recent G-20 derivatives reform, such cases should be isolated.</p> <p>The G-20 derivatives reform, which was launched in 2009 and triggered a set of measures aimed at increasing the transparency of the derivatives market and addressing systemic risk. These measures included: compulsory central clearing (where possible), compulsory reporting of derivatives and compulsory margining of derivative exposures. Two types of margin were defined: a) the variation margin - aimed at covering daily changes in the market value of a derivative position and b) the initial margin - aimed at covering any changes in the value of variation margin collateral in cases where a default would occur and this collateral would need to be sold. The entire framework for haircuts on collateral and initial margins was very conservatively calibrated with the stated objective of them being sufficient to offset any loss caused by the default of a counterparty with a high degree of confidence. In addition to the important safeguards already embedded in the regulation of the derivatives market, in Europe the prudential framework for insurers (i.e. Solvency II) includes extra capital requirements meant to cover derivatives counterparty risk. Against this background, Insurance Europe believes that in jurisdictions that have implemented the G-20 derivatives reform systemic and counterparty risk concerns have already been addressed by regulation and there if therefore no reason to automatically assume that derivatives are appropriate indicators of NTNI activities.</p> <p>The analysis should also consider structures where the risk isn't materially offset (e.g. offsetting long and short positions within a fund).</p>
European Insurance and Occupational	European Union	No	<p>EIOPA is of the opinion that engagement in speculative investment in derivatives may be a significant source of systemic risk for prospective G-SIIs. However, EIOPA acknowledges the practical difficulties that are usually associated with the identification of derivatives not</p>

Pensions Authority			used for hedging purposes by insurers. Against this background, EIOPA would prefer that efforts are developed to clarify the reporting criteria and the indicator is maintained within Part II of the methodology. This would create clearer incentives for insurers to abstain from entering into such risky activities.
GDV - German Insurance Association	Germany	No	The derivatives trading indicator is certainly suitable to provide evidence for potential systemic risk if such activities are pursued to a considerable extent. However, as stated in paragraph 26, the data collected from the sample insurers were obviously not meaningful. The use of an absolute reference values therefore appears to be more appropriate. Moreover, also the use of collaterals should be taken into account (as this reduces counterparty risk).
Munich Re	Germany	No	The derivatives trading indicator is certainly suitable to provide evidence for potential systemic risk if such activities are pursued to a considerable extent. However, as stated in paragraph 26, the data collected from the sample insurers were obviously not meaningful. The use of an absolute reference values therefore appears to be more appropriate. Moreover, the use of collaterals (reducing counterparty risks) should be also taken into account.
Global Federation of Insurance Associations	Global	No	GFIA disagrees with the suggestion that insurers use derivatives for speculative purposes. In most jurisdictions, insurers are prohibited from speculative derivatives trading and these are instead used for hedging and risk management purposes. The focus should be only on derivatives that are uncollateralised. The analysis should also consider structures where the risk isn't materially offset (e.g. offsetting long and short positions within a fund). Gross notional value of derivatives held is considered an indicator of interconnectedness. In GFIA's view, the IAIS should focus on the net fair value of the derivative activity it considers as NTNI and exclude derivatives used for what are deemed traditional purposes from the assessment methodology. When there are specific positions where the gross notional values materially misrepresents the risk, these should be netted down.
Institute of International Finance/ The Geneva Association	Global	No	Since the crisis, significant reforms of derivatives markets have been implemented, which have vastly contained risks previously present in these markets. This should be reflected in both derivatives indicators. The IAIS should consider the current exposure to a derivative counterparty adjusted to reflect legally enforceable netting (e.g. via ISDA agreements) and collateral arrangements.  We would support a clear distinction in both the G-SII methodology and the NTNI framework in the treatment of derivatives held by insurers for risk management purposes, as opposed to those held for speculative purposes. We would like to point out that insurers overwhelmingly use derivatives for risk management. As an illustration, American insurers' portfolio of derivatives for "income generation" purposes end 2014 was equal to 0% of their total derivatives portfolio's notional value; hedging accounted for 94%(13). Holding derivatives for speculative purposes in insurance entities is prohibited under Solvency II. Derivatives should be treated accordingly under the IAIS' G-SII and IAIG policy measures, and those held for risk management should be excluded from G-SII scores in order not to penalize risk hedging.  FOOTNOTE: (13) See <a href="http://www.naic.org/capital_markets_archive/150807.htm">http://www.naic.org/capital_markets_archive/150807.htm</a> .
AIA Group	Hong Kong	No	An appropriate indicator would include: 1) compared to the total stressed liquidity capacity, how much financial guarantees are provided for financial products sold by other financial institutions or put options sold on financial instruments; and 2) how much

			"naked" derivatives positions on financial assets (e.g. delta/gamma/vega of unprotected put options) vs. the market size of the underlying financial assets.
Global Reinsurance Forum	International	No	Derivatives trading (excluding hedging and replication) potentially impacts the probability that an insurer will be in distress, but may or may not necessarily impact the systemic risk from an insurer's failure. This depends on the scale of activities carried out by the individual reinsurer relative to the overall market. The IAIS should consider the current exposure to a derivative counterparty adjusted to reflect legally enforceable netting (e.g. - via ISDA agreements) and collateral arrangements.
on behalf of the European GSIs, Aegon, Allianz, Aviva, Axa and Prudential	International	No	We welcome the removal of this indicator for NTNI activities in the Phase II, as we indeed believe that assessing whether the use of derivatives by an insurer would potentially create systemic risk requires a thorough analysis, very difficult to capture via a limited set of quantitative indicators. In that respect, as further illustrated in our answer to the NTNI consultation, we stress that the use of derivatives precisely plays a key role in ALM and risk management for insurers.
The Life Insurance Association of Japan	Japan	No	·The LIAJ believes that speculative derivatives trading is one of the most relevant indicators in the NTNI category in assessing systemic risk. ·When measuring the systemic importance of speculative derivatives trading, it would be more objective and fairer to simply compare the current derivative position and corresponding asset position for each asset class such as stocks and bonds and consider the excess portion as having systemic risk, rather than making a classification based on investment purposes.
Swiss Re	Switzerland	No	Derivatives trading (excluding hedging and replication) potentially impacts the probability of an insurer to be in distress, but may or may not necessarily impact the systemic risk from an insurer's failure. This depends on the scale of activities carried out by the individual reinsurer relative to the overall market. The IAIS should consider the current exposure to a derivative counterparty adjusted to reflect legally enforceable netting (e.g. via ISDA agreements) and collateral arrangements.
Institute and Faculty of Actuaries	UK	No	The extent of derivatives trading would be a reasonable indicator of NTNI activities, but the extent of collateral and margin coverage would impact the degree of systemic importance. Speculative derivatives trading, and in particular excessive leverage, would seem to be a key indicator of NTNI activities. Collateral requirements can give rise to additional liquidity risks. However, a difficulty is how to measure "speculative derivatives trading".
KPMG	UK	No	As per our response to question 7. We concur with the need to differentiate between derivative use for hedging purposes and speculative trading, but the split may not always be clear, especially when derivatives are used by a parent entity to protect cash flows from a subsidiary. For this reason, we believe there will always be challenges regarding data consistency in this area and therefore welcome its move to phase 3.
Prudential plc	UK	No	No response
Allstate Insurance Company	United States	No	We believe derivatives trading should be considered for its potential to produce or amplify systemic risk based on the gross (i.e., notional) exposure to a derivative counterparty's capital. Collateral should be considered, but only to the extent that a derivative writer could collateralize its outstanding positions in the most extreme circumstances. For example, in 2008, a large insurer's outstanding derivative positions generated collateral requirements that could not be met which required the U.S.



			Government to step in and settle the outstanding contracts because it believed that allowing a default of the large insurer posed a systemic risk to the global financial system.
American Council of Life Insurers	United States	No	<p>Total derivatives traded alone are not a measure of potential systemic risk exposure. At least, potential systemic risk exposure must consider credit support and collateral agreements that are frequently risk management offsets to exposures to counterparties and some other risks, as well as the fact that sometimes the exposure or strategy is an offset to systemic risk. For example, the strategies may call for a firm to take actions that are the opposite of what the market is doing in times of stress.</p> <p>Additionally, for the most part insurers trading in derivatives is de minimus, and in many countries it is not even permitted. In 2015, the IAIS recognized that most CDS used by insurers is bought protection; the same study cited by the IAIS also showed that the remaining CDS were used for replication purposes. According to the 2015 Global Insurance Market Report (GIMAR), the use of CDS continues to be "relatively modest within the insurance legal entities - of which 47% is bought protection." Studies have also shown that most insurers electing to sell protection are engaging in replication. (NAIC Capital Markets Special Report, August 2015).</p>
Prudential Financial, Inc.	United States of America	No	<p>We support the IAIS carve out in question 9 for the use of derivatives as a tool for hedging and replication. It is important to note that significant reforms of derivative markets have been implemented since the financial crisis. These reforms have substantially reduced insurer's exposure to, and contribution to, risks previously present in these markets. In the 2015 Global Insurance Market Report, the IAIS acknowledged both the limited use of credit default swaps and the impact of regulatory changes on the U.S. derivatives market since the financial crisis:</p> <ul style="list-style-type: none"> <li>+ "Use of credit default swaps continues to be relatively modest within the insurance legal entities, totalling USD 35 billion in notional value, of which 47% is bought protection."</li> <li>+ "As of year-end 2014, U.S. insurers had posted approximately USD 12 billion in collateral, while also being the beneficiaries of approximately USD 36 billion in collateral posted by counterparties."</li> <li>+ "With respect to collateral requirements, most market participants will be required to post more collateral than in the past ....."</li> <li>+ "In the past, bilateral OTC derivatives could result in very high levels of leverage. The imposition of stronger regulations regarding margin requirements, however, represents a significant change and will result in a material reduction in leverage."</li> <li>+ "Overall, regulatory changes, particularly with respect to over-the-counter derivatives such as the swap contracts that historically were the preferred hedging instrument for insurers managing interest rate risk is potentially significant."</li> </ul> <p>Derivative indicators within the assessment methodology must take account of this progress and should focus on uncollateralized derivatives and derivatives used for speculative purposes.</p>
MetLife, Inc.	USA	No	In responding to this question we are assuming that the IAIS means "systemic risk" when they refer to "NTNI activities". MetLife proposes that exposure to derivatives outstanding is a better measure of systemic relevance than derivatives trading.

			<p>Because systemic relevance for derivatives arises from counterparty losses to uncollateralized derivative obligations in the event of default, MetLife suggests an indicator that measures the potential counterparty losses in the event of default on uncollateralized derivative obligations.</p> <p>As a system of measurement, we suggest use of potential future exposure (PFE) which is an accepted metric* to quantify counterparty risk for derivatives. The contribution to systemic relevance for derivatives would equal the aggregate derivative PFE net of collateral.</p> <p>*See "International Convergence of Capital Measurement and Capital Standards BIS (2006): 216 777(vii).</p> <p>Calculation of PFE can be obtained in two alternative measures:</p> <ul style="list-style-type: none"> <li>- Firm level (recommended) using PFE methodology which computes PFE by simulating the value of the portfolio at a counterparty level for each future date. The PFE is the peak replacement cost in "worst case" scenario, measured using a minimum 10-day holding period at a 99th percentile one-tailed confidence interval.</li> <li>- Industry level applying a series of factors based on derivative type to the notional amount. An industry level PFE would be computed by applying a set of factors based on the derivative type to notional amount. Initial field testing/QIS would be required to parameterize factors or Basel III factors could apply. Collateral would be netted from the gross PFE to determine the systemic relevance for this indicator. The systemic factor could be differentiated to encourage certain practices such as use of centrally cleared transactions.</li> </ul> <p>More detail on our proposed approach to assessment will be found in slides 21 - 23 of a slide deck shared with IAIS principals prior to the submission of these comments.</p>
Property Casualty Insurers Association of America (PCI)	USA	No	Use of collateral should be taken into account.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Given the lack of uniformity as to what firms consider speculative derivatives and the fact that most jurisdictions do not allow insurance companies to engage in such activities, data is not likely reliable for an indicator and relative ranking. Thus, such activities are best addressed through Phase III analysis or using an indicator based on over-the-counter derivatives.
<b>10 - The weightings in Phase II of the Proposed Methodology emphasize the insurer's NTNI activities (45%) and its interconnectedness (40%). Are there any developments or trends in the global insurance market that warrant further refinements to the 2013 Methodology, potentially including changes to the category weightings? Please explain your answer.</b>			
RenaissanceRe	Bermuda	No	Given that reinsurance is not deemed to pose systemic risk, we are of the opinion that the interconnectedness weighting has been unnecessarily over emphasized and needs to be appropriately refined within the Proposed Methodology. The reinsurance market is highly effective at raising capital such that the failure of an entity would not necessarily lead to systemic

			<p>risk. Since 1993, the reinsurance industry has become highly effective at quickly raising billions of dollars to support clients when needed. Following the 9/11 terrorist attacks and the major 2005 U.S. hurricanes (Katrina, Rita, Wilma), approximately \$20 billion and \$34 billion were raised, respectively . The industry's rapid capital-raising means that even after major losses or disruptive events, consumers in catastrophe-exposed areas are able to purchase insurance protection at competitively and actuarially priced rates. We would therefore like to request that the weightings be reviewed in this context.</p>
China Association of Actuaries	China	No	<p>We would recommend IAIS to remove turnover and short term funding indicators, since the rationale of high level of turnover and short term funding contributing to systemic risk is questionable for following reasons.</p> <ol style="list-style-type: none"> <li>1. Those indicators are not adopted in GSIB assessment methodology (even if banks engage in such activities much more frequently);</li> <li>2. Insurers, who conduct these activities mainly to invest new premiums, will benefit the capital market in terms of asset liquidity.</li> </ol> <p>Thus, it is especially not convincing to those insurers with large portion of regulated banking activities as they tend to have higher level of turnover and short term funding comparing to other insurers due to the characters of banking activities. In addition, we would recommend IAIS to increase the weights of global activity and substitutability moderately for following reasons.</p> <ol style="list-style-type: none"> <li>1. The justification for the different treatment of global activity in GSII and GSIB might not be sufficient enough to explain the 15% difference;</li> <li>2. The lack of substitution for operation failure may not be easily recovered for both banking and insurer activities (if not all, at least for catastrophe, credit and aviation);</li> </ol> <p>In general, at current stage we would suggest IAIS to lower the weights of NTNI activities and interconnectedness, but in the long run modification of GSII methodology structure would be necessary.</p>
Insurance Europe	Europe	No	<p>GFIA believes that interconnectedness indicators do not provide meaningful results in terms of systemic risk, whereas size and global activity actually improve the risk-absorbing capacities of insurers. GFIA understands that the concept of interconnectedness is linked to the Financial Stability Board's (FSB) definition of systemic risk. However, the proposed measurement of interconnectedness does not appropriately reflect the potential transmission of risk from the insurance industry to the system. While GFIA believes that there is a place for assessing an insurer's global footprint in the methodology, the criteria for global activity is too blunt an instrument because it applies the number of countries operated in without considering the materiality of an insurer's exposure in those countries. This criterion should be removed or refined to identify the materiality of systemic exposure a firm has in the country or countries it operates in.</p>
Insurance Europe	Europe	No	<p>Insurance Europe believes that systemic risk in the insurance sector can only originate in the extent and the potential impact of certain NTNI activities. Although the assessment methodology is attributing the highest weight to NTNI, the other categories - most notably interconnectedness - still have significant impact on the outcome of the quantitative assessment. In Insurance Europe's view, interconnectedness indicators, as used in the current methodology, do not provide meaningful results in terms of systemic risk, whereas size and global activity actually improve the risk-absorbing capacities of insurers. Insurance Europe understands that the concept of interconnectedness is very much linked to the Financial Stability Board's (FSB) definition of systemic risk. However, the proposed measurement of interconnectedness does not appropriately reflect the potential transmission of risk from the insurance industry to the system.</p>
European Insurance and	European Union	No	<p>EIOPA is not aware of any fundamental changes in the nature of insurance business which would justify a change to the weightings agreed for the 2013 Methodology.</p>

Occupational Pensions Authority			
GDV - German Insurance Association	Germany	No	<p>The GDV has always stressed that any attempt to tackle systemic risk in the insurance sector must clearly focus on the extent and the potential impact of non-traditional or non-insurance activities. Although the assessment methodology is attributing the highest weight to NTNI, the other categories -most notably interconnectedness- still have significant impact on the outcome of the quantitative assessment. As repeatedly stated, the indicators of interconnectedness do not provide meaningful results in terms of systemic risk, while size and global activity even improve the risk absorbing capacities of insurers rather than giving reason for systemic concerns.</p>
Munich Re	Germany	No	<p>Any attempt to tackle systemic risk in the insurance sector must clearly focus on the extent and the potential impact of non-traditional or non-insurance activities.</p> <p>The assessment methodology correctly attributes the highest weight to NTNI; however, the high weights assigned to the other categories -most notably interconnectedness- are overly inflated. As a result, even with the revised weightings, these other categories significantly impact the outcome of the quantitative assessment. We disagree with the high weight that is assigned to interconnectedness within the assessment methodology. It is true that a systemic banking crisis would have a strong impact on the insurance industry, which can be a source of systemic risk. However negative spillovers are mainly transferred from the banking sector to the insurance sector, not vice versa.</p> <p>Regarding the other categories we have following remarks which could influence the weightings of the insurer's NTNI activities (45%) and its interconnectedness (40%) categories:</p> <ul style="list-style-type: none"> <li>- Size (to be modified): In general, we think that size is an adequate criterion to measure systemic risk. The relevance of size for systemic risk depends on the non-core activities of a (re)insurer -- its volume, and its relation to the respective global market. Thus, we would suggest two modifications for the size criteria: When assessing the systemic importance of a (re)insurer, size might come into play not as an absolute value but only in conjunction with the relevant total market. We would therefore support an approach focusing on the relative importance of major lines of business (e.g. P&amp;C versus traditional life and unit-linked business). Consider for example a P&amp;C (re)insurer with a premium income of 1% of the global P&amp;C (r)insurance premium. Then its scoring should be based on this 1% market share.</li> <li>- Global activity (to be deleted): Overall, we feel that "global activity" could be dropped from the list of indicators without having any negative impact on the quality of the assessment of the systemic importance of (re)insurers.</li> <li>- Substitutability: This is a valid criterion for the assessment of systemic relevance and it is understandable to measure substitutability due to LoB, which seems to bear more risks than another LoB. In addition is has to be stated out, that a single insurance event in a specific sector or LoB would hardly affect a systemic risk. We also suggest to take note of the following specifications of the (re)insurance activities which might be useful in the phase III of the G SII designation process. Generally (re)insurance activities are not systemically relevant based on the criterion of substitutability.</li> <li>- No (re)insurance company has a market share or monopoly position in any material line of business; market concentration is comparatively low.</li> </ul>

			<ul style="list-style-type: none"> <li>- No (re)insurance company has a central market role, such as a clearing house, or acts as a securities exchange.</li> <li>- Capacity in (re)insurance is easily substitutable, even after a major loss. The same holds true for recapitalisation.</li> </ul>
Global Federation of Insurance Associations	Global	No	<p>GFIA believes that interconnectedness indicators do not provide meaningful results in terms of systemic risk, whereas size and global activity actually improve the risk-absorbing capacities of insurers. GFIA understands that the concept of interconnectedness is linked to the Financial Stability Board's (FSB) definition of systemic risk. However, the proposed measurement of interconnectedness does not appropriately reflect the potential transmission of risk from the insurance industry to the system. While GFIA believes that there is a place for assessing an insurer's global footprint in the methodology, the criteria for global activity is too blunt an instrument because it applies the number of countries operated in without considering the materiality of an insurer's exposure in those countries. This criterion should be removed or refined to identify the materiality of systemic exposure a firm has in the country or countries it operates in.</p>
Institute of International Finance/ The Geneva Association	Global	No	Please refer to our answer to question 2 for remarks on indicator weighting.
AIA Group	Hong Kong	No	We have no suggestions in this regard.
Global Reinsurance Forum	International	No	<p>In line with IAIS findings * any attempt to tackle systemic risk in the insurance sector must clearly focus on the extent and the potential impact of NTNI activities. Even if the assessment methodology is attributing the highest weight to NTNI, the other categories -most notably interconnectedness- still have significant impact on the outcome of the quantitative assessment. We doubt, however, the high weight interconnectedness is given within the assessment methodology. It is true that a systemic banking crisis would have a strong impact on the insurance industry, which can be a source of systemic risk. However negative spillovers are mainly transferred from the banking sector to the insurance sector, not vice versa.</p> <p>In light of these considerations, we strongly recommend to increase the weight of the NTNI category in the designation, and decrease the weight of interconnectedness.</p> <p>* see the IAIS report "Insurance and Financial Stability" dated November 2011</p>
on behalf of the European GSIs, Aegon, Allianz, Aviva, Axa and Prudential	International	No	<p>Beyond those identified by the IAIS, we are not aware of developments or trends in the global insurance market that warrant further refinements to the weightings in the 2013 methodology. We continue to have significant concerns about several structural elements of the framework, however, including:</p> <ul style="list-style-type: none"> <li>- The use of a relative methodology in which insurers effectively "compete" with each other to determine which companies are on or off the list</li> <li>- The emphasis on isolated product features rather than a synthesized approach based on clearly demonstrated drivers of systemic risk</li> <li>- Numerous ambiguities and elements of judgment which lead to inconsistent reporting and evaluation of potential G-SIIs</li> </ul>

			<p>In order to better capture the role of insurers in the wider financial markets, as well as trends and developments going forward, a more synthetic approach focusing on real drivers of systemic risk rather than an analytical isolated focus on product features would improve the framework.</p> <p>Finally, we are concerned about the removal of a variety of indicators that were initially identified increasing the relative weight of other indicators which in the future may prove not to be systemically relevant. This raises doubts on the readiness of the framework to identify systemic risk and may unduly punish some companies that score high on such indicators. We believe this is a sign that systemic risk related to insurance is still poorly understood. The remaining indicators in our opinion also seem to be skewed to life insurance business models, which traditionally are strong providers of stability in the financial markets.</p>
General Insurance Association of Japan	Japan	No	<p>- If the weighting of the indicators, which will be moved to Phase III were to be distributed evenly to the remaining indicators in each category, each remaining indicator in the relevant categories would increase in weight. This is likely to disturb the balance among the indicator weightings and question the consistency and reliability of the full score. Additionally, in this case, while the relevant categories' weighting percentages and impact on a score determined in Phase II will remain unchanged, the indicators that are moved from Phase II will additionally be considered in Phase III. We are concerned that this could result in overestimation of these categories in the assessment process.</p> <p>- Therefore, if adjustments were to be made to the indicator weightings following the movement of the two indicators, these adjustments should involve not only the indicators in the relevant categories but also those in other categories. It would be reasonable to increase the weighting for specific indicators, rather than evenly distribute the weighting of the two indicators on an overall basis. For example, it is particularly worth considering increasing the weighting for the "Size" category, because an insurer's size is expected to directly indicate the degree of the impact on the financial system in the event of its failure.</p>
Swiss Re	Switzerland	No	<p>Swiss Re agrees with the IAIS findings (see the IAIS report "Insurance and Financial Stability" dated November 2011) that insurers contribute to systemic risk if at all through NTNI activities. Interconnectedness may amplify this risk by increasing the risk of contagion. We advocate that the IAIS apply the "interconnectedness" category to measure the NTNI-interconnectedness of insurance groups with the financial sector (including but not limited to insurance companies). Note that the majority of indicators in the NTNI category are themselves measures of interconnectedness (non-insurance revenues, derivatives trading, short-term funding, and financial guarantees), whereas many indicators in the interconnectedness category, in particular reinsurance interconnections, do not add to, but mitigate systemic risk.</p> <p>In light of these considerations, Swiss Re advocates to increase the weight of the NTNI category in the designation to 60%, and decrease the weight of interconnectedness to 25%.</p>
Institute and Faculty of Actuaries	UK	No	<p>There is no distinction on the nature of the country. Some consideration should be made of the type of country e.g. developed / emerging, politically sensitive, OECD etc., as this does affect the level of impact of global systemic risk.</p>
KPMG	UK	No	<p>At this stage of the consultation process, there is no information indicating that the category weightings should be changed. Our view is that there will need to be ongoing monitoring to ensure that this remains appropriate as the dynamics of the insurance industry changes over time, to ensure that the factors assessed remain the main drivers of systemic risk and there should be no additions to the list. As an example, as the size of the market for NTNI activities reduces (dealings with derivatives and financial guarantees etc.), this will imply that the risk arising from these activities will become immaterial and</p>

			would suggest reducing the weighting given to this particular category as it will no longer be a strong differentiator of G-SII status. Additionally further clarity of NTNI is necessary to assure consistency across jurisdictions.
Prudential plc	UK	No	While we do not have any comments on the appropriateness of the weightings of the two main categories, we believe that it is important to only use indicators that genuinely reflect the risk that insurers pose to the financial system. This should include an assessment of the transmission channel for systemic risk and there should be a differentiation between risks from the system to an insurer and the risk to the system for an insurer. Some of the current set of indicators, e.g., intra-financial assets or certain derivatives transactions like buying options do not create risk to the system. Giving undue weight to such indicators creates a risk that the indicators that more strongly measure risk to the system do not get the appropriate weighting.
Allstate Insurance Company	United States	No	
American Council of Life Insurers	United States	No	<p>ACLI strongly supports the IAIS's commitment to continue to devote resources to refining and improving its concepts about systemic risk in the insurance industry. While we recognize that IAIS as an institution has committed to the NTNI classification in the short term, we urge that it must in the near-term extend its analysis beyond assessing the probability of failure to assessing the impact of that failure on the financial system as a whole.</p> <p>A majority of ACLI members believe that the goal in support of global financial stability should be to replace NTNI with a framework that measures "Potentially Systemically Risky Exposures" by analyzing the potential systemic impact of products and activities on a loss-given default basis.</p> <p>We urge that in the longer-term the IAIS extend its analysis to include assessing the global insurance industry's potentially systemically risky exposures and the channels through which those exposures might have a globally systemic impact on the financial system.</p> <p>ACLI suggests that the criterion for assessing an insurer's global activity could be improved. The current metric merely tallies the number of countries in which the insurer writes business. We believe that the materiality of an insurer's exposure in those countries is relevant, as is an analysis whether that exposure could lead to systemic risk either within those countries or globally. We recommend that the criterion should be removed or refined to identify the materiality of systemic exposure that a firm has in the country or countries where it operates.</p>
RAA	United States and many other jurisdictions	No	<p>As stated in our response to question 6, we do not believe that reinsurance is an indicator of systemic relevance or that the connectedness between insurers and reinsurers and the broader financial markets is ever likely to give rise to systemic risk. In addition, the removal of the intra-financial liabilities indicator inappropriately increases the weighting of the reinsurance indicator in the interconnectedness category.</p> <p>The GSII methodology should not include Reinsurance as a separate indicator of systemic risk, and at a minimum, should not have a risk weighting equal to indicators such as Derivatives and Level 3 assets. This paper and the prior consultation appropriately recognizes that reinsurance is a source of stabilization in the insurance markets. The RAA's systemic risk analysis and other research presented to the IAIS by the Geneva Association and some of the largest global reinsurers have shown conclusively that reinsurance mitigates insurance risk and is not a source of systemic risk. In addition, the July 2012</p>

			<p>IAIS Reinsurance and Financial Stability report concluded:  "...traditional reinsurance is unlikely to cause, or amplify, systemic risk. This point holds also for the insurance of peak risks, the core business of reinsurers. 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."</p> <p>This conclusion, which is fully supported by the overwhelming weight of the IAIS' RFS report, supports our view that reinsurance should not be included as a separate indicator of systemic risk in the GSII methodology.</p> <p>Instead we believe the focus evaluating systemic risk in the insurance sector should focus on the extent and the potential impact of non-traditional or non-insurance activities. The weighting of interconnectedness is too high and is inconsistent with previously published IAIS reports evaluating systemic risk in the insurance sector.</p>
American Insurance Association	United States of America	No	<p>Global Activity (Revenues derived outside of home country/number of countries): It is difficult to discern how these indicators of global activity relate to an insurance company's potential as a source of systemic risk, particularly where the company engages in insurance activities in multiple nations as a way of diversifying its business and spreading risk. Further, as noted above, to the extent that non-domestic revenue is an indicator of global activity, it replicates size as a determining factor, but does not address the extent to which more than one market could be affected by a potential systemically important insurer. Moreover, in its original public consultation, the IAIS explained that global activity "is aimed at identifying components of the financial system whose failure can have large negative externalities on a global scale." This characterization seems to indicate that global activity is related to interconnectedness, which is also a separate assessment category. Yet, the only other global activity indicator apart from non-domestic revenue is the number of countries where a group operates through branches or subsidiaries. It is hard to understand how either non-domestic revenues or number of countries in which a company does business relate to the IAIS' explanation of the global activity category. Therefore, AIA strongly recommends that this category (and the associated indicators) be discarded and absorbed within size and interconnectedness as appropriate. (F/N 5)</p> <p>(F/N 5: Elimination of the global activity category will require a re-weighting of the remaining categories. Since, in AIA's view, size is already skewed, we recommend that the interconnectedness category reflect a more appropriate systemic risk weighting.)</p>
Prudential Financial, Inc.	United States of America	No	<p>We believe the interconnectedness category - which receives a 40% weighting in the assessment methodology - captures all aspects of the exposure channel put forward in the proposed framework for assessing activities and products. The IAIS' inclusion of the exposure channel in the NTNI category of the assessment methodology (assuming it remains as currently proposed by the IAIS), coupled with the interconnectedness category, results in a double count of an insurer's exposure. To avoid this double count and streamline the assessment process, the IAIS should replace the NTNI category with a sole focus on the asset liquidation channel.</p> <p>Should the IAIS continue to move forward with their framework for assessing activities and products, they must do so with greater transparency - including insight on how they will proceed with assessing activities and products and how they will engage stakeholders to support the effort. The assessment of activities and products should be a comprehensive and thoughtful exercise. The timeline the IAIS is currently operating under - which includes completion of the activity and product assessment by 1Q16 - does not allow for the appropriate level of care and loses sight of the significance of their decisions</p>



			<p>which will be a data point of consideration for key business decisions such as pricing, product offerings, entering new markets, divesting businesses, etc.</p> <p>We request the IAIS review the comments we have provided to the consultation in conjunction with those we submitted on the separate consultation on NTNI Activities and Products.</p> <p>In addition, we reiterate our believe that that "size" and "global activity" - which account for 10% of the G-SII assessment methodology on a combined basis - do not directly create or increase systemic risk. The IAIS has acknowledged that "in an insurance context size is a prerequisite for the effective pooling and diversification of risks". Such pooling of risk and diversification can be further achieved through global diversification. A continued focus on a handful of large, globally active firms as systemic - and the G-SII Policy Measures that accompany designation - may drive activities and products to less capitalized insurers or market-based financing schemes (i.e. shadow insurance market). Such an outcome would be antithetical to the financial stability that the IAIS is striving to achieve through the designation and enhanced supervision of G-SIIs and would be a great disservice to the real economy and governments that face societal and economic challenges - including those related to longevity and long term capital investment - both today and into the future.</p>
MetLife, Inc.	USA	No	<p>Please see our response to Question 30 summarizing our proposed revised approach to assessing insurance groups for systemic importance. As stated several times in this Response to the Updated Methodology, our approach aligns quantitative assessment criteria matched to specific systemic risk transmission channels using a loss-given default (impact of failure) analysis. We believe strict adherence to the principle of aligning each indicator with a systemic risk transmission channel addresses a problem with the Updated Methodology, namely its mixing of criteria that measure for probability of failure with criteria that measure for impact of default.</p> <p>This alignment resulted in the reallocation of relevant NTNI indicators to our revised Interconnectedness and new Asset Liquidation categories. The alignment also results in the elimination of the Global Activity Category weighted at 5%. Accordingly, our proposal suggests equal 45% weights to both the Interconnectedness and Asset Liquidation categories, thereby accounting for the 5% formerly attributed to Global Activity.</p> <p>In response to Question 10, MetLife repeats its strong support for an absolute value approach and suggests a thorough consideration, on an absolute basis, of what is required for an insurer to be systemically relevant. Weightings should be reconsidered based on this form of assessment.</p> <p>We believe our approach more accurately assesses systemic relevance and at the same time rewards good risk management practices. An absolute measurement would also provide a clear path to avoid designation or re-designation. From a prudential regulatory perspective, this would create a strong incentive to voluntarily de-risk and would foster greater financial stability.</p> <p>More detail on our proposed approach to assessment can be found in the slide deck shared with IAIS principals prior to the submission of these comments.</p>
Property Casualty Insurers	USA	No	<p>Reinsurance should be given a far smaller weighting, if any, than derivatives. Some derivative (non-hedging) use has been clearly linked to systemic risk, while there is no clear evidence (especially for non-life business) that reinsurance creates any systemic risk.</p>

Association of America (PCI)			<p>The weighting of intra-financial assets should also be lower than that for derivatives.</p> <p>Level 3 assets should be moved out of Phase 1 and into Phase 2 for qualitative review. Level 3 assets can be very heterogeneous and the specific kind of asset should be carefully considered.</p>
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	<p>Non-traditional, non-insurance activities receive the highest weight in the G-SII assessment methodology. However, the IAIS is still in the process of more clearly defining non-traditional insurance with sufficient clarity for there to be consistency in its application across jurisdictions. The IAIS should consider whether additional consistency can be achieved by referencing accounting guidance e.g., for embedded derivatives, which bi-furcate the macro-economic guarantee from the host insurance policy. However, accounting differences between jurisdictions in the treatment of embedded derivatives would need to be adjusted.</p> <p>Non-insurance ranges from asset management to industrial activities, but the FSB and IOSCO have not yet completed the assessment methodology and potential designation of non-bank, non-insurance global systemically important financial institutions. Once completed, this work should also further inform the G-SII analysis for non-insurance risks.</p>
<p><b>11 - Will the responsiveness of the derivatives indicator in the interconnectedness category be improved by using other data such as an appropriate net fair value figure (either positive or negative)? If so, what are more appropriate data and what is the appropriate way to use such data to measure or understand the interconnectedness caused by derivatives transactions? Should the IAIS measure interconnectedness with respect to derivatives transactions in the same manner as the BCBS? Please explain your answer.</b></p>			
CLHIA	Canada	No	<p>As discussed in our answer to Question 9, speculative derivative trading is expected to be de minimus for insurers and derivatives related to traditional hedging activities and risk mitigation should be excluded. Additionally, risk mitigation from collateral and clearing should be recognized.</p> <p>A number of alternative measures are still being debated by our membership.</p>
China Insurance Regulatory Commission	China	No	<p>We suggest, other than notional values, IAIS analyze the potential losses of various derivative types. The potential losses are more appropriate to reflect the expected financial impact to the market.</p>
Insurance Europe	Europe	No	<p>Irrespective of the technical implications of raising meaningful data on derivatives, the more important question is what economic purpose derivatives serve. GFIA understands that derivatives traded for profit (speculative) reasons are addressed in the NTNI category as far as CDS sold are concerned, whereas other profiles will be assessed in Phase III of the evaluation.</p> <p>The derivatives addressed in the interconnectedness category are part of a hedging strategy determined to secure market positions or policyholder options. The use of derivatives for hedging purposes is part of the asset-liability management of insurers, intended to mitigate risks rather than amplifying them. Therefore, these transactions should not be considered systemically risky at all and the framework should consider how risk is managed through regulatory initiatives such as Dodd-Frank, the European Market Infrastructure Regulation (EMIR), and collateral mechanisms.</p> <p>The derivatives indicator should be improved to focus on potentially systemic activity. A first step would be to distinguish</p>

			<p>between derivatives used for replicating, hedging and trading and pure speculations. Vanilla derivatives used to better match liabilities should be stripped out. Risk mitigation from collateralisation and clearing should also be fully acknowledged.</p> <p>Gross notional value of derivatives held is considered an indicator of interconnectedness. In GFIA's view, the IAIS should focus on the net fair value of the derivative activity it considers as NTNI and exclude derivatives used for what are deemed traditional purposes from the assessment methodology. Where there are specific positions where gross notional materially misrepresents the risk, these should be netted down.</p>
Insurance Europe	Europe	No	<p>Irrespective of the technical implications of raising meaningful data on derivatives, the more important question is what economic purpose derivatives serve. Insurance Europe understands that derivatives traded for profit (speculative) reasons are addressed in the NTNI category as far as CDS sold are concerned, whereas other profiles will be assessed in Phase III of the evaluation.</p> <p>The derivatives addressed in the interconnectedness category are part of a hedging strategy determined to secure market positions or policyholder options. The use of derivatives for hedging purposes is part of the asset-liability-management of insurers intended to mitigate risks rather than amplify them. Therefore, these transactions should not be considered systemically risky at all and the IAIS approach should appropriately reflect the outcomes of the G-20 derivatives reform that was aimed precisely at addressing systemic risk concern in the derivatives market.</p> <p>The derivatives indicator should be improved to focus on potentially systemic activity that has not already been addressed by regulation triggered by the G-20 derivatives reform. A first stage would be to distinguish between derivatives used for replicating, hedging and trading and pure speculations. Vanilla derivatives used to better match liabilities should be stripped out. Risk mitigation from collateralisation and clearing should also be fully acknowledged.</p> <p>Gross notional value of derivatives held is considered an indicator of interconnectedness. In Insurance Europe's view, the IAIS should focus on the net fair value of the derivative activity it considers as NTNI and exclude derivatives used for what are deemed traditional purposes from the assessment methodology.</p> <p>Where there are specific positions where gross notional materially misrepresents the risk, these should be netted down. Example: equity futures, where a fund can have a long and a short position with the exchange where the risk is fully offsettable. When using gross notional values the positions would be added together to show a big risk, rather than netted off, as they are offsettable at all times.</p> <p>Some other considerations:</p> <ul style="list-style-type: none"> <li>- When insurers buy options, they will be exposed to counterparties and not the other way around.</li> <li>- Use of collaterals is a mitigating factor to the exposure that a counterparty may have to insurers.</li> <li>- The derivatives indicator should be improved to focus on potentially systemic activity only. The current approach will disincentivise the use of derivatives to ensure assets held by insurers better match their liabilities. In addition, it makes no account of the type of derivative assets so that a one week FX hedge to fix a dividend cash flow is treated the same as a</li> </ul>

			Collateralised Debt Obligation (CDO).
European Insurance and Occupational Pensions Authority	European Union	No	A methodology consistent with the BCBS methodology for G-SIBs could be adopted, for the sake of cross-sector consistency (avoid regulatory arbitrage). However it should be noted that the BCBS methodology also captures notional amount outstanding of OTC derivatives in their Complexity category. To ensure an alignment, attention needs to be given to the BCBS approach on both these areas (Interconnectedness and Complexity).
GDV - German Insurance Association	Germany	No	Irrespective the technical implication of raising meaningful data on derivatives, the more important question is what economic purpose derivatives are supposed to serve. We understand that derivatives traded for profit reasons are addressed in the NTNI-category as far as CDS sold are concerned, while other profiles will be assessed in Phase III of the evaluation. Accordingly, derivatives addressed in the interconnectedness category are part of a hedging strategy determined to secure market positions or policyholder options. The use of derivatives for hedging purposes is an indispensable part of the asset-liability-management of insurers intended to mitigating risks instead of amplifying them. Therefore, these transactions should not be considered systemically risky at all.
Munich Re	Germany	No	We may refer in this context to the CRO-Forum publication "NTNI from a CRO Forum perspective (February 2013) p. 11." "Insurers use derivatives for two primary purposes: ? Hedging activities: Use of interest rate, equity and, to a limited extent, credit derivatives to hedge investment and reinvestment risks. This is a core activity for insurers, especially for life and health insurers. Insurers are liability-based investors who use derivatives to execute effective Asset Liability Management programs; ? Yield enhancement: These activities are speculative in nature and, without the underlying asset in the portfolio or a natural hedge, can increase the effective leverage of the firm. They are in principle not different from the trading activities of banks and are therefore usually closely monitored and limited by the respective insurance regulators. Potential systemic impact of derivatives activities of insurers: The derivatives activities of insurers can cause market disruption (i.e. adversely impact other financial institutions) only if: ? The insurer defaults as counterparty (i.e. is not able to meet its obligations under the contract), irrespective of the purpose for which the derivative is used (also a hedge derivative can have a negative fair value), and; ? The net open derivatives positions are of such size that many market participants would suffer significant losses from the insurer's default. The default risk arising from derivatives liabilities which can generate a spillover of significant losses to other financial institutions, should be or is addressed by the FSB by regulating the derivatives market (e.g. by requiring a centralized clearing with daily margin calls for derivatives which so far have been traded over the counter (OTC)). We agree with the IAIS that it makes a fundamental difference whether an insurer uses derivatives for hedging or for speculation purposes: ? Speculative positions increase the risk exposure of an insurer, while hedging positions reduces it; ? Speculative positions can be entered without any limit, while hedging positions are limited by the amount of the hedged items; ? The unwinding of a derivatives market making or trading business is typically more complicated than the unwinding of hedging positions and trading and investment making are not the traditional business of insurance companies."  Munich Re supports CRO-Forum's position and suggests to modify the individual indicator "derivatives" considering the

			<p>position and to drop the individual indicator "derivatives" from the NTNI category to avoid double counting.</p> <p>To measure a possible counterparty default we would suggest to implement a Credit Equivalent Exposure method which measures the maximum between the market value of an derivative or zero and adds the multiplication of an add-on factors (which could be similar to the add in factors which Basel III uses) with the nominal value.</p> <p>Further we would suggest in this category to benchmark the derivative positions against the total market. Through such a comparison an assessment can be made of whether an insurer is relevant for the global financial system or not.</p>
Global Federation of Insurance Associations	Global	No	<p>Irrespective of the technical implications of raising meaningful data on derivatives, the more important question is what economic purpose derivatives serve. GFIA understands that derivatives traded for profit (speculative) reasons are addressed in the NTNI category as far as CDS sold are concerned, whereas other profiles will be assessed in Phase III of the evaluation. The derivatives addressed in the interconnectedness category are part of a hedging strategy determined to secure market positions or policyholder options. The use of derivatives for hedging purposes is part of the asset-liability management of insurers, intended to mitigate risks rather than amplifying them. Therefore, these transactions should not be considered systemically risky at all and the framework should consider how risk is managed through regulatory initiatives such as Dodd-Frank, the European Market Infrastructure Regulation (EMIR), and collateral mechanisms.</p> <p>The derivatives indicator should be improved to focus on potentially systemic activity. A first step would be to distinguish between derivatives used for replicating, hedging and trading and pure speculations. Vanilla derivatives used to better match liabilities should be stripped out. Risk mitigation from collateralisation and clearing should also be fully acknowledged. Gross notional value of derivatives held is considered an indicator of interconnectedness. In GFIA's view, the IAIS should focus on the net fair value of the derivative activity it considers as NTNI and exclude derivatives used for what are deemed traditional purposes from the assessment methodology. Where there are specific positions where gross notional materially misrepresents the risk, these should be netted down.</p>
Institute of International Finance/ The Geneva Association	Global	No	<p>- Members have provided a couple of options to consider as appropriate measures to capture the interconnectedness caused by derivatives transactions:</p> <ol style="list-style-type: none"> <li>1. Net fair value, as this measure would best align the measurement of interconnectedness through derivatives with the BCBS method on this category.</li> <li>2. Net notional values, as this indicator is less volatile than the net fair value of derivatives;</li> <li>3. The potential future exposure (PFE) netted per counterparty, where legally enforceable, minus placed collaterals. PFE is the peak replacement cost in "worst case" scenario, measured using a minimum 10-day holding period at a 99th percentile one-tailed confidence interval;</li> </ol> <p>- Regardless of the measure chosen, it is critical to reach a sufficient level of granularity, and the derivatives indicator should be improved to focus on potentially systemic activity. The current approach will disincentivize the use of derivatives to ensure assets held by insurers better match their liabilities. In addition it makes no account of the type of derivatives assets so that a 1 week FX hedge to fix a dividend cash flow is treated the same as a CDO.</p> <p>- A first stage would be to distinguish between derivatives used for replicating, hedging and trading and pure speculation. Derivatives used to better match liabilities (typically vanilla interest rate swaps and swaptions) should be stripped out. Where insurers buy options, they will be exposed to counterparties and not the other way around, as options will not be in the money for counterparties who sell them. The use of derivatives for efficient portfolio management is traditional activity and it reduces</p>

			<p>risk. The products used are such that even in the event of a counterparty default it would be easy to replace them, and with the move to central clearing this will improve still further.</p> <ul style="list-style-type: none"> <li>- More generally options used to reduce risks should be excluded if there is a liquid market for them (e.g. vanilla FX and equity forwards, futures, calls and puts used for risk reduction)</li> <li>- Risk mitigation from collateralisation and clearing, e.g. under EMIR &amp; Dodd Frank, should also be fully acknowledged. Risk assessment and the designation process should not be done in isolation of existing risk management and regulatory frameworks specifically designed to mitigate risk.</li> <li>- The IAIS should therefore focus on the derivative activity it considers falls within the scope of NTNI and exclude uses of derivatives for what are deemed traditional purposes from the assessment methodology.</li> <li>- The indicator for derivatives in the G-SII methodology should be based on an absolute reference value reflecting the use of derivatives in the entire financial system, in order to appropriately reflect the proportionality between derivatives held by insurers and other actors in the system.</li> <li>- More generally, we believe that qualitative information on derivative use and risk management needs to be carefully considered, and that it can be gained from firms Systemic Risk Management Plans (where firms are required to prepare them) and/or dialogue with firms as part of the assessment process.</li> </ul>
AIA Group	Hong Kong	No	<p>Net fair value is not the best indicator as it is very volatile and can swing between positive and negative radically. A better indicator of the interconnectedness is mentioned above in the answer to Q9.</p>
Global Reinsurance Forum	International	No	<p>The notional value of derivatives does not reflect the true underlying risks. Instead, the IAIS should consider the current exposure to a derivative counterparty adjusted to reflect legally enforceable netting (e.g. - via ISDA agreements) and collateral arrangements.</p>
on behalf of the European GSIs, Aegon, Allianz, Aviva, Axa and Prudential	International	No	<ul style="list-style-type: none"> <li>- Yes, net fair value would be more appropriate than gross notional value. The alignment of interconnectedness via the derivatives measurement with the BCBS method on this category with the use of market values.</li> <li>- It is critical to reach a sufficient level of granularity, and the derivatives indicator should be improved to focus on potentially systemic activity. The current approach will disincentivise the use of derivatives to ensure assets held by insurers better match their liabilities. In addition it makes no account of the type of derivatives assets so that a 1 week FX hedge to fix a dividend cash flow is treated the same as a CDO.</li> <li>- A first stage would be to distinguish between derivatives used for replicating, hedging and trading and pure speculation. Derivatives used to better match liabilities (typically vanilla interest rate swaps and swaptions) should be stripped out. Where insurers buy options, they will be exposed to counterparties and not the other way round as options will not be in the money for counterparties who sell them The use of derivatives for efficient portfolio management is traditional activity and it reduces risk. The products used are such that even in the event of a counterparty default it would be easy to replace them, and with the move to central clearing this will improve still further.</li> </ul>

			<ul style="list-style-type: none"> <li>- More generally options used to reduce risks should be excluded if there is a liquid market for them (e.g. vanilla FX and equity forwards, futures, calls and puts used for risk reduction)</li> <li>- Finally where there are specific positions where gross notional materially misrepresents the risk, these should be netted down. An example is with equity futures, where a fund can have a long and a short position with the exchange where the risk is fully offsettable. Under Gross notional - the positions would be added together to show a big risk, rather than netted off as they are offsettable at all times.</li> <li>- Risk mitigation from collateralisation and clearing, e.g. under EMIR &amp; Dodd Frank should also be fully acknowledged. Risk assessment and the designation process should not be done in isolation of existing risk management and regulatory frameworks specifically designed to mitigate risk.</li> <li>- The IAIS should therefore focus on the net fair value of derivative activity it considers falls within the scope of NTNI and exclude uses of derivatives for what are deemed traditional purposes from the assessment methodology.</li> <li>- More generally, we believe that qualitative information on derivative use and risk management needs to be carefully considered, and that it can be gained from firms Systemic Risk Management Plans (where firms are required to prepare them) and/or dialogue with firms as part of the assessment process.</li> </ul>
General Insurance Association of Japan	Japan	No	<ul style="list-style-type: none"> <li>- As opposed to the currently used gross notional value, net fair value and negative net fair value are more appropriate options that could be considered. When net fair value is used, the amount of cash collateral should be deducted to enable a more appropriate assessment.</li> <li>- Even if notional value continues to be used as a data element, such value should be the net amount of transactions with the same counterparties where changes in fair value can be offset with each other (e.g. long and short positions of Nikkei 225 futures).</li> </ul>
Swiss Re	Switzerland	No	The notional value of derivatives does not reflect the true underlying risks. Instead, the IAIS should consider the current exposure to a derivative counterparty, adjusted to reflect legally enforceable netting (e.g. via ISDA agreements) and collateral arrangements.
Aegon N.V.	The Netherlands	No	<p>Derivatives are useful for insurers in managing risk exposures and allow risks to be absorbed by multiple players in the financial system. The derivatives indicator could benefit from at least two significant refinements:</p> <ul style="list-style-type: none"> <li>- The indicator should be determined on a net basis. Derivatives contracts entered into by insurers are generally supported by an ISDA master service agreement, which provides for the netting of settlement payments.</li> <li>- It should give the most weight to uncollateralized derivatives in order to properly reflect regulatory changes such as EMIR and Dodd-Frank that have mitigated the potential systemic impact of derivatives markets. Collateralization should be viewed as mitigating systemic risk.</li> </ul>
KPMG	UK	No	This will always be a difficult question, as the fair value will in many instances be the most appropriate figure, but in others (such as CDS) the notional exposure will be more relevant. It may be helpful to capture both metrics.

Prudential plc	UK	No	<p>When insurers hedge using derivatives, interconnectedness may be introduced, which has been identified as a channel for transmission of systemic risk. However, when considering interconnectedness it is important to also consider whether the exposure will be from the insurer to the system or from the system to the insurer. When insurers buy options, they are exposed to the banks and not the other way around. Therefore, the failure of the insurer will not lead to any direct losses for the bank. Further, it is also important to consider the derivatives market reforms that have been undertaken since the financial crisis that focus on mitigating the risk of interconnectedness via collateral mechanisms and exchange traded derivatives.</p> <p>A net fair value is a better indicator of interconnectedness than notional values but it can be a volatile measure. We also believe that the potential future exposure (PFE) as used by the BCBS is a good measure as it indicates a stress scenario for counterparty exposure. In both cases, the exposure should be netted per counterparty, where legally enforceable, minus placed collaterals. We also believe that derivative options purchased by insurers should be excluded as these do not create exposure for the counterparty but only create exposure for the insurer purchasing the option.</p>
Allstate Insurance Company	United States	No	<p>In terms of evaluating the exposure to derivatives, a measure that considers the net fair value of current positions does not consider the true systemic economic exposure which is represented by the notional value which measures the total potential exposure in the most extreme circumstances.</p>
American Council of Life Insurers	United States	No	<p>Total derivatives traded and/or held is not a measure of potential systemic risk exposure. For example, some CDS are used purely for hedging or replication. Using Gross Notional Value to measure derivatives severely overstates the risk to both the insurer and its counterparties. Derivative exposure should be netted by counterparty and be measured net of collateral. The net amount provides a fairer representation of the risk to the insurer and overall financial system.</p> <p>In 2015, the IAIS recognized that most CDS used by insurers is bought protection; the same study cited by the IAIS also showed that the remaining CDS were used for replication purposes. According to the 2015 Global Insurance Market Report (GIMAR), the use of CDS continues to be "relatively modest within the insurance legal entities - of which 47% is bought protection." Studies have also shown that most insurers electing to sell protection are engaging in replication, effectively packaging sold CDS positions with U.S. Department of the Treasury securities or other bonds in their portfolios to create synthetic securities that give them desired risk exposures and terms, irrespective of any availability, liquidity and price constraints they may face in the cash bond markets. (NAIC Capital Markets Special Report, August 2015).</p> <p>Also, the potential systemic risk exposure must consider credit support and collateral agreements that are frequently risk offsets to exposures to counterparties, transmitted, and some other risks.</p>
Prudential Financial, Inc.	United States of America	No	<p>A net fair value approach would be an excessively volatile measure. We believe notional values would be more appropriate.</p> <p>The use of derivatives to hedge and manage risk has become a key tool for insurers in the modern economy and financial system, enabling insurers to offer valuable coverage to policyholders while effectively managing the associated market risks. The IAIS must recognize this and take a more nuanced approach toward treatment of derivatives in their policy measures - one that targets speculative use, poor management or under collateralization of derivative exposures while incentivizing the appropriate and legitimate use of derivatives for asset-liability management and hedging to reduce the potential for distress or disorderly failure. In addition the type of derivative must also be taken into consideration with only those that would result in a firm transmitting systemic risk to the market being penalized. In this regard, the IAIS must explain and demonstrate how an</p>



			insurers derivative usage for hedging or ALM purposes transmit risk to the global financial system considering the various reforms in derivatives markets the G20 / FSB have advanced since the Financial Crisis.
MassMutual Financial Group	USA	No	<p>Derivative exposure in the interconnectedness category should be netted by counterparty and measured net of collateral. Using gross notional value to measure derivatives severely overstates the economic risk to both the insurer and its counterparties and therefore we believe it is inappropriate to use for this purpose. We propose that a more appropriate starting place to measure interconnectedness risk from derivative exposure is by netting notional values by counterparty and additionally netting collateral against the exposure.</p> <p>We believe net notional amounts by counterparty provide a fairer representation of the microprudential risk of default of an insurer. For bilateral transactions, an insurer and its derivative counterparties generally enter into master netting agreements that allow the use of credit support annexes and require collateral to be posted in the amount owed under each transaction, subject to certain minimums. Additionally, for over-the-counter cleared derivative transactions, the parties enter into a series of master netting and other agreements that govern, among other things, clearing and collateral requirements. These transactions are cleared through a clearinghouse and each derivative counterparty is only exposed to the default risk of the clearinghouse.</p> <p>It is also important to note that under these agreements collateral is posted daily based on the change in the derivative market value. Additionally, when a security is posted as collateral, the security is actually transferred from one custody account to another, and so the counterparty, or the company, has the security collateral in their possession. Accordingly, we believe that using a gross notional value ignores these mitigations of risk and severely overstates the exposure between the insurer and counterparties and the overall financial system.</p>
MetLife, Inc.	USA	No	We believe that PFE (potential future exposure) is the best metric for assessing the potential systemic relevance of derivatives activities. Please see our response to Question 9 above.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	<p>Insurance firms engage significantly in interest rate swaps which may be more meaningfully measured using negative fair value rather than gross notional amount which is currently used in the methodology. In this case, gross derivative liabilities may be preferred as netting is inconsistent. However, fair value may understate the risk for other derivatives e.g., credit default swaps protect from principal default and total return swaps from principal and interest loss. For these instruments, gross notional is preferred to fair value.</p> <p>The IAIS may consider these additional options which can be gleaned from other regulatory approaches: BCBS uses the over-the-counter notional value of derivatives as an indicator. The U.S. Financial Stability Oversight Council uses a fair value of \$3.5 billion of derivative liabilities as one of the thresholds for Stage 2 analysis.</p>
<b>12 - How can the reliability and responsiveness of any indicator, including those mentioned above, be further improved, modified or revised for the Proposed Methodology?</b>			
CLHIA	Canada	No	We reiterate our response to Question 2. The arguments for the benefits of absolute values are so compelling that we recommend the use of absolute values wherever possible.
China Association of Actuaries	China	No	<p>We reckon that under current approach the regulated banking activities are excessively spotlighted (referring to our feedback on question 10).</p> <p>We would recommend IAIS to separate regulated banking activities in GSII Methodology as in HLA requirement (given that</p>

			<p>those activities are effectively ring fenced from each other). Specifically, the current approach could be modified to achieve a final GSII score by combining the following:</p> <ol style="list-style-type: none"> <li>1. G-SIB score on the regulated banking activities component;</li> <li>2. Score to assess the systemic importance of non-regulated banking (such like shadow banking) activities;</li> <li>3. Score to assess the systemic importance of non-banking activities.</li> </ol> <p>We suppose by doing so the rationale of assessing banking activities would be consistent between GSII Methodology and HLA application (as well as GSIB methodology), so that supervisory arbitrage could be avoided.</p>
Insurance Europe	Europe	No	<p>GFIA believes that some of the transactions listed as content for indicators that remain in the proposed methodology may not always provide relevant information for the purposes of assessing insurers' exposures to systemic risk. When the outcome is apparently irrelevant to the rationales for data collection, the IAIS should communicate with group-wide supervisors to determine exclusions of such indicators from data collection. In particular, GFIA would highlight that:</p> <ul style="list-style-type: none"> <li>* The short-term funding indicator should be improved to focus on potentially systemic activity related to securities lending rather than measuring all securities lending (ie focus on securities lending used for maturity transformation and collateral hypothecation, and exclude "vanilla" securities lending which is not NTNI). For example, data should be collected for the short-term funding indicator only when collateral received is directly reinvested.</li> <li>* Regarding liability liquidity, there needs to be a distinction between the theoretical possibility of surrender and actual expected behaviour as the policyholders will have other associated benefits which are valuable (eg insurance cover, guarantees).</li> <li>* The level 3 asset indicator should be removed as it does not take into account the asset-liability management or insurers' long-term investment role. For example, level 3 assets may be backing non-liquid liabilities and therefore in such circumstances there can be no fire sale concerns. Therefore, if the indicator were to be retained, where level 3 assets are held to back non-liquid liabilities they should be excluded.</li> <li>* Intra-financial assets expose insurers to systemic risk, but do not create systemic risk. The IAIS argument that there may be a fire sale of these assets seems exaggerated in the context of creating systemic risk.</li> </ul>
Insurance Europe	Europe	No	<p>Insurance Europe would challenge the relevance or the way in which some of the indicators are used in assessing systemic risk:</p> <p>The short term funding indicator should be improved to focus on potentially systemic activity related to securities lending rather than measuring all securities lending. The IAIS methodology document recognises that there are types of short term funding arrangements that are "vanilla" and carried out within traditional businesses without creating risks. For example, "if the cash collateral from the repurchase agreement or securities lending transaction is reinvested in liquid, high credit quality assets, and if the security lent or put out on a repo is liquid, then the activity is traditional. However, if the reinvestment is in long-term, or low credit quality or illiquid securities then the risks are sufficient for the activities to be deemed NTNI. Moreover, if low credit quality or illiquid assets are used for securities lending or in repurchase agreements, then the risks are sufficient to be deemed NTNI." It is therefore important that for securities lending within the short term funding indicators that the data collected focuses on securities lending used for maturity transformation and collateral hypothecation, and excludes "vanilla" securities lending which the IAIS's accepts is not NTNI. If for some reason this distinction cannot be operated, the IAIS should at least introduce a threshold recognising that, below a level of activity, short term funding and securities financing transactions are legitimate and unproblematic operations of insurers in the context of liquidity management.</p>

			<p>Regarding liability liquidity, there needs to be a distinction between the theoretical possibility of surrender and actual expected behaviour as the policyholders will have other associated benefits which are valuable (e.g. insurance cover, guarantees). The reliability of the indicator could be improved by taking a net view of asset and liability liquidity, which tie into asset-liability management, a critical component of proper insurance risk management. For instance, when the investments are clearly allocated to the policyholder, the liquidity constraint should be defined as the net position between the surrender value and the liquid assets available to pay the surrender value, and not as the full surrender value.</p> <p>In the appendix, where the rationale for choice of indicators is described, with respect to minimum guarantees on variable insurance products the consultation paper states the following: "variable insurance products (including variable annuities and unit linked products with capital protection) most often include some type of guaranteed levels of payment to policyholders: attempting to pay guaranteed amounts could accelerate asset sales by an insurer and exacerbate already distressed market conditions". Insurance Europe disagrees with this statement: guarantees on variable annuities and unit-linked products are generally not provided on surrender and payments on account of guarantees will usually be foreseen. Therefore, the presence of guarantees doesn't create any risk of acceleration of asset sales in distressed market conditions.</p> <p>The level 3 asset indicator should be removed as it does not take into account the asset-liability management or insurers' long-term investment role. For example, level 3 assets may be backing non-liquid liabilities and therefore in such circumstances there can be no fire sale concerns. Therefore, if the indicator were to be retained, where level 3 assets are held to back non-liquid liabilities they should be excluded.</p> <p>Intra-financial assets expose insurers to systemic risk but do not create systemic risk. The IAIS argument that there may be a fire sale of these assets seems therefore exaggerated in the context of creating systemic risk. This indicator should be removed.</p>
European Insurance and Occupational Pensions Authority	European Union	No	<p>EIOPA believes that the reliability and quality of the data submitted to IAIS by prospective G-SIIs could be largely improved through the introduction of a market discipline element in the designation framework, as proposed in our answers to the relevant questions.</p> <p>Prospective G-SIIs (above a certain threshold) should be required to disclose publicly the results of their calculations for all the indicators which compose Part II of the IAIS methodology.</p>
GDV - German Insurance Association	Germany	No	<p>Referring to the indicators mentioned in paragraph 29, we reiterate our view that Level 3 assets do not require special attention in terms of systemic risk. The insurance business model relies on a balanced matching of assets and liabilities which actually prevents insurers from fire sales to comply with their contractual obligations. In any event, absolute reference values should be used for level 3 assets and we encourage the IAIS to explore on ways to collect absolute reference values to better understand the potential systemic impact of these activities.</p>
Munich Re	Germany	No	<ul style="list-style-type: none"> <li>- Short-term funding indicator: We would suggest to use absolute reference values, which show the potential systemic impact of these activities.</li> <li>- Level 3 assets indicator (to be deleted): We do not see additional value in the connection between fire sales and level 3 assets (we also refer to the very strict prudential regulation of assets under Solvency II).</li> <li>- Liability liquidity indicator (to be modified): In the (Re)insurance industry we do not see the risk of an "insurance run". In</li> </ul>

		<p>general regarding the speed of contagion, (Re)insurance claims are much slower than the margin call, collateral and depositor claims on banks. In many cases, large insurance claims are based on multiple policies, court judgements, and individual claimants, and therefore take several years to be settled. The slow pace of failure increases substitutability by providing the time required to rebuild industry capital and capacity.</p> <p>But in context of liability liquidity there are some aspects which might be systemically relevant. This would be an appropriate method to measure systemic relevance.</p> <ul style="list-style-type: none"> <li>o Callable liability: It should be recognized in the G-SII methodology. As stated in the NTNI-paper, a liability with a cancellation clause and that could be called with or without penalties adds to a (re)insurer's systemic riskiness.</li> <li>o Products designed with savings elements for the benefit of the customer (in German: "Sparprodukte"): Recognition of these products which could cause the unrealistic scenario of an "insurance run" are not covered by (local) protective mechanisms (e.g. Protector or Medicator) and have to be paid in a short time.</li> </ul> <p>We further suggest to implement a reference value which measures the liability liquidity of a single insurance company in relation to the whole market.</p> <ul style="list-style-type: none"> <li>- Minimum guarantees on variable insurance products (to be deleted): It is the core nature of an (re)insurance company to bear risks and to make promises to pay the customer. These promises to pay could be considered guarantees. For the most part, they do not add to a (re)insurer's profile for systemic risk. However, it cannot be easily distinguished between "good" and "bad" guarantees. This would require special risk analyses which is already part of the risk management process e.g. subject to internal reviews and approval processes, including the quantification and establishment of adequate risk capital.</li> </ul> <p>Regarding the Indicators not mentioned above we have following comments:</p> <p>Category Interconnectedness:</p> <ul style="list-style-type: none"> <li>- Turnover (to be deleted): In our understanding this ratio measures the frequency of trading activities of a (re-)insurance company. We do not see additional value of this individual indicator in the context of systemically relevance. So we suggest to delete this indicator from the list.</li> </ul> <p>Category NTNI:</p> <p>Comments on the current identifiers in the G-SII methodology: Regarding the considerations above we suggest to modify or delete the individual indicators of the NTNI-category as follows:</p> <ul style="list-style-type: none"> <li>- Non-policy holder liabilities and non-insurance revenues (to be deleted): Liabilities and revenues are not an adequate method to measure the relevance of systemic relevance. A liability or a revenue is not an indicator for systemic risk, which could be covered e.g. in a single contract. Systemic relevant liabilities (new indicator): This indicator should measure the systemic relevant events which can cause a financial distress scenario in an insurance company with big positions and the resulting impact on a counterparty: <ul style="list-style-type: none"> <li>o Liabilities, which are triggered in a financial distress scenario. Under Solvency II we would recognize Tier 2 or Tier 3 capital or hybrid capital.</li> <li>o Recognition of downgrade clauses: We suggest recognising margin calls stemming from collateral agreements with downgrade clauses (e.g. LoC) and considering these instruments as an additional transmission channel, to the extent they</li> </ul> </li> </ul>
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			<p>have not been adequately taken into account in the liquidity risk management.</p> <ul style="list-style-type: none"> <li>- Derivative trading (to be deleted in this category): Please refer to the comments of the derivative indicator above.</li> </ul>
Global Federation of Insurance Associations	Global	No	<p>GFIA believes that some of the transactions listed as content for indicators that remain in the proposed methodology may not always provide relevant information for the purposes of assessing insurers' exposures to systemic risk. When the outcome is apparently irrelevant to the rationales for data collection, the IAIS should communicate with group-wide supervisors to determine exclusions of such indicators from data collection. In particular, GFIA would highlight that:</p> <ul style="list-style-type: none"> <li>- The short-term funding indicator should be improved to focus on potentially systemic activity related to securities lending rather than measuring all securities lending (ie focus on securities lending used for maturity transformation and collateral hypothecation, and exclude "vanilla" securities lending which is not NTNI). For example, data should be collected for the short-term funding indicator only when collateral received is directly reinvested.</li> <li>- Regarding liability liquidity, there needs to be a distinction between the theoretical possibility of surrender and actual expected behaviour as the policyholders will have other associated benefits which are valuable (eg insurance cover, guarantees).</li> <li>- The level 3 asset indicator should be removed as it does not take into account the asset-liability management or insurers' long-term investment role. For example, level 3 assets may be backing non-liquid liabilities and therefore in such circumstances there can be no fire sale concerns. Therefore, if the indicator were to be retained, where level 3 assets are held to back non-liquid liabilities they should be excluded.</li> <li>- Intra-financial assets expose insurers to systemic risk, but do not create systemic risk. The IAIS argument that there may be a fire sale of these assets seems exaggerated in the context of creating systemic risk.</li> </ul>
Institute of International Finance/ The Geneva Association	Global	No	<p>The following indicators can be improved.</p> <p><b>SHORT TERM FUNDING INDICATOR</b></p> <ul style="list-style-type: none"> <li>- The short term funding indicator should be improved to focus on potentially systemic activity related to securities lending rather than measuring all securities lending.</li> <li>- It is important that the measures used in the data collection exercise for the assessment methodology focus on activity that could lead to the transmission of risk. For example, the IAIS defines short term funding (STF) as "the sum of Short term borrowing, commercial paper issued, certificate of deposits issued, collateral received from REPOs and Securities lending". The IAIS's initial assessment methodology (18 July 2013) states that these activities "indicate the extent to which an insurer could be involved in maturity transformation [with] a large degree of short term funding [being] a feature of financial institutions involved in maturity transformation". Further the document suggests that larger than normal STF "could signal an insurer venturing into [maturity transformation] and assuming the liquidity risk that comes with it, including the potential for fire sales of assets". However, while this broad ranging definition has been used as a driver for designation as a G-SII, the IAIS methodology document recognises that there are types of STF arrangements that are vanilla and carried out within traditional businesses without creating the risks described above. For example, "If the cash collateral from the repurchase agreement or securities lending transaction is reinvested in liquid, high credit quality assets, and if the security lent or put out on a REPO is liquid, then the activity is traditional. However if the reinvestment is in long-term, or low credit quality or illiquid securities then the risks are sufficient for the activities to be deemed NTNI. Moreover if low credit quality or illiquid assets are used for securities lending or in repurchase agreements, then the risks are sufficient to be deemed NTNI."</li> <li>- The IAIS should consider carefully how indicators that measure funding, and lending of securities to financial counterparties should be reflected within an overall framework designed with an objective to incentivise G-SIIs to become less systemically</li> </ul>

			<p>important, and give non-G-SIIs strong disincentives from becoming G-SIIs. It is important that incentives are aligned with the desired outcome for financial stability. If there is a perception that risks could be transmitted to financial counterparties through withdrawing from funding them, and lending them securities then the assessment methodology should not disincentivize insurers from doing so as this would appear to be counterproductive.</p> <p>- It is therefore important for securities lending, within the short term funding indicators for the designation methodology, that the data collection focuses on securities lending used for maturity transformation and collateral hypothecation, and excludes vanilla securities lending, which the IAIS's policy paper accepts is not NTNI.</p> <p><b>LEVEL 3 ASSET INDICATOR</b></p> <p>- We prefer to exclude level 3 (L3) assets from the G-SII assessment methodology, as these assets do not transmit systemic risk to the broader financial system and therefore should be removed from the assessment. Level 3 assets are not a suitable indicator for potential fire sale risk as assets and liabilities cannot be viewed in isolation. Level 3 assets may be backing non-liquid liabilities and therefore in such circumstances fire sale concerns do not arise. However, if the IAIS were to keep L3 assets in the methodology, we suggest the following issues would be relevant for implementation.</p> <p>- The IAIS defines L3 assets as those "based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement".</p> <p>- The IAIS's initial assessment methodology (18 July 2013) states that these activities "indicate the potential scale of fire sales of illiquid assets by an insurer in distressed financial market situations". Further the document suggests that a high proportion of L3 assets "could point towards insurers that are more active in markets for complex assets than is normal for a traditional insurance business".</p> <p>- In considering the potential for Level 3 assets to pose a risk of fire sales, it is important to consider the liquidity of the liabilities that they are matching.</p> <p>- There is widespread recognition of the importance of investment in boosting demand and lifting productivity in the global economy and infrastructure investment is one source of such investment that policymakers have focused on. Consequently there is a need to ensure that the designation methodology does not inappropriately disincentivize long term investment by insurers in infrastructure. To this end, level 3 assets that are held to back illiquid liabilities should be excluded from the measure of L3 assets in the designation methodology.</p>
AIA Group	Hong Kong	No	We have no suggestions in this regard.
Global Reinsurance Forum	International	No	<p>In general, we welcome any efforts of the IAIS to use market-level indicators, as these are a better indicator of systemic risk than using indicators whose denominator is taken from the potential G-SII sample.</p> <p>Short-term funding indicator: Further, the short-term funding indicator should be improved to focus only on funding activities that may lead to systemic risk. In particular, the indicator should exclude securities lending activities where the cash collateral from the repurchase agreement or securities lending transaction is reinvested in liquid, high credit quality assets, and if the</p>

			<p>security lent or put out on a repo is sufficiently liquid.</p> <p>Level 3 assets indicator: The IAIS argument that there may be a fire sale of these assets seems exaggerated in the context of creating systemic risk. In considering the potential for Level 3 assets to pose a risk of fire sales, it is important to consider the duration of the liabilities that they are matching and whether policyholders have the ability to surrender. We also refer to the very strict prudential regulation of assets under various local regulatory regimes.</p> <p>Liability liquidity indicator: (Re)insurance claims are much slower than claims on banks. Large insurance claims are often paid after a thorough assessment of losses and therefore may take several years to be settled. The slow pace of failure increases substitutability by providing the time required to rebuild industry capital and capacity. The only potential risk addressed by this indicator involve potential cancellation clauses, as addressed in the IAIS consultation document on NTNI activities and products from November 25th, 2015.</p>
on behalf of the European GSIs, Aegon, Allianz, Aviva, Axa and Prudential	International	No	<p>- The following indicators can be improved.</p> <p>Short term funding indicator</p> <p>- The short term funding indicator should be improved to focus on potentially systemic activity related to securities lending rather than measuring all securities lending.</p> <p>- It is important that the measures used in the data collection exercise for the assessment methodology focus on activity that could lead to the transmission of risk. For example, the IAIS defines STF as "the sum of Short term borrowing, commercial paper issued, certificate of deposits issued, collateral received from REPOs and Securities lending". The IAIS's initial assessment methodology (18 July 2013) states that these activities "indicate the extent to which an insurer could be involved in maturity transformation [with] a large degree of short term funding [being] a feature of financial institutions involved in maturity transformation". Further the document suggests that larger than normal STF "could signal an insurer venturing into [maturity transformation] and assuming the liquidity risk that comes with it, including the potential for fire sales of assets". However, while this broad ranging definition has been used as a driver for designation as a G-SII, the IAIS methodology document recognises that there are types of STF arrangements that are vanilla and carried out within traditional businesses without creating the risks described above. For example, "If the cash collateral from the repurchase agreement or securities lending transaction is reinvested in liquid, high credit quality assets, and if the security lent or put out on a REPO is liquid, then the activity is traditional. However if the reinvestment is in long-term, or low credit quality or illiquid securities then the risks are sufficient for the activities to be deemed NTNI. Moreover if low credit quality or illiquid assets are used for securities lending or in repurchase agreements, then the risks are sufficient to be deemed NTNI."</p> <p>- The IAIS should consider carefully how indicators that measure funding, and lending of securities to financial counterparties should be reflected within an overall framework designed with an objective to incentivise G-SIIs to become less systemically important, and give non GSIs strong disincentives from becoming GSIs. It is important that incentives are aligned with the desired outcome for financial stability. If there is a perception that risks could be transmitted to financial counterparties through withdrawing from funding them, and lending them securities then the assessment methodology should not disincentivise insurers from doing so as this would appear to be counterproductive.</p> <p>- It is therefore important that for securities lending within the short term funding indicators for the designation methodology that</p>

			<p>the data collect focuses on securities lending used for maturity transformation and collateral hypothecation, and excludes vanilla securities lending which the IAIS's policy paper accepts is not NTNI,</p> <p>Level 3 asset indicator</p> <ul style="list-style-type: none"> <li>- The IAIS defines L3 assets as those "based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement".</li> <li>- The IAIS's initial assessment methodology (18 July 2013) states that these activities "indicate the potential scale of fire sales of illiquid assets by an insurer in distressed financial market situations". Further the document suggests that a high proportion of L3 assets "could point towards insurers that are more active in markets for complex assets than is normal for a traditional insurance business".</li> <li>- In considering the potential for Level 3 assets to pose a risk of fire sales, it is important to consider the duration of the liabilities that they are matching Similarly as any of insurers that are more active in such assets, such a measure is meaningless without the context of the liabilities, level 3 assets is not an indicator of increased risk, merely that one firm is larger than the other.</li> <li>- There is widespread recognition of the importance of investment in boosting demand and lifting productivity in the global economy and infrastructure investment is one source of such investment that policymakers have focused on. Consequently there is a need to ensure that the designation methodology does not inappropriately disincentives long term investment by insurers in infrastructure. To this end level 3 assets that are held to back illiquid liabilities should be excluded from any measure of L3 assets in the designation methodology.</li> </ul>
General Insurance Association of Japan	Japan	No	<ul style="list-style-type: none"> <li>- Given the impact on the financial system through market trading, in Phase II, it is appropriate to consider an assessment based on the transaction amount (the numerator), rather than the turnover "ratios".</li> <li>- Since insurers often utilize short term funding to invest in highly liquid assets as part of their ALM, liquidity of these investments should be appropriately considered in Phase III.</li> </ul>
The Life Insurance Association of Japan	Japan	No	<ul style="list-style-type: none"> <li>·The LIAJ believes some of the items listed as content for each indicator that remain in the proposed methodology do not necessarily provide relevant information for the purposes of assessing systemic risk.</li> <li>·As for the short term funding indicator, for instance, we would like to propose that the data collection only focuses on the specific type of short term funding where the received collateral is directly reinvested by an insurer (i.e. the data of the other types of short term funding should be excluded from the data collection).</li> <li>·We also would like to propose deletion of the turnover indicator.</li> <li>-Some of the items listed as content for each indicator have different economic substance depending on jurisdictions, and accordingly, they could affect differently to systemic risk. For instance, as far as Japanese life insurers are concerned, the items listed as content for the short term funding indicator are typically used simply to earn fees and ensure liquidity, and it is not common to use them for the purpose of maturity transformation. In such cases, these transactions would have only limited impact on systemic risk, and therefore these irrelevant transactions should be excluded from data collection.</li> <li>-In addition, at least "(a) Ratio of total purchase of invested assets plus total sale of invested assets to total assets" listed as content for turnover indicator does not seem to be relevant for the purposes of assessing systemic risk. Insurers that have frequent access to the capital markets would rather be more capable of taking appropriate measures in the crisis.</li> </ul>



Swiss Re	Switzerland	No	<p>In general, we welcome any efforts of the IAIS to use market-level indicators, as these are better indicators of systemic risk than using indicators whose denominators are taken from the potential G-SII sample.</p> <p>Short-term funding indicator: The short-term funding indicator should be improved to focus only on funding activities that may lead to systemic risk. In particular, the indicator should exclude securities lending activities where the cash collateral from the repurchase agreement or securities lending transaction is reinvested in liquid, high credit quality assets, and if the security lent or put out on a repo is sufficiently liquid.</p> <p>Level 3 assets indicator: The IAIS's argument that there may be a fire sale of these assets seems exaggerated in the context of creating systemic risk. In considering the potential for Level 3 assets to pose a risk of fire sales, it is important to consider the duration of the liabilities they are matching and whether policyholders have the ability to surrender. We also refer to the very strict prudential regulation of assets under SST and Solvency II.</p> <p>Liability liquidity indicator: (Re)insurance claims are much slower than claims on banks. Large insurance claims are often paid after a thorough assessment of losses and therefore may take several years to be settled. The slow pace of failure increases substitutability by providing the time required to rebuild industry capital and capacity. The only potential risk addressed by this indicator involves potential cancellation clauses, as addressed in the IAIS consultation document on NTNI activities and products from November 25th, 2015.</p>
Aegon N.V.	The Netherlands	No	<p>We believe that other indicators need further refinement. These include the following:</p> <ul style="list-style-type: none"> <li>- Liquidity of insurance liabilities and Level 3 assets should be incorporated into a holistic assessment of an insurer's liquidity-related systemic risk profile. Liquid liabilities do not pose a risk to the financial system to the extent that such liabilities are backed with liquid assets, and illiquid assets do not pose a risk to the financial system to the extent that they back illiquid liabilities. The current disjunctive approach to assessing liquidity provides a misleading picture of an insurer's systemic profile.</li> <li>- Number of countries does not take into account the relative importance of an insurer in each country. While it is reasonable for the G-SII Assessment Methodology to evaluate the extent to which insurers are "globalized," we do not believe that the blunt use of number of countries, without an assessment of an insurer's presence in each country, is sufficiently accurate.</li> <li>- Minimum guarantee on variable insurance products should be reconsidered as an indicator in the current framework due to the unproven relationship between systemic risk and a potential exposure to substantial market risk. We elaborate on this point in our response to the NTNI consultation.</li> </ul>
Institute and Faculty of Actuaries	UK	No	<p>On minimum guarantees indicator, we have interpreted this to mean the indicator is total technical provisions, including the host contract reserves. We believe that a measure of the technical provisions relating to the guarantee, rather than the host contract, is the important component here.</p>
KPMG	UK	No	<p>Whilst these are financial measures that should be able to be extracted from financial statements at an individual level, use of an absolute reference value would only be possible if there is an aggregate figure available. Whilst we would encourage the IAIS to investigate whether there is such a source, we are not aware of any.</p>

Prudential plc	UK	No	<p>We challenge the relevance of some of the indicators in assessing systemic risk:</p> <ul style="list-style-type: none"> <li>- Level 3 assets may be backing non-liquid liabilities and therefore fire sale concerns may be exaggerated.</li> <li>- Intra-financial assets expose insurers to systemic risk and do not necessarily create systemic risk. The IAIS argument that there may be a fire sale of these assets seems exaggerated in the context of creating systemic risk.</li> <li>- On liability liquidity, we need to continue to distinguishing between the theoretical possibility of surrender and the expected behaviour as policyholders will have other associated benefits which are valuable - e.g. insurance cover, guarantees.</li> <li>- Short term funding indicator should be improved to focus on potentially systemic activity related to securities lending rather than measuring all securities lending, and make allowance for collateral where this is available. For example short term borrowing, commercial paper issued, certificate of deposits issued, collateral received from repos and securities lending.</li> </ul> <p>Additionally, in the Appendix where the rationale for choice of indicators is described, with respect to minimum guarantees on variable insurance products, the consultation paper states the following - "Variable insurance products (including variable annuities and unit linked products with capital protection) most often include some type of guaranteed levels of payment to policyholders: attempting to pay guaranteed amounts could accelerate asset sales by an insurer and exacerbate already distressed market conditions". We do not agree with this statement - guarantees on variable annuities and unit-linked products are generally not provided on surrender and payments on account of guarantees will usually be foreseen. We do not therefore believe that presence of guarantees creates any risk of acceleration of asset sales in distressed market conditions.</p>
Allstate Insurance Company	United States	No	
American Council of Life Insurers	United States	No	<p>The G-SII consultation states that Level 3 assets "indicate the potential scale of fire sales of illiquid assets by an insurer in distressed financial market situations." However, when assessing the risk of Level 3 assets, and their potential to transmit risk to the financial system, it is important to also include an assessment of the duration of the liabilities they back. Indeed we question whether Level 3 assets are an appropriate measure of systemic relevance. Additionally, firms should receive credit in Phase II for sound risk management practices that mitigate systemic risk exposures. This approach would reward good systemic risk management practices and incentivize de-risking by giving higher G-SII assessment scores to firms that take on greater risk. There are product and balance sheet risk management tools that can eliminate or reduce residual risk that can be measured on an objective, numerical basis.</p> <p>We encourage partnerships with jurisdictions to gain their insights and expertise on assessing systemically relevant exposures within that jurisdiction. A partnership between the global and local supervisory communities in the process of identifying potentially systemically risky exposures would likely be fruitful for supervisors and serve to promote global financial stability.</p>
Prudential Financial, Inc.	United States of America	No	<p>The reliability and appropriateness of all indicators could be further improved by taking account of the role they play for the firm. In particular, elements such as size (diversification) and use of derivatives (hedging) may play a vital role in a firm's risk management strategy. Such efforts should be incentivized and rewarded through the assessment methodology - both in the quantitative and qualitative phases.</p> <p>In addition, the use of 3 to 5 year averages for items such as revenue or other "Size" indicators may better account for the fluctuations resulting from large, unpredictable, transactions.</p>

			<p>We also propose the elimination of the intra-financial liabilities indicator within the Interconnectedness Category. This indicator is not useful in identifying potential risk that any particular insurer poses to the broader financial system. In fact, the indicator identifies potential risk that an insurer receives from the system which should not be a factor in the G-SII designation assessments as it does not align with the focus of examining the potential impact of an insurer's distress or disorderly failure on the global financial system.</p>
MassMutual Financial Group	USA	No	<p>The IAIS has included Level 3 assets within the interconnectedness category of the quantitative assessment. It is unclear as to the rationale for including Level 3 assets as a measure of interconnectedness and we recommend excluding this from the Phase II assessment. Rather, we propose moving the assessment of Level 3 assets to Phase III in order for the IAIS to analyze an insurer's exposure to Level 3 assets in the context of the liabilities that those assets support. Additionally, the categorization of an asset as Level 3 reflects the pricing of the asset, and does not itself reflect a measure of market or liquidity risk exposure.</p> <p>Additionally, credit for risk management should be applied throughout the assessment process. As drafted, the Consultations penalize insurers from prudently managing their risks. A clear example of this is the inclusion of derivative exposure, albeit in a quantification that we do not believe captures potential systemic risk exposure, in isolation within the G-SII proposed methodology and the exclusion of risk management, such as through the use of derivatives, within the NTNI methodology. Life insurance companies use derivative financial instruments in the normal course of business to manage risks associated with their long-term insurance liabilities. As an example, MassMutual employs a rigorous asset/liability management process to help mitigate the economic impacts of various investment risks, including the reduction of currency, credit, and interest rate imbalances determined through ongoing asset/liability analyses. While the NTNI methodology does factor in cash flow matching of liabilities, it ignores asset/liability management through the use of derivatives. We propose the IAIS modify the Consultations to include a comprehensive view of risk management techniques as part of the quantitative risk assessment process.</p> <p>Short-term funding is another metric used in Phase II of the G-SII methodology that we believe could overstate a company's risk exposure by not recognizing associated risk management practices. Maturity transformation occurs when short-term funding is used to purchase long-term assets and exposes the company to liquidity, credit and interest rate risks. A company that utilizes short-term funding can mitigate these risks through the use of derivatives, structuring maturities of assets and liabilities (cash flow matching), duration matching and alternative liquidity facilities. To measure the exposure of a company to liquidity risk, or assess the potential for maturity transformation, we believe there should be consideration given for the assets backing that liability in addition to the size of the short-term funding liability.</p>
MetLife, Inc.	USA	No	<p>Please see our response to Question 30 for an alternative approach to G-SII assessment that MetLife believes provides a more accurate measure of potential systemic importance and a level of transparency that would allow firms to either avoid designation or re-designation as the case maybe. We believe our recommended approach will better contribute to financial stability by encouraging robust risk management practices. More detail on our proposed approach to assessment can be found in a slide deck shared with IAIS principals prior to the submission of these comments.</p>
Property Casualty Insurers Association of America (PCI)	USA	No	<p>Note the response to question 10.</p>

National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Reliability should be improved each year as the instructions are clarified and reflect lessons learned, data elements collected stabilizes, firms become more efficient over time in providing the data and the assessment methodology is subject to a detailed review every three years.
<b>13 - What criteria, other than those listed above, should the IAIS consider when determining whether to include an insurer in the Phase I data collection?</b>			
Insurance Europe	Europe	No	In general, GFIA is unconvinced that there is any link between many of the criteria specified and global systemic risk. To reiterate the IAIS's own views: "there is little conceptual reason for life and non-life insurance activities to either trigger or amplify systemic risk." The criteria seem to relate simply to amounts of assets and premiums, even though large-scale "traditional" insurance activities do not give rise to systemic risk. Large insurers with no or only limited exposure to systemically risky activities will therefore be investigated, whereas theoretically if a smaller insurer would engage in a large number of such activities, it would avoid scrutiny. More information about the process which has led to the selection of figures and ratios would be needed.
Insurance Europe	Europe	No	In general, Insurance Europe is unconvinced that there is any link between many of the criteria specified and global systemic risk. To reiterate the IAIS's own views: "there is little conceptual reason for life and non-life insurance activities to either trigger or amplify systemic risk." The criteria seem to relate simply to amounts of assets and premiums, even though large-scale "traditional" insurance activities will not give rise to systemic risk. Large insurers with no or only limited exposure to systemically risky activities will therefore be investigated, whereas theoretically if a smaller insurer would engage in a large number of such activities, it would avoid scrutiny. More information about the process which has led to the selection of figures and ratios would be needed.
European Insurance and Occupational Pensions Authority	European Union	No	As previously mentioned, one possible criteria could be the fact that the inclusion of such insurer would mitigate some of the perceived issues in the existing methodology, such as sample bias.
GDV - German Insurance Association	Germany	No	<p>While we understand that there must be some sort of pre-selection to keep the entire process manageable, the chosen criteria to define the sample solely refer to the size of potential candidates and not their business activities. This approach may end up in a situation where large insurers with no or only limited exposure to systemically risky activities are investigated while smaller insurers with a considerable engagement in such business are being left out of the exercise. Therefore, we urge the IAIS to elaborate on a different approach to select the sample which is focused on activities rather than size.</p> <p>Apart from that, it would be helpful to provide detailed information about the process which has led to the selection of figures and ratios. More transparency is needed to address the concern that the criteria were arbitrarily chosen.</p>
Munich Re	Germany	No	While we understand that there must be some sort of pre-selection to keep the entire process manageable, the chosen criteria to define the sample solely refers to the size of potential candidates and not their business activities. This approach may end up in a situation where large insurers with no or only limited exposure to systemically risky activities are investigated while smaller insurers with a considerable engagement in systemically risky activities are overlooked. Therefore, we urge the IAIS to

			elaborate on a different approach to select the sample which is focused on activities rather than size. Apart from that, it would be helpful to provide detailed information about the process which has led to the selection of figures and ratios. More transparency is needed to address the concern that the criteria were arbitrarily chosen.
Global Federation of Insurance Associations	Global	No	In general, GFIA is unconvinced that there is any link between many of the criteria specified and global systemic risk. To reiterate the IAIS's own views: "there is little conceptual reason for life and non-life insurance activities to either trigger or amplify systemic risk." The criteria seem to relate simply to amounts of assets and premiums, even though large-scale "traditional" insurance activities do not give rise to systemic risk. Large insurers with no or only limited exposure to systemically risky activities will therefore be investigated, whereas theoretically if a smaller insurer would engage in a large number of such activities, it would avoid scrutiny. More information about the process which has led to the selection of figures and ratios would be needed.
Institute of International Finance/ The Geneva Association	Global	No	We would suggest the IAIS not to change the currently used criteria. We are however interested in understanding how the IAIS intends to account for the impact of M&A activity in the sector in Phase I (in particular the impact on the cohort of approximately 50 firms) and the treatment of state-owned companies.
AIA Group	Hong Kong	No	We suggest including a criterion based on written premiums to capture general insurance companies that may not have assets greater than USD 60 billion.
Global Reinsurance Forum	International	No	The IAIS criteria for data collection focus primarily on size. It should be noted that systemic risks may be caused by market participants irrespective of their individual size, as, for instance, the Savings and Loan crisis has demonstrated. Nonetheless, the proposed criteria seem to be a pragmatic approach and we would therefore not propose any changes or additions to the criteria.
Swiss Re	Switzerland	No	The IAIS criteria for data collection focus primarily on size. It should be noted that systemic risks may be caused by market participants irrespective of their individual size, as, for instance, the Savings and Loan crisis has demonstrated. Therefore, we urge the IAIS to employ an approach that focusses on activities rather than institutions.
Institute and Faculty of Actuaries	UK	No	Non-US insurers' balance sheets and premiums could be subject to material changes by large movements in rates of exchange against the USD. We would encourage the use of criteria that have less exposure to movements in USD, to give more year-on-year stability in the insurers included for Phase I data collection.
KPMG	UK	No	This criteria looks satisfactory as it largely reflects size and global activity. However, the assets metric will only cover on balance sheet exposures and consideration should also be given to how significant off balance sheet exposures (for example in relation to guarantees and commitments) can be incorporated.
Prudential plc	UK	No	No response
Allstate Insurance Company	United States	No	We believe the IAIS should consider the existence of products or exposures that historically have produced systemic risk in the insurance and reinsurance industry. These products or exposures include derivatives with exposure to contingent collateral requirements, mortgage and financial guarantees supporting the issuance of mortgage-backed and other securities, long-term

			care insurance with direct exposure to mortality improvements and the cost and impacts of treatment advances, traditional life insurance exposure to pandemics, and annuity products exposure to mortality improvements. In addition to insurance products originated, purchased reinsurance also carries with it systemic risk generated by assuming reinsurers that may grow to such a size that their failure could create systemic risk as it could impact the entire insurance market or a substantial market segment.
RAA	United States and many other jurisdictions	No	The GSII methodology for phase 1 data collection is driven solely by two factors: the size of the entity measured by total assets and the extent to which it is engaged in global activity. We believe that this should be refined further by focusing only on those global entities that are predominantly engaged in financial activities. The US Financial Stability Oversight Council limits its evaluation of potential SIFIs to organizations that are at least 85% financial in nature. We believe the IAIS should consider the same or similar criteria to limit the GSII data collection to groups that are predominantly financial in nature.
American Insurance Association	United States of America	No	<p>Phase I data collection should not pre-determine a pool of insurance groups for a data call. Instead, the IAIS should focus on relevant indicators of systemic risk that can be analyzed by accessing public information or materials available already to regulators. Those indicators should be available across all financial sectors so that insurance groups are viewed in relation to those firms (not isolated). For example, degree of leverage was a critical common factor of firms that were the source of scrutiny during the 2008 financial crisis. Therefore, leverage ratio (total consolidated assets [excluding separate account assets] to total equity) would be a key consideration for this initial screening process. Other factors to consider would be metrics that defined a firm's role as a source of liquidity to the financial system, as well as whether the institution is the sole provider of a key financial product or service (without the ability of other institutions to step in and supply that product or service if the provider failed), but those factors would need to be carefully defined.</p> <p>Originally, AIA expressed concern about relying on an asset-size based determination to identify the pool of insurance groups that would subject to the data call. Relying solely on a total asset number elevates the importance of size that is disproportionate to the 5% weighting of this category in the assessment process. Moreover, it is contrary to the rationale behind the assessment of a firm's potential systemic risk, which should be focused on a cross-sector analysis.</p> <p>Indeed, AIA believes that collecting non-public information from a pre-determined pool of insurance groups at the outset of the G-SII assessment process will limit the utility of the categories and indicators reviewed at later phases of the methodology and drive outcomes that are biased against those insurance groups participating in the data collection. If the goal of developing an accurate G-SII methodology is the identification and quantification of factors that relate to a group's potential to be a source of systemic instability, then there is an abundant amount of publicly available data from the recent financial crisis that can be used to develop comparative benchmarks for insurance companies.</p> <p>The U.S., for example, employs a three-stage process for evaluating whether a company meets the test for being systemic. Each stage of the determination process is designed to narrow the universe of companies based on an increasing amount of information. In Stage One, nonbank financial companies are evaluated by applying uniform quantitative thresholds, using publicly available data, to filter out companies that do not merit further evaluation. In Stage Two, there is a comprehensive analysis of those companies that meet the Stage One metrics, using existing public and regulatory data sources. It is not until Stage Three that business data is requested directly from the small number of companies that are not filtered out in Stages One and Two. Thus, in order to better reflect an evaluation of a group's systemic risk and to reserve the most intrusive data collection only for those groups that are under serious consideration for G-SII designation, AIA would respectfully suggest that the IAIS focus the initial Phase I evaluation on universal, publicly-available metrics that are transparent, known indicators of systemic risk.</p>

			<p>In the wake of the financial crisis, many such characteristics were discussed, but AIA believes it is important to focus on leverage, as this was a major risk factor present in institutions that were at the heart of the crisis. As noted by the U.S. Financial Stability Oversight Council (FSOC) in emphasizing the consideration of leverage as part of the domestic designation process for systemically important financial institutions, leverage both "amplifies a company's risk of financial distress" and the direct and indirect "impact of a company's distress on other companies." (F/N 2)</p> <p>(F/N 2: Financial Stability Oversight Council, Second Notice of Proposed Rulemaking and Proposed Interpretive Guidance, "Authority to Require Supervision and Regulation of Certain Nonbank Financial Companies," 12 C.F.R. Part 1310, RIN 4030-AA00, 76 Fed. Reg. 64264, 64280 (Oct. 18, 2011) (Second NPR)).</p> <p>FSOC, in considering nonbank firms domestically for SIFI designation, initially utilizes a ratio calculated as a minimum leverage ratio of total consolidated assets (excluding separate accounts) to total equity of 15 to 1. In establishing that leverage ratio threshold, FSOC explained that:</p> <p>"Measuring leverage in this manner benefits from simplicity, availability and comparability across industries. An analysis of the distribution of the historical leverage ratios of large financial institutions was used to identify the 15 to 1 threshold. Historical testing of this threshold demonstrated that it would have captured the major nonbank financial companies that encountered material financial distress and posed a threat to U.S. financial stability during the financial crisis, including Bear Stearns, Countrywide, IndyMac Bancorp, and Lehman Brothers." (F/N 3)</p> <p>(F/N 3: Financial Stability Oversight Council (FSOC) Final Rule and Interpretive Guidance, "Authority To Require Supervision and Regulation of Certain Nonbank Financial Companies," 12 C.F.R. Part 1310, RIN 4030-AA00, 77 Fed. Reg. 21637, 21661(Apr. 11, 2012) (Final SIFI Designation Rule)).</p> <p>Leverage is a particularly critical element with respect to insurance operations because it generally is not present, to any material degree, within an insurance business model. Other potentially relevant characteristics include (1) whether the business activity renders the G-SII a source of liquidity to the financial system and (2) whether the activity involves a product or service that cannot be provided by another company if the G-SII fails (substitutability), but the scope of the inquiry on these factors must be carefully defined.</p>
Prudential Financial, Inc.	United States of America	No	No change in the currently used criteria.
MetLife, Inc.	USA	No	No comment
Property Casualty Insurers Association of America (PCI)	USA	No	The issue of whether a group is predominantly engaged in financial services should be included in the criteria for inclusion in Phase II. In the U.S., for example, a non-bank group must be at least 85% financial in nature in order to be considered for a SIFI (systemically important financial institution) determination.

14 - What are the strengths and weaknesses of consistency and relative annual stability as a guiding principle for establishing the quantitative threshold in Phase II? For purposes of establishing the quantitative threshold, what other principle(s), if any, should the IAIS consider?			
CLHIA	Canada	No	<p>Consistency, transparency, and the resulting predictability are very important. Given the large impact of the G-SII identification exercise on insurers' business strategies and capital policies, it is critical that insurers are able to assess the potential for designation. Consistency and predictability will encourage reasonable risk taking and risk mitigation practices.</p> <p>To be clear, consistency and stability does not imply a set number or group of companies should be designated as a G-SII each year.</p>
China Association of Actuaries	China	No	<p>We would recommend following principles applied prior to the principle of consistency, as the primary goal here is to identify the systemically important insurers objectively instead of simply maintain a stable list. The recommended principles are</p> <ol style="list-style-type: none"> <li>1. Risk sensitivity;</li> <li>2. Objectivity;</li> <li>3. Market consistency.</li> </ol>
China Insurance Regulatory Commission	China	No	<p>As we responded in Question 1, the threshold should be set consistently with how the indicators are assessed (use absolute or relative values). If the threshold will be set based on the relative ranking of participants, the use of absolute values in indicators will not be very effective.</p> <p>Moreover, the consistency and stability principles will make the assessment results comparable, but may not effectively reflect any market or company changes. A stable approach may not accurately and reliably reflect the true systemic important when there are significant changes in a year. G-SII assessment's primary purpose is to objectively identify insurers with significant systemic risks, not a stable G-SII list.</p> <p>A recommend list of principles:</p> <ul style="list-style-type: none"> <li>- Accuracy</li> <li>- Reliability</li> <li>- Risk sensitiveness, i.e. effectively identify systemic risks</li> <li>- Objectivity, i.e. with sufficient data and analysis support</li> <li>- Consistency with the market, i.e. reflect the overall market movements</li> </ul>
Insurance Europe	Europe	No	<p>Given the large impact of the G-SII identification exercise on insurers' business strategies and capital policies, it is critical that insurers are able to determine the probability of their designation. GFIA supports the IAIS's proposal to consider the principle of consistency and relative stability in the quantitative threshold year-over-year, on the premise that the current methodology which only uses relative reference values will be modified to include absolute reference values for certain indicators. GFIA also suggests that the IAIS consider principles related to transparency and the use of absolute numbers, instead of a methodology that is reliant on relative values.</p> <p>The threshold which will separate the sample into a group of candidates and a group not envisaged for G-SII designation is the most important junction of Phase II. GFIA strongly believes that this junction should be subject to a maximum degree of transparency. Undertakings need to know and understand why and based on which analysis the IAIS settled on the threshold. It is essential that this analysis is focused on systemic risk considerations instead of simply dividing the sample into groups in</p>



			<p>order to comply with the process. Consistency means that a threshold calibrated along these lines should not rule out the possibility that no individual insurer would eventually qualify for G-SII designation. Moreover, it is important that the process to establish the threshold remains flexible to be aligned to future developments, if necessary. Therefore, GFIA understands the principle of relative stability in a way that once the IAIS has agreed on a threshold, it will be applied for the assessment process of the corresponding year (ie there will not be retroactive changes).</p>
Insurance Europe	Europe	No	<p>The threshold which will separate the sample into a group of candidates and a group not envisaged for G-SII-designation is the most important junction of Phase II. Insurance Europe strongly believes that this junction should be subject to a maximum degree of transparency. Undertakings need to know and be able to understand why and based on which analysis the IAIS settled on the threshold.</p> <p>It is crucial that this analysis is focused on systemic risk considerations instead of simply dividing the sample into groups in order to comply with the process. Consistency means that a threshold calibrated along these lines should not rule out the possibility that no individual insurer would eventually qualify for G-SII-designation. Moreover, it is important that the process to establish the threshold remains flexible to be aligned to future developments, if necessary.</p> <p>Therefore, Insurance Europe understands the principle of relative stability to mean that once the IAIS has agreed on a threshold, it will be applied for the assessment process of the corresponding year, (i.e. there won't be retrospective changes).</p>
European Insurance and Occupational Pensions Authority	European Union	No	<p>EIOPA supports the introduction of a quantitative threshold in the quantitative component of the methodology, to enhance its predictability for prospective G SII.</p> <p>The qualitative components of the methodology could then be applied, on a mandatory basis, to all insurers above the threshold and, on a voluntary basis (decision by the relevant Group-wide Supervisor), to all insurers below the threshold. This is consistent with the proposals currently included in the Consultation Document, that insurers below the threshold would most likely not be proposed for designation as G-SIIs and would also contribute to alleviate the burden of the execution of the full steps of the methodology to all prospective G SII, relieving resources from both supervisors and insurers.</p> <p>EIOPA supports the use of the principles of consistency and stability to guide the development of the quantitative threshold. In addition, the technical soundness of the methodology is also an important element to take into account.</p> <p>The quantitative threshold should be publicly disclosed by the IAIS.</p>
GDV - German Insurance Association	Germany	No	<p>The threshold which will separate the sample into a group of candidates and a group not envisaged for G-SII-designation is the most important junction of Phase II. The GDV strongly believes that this junction should be subject to a maximum degree of transparency. Undertakings need to know and understand why and based on which analysis the IAIS settled on the threshold. It is paramount that this analysis is focused on systemic risk considerations instead of simply dividing the sample into groups in order to comply with the process. Consistency means that a threshold calibrated along these lines should not rule out the possibility that no individual insurer would eventually qualify for G-SII-designation. Moreover, it is important that the process to establish the threshold remains flexible to be aligned to future developments, if necessary. Therefore, we understand the principle of relative stability in a way that once the IAIS has agreed on a threshold, it will be applied for the assessment process of the corresponding year, i.e. there won't be retrospective changes.</p>
Munich Re	Germany	No	<p>The purpose of Phase II is to further distill the list of candidates that will continue to be evaluated for a G-SII designation. Phase II is 1 of 4 phases in the process and cannot alone be relied on to designate a G-SII. This threshold and ideally all</p>

			individual scorings should become fully transparent. Moreover, the threshold should be chosen in a way that it clearly identifies potential G-SIIs from the rest.
Global Federation of Insurance Associations	Global	No	<p>Given the large impact of the G-SII identification exercise on insurers' business strategies and capital policies, it is critical that insurers are able to determine the probability of their designation. GFIA supports the IAIS's proposal to consider the principle of consistency and relative stability in the quantitative threshold year-over-year, on the premise that the current methodology which only uses relative reference values will be modified to include absolute reference values for certain indicators. GFIA also suggests that the IAIS consider principles related to transparency and the use of absolute numbers, instead of a methodology that is reliant on relative values.</p> <p>The threshold which will separate the sample into a group of candidates and a group not envisaged for G-SII designation is the most important junction of Phase II. GFIA strongly believes that this junction should be subject to a maximum degree of transparency. Undertakings need to know and understand why and based on which analysis the IAIS settled on the threshold. It is essential that this analysis is focused on systemic risk considerations instead of simply dividing the sample into groups in order to comply with the process. Consistency means that a threshold calibrated along these lines should not rule out the possibility that no individual insurer would eventually qualify for G-SII designation. Moreover, it is important that the process to establish the threshold remains flexible to be aligned to future developments, if necessary. Therefore, GFIA understands the principle of relative stability in a way that once the IAIS has agreed on a threshold, it will be applied for the assessment process of the corresponding year (ie there will not be retroactive changes).</p>
Institute of International Finance/ The Geneva Association	Global	No	Consistency is important in the application of the G-SII methodology to insurance companies. Annual stability, however, should not be a guiding principle for the G-SII regime - the methodology should most appropriately identify systemic risk in the insurance sector.
AIA Group	Hong Kong	No	If a company is put on the list in one year and it is able to de-risk sufficiently to fall below the quantitative threshold for designation, then it should be taken off the list.
Global Reinsurance Forum	International	No	The quantitative threshold should be set in such a way as to ensure that only insurers in Group 1 (above the threshold) may be potential sources of systemic risk. Consistency and annual stability, though worthwhile goals, should be secondary considerations. See also our response to Question 15 below.
General Insurance Association of Japan	Japan	No	<p>Rather than having a fixed number of insurers scoring above the quantitative threshold, relative stability should be achieved by reflecting each insurer's efforts to reduce systemic risk.</p> <p>[Other principle(s)] Assessment scores can be influenced by currency conversion. At least, when an insurer's score exceeds the quantitative threshold due to sharp exchange fluctuations, mitigation of such effects should be considered in Phase III.</p>
The Life Insurance Association of Japan	Japan	No	·Given the significant impact of G-SIIs identification on insurers' business strategies and capital policies, predictability of G-SIIs designation is critically important. In this context, the LIAJ supports the IAIS's proposal to establish the quantitative threshold in a stable and consistent manner year-over-year on the premise that the current methodology that only uses relative reference values will be modified to refer to absolute reference values for certain indicators.

			<p>· Establishment of the quantitative threshold should be flexible when absolute reference values are used only for a limited number of indicators. For instance, in the case that an indicator for which absolute reference value is not used does not reflect the fact that its exposure is reduced in a whole insurance sector, flexibility, such as raising the quantitative threshold, would be relevant for the purposes of systemic risk assessment.</p>
Swiss Re	Switzerland	No	<p>The quantitative threshold should be set to ensure that only insurers in Group 1 (above the threshold) might be potential sources or amplifiers of systemic risk. This ensures consistency. Annual stability should be a secondary consideration; see our response to Question 15 below.</p>
Institute and Faculty of Actuaries	UK	No	<p>We believe in theory the threshold should move in line with the level of current stress in the market and perhaps more companies should be caught in times of market stress. However, we think this makes it difficult for companies to know whether they are in/out and make adequate preparations, and therefore we support the concept of stability/consistency.</p>
KPMG	UK	No	<p>Some of the key advantages of ensuring consistency and stability in setting the quantitative threshold are as follows:</p> <ul style="list-style-type: none"> <li>- Leads to stability in potential G-SII status outcomes for insurers which impacts on the applicability of the G-SII reform package for insurers and HLA capital requirements</li> <li>- Imparts confidence on the credibility of the IAIS methodology through consistent decisions year on year</li> <li>- Each insurer's G-SII score is unlikely to change significantly year on year unless it makes substantial changes (for example by selling units that participate in systemic activity), so this principle relating to stability in the quantitative threshold is logical</li> </ul> <p>Weaknesses</p> <ul style="list-style-type: none"> <li>- Does not capture a sudden and significant shift in the systemic risk of the insurance industry as a whole which is expected to impact on the number of G-SIIs. This is because the G-SII assessment score largely remains a relative measure of systemic risk amongst the insurers in the sample as opposed to an absolute level of systemic risk</li> <li>- This principle would generally lead to the IAIS maintaining the same number of insurers labelled as "potential G-SIIs" over time. We would not support this if there is evidence that the industry overall has become less systemic, especially in comparison to the other financial sectors.</li> </ul> <p>The IAIS can also consider the following principles in establishing the quantitative threshold.</p> <ol style="list-style-type: none"> <li>1) The threshold should be set at a level consistent with the expected characteristics of a minimum G-SII, based on a perception of systemic risk required to result in this classification.</li> <li>2) The threshold should reflect any shift in the level of systemic risk of the insurance industry as a whole compared to other financial sectors, which may subsequently lead to an increase or decrease in the number of G-SIIs</li> </ol>

Prudential plc	UK	No	Annual stability should not be a guiding principle for the G-SII regime. We believe that a key principle should be cross-sector consistency. The assessment of systemic risk should be consistent for the same activity across different sectors within the financial system, and the threshold set accordingly.
Allstate Insurance Company	United States	No	We support the objective of consistency in establishing quantitative thresholds against which insurers are assessed for designation as a G-SII. Together with consistency, we believe the computation methodology and inputs from which the quantitative threshold is derived should be transparent to allow insurers to take appropriate actions to curtail systemic risk activities if they determine that to be beneficial to their stakeholders.
American Council of Life Insurers	United States	No	For the purposes of establishing a quantitative threshold, the IAIS should also consider adding the principles of transparency and the use of absolute numbers, instead of a methodology that relies on relative values.  Phase II needs a clear and transparent framework so insurers can understand their Phase II score and plan their business accordingly. A transparent framework would allow insurers to know (1) where the threshold line is between prospective G-SIIs (Group 1) and non-prospective G-SIIs (Group 2) and (2) how the IAIS calculated the threshold. This level of transparency would also encourage insurers to pro-actively de-risk if they wished to avoid G-SII status.
RAA	United States and many other jurisdictions	No	The entire GSII methodology, including the quantitative threshold in phase 2 should take into account the relative systemic importance of insurance groups versus banks and other financial organizations. We believe that the lack of a cross sectoral analysis in the 2013 methodology caused several insurance groups to be designated GSIIIs, which have far lower systemic risk profiles than certain banking groups that were not designated GSIBs.
Prudential Financial, Inc.	United States of America	No	The core goal of the G-SII Policy Measures, including the assessment methodology, should be the accurate assessment and management of systemic risk the insurance sector imparts on the financial system. That said, we consider consistency and relative annual stability important secondary concerns given the ramifications that may follow designation including increased capital requirements and other prudential measures. These guiding principles should not inhibit the IAIS from incorporating industry or market trends into the threshold over an appropriate time frame.
MassMutual Financial Group	USA	No	We are supportive of the introduction of a quantitative threshold in Phase II of the designation methodology, so long as it is transparent and provided timely to the companies submitting the data. A pre-defined quantitative threshold can provide additional clarity to companies on the entry and exit criteria from the G-SII list, will provide an understanding of which aspects of their business model are driving their status as a potential G-SII, and will allow insurance groups to manage those elements that are deemed by the IAIS to contribute to global systemic risk. We also emphasize the need for confidentiality around the communication of scores and ranking under this process given that the methodology, components, thresholds and identification of systemic risk in insurance are still in early development stages and may affect markets inappropriately as a result.
MetLife, Inc.	USA	No	MetLife suggests that objective and absolute measures of assessment would have greater consistency and stability compared to relative measures.
Property Casualty Insurers	USA	No	The most important factor in establishing the threshold is relative systemic importance to other financial groups, such as G-SIBs (global systemically important banks). The 2013 methodology resulted in the inappropriate nomination of insurance groups as G-SIIs with far lower levels of systemically risky activities than the lowest-ranked G-SIBs. It should also be an

Association of America (PCI)			<p>acceptable result that no insurance groups are designated as G-SIIs if there is no real basis for differentiating between insurers and their systemic riskiness is lower than that of other financial firms that are not considered systemically important (such as large banks that are not considered to be G-SIBs).</p> <p>We do agree that once a threshold is properly established, it should be relatively stable. In particular there should be no retrospective changes.</p>
<p><b>15 - For purposes of establishing the quantitative threshold in Phase II, what other approaches, if any, should the IAIS consider? What are the strengths and weaknesses of the alternative approaches, as listed above, to determining the quantitative threshold?</b></p>			
CLHIA	Canada	No	<p>This is a challenging question to answer until definitions/applications of indicators are clarified through the consultation process, but the underlying principles in selecting approaches should include:</p> <ul style="list-style-type: none"> <li>- Consistency in application,</li> <li>- Avoidance of designating a set numbers of insurers in lieu of limiting G-SII designations to those insurers posing significant systemic risk, and</li> <li>- Use of absolute values rather than relative ranking approaches.</li> </ul> <p>We are concerned that within the approaches provided starting on page 16 there are approaches that continue to rely on relative rankings and on designating an arbitrary number of G-SIIs such as natural cliffs, average insurer scores, and cluster analysis rather than on metrics of absolute systematic risk.</p> <p>To ensure fairness on a cross-sectoral basis, comparisons to G-SIBs should be considered for determining the quantitative threshold.</p>
China Association of Actuaries	China	No	<p>We would recommend IAIS to specify the approach establishing the threshold to avoid any ambiguity. Further, referred to our feedback for Q14, the approach should be able to identify and distinguish GSIs from the others objectively; however it seems that many approaches mentioned - natural cliff, cluster analysis, mean plus standard deviation - are focusing too much on the numeric structure (thus relative risk) instead of absolute risk.</p>
China Insurance Regulatory Commission	China	No	<p>As we responded in Question 14, the threshold should be selected considering the risk sensitiveness and objectivity. The approaches listed (natural cliff, cluster analysis, mean plus standard deviation) considered the data structures / characteristics, but seems not sufficiently addressed the risk sensitivities and objectivity principles.</p>
Insurance Europe	Europe	No	<p>To ensure fairness on a cross-sectoral basis, comparison to G-SIBs would seem the most appropriate basis for determining the quantitative threshold. Banking is inherently systemic, but the threshold for G-SIBs has been set so that only the most systemic banks are designated. Therefore, it would be appropriate for the threshold for insurers to be set at a comparable level to the G-SIB threshold.</p>
Insurance Europe	Europe	No	<p>To ensure consistency on a cross sectoral basis, comparison to G-SIFIs and G-SIBs in particular would seem the most appropriate basis for determining the quantitative threshold. Banking is inherently systemic, but the threshold for G-SIBs has been set so that only the most systemic banks are designated. Therefore, it would be appropriate that the threshold for insurers is set at a comparable level to the G-SIB threshold.</p>

European Insurance and Occupational Pensions Authority	European Union	No	EIOPA believes that the 6 options listed provide a sufficient diversity of methodologies. The IAIS should test the different options against real data to conclude on which one delivers an outcome more consistent with the principles previously identified.
GDV - German Insurance Association	Germany	No	The GDV believes that the alternative approaches listed in paragraph 37 cover the most important aspects to be recognized when establishing the quantitative threshold. However, preferred attention and increased emphasis should be given to the cross-sectoral analysis. Unfortunately, we still do not have a clear understanding of how the comparison with G-SIBs should be conducted in practice. The indicator based approach for G-SIBs is based on other metrics with a different weighting. Thus, developing a standard for comparing the cross-sectoral scores in a comprehensive way should be a top priority for the next round of revisions to the G-SII assessment methodology.
Munich Re	Germany	No	The alternative approaches listed in paragraph 37 cover the most important aspects to be recognized when establishing the quantitative threshold. However, preferred attention and increased emphasis should be given to the cross-sectoral analysis. Comparing the cross-sectoral scores between banks and insurers must become a priority - is the insurer with the lowest systemic risk score, but still named G-SII, really more systemically relevant than the first bank not on the G-SIB list (the number 31 in the G-SIB scoring ranks)? Unfortunately, we still do not have a clear understanding of how the comparison with G-SIBs should be conducted in practice. The indicator based approach for G-SIBs is based on other metrics with a different weighting. Thus, developing a standard for comparing the cross-sectoral scores in a comprehensive way should be a top priority for the next round of revisions to the G-SII assessment methodology.
Global Federation of Insurance Associations	Global	No	To ensure fairness on a cross-sectoral basis, comparison to G-SIBs would seem the most appropriate basis for determining the quantitative threshold. Banking is inherently systemic, but the threshold for G-SIBs has been set so that only the most systemic banks are designated. Therefore, it would be appropriate for the threshold for insurers to be set at a comparable level to the G-SIB threshold.
Institute of International Finance/ The Geneva Association	Global	No	In its consultation document, the IAIS mentions several approaches to establishing the quantitative threshold, including cross-sectoral analysis, using a natural cliff, cluster analysis and establishing an annual floor. We advocate the IAIS use cross-sectoral analysis to establish the quantitative threshold in Phase II. For fairness on a cross sectoral basis, comparison to G-SIBs would seem to be the most appropriate basis for determining the quantitative threshold. Other options, such as natural cliffs, average insurer scores or cluster analysis, all are relative ranking mechanisms and should be avoided on that basis.
AIA Group	Hong Kong	No	As mentioned above a qualitative element should be maintained regardless of the method chosen. Since insurers are part of the global financial system a cross-sectoral analysis is theoretically the best approach. Firms should be evaluated against all other firms, not in isolation as the insurance industry, which is recognized to be less systemically risky in aggregate than the banking industry.
Global Reinsurance Forum	International	No	GRF strongly supports the use of cross-sectoral analysis. IAIS should compare the profiles of potential G-SIIs with systemically important firms in other sectors - in particular for interconnectedness and NTNI activities. It would be appropriate for the threshold for insurers to be set at a comparable level to the GSIB threshold. In particular, potential G-SIIs who are candidates

			for Group 1 (above the quantitative threshold) only due to scores in activities which are comparable with potential G-SIBs (derivatives, turnover, level 3 assets, derivatives trading, short term funding) should be removed if potential G-SIBs with similar or higher business volumes in these activities were not deemed systemically relevant.
on behalf of the European GSIs, Aegon, Allianz, Aviva, Axa and Prudential	International	No	<ul style="list-style-type: none"> <li>- For fairness on a cross sectoral basis, comparison to GSIBs would seem the most appropriate basis for determining the quantitative threshold.</li> <li>- Banking is inherently systemic, but the threshold for GSIBs has been set so that only the most systemic banks are designated. Therefore it would be appropriate for the threshold for insurers to be set at a comparable level to the GSIB threshold.</li> </ul>
General Insurance Association of Japan	Japan	No	When introducing the quantitative threshold in Phase II, it is important to not only compare potential G-SIIs with systemically important firms in other sectors, but also make comparisons of the total systemic risk within each industry.
The Life Insurance Association of Japan	Japan	No	<ul style="list-style-type: none"> <li>·Given the significant impact of G-SIIs identification on insurers' business strategies and capital policies, predictability of G-SIIs designation is critically important. In this context, the LIAJ supports the IAIS's proposal to establish the quantitative threshold in a stable and consistent manner year-over-year on the premise that the current methodology that only uses relative reference values will be modified to refer to absolute reference values for certain indicators.</li> <li>·Establishment of the quantitative threshold should be flexible when absolute reference values are used only for a limited number of indicators. For instance, in the case that an indicator for which absolute reference value is not used does not reflect the fact that its exposure is reduced in a whole insurance sector, flexibility, such as raising the quantitative threshold, would be relevant for the purposes of systemic risk assessment.</li> </ul>
Swiss Re	Switzerland	No	Swiss Re strongly supports the use of cross-sectoral aggregation, where reasonable. The IAIS should compare the profiles of potential G-SIIs with systemically important firms in other sectors - in particular for NTNI-interconnectedness (see our response to Question 1) and NTNI activities. It would be appropriate to set the limit for insurers at a level comparable to the G-SIB assessment.
KPMG	UK	No	<p>The IAIS could consider using a combination of the approaches outlined in the consultation document to inform the level of the quantitative threshold.</p> <p>The IAIS could develop an objective and quantitative approach to calculate the quantitative threshold that reflects the "floor" of systemic risk for G-SIIs. This can be based on the characteristics of an insurer that "just" makes it into the G-SII category. This could be used in conjunction with the natural cliff approach and cluster analysis to help inform the level of the threshold.</p> <p>The advantage of this approach is that it leads to a clear, objective and demonstrable outcome for insurers. Sharing graphics showing the distribution of participant firms by risk category and an individual insurer's position on this will also aid individual understanding of the reason for their classification as G-SII or IAIG.</p> <p>Cross-sectoral analysis, while useful, will be challenging given the different business models of insurers and banks. The</p>

			activities conducted in banking are varied and subject the bank to a different set of risks. However, where there is commonality (such as regarding the use of derivatives for speculative purposes) comparison would be useful.
Prudential plc	UK	No	We advocate the IAIS use cross-sectoral analysis to establish the quantitative threshold in Phase II. For fairness on a cross sectoral basis, comparison to G-SIBs would seem to be the most appropriate basis for determining the quantitative threshold. We also believe that the use of methods like cluster analysis, natural cliffs and average score of insurers to set thresholds will make the methodology relative and will be inconsistent with the move towards use of absolute reference values.
Allstate Insurance Company	United States	No	One of the approaches considered for establishing the quantitative threshold is a cross-sectoral analysis where potential G-SIIs would be compared to systemically important firms in other sectors (e.g., G-SIBs). We believe this approach is useful as it provides a relative measure of systemic risk posed by insurers to the global financial system. Incorporation of cross-sectoral analysis ensures that firms designated as G-SIIs are truly systemically important to the entire financial system in comparison to other systemically risky firms, not limited to insurers.
American Council of Life Insurers	United States	No	<p>The consultation lists "cross-sectoral" analysis as an alternative approach for determining the quantitative threshold. ACLI strongly supports the comparison of potential G-SIIs to important firms in other sectors (such as G-SIBs). Firms should be assessed for systemic relevance in relation to the financial system as a whole, not just in comparison to other insurance firms. A firm is systemically important because of its importance as measured across the financial system, not because of its relative ranking in the insurance sector. Cross-sectoral evaluation is critical for ensuring that firms designated as G-SIIs are truly systemically important and not just large insurance firms.</p> <p>Also, it is imperative that a consistent rationale underlies the distribution of indicators across Phases II and III.</p> <p>Only factors that have been empirically shown to be related to systemic risk should be included in Phase II. Vulnerabilities that need more qualitative interpretation should be part of the Phase III assessment.</p>
RAA	United States and many other jurisdictions	No	As stated in our answer to question 14, we believe that cross sectoral analysis is a major missing element in the current GSII methodology. The IAIS and FSB should focus on additional processes for comparing the systemic risk scores of banks and insurers. While this may be challenging due to the necessarily different methodologies employed, it is in everyone's interest, including supervisors, to ensure that systemic risk supervision resources are employed where they are most needed.
American Insurance Association	United States of America	No	<p>As with Phase I, the reliability of the Phase II process depends on whether the "data" analyzed are relevant, publicly-available cross-sectoral measures of a source of risk to the financial system. Cross-sectoral indicators of systemic risk that are culled from public information will provide groups with a transparent way of determining whether their activities place them in danger of G-SII designation. Conversely, conducting a comparative analysis among the pool of insurance groups meeting a consolidated asset metric will produce flawed results that will permeate (and undercut) the entire assessment methodology.</p> <p>In this regard, turning to "absolute" (i.e., cross-sectoral) reference values for some risk indicators is a good, but insufficient start. The IAIS should look at absolute reference values for all indicators that are derived from public or regulatory sources. Those indicators that are the subject of non-public data collection directly from insurance groups should be deferred to a later phase of the G-SII assessment process, but should similarly have an absolute reference value.</p> <p>The IAIS has also asked what type of approach it should use in establishing the Phase II quantitative thresholds. Consistent</p>



			<p>with our comments in favor of absolute reference values, AIA would support a cross-sectoral analytic approach that compares potential G-SIIs to systemically important firms in other financial sectors. AIA believes that such an approach would show that, with respect to systemic risk indicators, insurers are significantly smaller with respect to those indicators than banks. (F/N 4)</p> <p>(F/N 4: See Geneva Association, "Cross Industry Analysis: 28 G-SIBs vs. 28 Insurers Comparison of Systemic Risk Indicators," p. 4 (February 2013) (This updated version "to the cross industry analysis published in December 2012 [also] highlights the need to establish a G-SIFI designation methodology which enables a comparison of identical indicators of companies from different sectors within the financial service industry.") (emphasis supplied)).</p>
Prudential Financial, Inc.	United States of America	No	<p>The concept of proportionality is often discussed in the context of determining the population of insurers to which the G-SII Policy Measures of the IAIS should apply. We believe proportionality is a critical element of regulation and in particular the calibration of standards. In this context, the threshold or cut-off point for determining the recommended list of G-SIIs - and calibration of all G-SII Policy Measures - must reflect the widely acknowledged fact that insurers are less systemic than banks. A comparison of the highest ranking insurers - based on a methodology that analysis insurers against the global financial system rather than their relative ranking among insurers - to systemic firms in other sectors should be undertaken when developing thresholds. The IAIS - in close coordination with the FSB, BIS and standard setters for other financial sectors - must gather appropriate data for a thorough and empirical cross-sectoral analysis to more appropriately assess the systemic risk a potential or designated G-SII poses to financial stability compared to other institutions in the financial services sector.</p>
MassMutual Financial Group	USA	No	<p>As noted in our response to Question 1, we believe absolute reference values that reflect the contribution to global systemic risk should be used for all quantitative metrics and we encourage the IAIS to ensure absolute reference values account for global systemic risk exposure across the global financial system, and not be limited to the assessment within the insurance industry.</p>
MetLife, Inc.	USA	No	<p>As a guiding principle, we suggest that the threshold be absolute, not relative, and set at a level such that an impact of that magnitude would truly represent a systemic risk to the global financial system. Moreover, we encourage regulators to compare insurers' systemic risk scores to comparable measures for G-SIBs and other types of institutions that bear the potential to be systemically relevant.</p>
Property Casualty Insurers Association of America (PCI)	USA	No	<p>The first factor (cross-sectoral analysis) must be maintained and strengthened. The other factors mentioned in par. 37 are not analytically linked to systemic riskiness, but only to the relative rankings of insurance groups.</p>
<b>16 - While the majority of the Proposed Methodology will be based on quantitative outputs, what specific qualitative aspects of a potential G-SII should be considered in Phase III that are not captured in Phases I and II?</b>			
CLHIA	Canada	No	<p>Any qualitative assessment must be part of a robust framework that is objective, transparent and consistent. To be properly recognized, risk management practices may need to be part of the Phase III qualitative assessment.</p>
Insurance Europe	Europe	No	<p>A robust qualitative evaluation is necessary to ensure an accurate and comprehensive understanding of insurance firms. Specifically, the methodology should recognise and better incorporate product and risk management tools, both in Phase II</p>

			<p>and Phase III. For example, there are some risk management practices, such as liquidity management, collateralisation, and separate accounts that can limit the impact on other financial institutions if the insurer were to fail. Insurers should get full credit for that. In addition, recent regulatory changes mean that some of these practices, such as collateralisation, will be used even more by insurers.</p> <p>GFIA recommends that the IAIS identify objective and quantitative references for risk management practices such as those mentioned above, and that it incorporate those references into the Phase II quantitative analysis. This would allow the IAIS to reward and encourage good risk management practices. Because Higher Loss Absorbency (HLA) "buckets" depend on the Phase II score, incorporating quantitative metrics for risk management in Phase II would also ensure that G-SIIs are placed in the appropriate HLA bucket.</p> <p>GFIA welcomes the fact that the IAIS proposes to consider insurers' exposure to large counterparties only qualitatively, as this does not indicate the impact of the insurer's failure on the system. The same principle needs to be applied to other indicators and a distinction between insurers' exposure to systemic risk and the system's exposure to insurers needs to be made. Phase III should also include an assessment of the reliability of Phase II data and, in particular, its relevance to systemic risk.</p> <p>The qualitative assessment should also take account of other potential mitigating factors such as the financial strength of the insurer and existing local/regional regulatory and resolution regimes and loss-absorbing capacities of insurance guarantee schemes, if those are available.</p> <p>Finally, while GFIA supports the Phase III qualitative review concept, it should also include assessment of the qualitative data to ensure that it adequately reflects potential systemic risk if it is to be included within the prospective G-SII's score. It should also consider ancillary factors and risk management in determining the degree of any residual potential residual risk that cannot be contained within the insurer. It is important that there is consistency in the application of the qualitative assessment, and therefore the IAIS should produce supervisory guidelines and subject this to peer review.</p>
Insurance Europe	Europe	No	<p>Insurance Europe welcomes the fact that the IAIS proposes to consider insurers' exposure to large counterparties only qualitatively as this does not indicate the impact of the insurer's failure on the system. The same principle needs to be applied to other indicators and a distinction between insurers' exposure to systemic risk and the system's exposure to insurers needs to be made.</p> <p>The qualitative assessment should take account of regulatory frameworks applicable in the jurisdictions of the G-SII-candidates, as well as of other potential mitigating factors. In the process of comparing and ranking insurance companies, financial strength and risk management practices need to be incentivised. In the context of a major financial crisis, it is of crucial importance whether a counterparty fails and is therefore not able to fulfil its obligations. This could happen either to a company which has not implemented effective risk management practices or to one that is not financially strong.</p> <p>Phase III should also assess the quantitative data to ensure that it is representative. For example, it should consider the ancillary factors set out in the parallel consultation on NTNI to determine whether any of the quantitative outputs for each indicator should be disregarded.</p>
European Insurance and	European Union	No	<p>EIOPA supports a methodology which is primarily designed around a quantitative element, but which allows for a qualitative component, in recognition of the fact that the complexity and specificities of large insurance institutions cannot be appropriately</p>

Occupational Pensions Authority			<p>captured only on the basis of a Quantitative assessment.</p> <p>As mentioned in previous questions, EIOPA is of the view that the Qualitative elements of the methodology should not apply to all prospective G-SIIs but only to those above the quantitative threshold (on a mandatory basis) or to others which are added at the discretion of the relevant supervisory authorities.</p> <p>The Qualitative phase should be built around two fundamental pillars:</p> <ul style="list-style-type: none"> <li>- Ancillary indicators: A defined set of quantitative indicators relating to specific aspects of the systemic importance of an institution that may complement the indicator-based measurement approach.</li> <li>- Qualitative criteria: A defined set of credible and verifiable qualitative criteria, which could be used to inform and potentially adjust the outcome of the Quantitative Phase for specific institutions (supported by appropriate justification and documentation). Exclusive focus on a specific activity (e.g. reinsurance) should be avoided.</li> </ul> <p>Some examples of possible Qualitative criteria:</p> <ul style="list-style-type: none"> <li>- Growth pattern of the institution including future strategic plans (with focus on NTNI activities)</li> <li>- Relevant changes in business profile (e.g. acquisition, re-structuring)</li> <li>- Assessment of risk mitigants (e.g. LAC)</li> <li>- Risk/Exposure concentration analysis on both Asset and Liability side</li> <li>- Degree of Matching between Assets and Liabilities</li> </ul>
GDV - German Insurance Association	Germany	No	<p>Assessing of risk management and financial strength: In the ranking and comparison of an insurance company there must be incentives for financial strength and consequent risk management. In case of a big financial crisis, it is of major importance if a counterpart fails and is not able to fulfil its obligations. This could happen either to a company which has not implemented a consequent risk management or has a weak financial strength. So we suggest to implement</p> <ul style="list-style-type: none"> <li>- a quantitative factor that measures financial strength in the designation process. In this factor should measure the overall quantity and quality of the financial strength (comparable to the solvency-ratio or the own fund tiering approach of Solvency II)</li> <li>- a qualitative factor that measures the quality of risk management or the internal capital model</li> <li>- recognition of more severe local/regional regulatory regimes in contrary to less severe regimes</li> </ul> <p>Incentivisation for (local) protective mechanisms: In Germany there are two Guarantee Schemes in place, Protektor (for Life business) and Medicator (for health business). If an insurance company failed these Guarantee Schemes, financed by contributions of every insurance company in the market, would absorb losses of the failed insurer, which is part of the collective. We would suggest to include an incentivisation for such protective mechanisms in the methodology.</p>
Munich Re	Germany	No	<p>Assessing of risk management and financial strength: In the ranking and comparison of an insurance company, there must be an incentivisation for financial strength and risk management. The risk management function must consider that, in case of a big financial crisis, a counterparty could fail and not be able to fulfil its obligations. A company which has not implemented an adequate risk management function or has a weak financial strength would not have planned for this event. To address this, we suggest to implement</p> <ul style="list-style-type: none"> <li>- a quantitative factor that measures financial strength in the designation process. In this factor should measure the overall quantity and quality of the financial strength (comparable to the solvency-ratio or the own fund tiering approach of Solvency II)</li> <li>- a qualitative factor that measures the quality of risk management or the internal capital model</li> <li>- recognition of more severe local/regional regulatory regimes in contrary to less severe regimes</li> </ul>

			Incentivisation for (local) protective mechanisms: For example, in Germany there are two Guarantee Schemes in place, Protektor (for Life business) and Medicator (for health business). If an insurance company failed these Guarantee Schemes, financed by contributions of every insurance company in the market, would absorb losses of the failed insurer, which is part of the collective. We would suggest to include an incentivisation for such protective mechanisms in the methodology.
Global Federation of Insurance Associations	Global	No	<p>A robust qualitative evaluation is necessary to ensure an accurate and comprehensive understanding of insurance firms. Specifically, the methodology should recognise and better incorporate product and risk management tools, both in Phase II and Phase III. For example, there are some risk management practices, such as liquidity management, collateralisation, and separate accounts that can limit the impact on other financial institutions if the insurer were to fail. Insurers should get full credit for that. In addition, recent regulatory changes mean that some of these practices, such as collateralisation, will be used even more by insurers.</p> <p>GFIA recommends that the IAIS identify objective and quantitative references for risk management practices such as those mentioned above, and that it incorporate those references into the Phase II quantitative analysis. This would allow the IAIS to reward and encourage good risk management practices. Because Higher Loss Absorbency (HLA) "buckets" depend on the Phase II score, incorporating quantitative metrics for risk management in Phase II would also ensure that G-SIIs are placed in the appropriate HLA bucket.</p> <p>GFIA welcomes the fact that the IAIS proposes to consider insurers' exposure to large counterparties only qualitatively, as this does not indicate the impact of the insurer's failure on the system. The same principle needs to be applied to other indicators and a distinction between insurers' exposure to systemic risk and the system's exposure to insurers needs to be made. Phase III should also include an assessment of the reliability of Phase II data and, in particular, its relevance to systemic risk.</p> <p>The qualitative assessment should also take account of other potential mitigating factors such as the financial strength of the insurer and existing local/regional regulatory and resolution regimes and loss-absorbing capacities of insurance guarantee schemes, if those are available.</p> <p>Finally, while GFIA supports the Phase III qualitative review concept, it should also include assessment of the qualitative data to ensure that it adequately reflects potential systemic risk if it is to be included within the prospective G-SII's score. It should also consider ancillary factors and risk management in determining the degree of any residual potential residual risk that cannot be contained within the insurer. It is important that there is consistency in the application of the qualitative assessment, and therefore the IAIS should produce supervisory guidelines and subject this to peer review.</p>
Institute of International Finance/ The Geneva Association	Global	No	<p>We support the inclusion of a qualitative assessment phase in the G-SII assessment methodology, given the heterogeneity of the insurance sector and the difficulty in quantitatively measuring key elements of an insurer's business model.</p> <ul style="list-style-type: none"> <li>- Phase III should assess the quantitative data to ensure that it is representative, e.g. it should consider the ancillary factors set out in the concurrent consultation on NTNI to determine whether any of the quantitative outputs for each indicator should be disregarded.</li> <li>- We believe that certain risk management practices can mitigate systemic risk. These practices include the holding of liquid assets to offset liability liquidity and the posting of collateral to protect counterparties. It is our strong recommendation that such practices be included in Phase II; however to the extent that they are not reflected in Phase II, it is appropriate to include them in Phase III.</li> <li>- We also recommend that Phase III include a robust assessment of data consistency of reported data across insurers in order to ensure a sound basis for developing a list of potential G-SIIs.</li> </ul>

			<p>- If valuable information gained from Phase III should give rise to adjustments to the quantitative score developed in Phase II, then we argue it should be taken into account for HLA purposes - subject, however, to a framework that would ensure consistent, comparable and transparent treatment of all GSIs, such as described under this section paragraph 2 below. Should the IAIS choose to include in Phase II's quantitative assessment an indicator with no link to the financial system, we recommend that the qualitative assessment ensure that an insurer's ranking and score are commensurate with the potential of its failure to impact the financial system in a systemic manner.</p> <p>That said, based on the currently available information, it is difficult to estimate the influence and role of Phase III in the process. Too large a role for supervisory judgment will make the G-SII process subjective and result in uncertain and inconsistent designation outcomes. In general, a qualitative assessment should be set up in such a way as to ensure consistent, comparable and transparent treatment of potential G-SIIs. The BCBS criteria and instructions for supervisory judgment in the G-SIB designation methodology, tailored for insurance as appropriate, may offer a starting point for parameters to guide the Phase III process. Phase III would best be carried out by regulators with knowledge of the firm and, as noted above, clear guidelines on how it should be conducted including a non-exhaustive list of elements to be considered and potentially a requirement for peer review of the effort. We advocate that insurers are fully involved in Phase III to explain the features of their firm identified in the qualitative assessment.</p>
AIA Group	Hong Kong	No	The IAIS should seek to understand: the insurer's reasons for derivatives trading, i.e. whether for speculation or hedging; and whether derivatives are related to financial risks or sovereign risks. The former may be systemic while the later may not be.
Global Reinsurance Forum	International	No	<p>We have strong concerns regarding the application of a qualitative phase (see as well our response to Question 17 below). Should a qualitative phase nonetheless be desired, and assuming the process satisfies the characteristics laid out in our response to question 17 below, we would advise the IAIS to use this phase to evaluate and recognize</p> <ul style="list-style-type: none"> <li>- the quantity and quality of the financial strength of the company</li> <li>- quality of risk management and the use of company specific capital models (if any)</li> <li>- the existence of severe local/regional regulatory regimes in place.</li> </ul>
on behalf of the European GSIs, Aegon, Allianz, Aviva, Axa and Prudential	International	No	<ul style="list-style-type: none"> <li>- Phase III should assess the quantitative data to ensure that it is representative, e.g. it should consider the ancillary factors set out in the concurrent consultation on NTNI to determine whether any of the quantitative outputs for each indicator should be disregarded.</li> <li>- We believe that certain risk management practices can mitigate systemic risk. These practices include the holding of liquid assets to offset liability liquidity and the posting of collateral to protect counterparties. It is our strong recommendation that such practices be included in Phase II; however to the extent that they are not reflected in Phase II, it is appropriate to include them in Phase III.</li> <li>- We also recommend that Phase III include a robust assessment of data consistency of reported data across insurers in order to ensure a sound basis for developing a list of potential G-SIIs.</li> </ul>
General Insurance Association of Japan	Japan	No	To achieve an appropriate systemic risk assessment, activities and trading for ALM and hedging purposes should be separately assessed, to the extent possible, from those for speculative purposes.

The Life Insurance Association of Japan	Japan	No	<p>If the jurisdiction where a G-SII has its major business has organized resolution regime in place or if the G-SII's organizational structure is simple, an orderly resolution is likely to take place and thereby, it would dampen the systemic risk. In Japan, for example, it is possible to restrain surrender of policies through suspension of business before failure or reduce policy reserve and guaranteed interest rate after failure. Indeed, when Japan experienced a series of resolutions around the year 2000, orderly resolution took place without imposing financial burden on taxpayers, under the above mentioned framework. In this context, the LIAJ would like the IAIS to take into account the status of development of resolution regime in each jurisdiction during Phase III consideration.</p>
Swiss Re	Switzerland	No	<p>We have strong concerns regarding the application of a qualitative phase (see as well our response to Question 17 below).</p> <p>Should the IAIS nonetheless implement a qualitative phase, the process should satisfy the characteristics laid out in our response to Question 17 below. In particular, it should follow a robust process with a short list of clear transparent criteria to ensure consistency. E.g., the IAIS could use this phase to assess whether the G-SII provides critical functions. Such an analysis should first consider the market share in the function followed by individual assessments of the impact of this function's failure. This should consider both, the potential contagion effects as well as a potential lack of substitutability.</p>
Institute and Faculty of Actuaries	UK	No	<p>Consideration should be given to market share in terms other than premium. Page 15 Phase I Data Collection Phase considers total premiums from jurisdictions outside home jurisdiction. For example, if an insurer is the leading insurer in a developing country, but total premiums from business written in that country is small in relation to the insurer's group operations, there should be some recognition of the size of the insurer in that specific country.</p> <p>Other qualitative factors which should also be considered are:</p> <ul style="list-style-type: none"> <li>- The quality of risk management processes and recovery/resolution plans</li> <li>- Merger &amp; Acquisition activity/ degree of growth by acquisition</li> <li>- Complexity of the group's global structure and degree of centralised management.</li> </ul>
KPMG	UK	No	<p>As part of Phase III, the IAIS can give consideration to the following qualitative aspects of a potential G-SII:</p> <ul style="list-style-type: none"> <li>- The governance and risk management frameworks that are currently in place within the organisation</li> <li>- Distinction between gross and net exposures and the nature and amount of mitigation in place (for example collateral arrangements that reduce exposure to counterparty default)</li> <li>- Group ORSA, especially regarding understanding any change in strategy or new risks identified</li> <li>- Whether the group has taken steps over the year to reduce its systemic footprint</li> <li>- Risk appetite and strategy including interaction between the risk function and the business (front line)</li> <li>- Consider whether there has been any historical interactions between the local supervisor and the insurer and what issues have been raised in the past</li> <li>- Conduct ongoing management interviews to better understand the business and risks</li> </ul>
Prudential plc	UK	No	<p>We support the inclusion of a qualitative assessment phase in the G-SII assessment methodology:</p> <ul style="list-style-type: none"> <li>- Phase III should assess the quantitative data to ensure that it is representative</li> </ul>

			- We also recommend that Phase III include a robust assessment of data consistency of reported data across insurers in order to ensure a sound basis for developing a list of potential G-SIIs.
Allstate Insurance Company	United States	No	
American Council of Life Insurers	United States	No	<p>A robust qualitative evaluation is necessary to ensure an accurate and comprehensive understanding of insurance firms. Specifically, the methodology should recognize and better incorporate risk management tools, both in Phase II and Phase III.</p> <p>For example, there are some risk management practices, such as liquidity management, collateralization, and separate accounts which can limit the impact on other financial institutions if the insurer were to fail. Insurers should get full quantitative, Phase II credit for that risk management.</p> <p>As noted in the January 2015 IAIS Global Insurance Market Report (GIMAR), U.S. insurers posted approximately USD 12 billion in collateral (92% of which was posted by life insurance companies) and were the beneficiaries over more than USD 36 billion in collateral posted by counterparties. The GIMAR also notes that in the future, collateralization rates are expected to steadily increase due to changes in derivative regulation as over-the-counter derivatives migrate to centralized clearinghouses and stronger margin requirements take effect.</p> <p>Collateral mitigates the risk that a counterparty may not meet all or a portion of their payment obligations under a derivative contract and is made up of high-value assets. In 2014, nearly half of all collateral posted by U.S. insurance companies consisted of U.S. Treasury and agency securities (45%). Other significant sources of collateral were cash (17%), U.S. corporate bonds (14%) and mortgage backed securities (14%).</p> <p>Firms should receive credit in Phase II for sound risk management practices that mitigate systemic risk exposures. This approach would reward good systemic risk management and incentivize de-risking by giving higher G-SII assessment scores to firms that take on greater risk.</p> <p>We recommend that the IAIS identify objective and quantitative references for systemic risk management practices, such as collateralization, separate accounts, and other risk management tools, and incorporate those references into the Phase II quantitative analysis. This would allow the IAIS to reward and encourage good systemic risk management practices. Because Higher Loss Absorbency (HLA) "buckets" depend on the Phase II score, incorporating quantitative metrics for risk management in Phase II would also ensure that G-SIIs are placed in the appropriate HLA bucket. As we noted in our answer to question 17, the knowledge of a firm's risk management practices gained in Phase III should influence a GSII's score. Of course, if Phase III is to impact the scores or rankings of insurers, this evaluation should be conducted in accordance with a framework that ensures objectivity, transparency, comparability, and consistency in application across groups.</p>
RAA	United States and many other jurisdictions	No	We believe that once a potential GSII has been identified in phase 2, a significant portion of the systemic risk evaluation remaining should be based on qualitative rather quantitative inputs, including the input derived from direct communications between the potential GSII and the relevant supervisors. This is necessary because the nature and activities of insurers and reinsurers are much less heterogeneous than the activities of banks. The qualitative elements that should be considered, include:

			<ul style="list-style-type: none"> <li>- The extent of utilization of reinsurance and the nature of the reinsurance program (rather than as a quantitative indicator of interconnectedness)</li> <li>- The overall of financial strength of the potential GSII</li> <li>- The quality of the GSII's risk management</li> <li>- The quality of the regulation and supervision of the GSII by its home jurisdiction</li> <li>- The solvency "backstop" provided by the domestic jurisdiction's policyholder protection mechanisms, such as state insurance guaranty funds in the United States, and</li> <li>- The systemic potential of NTNI activities.</li> </ul>
Prudential Financial, Inc.	United States of America	No	<p>We believe the IAIS would be mistaken to limit the majority of the assessment methodology to the quantitative output portion of the exercise. The IAIS has acknowledged the heterogeneity of the insurance sector and the challenge to develop a consistent, objective, and quantifiable framework - a reality that is unlikely to change in the short term. This reality highlights the need for Phase III, a phase that we believe is equal if not more important than the quantitative portion of the assessment at this point in time.</p> <p>We respect and understand the IAIS preference for focusing on quantifiable measures however, at this point the assessment methodology and related measures overstate the potential risk of a firm to the global financial system. Phase III offers a forum for the firm and supervisors to address shortcomings of the quantitative portion of the assessment methodology, including a review of a firm's risk management framework and its effectiveness. This would also include a firm's contingency planning practices and the extent to which it assesses and remediates any issues that may arise in a hypothetical solvency crisis.</p> <p>While we ultimately believe a firm's risk management framework must be captured in Phases I and II, we recognize such modifications to the assessment methodology will take time. That said, given the ramifications that accompany designation, including increased capital requirements and other prudential measures, we believe it is critical that the IAIS develop an interim method for adjusting a firm's Phase II score to account for the knowledge gained in Phase III. HLA bucket placement offers the easiest example of the potential injustice that may result from a failure to adjust the Phase II score for information gained in Phase III.</p>
MassMutual Financial Group	USA	No	<p>As noted in our response to Question 12, credit for risk management should be applied throughout the assessment process. We believe it should be incorporated in the exposure measured in Phase II, as well as in the qualitative assessment of Phase III.</p>
MetLife, Inc.	USA	No	<p>We cannot over-emphasize the importance of Phase III's qualitative evaluation of the quantitative measurement of potential systemic importance. MetLife's proposed approach for Phase III also includes a robust, transparent and comparable qualitative discussion and evaluation.</p> <p>Key qualitative aspects include any areas where the quantitative measures employed may not tell the entire story. Using quantitative measures suggested by MetLife in its proposal for G-SII Assessment (see Opening Statement and Presentation Deck shared with IAIS principals) would reduce, but not eliminate, the need to consider other factors such as use of collateral, or the liquidity of reinvestment portfolios.</p> <p>However, we would point out that it is critical that potential G-SIIs be included in the discussion in Phase III, alongside regulators and the IAIS, who would of course be expected to have closed sessions without insurers present. Early inclusion provides potential G-SII management with insights that could enable them to make early decisions to de-risk such that firms</p>



			<p>either avoid designation or re-designation as the case may be.</p> <p>In addition, MetLife strongly recommends that an appeal process be incorporated into Phase V of the Updated Methodology such that insurers slated for recommendation to the FSB for G-SII designation are afforded the opportunity to appeal the grounds of their designation with the FSB independently of the IAIS. Such an appeal presumes, however, that G-SIIs will have been able to engage with the IAIS and their group-wide supervisors in meaningful discussions of the reasons for their proposed designation. Meaningful discussions would include information on individual indicator and aggregate scores and how the G-SII threshold were computed.</p>
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Paragraph 42 contains a number of important qualitative aspects that should be considered in Phase III. A key aspect to consider is if a firm is increasing or decreasing its systemic activities to the extent this is not reflected in the quantitative (Phase 2) assessment.
<b>17 - What constraints should be imposed on the use of non-quantitative analysis of the potential systemic importance of insurers in the Proposed Methodology? To what extent, if at all, can qualitative analysis enhance the IAIS's understanding of the systemic importance of a potential G-SII?</b>			
CLHIA	Canada	No	Any qualitative analysis must be part of a robust framework that is objective, transparent and consistent. The qualitative analysis should be used as another tool to identify the companies that should not be designated as G-SIIs based on additional information that cannot be obtained quantitatively.
Insurance Europe	Europe	No	<p>The qualitative analysis (Phase III) allows the IAIS to comprehensively evaluate a firm in ways that the quantitative analysis does not allow. This is especially important given the great heterogeneity within the insurance industry. A G-SII methodology that is purely quantitative or too heavily weighted in favour of quantitative metrics to the exclusion of qualitative analysis will not properly capture the heterogeneity of an industry that features different business structures, different business models, different lines of business, different geographical exposures, different products in emerging and developing markets. A qualitative analysis (Phase III) allows the IAIS to account for these differences in a way that a quantitative analysis is unable to capture.</p> <p>GFIA recommends that the IAIS consider what role the qualitative analysis should play in determining a firm's Phase II score, which determines a G-SII's HLA "bucket" assignment. Currently, the outcome of Phase III does not impact a G-SII's Phase II score "unless the Phase III analysis reveals there are substantive errors in the data submitted by insurers". GFIA believes that the findings from Phase III, particularly those involving risk management tools, should influence the Phase II score. In GFIA's view, it is possible to develop objective references to measure a number of risk management tools and to incorporate those references into the Phase II quantitative analysis. This would allow the IAIS to reward and encourage good risk management practices.</p> <p>Finally, while GFIA supports the Phase III qualitative review concept, it should not be used to allow an insurer that is under the quantitative threshold to be considered for G-SII designation.</p>
European Insurance and	European Union	No	As mentioned in our response to the previous question, EIOPA believes that the Qualitative analysis is an important element of the G-SII methodology.

Occupational Pensions Authority			<p>However, to ensure the credibility of the methodology and its outcomes, it is important to set clear requirements for the elements considered in this context. As previously stated, qualitative criteria should be credible and verifiable, and its use should be supported by appropriate justification and documentation. This is broadly consistent with the principles presented in paragraph 40 of the Consultation Document.</p> <p>As mentioned in previous responses, EIOPA supports the fact that this phase is mandatory only for insurers above the threshold (and those which are added at the discretion of the relevant supervisory authorities).</p>
GDV - German Insurance Association	Germany	No	<p>According to paragraph 35, insurers who score below the quantitative threshold will not be considered for potential identification as G-SII. We understand that these undertakings won't be subjected to Phase III with the possible outcome that the discovery Phase may overrule the quantitative findings, which would have constituted a major constraint.</p> <p>As mentioned above, the GDV strongly believes that the qualitative analysis should be focused on the soundness of regulatory requirements already applicable to the potential G-SII. This exercise could provide valuable insights about how potential sources of systemic risk are already adequately captured by targeted supervisory measures.</p>
Munich Re	Germany	No	<p>According to paragraph 35, insurers who score below the quantitative threshold will not be considered for potential identification as G-SII. We understand that these undertakings won't be subjected to Phase III even if the discovery Phase would overrule the quantitative findings. This skews the results of the G-SII designation process.</p> <p>As mentioned above, the qualitative analysis should be focused on the soundness of regulatory requirements already applicable to the potential G-SII. This exercise could provide valuable insights about how potential sources of systemic risk are already adequately captured by targeted supervisory measures.</p>
Global Federation of Insurance Associations	Global	No	<p>The qualitative analysis (Phase III) allows the IAIS to comprehensively evaluate a firm in ways that the quantitative analysis does not allow. This is especially important given the great heterogeneity within the insurance industry. A G-SII methodology that is purely quantitative or too heavily weighted in favour of quantitative metrics to the exclusion of qualitative analysis will not properly capture the heterogeneity of an industry that features different business structures, different business models, different lines of business, different geographical exposures, different products in emerging and developing markets. A qualitative analysis (Phase III) allows the IAIS to account for these differences in a way that a quantitative analysis is unable to capture.</p> <p>GFIA recommends that the IAIS consider what role the qualitative analysis should play in determining a firm's Phase II score, which determines a G-SII's HLA "bucket" assignment. Currently, the outcome of Phase III does not impact a G-SII's Phase II score "unless the Phase III analysis reveals there are substantive errors in the data submitted by insurers". GFIA believes that the findings from Phase III, particularly those involving risk management tools, should influence the Phase II score. In GFIA's view, it is possible to develop objective references to measure a number of risk management tools and to incorporate those references into the Phase II quantitative analysis. This would allow the IAIS to reward and encourage good risk management practices.</p> <p>Finally, while GFIA supports the Phase III qualitative review concept, it should not be used to allow an insurer that is under the quantitative threshold to be considered for G-SII designation.</p>
Institute of International Finance/ The	Global	No	<p>While we support the need for a qualitative assessment in the G-SII assessment methodology given the heterogeneous character of insurance, there is also a risk that it may give the process too much of a discretionary character. This could harm the consistency of application of the methodology across different jurisdictions.</p>

Geneva Association			<p>We suggest that the IAIS produce guidance on the application of the qualitative phase and include this within its program of peer reviews to ensure consistency of application. The BCBS' instructions for supervisory judgment, including criteria for judgment and for how it should be incorporated into the assessment process, could serve as a guide (14). An example of a requirement would be to demand sufficient supervisory experience for the committee of IAIS members conducting the qualitative assessment.</p> <p>Phase III would best be carried out by regulators with knowledge of the firm and, as noted above, clear guidelines on how it should be conducted including a non-exhaustive list of elements to be considered and potentially a requirement for peer review of the effort.</p> <p>FOOTNOTE: (14) Basel Committee on Banking Supervision, "Global systemically important banks: updated assessment methodology and the higher loss absorbency requirement," July 2013, p. 9.</p>
AIA Group	Hong Kong	No	We have no comments in this regard.
Global Reinsurance Forum	International	No	<p>In general, a qualitative phase that exposes potential G-SIIs to subjective judgement should be set up in such a way as to ensure objective, consistent, comparable and transparent treatment of all potential G-SIIs. The consultation document so far does not provide adequate assurance that this will be the case. Firstly, the process must be designed in such a way as to ensure balanced and comparable value judgements - this can potentially be accomplished by ensuring that a committee consisting of the same members evaluates each potential G-SII. These members must also represent a viewpoint that in aggregate is reflective of the consensus view regarding sources of systemic risk in insurance. The challenges of setting up such a process that fulfills these requirements should not be underestimated. We have strong reservations regarding the degree to which such a process is practical or even feasible and would advise the IAIS to forgo the use of a qualitative phase unless it can provide a more detailed proposal for a process that meets these minimum criteria. Should the IAIS choose to go forward with the qualitative phase, it is critical that IAIS introduces concrete mechanisms to determine the potential impact of the qualitative analysis on the G-SII designation. We would propose that the qualitative phase ultimately be used to determine a multiplier which is applied to the score for the relevant indicator from phase II. This multiplier should be limited by a lower and upper bound of no greater than +/-20%. That is, the qualitative phase can result in an increase or decrease of the score for each indicator by up to 20%. This framework, coupled with a fair and balanced judgement process, would ensure that the process is consistent and comparable while not exposing individual potential G-SIIs to excessive subjective judgement. Note also that this response applies as well to the Reinsurance Supplementary Assessment (see our response to Question 19 below).</p>
on behalf of the European GSIs, Aegon, Allianz, Aviva, Axa and Prudential	International	No	<p>We agree that non-quantitative analysis of the potential systemic importance of insurers can be valuable, as the Phase II framework will inevitably provide an imperfect assessment of an insurer's systemic footprint. In developing a framework to incorporate non-quantitative analysis, we recommend consideration of the following principles:</p> <ul style="list-style-type: none"> <li>- The Phase III analysis should have at least some impact on the Phase II score. This is particularly important given that the IAIS has decided to use the quantitative score assessment methodology to determine both designation and HLA bucketing.</li> <li>- The impact of the Phase III analysis on the Phase II score should be subject to guidance and oversight to ensure consistency in approach to mitigate the risk that discretion would introduce inconsistencies into the process.</li> <li>- Any adjustment of the Phase II scores as a result of the Phase III analysis should be transparent. The adjustment, as well as</li> </ul>

			<p>the underlying rationale, should be disclosed to the insurer and to other involved supervisors at the IAIS. Such transparency will help drive consistency in the IAIS process.</p> <ul style="list-style-type: none"> <li>- The non-quantitative analysis should be undertaken by the group supervisor in consultation with the supervisors of the key jurisdictions that the group operates in.</li> <li>- The data used for the designation should be homogeneous, comparable</li> <li>- Peer review can be used as a means to ensure common understanding</li> </ul>
General Insurance Association of Japan	Japan	No	<ul style="list-style-type: none"> <li>- Transparency and objectivity should be prioritized in the G-SII designation. For this reason, we support the proposed principle that "adjustments to potential G-SII status should be supported by well-documented and verifiable arguments that can be applied consistently to all insurers in the G-SII assessment process".</li> <li>- Regarding measures on the indicators that will be moved from Phase II to Phase III due to data responsiveness and data quality concerns, transparency should be ensured so that assessment can be made fairly across insurers (i.e. insurers that provide sufficiently responsive, high quality data and those that do not).</li> </ul>
Swiss Re	Switzerland	No	<p>Swiss Re believes that a qualitative phase that exposes potential G-SIIs to subjective judgment should be set up in such a way as to ensure objective, consistent, comparable, transparent, reproducible and well-founded treatment of all potential G-SIIs. So far, the consultation document does not provide adequate assurance that this will be the case. Our response outlines minimum criteria that a qualitative assessment should adhere to and suggests a framework for limiting the degree of subjectivity imposed by this phase. However, we are not convinced that the goal of a consistent and comparable qualitative assessment is truly feasible and would advise the IAIS to forgo the use of a qualitative phase unless it can provide a more detailed proposal for a robust process with a short list of clear transparent criteria to ensure consistency.</p> <p>The qualitative phase must not completely overrule the quantitative assessment in Phase II. In most jurisdiction, such an overruling would only be consistent with the legal requirements if it is based on an objective, consistent, comparable, transparent, reproducible and well-founded assessment. For the purpose of the proposed assessment, we suggest to facilitate this requirement as follows: If the final post-Phase III judgment regarding the systemic riskiness of an indicator would differ significantly from the Phase II assessment, the quantitative assessment must be refined to ensure objective, consistent, comparable, transparent, reproducible and well-founded treatment. The term "differ significantly" must be objectively defined: The Phase III assessment differs significantly if an equivalent overall assessment would only be reached by a change of the score in the corresponding quantitative indicator of, say, 20%.</p> <p>The IAIS should only give recommendation on the G-SII status if the refined assessment is available.</p> <p>Finally, the IAIS should fully document all qualitative considerations from this phase and make the documentation available to the potential G-SIIs. This framework, coupled with a fair and balanced judgment process, would ensure that the process is consistent and comparable while not exposing individual potential G-SIIs to excessive subjective judgment. Note that this response also applies to the Reinsurance Supplementary Assessment (see our response to Question 19 below).</p>
Aegon N.V.	The Netherlands	No	<p>We agree that non-quantitative analysis of the potential systemic importance of insurers can be valuable, as the Phase II framework will inevitably provide an imperfect assessment of an insurer's systemic footprint. In developing a framework to incorporate non-quantitative analysis, we recommend consideration of the following principles:</p> <ul style="list-style-type: none"> <li>- The Phase III analysis should have at least some impact on the Phase II score. This is particularly important given that the</li> </ul>

			<p>IAIS has decided to use the quantitative score assessment methodology to determine both designation and HLA bucketing.</p> <p>- Any adjustment of the Phase II scores as a result of the Phase III analysis should be transparent. The adjustment, as well as the underlying rationale, should be disclosed to the insurer and to other involved supervisors at the IAIS. Such transparency will help drive consistency in the IAIS process.</p>
Institute and Faculty of Actuaries	UK	No	<p>We believe there should not be constraints as this is key to reaching sensible decisions. The scoring from phase 1 and 2 is, at best, only a rough indicator, and needs enhancement from non-quantitative information. Phase III could also potentially expand to those insurers just below the threshold to consider if they should be included.</p>
KPMG	UK	No	<p>Qualitative assessments will be integral in understanding the extent to which the risks taken on by the insurer are managed and mitigated to reduce their systemic importance. The fact that the IAIS is only reviewing the assessment methodology every three years also means that phase III can be used to identify potentially new systemic activity and take this into account without waiting for the factors to be changed.</p> <p>However, we do not agree with the IAIS's comment that changes to the Phase II score will only be made to correct substantial data errors. If, for example, the further analysis reveals a significant difference between gross and net exposures as a result of the group's risk management, then we believe this should be taken into account in the final score.</p>
Prudential plc	UK	No	No response
Allstate Insurance Company	United States	No	<p>The constraint that should be imposed on the use of non-quantitative analysis to determine G-SII status is that it should not be the predominant or sole source of the determination. While qualitative analysis is important in obtaining a more complete understanding of an entity's systemic risk profile, it should not be used to over-ride quantitative measures of systemic risk.</p>
American Council of Life Insurers	United States	No	<p>We believe the qualitative analysis (Phase III) allows the IAIS to comprehensively evaluate a firm in ways in the quantitative analysis does not. To be useful, it must be conducted in an objective, consistent, comparable, and transparent manner. A G-SII methodology that is purely quantitative or too heavily weighted in favor of quantitative metrics to the exclusion of qualitative analysis will not properly capture the heterogeneity of an industry that features different business structures, different business models, different lines of business, different geographical exposures, different products and emerging and developing markets. A qualitative analysis (Phase III) allows the IAIS to account for these differences in a way that the quantitative analysis is unable to capture.</p> <p>We urge that the IAIS incorporate into Phase II quantifications of balance sheet and product risk mitigation tools that limit an insurer's impact on risk that might otherwise arise. We believe incorporating such quantifications into Phase II quantifications would lead to a more accurate analysis of an insurer's systemic footprint. There are objective ways to measure a number of risk management tools, and we would be happy to work with the IAIS to help identify these metrics.</p> <p>We recognize that such modifications may take time. Given the ramifications that accompany designation, including increased capital requirements and other prudential measures, we believe it is critical that the IAIS develop an interim method for adjusting a firm's score to account for the knowledge gained in Phase III of its product and balance sheet risk management. Recognizing in Phase II the quality of a firm's risk management will improve risk assessment and avoid inappropriate systemic</p>

			<p>risk capital surcharges. Any interim solution must be transparent and comparable to ensure consistency in application to potential G-SIIs.</p> <p>The Phase III qualitative analysis should only be used as a means to screen insurers out from G-SII designation. A qualitative analysis should not be used to designate an insurer that is not identified in the quantitative analysis.</p>
RAA	United States and many other jurisdictions	No	<p>There should be no constraints other than ensuring that these considerations are transparent to the potential GSII. We are supportive of the addition the qualitative evaluation in phase 3 and the exchange with potential GSII in phase 4. We believe that the information exchange should be both robust and bidirectional. In this manner, the GSII would understand the quantitative criteria that led to further evaluation in phase 3 as well as the qualitative factors that supervisors are weighing to determine whether to make a GSII designation.</p>
American Insurance Association	United States of America	No	<p>If the Methodology is Not Further Revised, AIA Would Support Regulatory Discretion in Phase III as a Mechanism to "Screen Out" Groups from Further G-SII Consideration: if the IAIS does not adopt further revisions to the Updated G-SII Methodology to make the process more transparent and cross-sectoral, AIA would encourage the use of qualitative regulatory discretion in Phase III as a way of eliminating potential G-SIIs from further consideration. AIA would not support the converse use of regulatory discretion as a means of considering groups for inclusion that are on the quantitative margins under a flawed methodology.</p>
Prudential Financial, Inc.	United States of America	No	<p>As noted in our response to question 16, we feel strongly that the current constraint prohibiting a firm's Phase II score from changing, except for instances where errors in the data submission are identified, is inappropriate.</p> <p>Ensuring a consistent approach to the application of supervisory judgement of qualitative information is an important element of Phase III. The BCBS criteria and instructions for supervisory judgment in the G-SIB designation methodology, tailored for insurance as appropriate, may offer a starting point for parameters to guide the Phase III process. We believe Phase III would best be carried out by regulators with knowledge of the firm and, as noted above, clear guidelines on how it should be conducted including a non-exhaustive list of elements to be considered and potentially a requirement for peer review of the effort.</p> <p>Please refer to our response to question 16 for additional information on our view of the application of constraints on the use of non-quantitative analysis.</p>
MetLife, Inc.	USA	No	<p>We suggest that restricting the impact of Phase III on Phase II score to "substantive errors in the data submitted by insurers" is too restrictive. We recommend Bullet 1 be amended as follows:</p> <ul style="list-style-type: none"> <li>- Adjustments to the Phase II score will not be made unless the Phase III analysis reveals there are substantive errors in the data or if the additional qualitative data submitted by an insurer is sufficient to justify altering the score given to an individual indicator. Any score adjustment must be initiated by the IAIS and not the national supervisor and will be made on the basis of an analysis of additional data that is transparent and comparable such that there is consistency in application.</li> </ul> <p>We would also reiterate our strong recommendation of the inclusion of an objective appeal process as set out in our Opening Statement to Section V.</p>

Property Casualty Insurers Association of America (PCI)	USA	No	Qualitative analysis is very important given the differences in business models and products, group structures, management philosophies and other areas between global insurance groups, and we strongly support the inclusion of Phase III. One-size-fits-all quantitative analysis is not an adequate method to evaluate systemic risk, especially if that analysis is largely a simple ranking of insurers against each other.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	The qualitative should be based on sound reasoning and avoid hypotheticals.
<b>18 - What other indicators, if any, could be considered by the IAIS to inform the supervisory judgment aspects of the Proposed Methodology?</b>			
China Association of Actuaries	China	No	We understand the incompleteness of quantitative methodology and the necessity of supervisory judgment. To ensure supervisory judgements being employed in a transparent and comparable way, we would recommend IAIS to introduce disclosure requirements and upper limit for applying supervisory judgment in Phase III. The design of supervisory judgment without clear boundary may reduce the credibility of GSII Methodology.
Insurance Europe	Europe	No	Whether the group falls within the definition of a financial conglomerate could be an appropriate indicator to include within the interconnectedness category to provide a focus on any potential complexity and interconnectedness that may be present where a group has material business in other sectors, such as banking.
Insurance Europe	Europe	No	Whether the group falls within the definition of a financial conglomerate (in some jurisdictions the distinction between a financial conglomerate and an insurance group is reflected in the applicable supervisory set-up; e.g. the Financial Conglomerate Directive vs. the Insurance Group Directive) could be an appropriate indicator to include within the interconnectedness category to provide a focus on any potential complexity and interconnectedness that may be present where a group has material business in other sectors, such as banking.
European Insurance and Occupational Pensions Authority	European Union	No	EIOPA supports that indicators excluded from Phase II are considered as part of Phase III. Please note that, as stated in previous responses, EIOPA does not support the exclusion of the full range of indicators which are part of IAIS' proposal. We do not have further suggestions for additional indicators, at this time.
Munich Re	Germany	No	See answer to question 16.
Global Federation of Insurance Associations	Global	No	Whether the group falls within the definition of a financial conglomerate could be an appropriate indicator to include within the interconnectedness category to provide a focus on any potential complexity and interconnectedness that may be present where a group has material business in other sectors, such as banking.

Institute of International Finance/ The Geneva Association	Global	No	See question 16.
AIA Group	Hong Kong	No	We have no comments in this regard.
Global Reinsurance Forum	International	No	No further comments.
The Life Insurance Association of Japan	Japan	No	<p>·The LIAJ does not have any comment about addition of indicators for Phase III analysis. On the other hand, we believe that large exposures need not to be included even in Phase III analysis.</p> <p>-The LIAJ agrees with the IAIS's view, "The data on large exposures that were previously collected may largely reflect incoming risks that affect the probability that an insurer will be in distress, rather than the systemic risk from an insurer's failure (impact upon failure) as the indicator is supposed to measure", stated in the paragraph 24. The LIAJ believes that, currently, the large exposures indicator is not the appropriate indicator given the lack of clear relevance from the perspective of systemic risk assessment.</p> <p>-In our view, an insurer's interconnectedness with the financial system is properly captured by the intra-financial assets indicator and the intra-financial liability indicator. Adding the large exposures indicators to the above two indicators could result in double counting of the interconnectedness.</p>
KPMG	UK	No	The IAIS could include the short term funding indicator and the liability liquidity indicator.
Prudential plc	UK	No	No response
Allstate Insurance Company	United States	No	
American Insurance Association	United States of America	No	Phase III - Discovery Phase (Qualitative Analysis/Discretion): to the extent that the IAIS decides not to re-order the assessment methodology between front-end consideration of systemic risk indicators drawn from public or regulatory information sources and back-end review of relevant non-public information obtained from a potential G-SII pool, the regulatory review and discretion provided in the Phase III discovery process could be critical. However, assuming that the methodology is not re-ordered as suggested, AIA would support the use of regulatory discretion to screen out a potential G-SII from further consideration. The Updated G-SII Methodology's Phase II discussion suggests that border-line groups could be "added by discretion of the relevant authorities." (F/N 8) AIA would not support this use of regulatory discretion because it exacerbates the flawed Phase I and II reliance on collecting non-public data from a selected pool of insurance groups.



			(F/N 8: IAIS, "Global Systemically Important Insurers: Proposed Updated Assessment Methodology" Public Consultation Document, p. 16 (Nov. 25, 2015)).
Prudential Financial, Inc.	United States of America	No	Please see our responses to questions 16 and 17.
MetLife, Inc.	USA	No	Our proposed methodology suggests a large number of appropriate and robust quantitative indicators. It specifically excludes intra-group commitments, large exposures, and derivative trading on grounds these indicators have no direct linkage to the financial system. We would therefore suggest that they be removed entirely, including from Phase III. More detail on our proposed approach to assessment will be found in a slide deck shared with IAIS principals prior to the submission of these comments.
Property Casualty Insurers Association of America (PCI)	USA	No	Qualitative factors should also include the strength of the group's risk management process, the group's financial strength and the quality of its supervisory regime.
<b>19 - How can the additional information collected in the supplementary reinsurance-specific questions as part of the data collection be relevant to better assess the potential effects of a reinsurer's failure on other reinsurers or primary insurers? Should the IAIS set a threshold amount of third-party reinsurance activities that must be exceeded by an insurer in order to be required to complete the supplementary reinsurance-specific questions in Phase I? If so, what should be the level of the threshold?</b>			
ABIR Association of Bermuda Insurers & Reinsurers	BERMUDA	No	<p>In light of ABIR's comments under question 6, ABIR does not comprehend the purpose of the Reinsurance Supplemental Assessment. As previously stated, the IAIS has looked at reinsurance in detail and has concluded that "traditional reinsurance is unlikely to cause, or amplify, systemic risk." It is then unclear why there should be a need for additional analysis of an undertaking's reinsurance activities in Phase III, particularly since there is already a reinsurance indicator in Phase II. If such an assessment is to be carried out, it only makes sense instead of rather than in addition to the Phase II reinsurance assessment.</p> <p>The assessment of the potential effects of a reinsurer's failure on other reinsurers or primary insurers should take full account of the IAIS's own work on extreme stress scenarios, the conclusion of which was: "The results are similar for both primary insurers and reinsurers. The impact on equity capital (which in this context serves as a proxy for solvency) of severe financial market crises far outweighs the adverse effect of large catastrophic loss events. Adding the default of one large reinsurer would make a comparatively small contribution to the total losses absorbed by primary insurers."</p> <p>In addition, the IAIS report "Reinsurance and Financial Stability" dated 19 July 2012 concluded that "as far as traditional reinsurance activities are concerned, the potential for adverse and potentially systemic intra-industry impacts is small and will likely be contained within the insurance sector".</p> <p>The Reinsurance Supplemental Assessment is unlikely to provide any new insights. Furthermore, any assessment methodology should be open and transparent and applied consistently by supervisors across jurisdictions. Clarity is needed on</p>

			<p>how this will be applied in general in respect of Phase III assessments and particularly in the case of the Reinsurance Supplemental Assessment, where it is a component of Phase III.</p> <p>In order to determine whether there is any systemic impact from the reinsurance activities of a failed reinsurer one needs to investigate the exposure the primary insurers have in terms of reinsurance liabilities to the failed reinsurer and determine whether there would be a critical impact on the primary insurer if those liabilities would not (or not entirely) be fulfilled.</p> <p>If the IAIS does proceed with this analysis, as we mentioned in our responses to question 6, an examination of reinsurance concentration should not just be limited to reinsurance, but should look at the use of alternate capital market instrument such as cat bonds which may reduce the concentration of the company's reinsurance by expanding the options used for risk management.</p>
RenaissanceRe	Bermuda	No	Refer to our general comments regarding the impacts of the continued inclusion of reinsurance within a systemic risk assessment.
CLHIA	Canada	No	<p>It is unclear why there is a need for a supplementary reinsurance assessment as traditional reinsurance is viewed as a risk mitigation technique and not a source of systemic risk. This position was supported in the IAIS report "Reinsurance and Financial Stability" dated July 19, 2012 as its executive summary states: "traditional reinsurance is unlikely to cause, or amplify, systemic risk".</p> <p>If reinsurance measures are deemed necessary they should be designed to recognize the proportion of business ceded but also the proportion of business ceded to any one reinsurer. An absolute threshold should be set for the determination of whether a (re)insurer will be subject to completing any supplementary reinsurance-specific questions.</p>
Insurance Europe	Europe	No	<p>GFIA does not understand the purpose of the Reinsurance Supplemental Assessment. The IAIS has looked at reinsurance in detail and has concluded that "traditional reinsurance is unlikely to cause, or amplify, systemic risk." It is then unclear why there should be a need for additional analysis of an undertaking's reinsurance activities in Phase III, particularly since there is already a reinsurance indicator in Phase II. If such an assessment is to be carried out, it only makes sense instead of rather than in addition to the Phase II reinsurance assessment.</p> <p>The assessment of the potential effects of a reinsurer's failure on other reinsurers or primary insurers should take full account of the IAIS's own work on extreme stress scenarios, the conclusion of which was: "The results are similar for both primary insurers and reinsurers. The impact on equity capital (which in this context serves as a proxy for solvency) of severe financial market crises far outweighs the adverse effect of large catastrophic loss events. Adding the default of one large reinsurer would make a comparatively small contribution to the total losses absorbed by primary insurers."</p> <p>In addition, the IAIS report "Reinsurance and Financial Stability" dated 19 July 2012 concluded that "as far as traditional reinsurance activities are concerned, the potential for adverse and potentially systemic intra-industry impacts is small and will likely be contained within the insurance sector".</p> <p>The Reinsurance Supplemental Assessment is unlikely to provide any new insights. Furthermore, any assessment methodology should be open and transparent and applied consistently by supervisors across jurisdictions. Clarity is needed on how this will be applied in general in respect of Phase III assessments and particularly in the case of the Reinsurance</p>

			<p>Supplemental Assessment, where it is a component of Phase III.</p> <p>In GFIA's view, the right way to determine whether there is any systemic impact from the reinsurance activities of a failed reinsurer is to investigate the exposure the primary insurers have in terms of reinsurance liabilities to the failed reinsurer and determine whether there would be a critical impact on the primary insurer if those liabilities would not (or not entirely) be fulfilled.</p> <p>However, GFIA suggests that the IAIS should set an absolute threshold for the determination of whether a (re)insurer will be subject to completing the supplementary reinsurance-specific questions (eg more than 5-10% of its total insurance activities attributable to third-party reinsurance).</p>
Insurance Europe	Europe	No	<p>Insurance Europe does not understand the purpose of the Reinsurance Supplemental Assessment. The IAIS has looked at reinsurance in detail and concluded that "traditional reinsurance is unlikely to cause, or amplify, systemic risk." It is then unclear why there should be a need for an additional analysis of an undertaking's reinsurance activities in Phase III, particularly since there is already a reinsurance indicator in Phase II. If such an assessment is to be carried out, it only makes sense instead of rather than in addition to the Phase II reinsurance assessment. The assessment of the potential effects of a reinsurer's failure on other reinsurers or primary insurers should take full account of the IAIS's own work on extreme stress scenarios, the conclusion of which was: "The results are similar for both primary insurers and reinsurers. The impact on equity capital (which in this context serves as a proxy for solvency) of severe financial market crises far outweighs the adverse effect of large catastrophic loss events. Adding the default of one large reinsurer would make a comparatively small contribution to the total losses absorbed by primary insurers."</p> <p>In addition, the IAIS report "Reinsurance and Financial Stability" dated 19 July 2012 concluded that "as far as traditional reinsurance activities are concerned, the potential for adverse and potentially systemic intra-industry impacts is small and will likely be contained within the insurance sector". It should also be noted that the IAIS affirms in its 2015 Global Insurance Market Report that "the global reinsurance market has proven able to withstand the impact of large catastrophes and economic events; recent examples include the terrorist attack on the World Trade Centre on September 11, as well as the hurricanes Katrina, Rita and Wilma in 2005". The Reinsurance Supplemental Assessment is unlikely to provide any new insights.</p> <p>Notwithstanding the very important role they play in supporting the activity of primary insurers by pooling tail risk globally, the interconnections between reinsurers and the rest of the financial system are unlikely to prove problematic from a systemic perspective. In fact, only around 5% of global primary insurance premiums are ceded to reinsurers. This risk is partially passed on through insurance-linked securities (ILS) to capital markets and other reinsurers. But total ILS issuance is equivalent to around 0.1% of global insurance premiums. Retrocession (which consists of reinsurers buying reinsurance) is considered the main channel of direct interaction between reinsurers. Retrocession is mainly used for peak risk exposures and amounts to 13% of global reinsurance premiums and a mere 0.6% of global insurance premiums. Risks are retroceded only once and this process rarely occurs between top reinsurers but more often involves second or third tier reinsurers . Consequently, there is no network-like inter-insurance market similar to the interbank market and the systemic risk potential is correspondingly much lower. It has been shown (in particular by the French regulator ) that even an extreme scenario in which all reinsurers in a market fail, would only adversely impact a small number of insurers, without leading to the materialisation of counterparty risk. As the IAIS already noted, "the (re)insurance sector has built in circuit breaks" and "connections between reinsurers are weak and most likely immaterial".</p>

			<p>Finally, any assessment methodology should be open, transparent and applied consistently by supervisors across jurisdictions. Clarity is especially needed with respect to the Phase III assessments as well as in the case of the Reinsurance Supplemental Assessment, where it is a component of Phase III.</p>
European Insurance and Occupational Pensions Authority	European Union	No	<p>EIOPA believes that the specification of the reinsurance supplemental assessment which is included in the Consultation Document is rather vague and, for that reason, it is difficult to comment on it. Further details would be needed to form a more concrete view on the proposal.</p> <p>As a matter of principle, EIOPA believes that the G-SII methodology should be consistently applied across all insurance activities and prospective G-SIIs, without the need to add or remove some components, tailored to specific activities or types of entities.</p> <p>For this reason, EIOPA does not support the inclusion of an explicit supplemental assessment focussing on reinsurance activities as part of the updated G-SII Methodology. The additional information which is sought should be incorporated in the general Qualitative (or Quantitative) phase(s) of the Methodology as part of a single common methodology applicable to all prospective G-SIIs.</p>
GDV - German Insurance Association	Germany	No	<p>The IAIS was already engaged in an in-depth analysis of the reinsurance sector and its importance for financial stability. The analysis resulted in a "Reinsurance and Financial Stability"-report dated 19 July 2012, where the IAIS came to the conclusion that "as far as traditional reinsurance activities are concerned, the potential for adverse and potentially systemic intra-industry impacts is small and will likely be contained within the insurance sector". And more specific with regard to the impact of reinsurance failures based on historical observations on the US-market: "The record shows that only 3.7% of impairments in primary non-life insurers were caused by reinsurance failures. Thus, reinsurance was the smallest factor causing financial impairments in the non-life insurance sector. Among US life insurers, which typically depend less on reinsurance than non-life insurers, reinsurance fail-ures caused only 2% of financial impairments." After all, the own data of the IAIS underscores the conclusion that traditional reinsurance is an integral part of insurance with virtually no potential for systemic risk. Because the market structure did not change significantly since and absent new developments which would require a new assessment, we do not believe that the additional information collected has much relevance to provide new insights.</p> <p>Apart from that, the approach to elaborate on "third party reinsurance", as stated in paragraph 47, is reasonable.</p> <p>In our view, the right way to determine whether there is any systemic impact from the reinsurance activities of a failed reinsurer is to investigate the exposure the primary insurers have in terms of reinsurance liabilities to the failed reinsurer, and determine whether it would have a critical impact on the primary insurer if those liabilities would not (or not fully) be fulfilled.</p> <p>However, we do suggest that the IAIS should set an absolute threshold for the determination of whether a (re)insurer is subject to completing the supplementary reinsurance-specific questions (e.g. more than 5-10% of its total insurance activities attributable to third-party reinsurance).</p>
Munich Re	Germany	No	<p>There is no evidence that "traditional" reinsurance is source of systemic risk. Munich Re offers to work together with the IAIS to understand its underlying concerns and to assist to define appropriate quantitative tests of institutional, geographic, or other concentrations. In this context, IAIS should only test those concentrations that potentially result in "significant disruption to the global financial system and economic activity" in the G-SII assessment.</p> <p>In paragraph 47, IAIS actually proposes an approach for "third party reinsurance" which we have suggested several times in</p>

			<p>the past: "The IAIS is proposing to use data on a reinsurer's top 10 assumed exposures from ceding insurers and its top 5 exposures to other reinsurers to perform a network analysis and better assess the extent to which third party reinsurance activities disperse or concentrate risk in the broader insurance market."</p> <p>In our view, the right way to determine whether there is any systemic impact from the reinsurance activities of a failed reinsurer is: Look at the exposure the primary insurers have in terms of reinsurance liabilities to the failed reinsurer, and determine whether it would have a critical impact on the primary insurer if those liabilities would not (or not fully) be fulfilled.</p> <p>However, we do suggest that the IAIS should set an absolute threshold for the determination of whether a (re)insurer is subject to completing the supplementary reinsurance-specific questions (e.g. more than 5-10% of its total insurance activities attributable to third-party reinsurance).</p>
Global Federation of Insurance Associations	Global	No	<p>GFIA does not understand the purpose of the Reinsurance Supplemental Assessment. The IAIS has looked at reinsurance in detail and has concluded that "traditional reinsurance is unlikely to cause, or amplify, systemic risk." It is then unclear why there should be a need for additional analysis of an undertaking's reinsurance activities in Phase III, particularly since there is already a reinsurance indicator in Phase II. If such an assessment is to be carried out, it only makes sense instead of rather than in addition to the Phase II reinsurance assessment.</p> <p>The assessment of the potential effects of a reinsurer's failure on other reinsurers or primary insurers should take full account of the IAIS's own work on extreme stress scenarios, the conclusion of which was: "The results are similar for both primary insurers and reinsurers. The impact on equity capital (which in this context serves as a proxy for solvency) of severe financial market crises far outweighs the adverse effect of large catastrophic loss events. Adding the default of one large reinsurer would make a comparatively small contribution to the total losses absorbed by primary insurers."</p> <p>In addition, the IAIS report "Reinsurance and Financial Stability" dated 19 July 2012 concluded that "as far as traditional reinsurance activities are concerned, the potential for adverse and potentially systemic intra-industry impacts is small and will likely be contained within the insurance sector".</p> <p>The Reinsurance Supplemental Assessment is unlikely to provide any new insights. Furthermore, any assessment methodology should be open and transparent and applied consistently by supervisors across jurisdictions. Clarity is needed on how this will be applied in general in respect of Phase III assessments and particularly in the case of the Reinsurance Supplemental Assessment, where it is a component of Phase III.</p> <p>In GFIA's view, the right way to determine whether there is any systemic impact from the reinsurance activities of a failed reinsurer is to investigate the exposure the primary insurers have in terms of reinsurance liabilities to the failed reinsurer and determine whether there would be a critical impact on the primary insurer if those liabilities would not (or not entirely) be fulfilled.</p> <p>However, GFIA suggests that the IAIS should set an absolute threshold for the determination of whether a (re)insurer will be subject to completing the supplementary reinsurance-specific questions (eg more than 5-10% of its total insurance activities attributable to third-party reinsurance).</p>
Institute of International Finance/ The Geneva Association	Global	No	<p>As is the case for traditional insurance activity, there is no evidence that traditional reinsurance is source of systemic risk. These conclusions are shared by the IAIS in their reports "Insurance and Financial Stability" (2011) and "Reinsurance and Financial Stability" dated 19 July 2012.</p> <p>Thereby, the IAIS' approach to assessing reinsurance in the proposed G-SII assessment methodology is problematic. It is not clear why there is a need for additional analysis of an undertaking's reinsurance activities in Phase III, particularly since there is already a reinsurance indicator in Phase II. As we have noted in our comments above, we advocate the IAIS apply a clear distinction between aspects of insurance included in Phase II and III.</p>

			<p>If the supplemental reinsurance were to remain a distinct assessment, we support the notion of a threshold amount to determine the scope of application. Also, the threshold should recognize the different quality of third party reinsurance offered; in particular, the threshold should disregard fronting business to the extent that the IAIS wants fronting volume reported as third party reinsurance. A threshold could be established as a combination of an absolute amount, possibly around the EUR 900 mn of gross technical provisions proposed in 2015, e.g. EUR 1bn or 2bn, in combination with a threshold assessing third party reinsurance in relation to total insurance volumes of the firm: (reinsurance <math>\geq</math> 1 bn) AND (reinsurance/total insurance <math>\geq</math> 20%). Alternatively, market share would seem an adequate determining factor.</p> <p>The assessment methodology should be open and transparent and applied consistently by supervisors across jurisdictions. Clarity is needed on how this will be applied in general in respect of Phase III assessments and particularly in the case of the Reinsurance Supplemental Assessment where this forms a component of Phase III.</p> <p>In economic terms, business originated through fronting, e.g. in jurisdictions where the insurer has no subsidiaries or branches by involving a third party, is equivalent to business originated directly as the fronting party and the reinsurance contract between the parties act as a pass-through. The risk kept by the fronting party is marginal, if any at all. This would be a strong argument to not report fronting under third party reinsurance.</p> <p>In case the IAIS takes the view that business volume originated through fronting is relevant and akin to third-party reinsurance then the instructions have to state that fronting must be reported and under what conditions.</p>
AIA Group	Hong Kong	No	<p>Yes the IAIS should set a quantitative threshold for the supplementary reinsurance questions to avoid creating undue burden where it can be determined in advance that reinsurance activity is not significant. Also, the reinsurance activity should be reinsurance assumed from outside, not inside, the group.</p>
Global Reinsurance Forum	International	No	<p>We have serious concerns regarding a separate process for reinsurance activities, as there is no evidence that classical reinsurance is a source of systemic risk. This conclusion is shared by the IAIS in its report "Reinsurance and Financial Stability" dated 19 July 2012, in which the IAIS concludes "traditional reinsurance is unlikely to cause, or amplify, systemic risk". Even in the case of a hypothetical reinsurance failure, primary insurers would be affected only to a limited extent, as only a small share of the total insurance premium is ceded to reinsurers. Reinsurance activities may include retrocession or co-insurance. However, the timing of claims payments and the limited size of an insured loss event would prevent a systemic crisis, even if reinsurers unwittingly accepted back risks as inwards reinsurance that they had ceded to other reinsurers beforehand (hypothetical "reinsurance spiral"). No systemic risk arises from underwriting catastrophe losses (natural catastrophes, man-made catastrophes, even pandemic events), either. Furthermore, a major event - as experienced in previous catastrophes - does not generate immediate massive cash outflows.</p> <p>In our view, the right way to determine whether there is any systemic impact from the reinsurance activities of a failed reinsurer is: look at the exposure the primary insurers have in terms of reinsurance liabilities to the failed reinsurer, and determine whether it would have a critical impact on the primary insurer if those liabilities would not (or not fully) be fulfilled.</p> <p>However, we do suggest that the IAIS should set an absolute threshold for the determination of whether a (re)insurer is subject to completing the supplementary reinsurance-specific questions (e.g. more than 5-10% of its total insurance activities attributable to third-party reinsurance).</p>

General Insurance Association of Japan	Japan	No	In view of the data collection workload and data comparability, the definitions of the data to be gathered should be clarified in the templates and technical specifications. Moreover, how the collected data will be used should be explained to the volunteers to the extent possible.
Swiss Re	Switzerland	No	<p>Swiss Re has serious concerns regarding a separate assessment for reinsurance activities in the Qualitative Phase.</p> <ul style="list-style-type: none"> <li>- Firstly, there is no evidence that "traditional" reinsurance is source of systemic risk. In its report "Reinsurance and Financial Stability" dated 19 July 2012, the IAIS has concluded: "traditional reinsurance is unlikely to cause, or amplify, systemic risk".</li> <li>- Secondly, Swiss Re offers to work together with the IAIS to understand its underlying concerns and to assist in defining appropriate quantitative tests of institutional, geographic, or other concentrations. The IAIS should only test those concentrations that potentially result in "significant disruption to the global financial system and economic activity" in the G-SII assessment.</li> <li>- Thirdly, all companies, i.e. not only professional reinsurers, should test the corresponding concentrations as they have the potential to cause "significant disruption to the global financial system and economic activity".</li> <li>- Finally, since such tests are quantitative in nature and all companies should participate, these tests must be part of the quantitative assessment in Phase II.</li> </ul> <p>The remaining qualitative assessment in Phase III should concentrate on a short, clearly defined list of criteria to ensure consistent meaningful interpretation of data from Phase II, e.g. taking account of the different creditor hierarchies for insurers and reinsurers in some jurisdictions.</p>
Institute and Faculty of Actuaries	UK	No	We suggest requesting this information initially from all insurers and reviewing the responses before deciding on thresholds for future requests.
KPMG	UK	No	<p>This information will be useful in understanding the financial links in and between various insurers and reinsurers. There is reduced value in requiring all companies to complete the supplementary reinsurance questions, particularly those with little exposures. Based on the data received through 2015, the IAIS can assess and decide on a threshold beyond which companies will be required to complete the supplementary reinsurance questions.</p> <p>However, we would note that the risks identified in paragraph 44 could equally be relevant to a cedant's own exposure under its insurance contracts, which may or may not be reinsured. It is unclear to us why a reinsurer's exposure to cedants is captured within the assessment, when insurers's exposure to other financial sectors through their insurance contracts is not.</p> <p>In addition, the impact on other primary insurers can only be judged by understanding the reinsurance programme of those insurers and the level of protection underwritten by the reinsurer in question. It is not clear how the IAIS proposes to assess this.</p>

Prudential plc	UK	No	We believe that the supplementary reinsurance tab should only be completed for reinsurance business - that is insurance that is purchased by an insurance company (cedant) from one or more other insurance companies (reinsurers). The template should not be completed for business classified as reinsurance business where a legal obligation remains between insurer and policyholder.
Allstate Insurance Company	United States	No	The IAIS could consider a threshold amount of third-party reinsurance activities that must be exceeded to require completing the reinsurance systemic risk assessment. If this is undertaken, we believe the measure should be based on geographic concentrations of exposure that would be triggered upon a failure of a reinsurer. We believe the relative size and importance of the reinsurer to the global financial markets should also be considered.
RAA	United States and many other jurisdictions	No	<p>The RAA does not understand the purpose of the reinsurance supplement. As noted in our comments above the 2012 IAIS Reinsurance and Financial Stability Report concluded that traditional reinsurance does not cause or amplify systemic risk. The same report concluded: "as far as traditional reinsurance activities are concerned, the potential for adverse and potentially systemic intra-industry impacts is small and will likely be contained within the insurance sector"</p> <p>Additionally the 2012 report recognized that prudent diversification of insurance risk and is a particularly important aspect of the (re)insurance business model. Paragraph 46 states: "Loss potentials arising from peak risks are distributed unevenly around the globe. Insurers with activities limited to national or regional boundaries are exposed heavily to single loss occurrences. Global reinsurance allows for a better diversification of risks over many lines of business and - more importantly - across many geographies. It mitigates the potential impact of severe losses to primary insurers and benefits both their policyholders and shareholders. A corollary is that large primary insurers with a globally diversified portfolio tend to cede less business to reinsurers than smaller competitors with high risk accumulation potentials in specific regions."</p> <p>The RAA believes that it would be more useful to evaluate reinsurance relationships on a qualitative basis in phases 3 and 4 of the methodology. However, if a quantitative analysis is used, it should be evaluated in terms of the potential exposure the potential GSII would have to a failed reinsurer, and then determine if that exposure might move a potential GSII above a systemic risk threshold. We do not believe it is necessary for every potential GSII subject to phase 3 analysis to complete a detailed reinsurance supplemental assessment.</p>
American Insurance Association	United States of America	No	<p>Reinsurance Supplemental Assessment: the IAIS has suggested that insurance groups undergo a supplemental assessment to allow "the IAIS to better assess risks associated with an insurer's third-party reinsurance activities." (F/N 9) Contrary to the conclusions in the IAIS's own paper on reinsurance and Financial Stability, inclusion of this supplemental assessment seems to assume that the extent of a group's reinsurance activities could produce a systemic impact. AIA would urge the IAIS to proceed with caution here, and any supplemental assessment of reinsurance should be viewed through the lens of the IAIS's earlier white paper. In this regard, it might be important to focus not simply on aggregate reinsurance activities, but also on whether a single reinsurance provider is connected with a global SIFI.</p> <p>(F/N 9: IAIS G-SII Assessment Methodology Public Consultation at p. 19.)</p>



Prudential Financial, Inc.	United States of America	No	Please see our response to question 6 for our perspective on assessing reinsurance.
MetLife, Inc.	USA	No	No comment
Property Casualty Insurers Association of America (PCI)	USA	No	<p>The introduction of the reinsurance supplemental assessment pre-supposes without proof that reinsurance creates systemic risk. It also seems to assume that reinsurers have homogenous business models and ignores the shrinking role that professional reinsurers are playing in the global reinsurance market.</p> <p>Use of the top 10 exposures creates a very simplistic view and ignores the relative dependence of cedents on reinsurance and how cedents use reinsurance. A cedent that utilizes quota share reinsurance to leverage its capital has a far different risk profile than an insurer that primarily buys only high excess cat reinsurance. It also ignores the heterogeneous pool of risks being reinsured.</p> <p>It should also be noted that if exposures are measured based on reserves/reinsurance receivables held by a cedent, the analysis will significantly prejudice reinsurers with long tail exposures as compared to short term catastrophe exposures and other types of risks being ceded to non-traditional reinsurance markets. A reinsurance failure related to such long tail exposures is very unlikely to create the kind of short term liquidity crisis that might contribute to systemic risk. There is also a risk that a reserve exposure based approach will be heavily biased by the last large catastrophe and not reflect the scope, diversity and evolution of the risk profile of the cedents and the reinsurers.</p> <p>The use of a reinsurance supplement focused only on the information from the top 50 insurance groups undermines the use of absolute reference values introduced in the quantitative phase of the methodology and overstates the sample bias.</p>
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	The reinsurance data can help inform the extent of reliance of insurers on reinsurers and on the extent of market concentration in particular areas or lines of reinsurance business. Although a threshold for completing the supplementary analysis is desirable, the cut off should be a function of the methodology used to incorporate that data into the rest of the analysis. i.e., if a relative ranking is to be used, the cut off should be low enough to allow for a sufficient sample.
<b>20 - Are gross written premiums, technical provisions or exposures an appropriate way to measure and/or understand the interconnections between an insurer's third-party reinsurance activities and other primary insurers and reinsurers?</b>			
CLHIA	Canada	No	Different measures are still being investigated and our membership has not reached consensus.
China Association of Actuaries	China	No	We suppose the assumed and ceded premiums, technical provisions and exposures are appropriate to measure and understand the interconnectedness.
China Insurance	China	No	The definition of gross written premiums and technical provisions is clear, we think they could be considered as indicators of interconnections. But the definition of exposure are not so clear.

Regulatory Commission			
Insurance Europe	Europe	No	GFIA believes that gross written premiums are an appropriate way to measure the interconnections between an insurer's third-party reinsurance activities and other primary insurers and reinsurers. However, the level of interconnections has limited value in terms of systemic risk. Measured by absolute reference values, only around 5% of global written insurance premiums are ceded to reinsurers.
Insurance Europe	Europe	No	Insurance Europe believes that gross written premiums provide a rough indication of the interconnections between an insurer's third-party reinsurance activities and other primary insurers and reinsurers with regard to current business, whereas in run-off technical provisions are a better indicator. However, the level of interconnections has limited value in terms of systemic risk. Measured by absolute reference values, only around 5% of global written insurance premiums are ceded to reinsurers.
European Insurance and Occupational Pensions Authority	European Union	No	EIOPA does not believe that it is appropriate or technically justifiable to have a differentiated analysis for reinsurance activities as part of the G-SII Methodology. Please refer to our response to Question 19. One issue the IAIS should consider is the extent to which the additional information envisaged actually adds value when compared to the information which is already collected in Phase II (reinsurance technical provisions).
GDV - German Insurance Association	Germany	No	We assume that gross written premiums are an appropriate way to measure the interconnections between an insurer's third-party reinsurance activities and other primary insurers and reinsurers. However, the level of interconnections has limited value in terms of systemic risk. Measured by absolute reference values, only around 5% of global written insurance premiums are ceded to (re-) insurers.
Munich Re	Germany	No	The correct measure for the impact of failure of a (re)insurer on other insurers are third-party reinsurance exposures to the given (re)insurer.
Global Federation of Insurance Associations	Global	No	GFIA believes that gross written premiums are an appropriate way to measure the interconnections between an insurer's third-party reinsurance activities and other primary insurers and reinsurers. However, the level of interconnections has limited value in terms of systemic risk. Measured by absolute reference values, only around 5% of global written insurance premiums are ceded to reinsurers.
Institute of International Finance/ The Geneva Association	Global	No	The relevant measure for the impact of failure of a (re)insurer on other insurers are third-party reinsurance exposures to the given (re)insurer. The IAIS should use a combination of gross written premiums and technical provisions instead of technical provisions on a stand-alone basis to measure and understand the interconnections between an insurer's third party reinsurance activities and other primary insurers and reinsurers. Only the combination of both gross written premiums and third-party reinsurance captures current and run-off business.
AIA Group	Hong Kong	No	Exposures are the most appropriate measure. Technical provisions and written premiums may be small even though risks reinsured are large.

Global Reinsurance Forum	International	No	See our response to question 21 below.
General Insurance Association of Japan	Japan	No	While the consultation document describes three data elements regarding reinsurance, the number of data elements used should be reduced in the future from the standpoint of data collection workload. Among the three proposed elements, gross written premiums are the most appropriate, in view of comparability and workload. In this case, the definition of gross written premiums should be clarified.
Swiss Re	Switzerland	No	See our responses to Question 6 above and Question 21 below.
Institute and Faculty of Actuaries	UK	No	Premium data would be easier to collect than exposure data, but might not fully capture interconnections via low premium excess of loss covers. For example excess of loss covers that have rates on line of 1% and large \$ limit exposures.
KPMG	UK	No	All of these measures could potentially be used, but for different purposes. Maximum probable loss and reinsurance recoveries net of reinsurance premiums payable are other measures the IAIS may wish to consider.
Prudential plc	UK	No	No response
Allstate Insurance Company	United States	No	As previously stated, we believe reinsurance exposures should be considered based on geographic concentrations and the relative value of the reinsurance to the ceding company's capital/surplus which measures the risk of insolvency if the reinsurer were to fail.
RAA	United States and many other jurisdictions	No	Gross written premiums are the best measure of the interconnections of cedents and reinsurers, including capital markets participants. Exposures are more difficult to measure and technical provisions will not capture reserves for infrequent but potentially severe losses. As noted in our above comments, RAA's, IAIS's and others' research clearly demonstrate that these interconnections do not give rise to systemic risk potential.
Prudential Financial, Inc.	United States of America	No	Please see our response to question 6 for our perspective on assessing reinsurance.
MetLife, Inc.	USA	No	In our proposed G-SII Assessment Methodology, MetLife suggests that interconnectedness could arise through assumed reinsurance due to the potential for counterparty losses by the ceding insurer. Accordingly, we propose an indicator that measures losses that can occur from both existing liabilities and contingent liabilities that may correspond to the severe stress that causes the failure of a large (re)insurer. The level of systemic relevance would be influenced by the following factors: <ul style="list-style-type: none"> <li>- Amount of reinsurance assumed <ul style="list-style-type: none"> <li>o Existing liabilities - measured on gross technical provisions</li> <li>o Contingent liabilities - measures as probable maximum loss</li> </ul> </li> <li>- Collateralization <ul style="list-style-type: none"> <li>o Collateral offsets any potential counterparty losses</li> </ul> </li> </ul>

			<p>The indicator metric for systemic relevance would be reinsurance assumed net of collateral.</p> <p>We would further add that there should be no penalty or charge against risk ceded to reinsurers. Buying reinsurance does not create systemic risk. To the contrary, it is an important risk management practice that should be encouraged not penalized.</p> <p>More detail on our proposed approach to assessment will be found in slide 20 of a deck shared with IAIS principals prior to the submission of these comments.</p>
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	<p>Establishing net exposures could provide insight on concentration of risk, but such information is difficult to ascertain and translate across firms. Gross assumed premiums can be used as a proxy, and may be useful for addressing concentration and substitutability concerns. Gross technical provisions for re-insurance assumed may be best for measuring impact given failure based on current obligations.</p> <p>Reinsurance premiums should be collected for specific lines of business where concentration /substitutability might be of concern, e.g., for aviation and marine insurance. Collecting premium data for cat coverage may not be that meaningful given the different risks covered. Finally, premium for power plant coverage and export credit coverage may be too country specific to collect but should be considered as part of the more tailored/qualitative analysis.</p>
<b>21 - How could the information collected be used to evaluate the extent to which an insurer's third-party reinsurance activities disperse or concentrate risk in the global insurance market?</b>			
CLHIA	Canada	No	<p>It is known that the reinsurance market is more concentrated than the primary insurance market. The increased concentration may go along with a marginally higher counterparty default risk for primary insurers, however, not to such an extent as to make this risk systemically relevant. See our answer to Question 19.</p>
Insurance Europe	Europe	No	<p>As noted, the reinsurance market is considerably smaller than the primary insurance market and this is reflected in the smaller number of reinsurance players. While simple measures, such as gross written premiums provide an indication of interconnectedness, these measures cannot be used to evaluate risk concentration. Identification and assessment of risk concentrations is one of the key uses of internal models which by design measure risk exposures at appropriately granular levels. Where internal models are supervisory approved, this provides a further layer of comfort that risk concentrations are adequately captured. Overly high levels or simplistic exposure measures will not appropriately capture risk profile and concentration risks.</p>
Insurance Europe	Europe	No	<p>It is known that the reinsurance market is more concentrated than the primary insurance market. The increased concentration may go along with a marginally higher counterparty default risk for primary insurers, however, not to such an extent as to make this risk systemically relevant.</p>
European Insurance and Occupational Pensions Authority	European Union	No	<p>EIOPA does not believe that it is appropriate or technically justifiable to have a differentiated analysis for reinsurance activities as part of the G-SII Methodology. Please refer to our response to Question 19.</p> <p>One issue the IAIS should consider is whether the geographical distribution of premiums (which seems to be the main proposed variable to be collected) reflects accurately the geographical distribution of the risks to which the prospective G-SIIs are exposed. This will depend on the basis on which information will be collected.</p>

GDV - German Insurance Association	Germany	No	It is known that the reinsurance market is more concentrated than the primary insurance market. The increased concentration may go along with a marginally higher counterparty default risk for primary insurers, however, not to an extent to consider this risk systemically relevant.
Munich Re	Germany	No	Once again, we need to differentiate between probability and impact of failure: If a reinsurer does not have proper risk management and accumulation control (and thus accepts too much concentration of risks on its balance sheet), this might lead to higher probability of failure: devastating for the reinsurer, but by itself not yet a systemic question. The key question in terms of systemic riskiness is the impact of the reinsurer's failure on others. If done correctly, this is measured the way described under question 19. As described there, the top third-party reinsurance exposures are the relevant measure of interconnectedness.
Global Federation of Insurance Associations	Global	No	It is known that the reinsurance market is more concentrated than the primary insurance market. The increased concentration may go along with a marginally higher counterparty default risk for primary insurers, however, not to such an extent as to make this risk systemically relevant.
Institute of International Finance/ The Geneva Association	Global	No	We need to differentiate between probability and impact of failure here. If a reinsurer does not have proper risk management and accumulation control (and thus accepts too much concentration of risks on its balance sheet), this might lead to higher probability of failure: devastating for the reinsurer, but in itself not yet a systemic question.  To determine the systemic relevance of a reinsurer, one must analyze the aggregate exposure of the primary insurance industry to reinsurance in the event of severe but plausible stresses. In particular, for any given provider of reinsurance, one must analyze the impact of a default on the post-stress excess capital throughout the insurance industry.
AIA Group	Hong Kong	No	We have no comment in this regard.
Global Reinsurance Forum	International	No	Based on our experience, industry-wide stress testing is the only reliable method for evaluating the potential systemic risk caused by reinsurance. That is, one must analyze the aggregate exposure of the primary insurance industry to reinsurance in the event of severe but plausible stresses. In particular, for any given provider of reinsurance, one must analyze the impact of a default on the post-stress excess capital throughout the insurance industry. This has been carried on an aggregate basis by the IAIS in its report "Reinsurance and Financial Stability" dated 19 July 2012. The IAIS concludes that "the impact on equity capital (which in this context serves as a proxy for solvency) of severe financial market crises far outweighs the adverse effect of large catastrophic loss events. Adding the default of one large reinsurer would make a comparatively small contribution to the total losses absorbed by primary insurers." The results can be duplicated on a wider sample by carrying out the same analysis using the 2014 EIOPA stress tests. Such analysis is sensible and insightful, but at the same time costly not only for the IAIS but also for participating re/insurers. Nonetheless, we are fully convinced that this is the only reliable method for determining whether any particular reinsurer poses systemic risk to the broader financial system.
Swiss Re	Switzerland	No	Based on our experience, industry-wide stress testing is the only reliable method for evaluating the potential systemic risk caused by reinsurance. As a first step, all primary insurers must analyze their detailed exposure to reinsurance and all other forms of risk transfer in the event of severe but plausible stresses. Swiss Re is happy to assist with the collection of data if the

			<p>regulatory constrains and the contractual agreements allow for it.</p> <p>As a second step, The IAIS must analyze the impact of any given reinsurer's default on the post-stress excess capital throughout the insurance industry. On an aggregate basis, the IAIS has carried out this program for its report "Reinsurance and Financial Stability" dated 19 July 2012. The IAIS concludes that "the impact on equity capital (which in this context serves as a proxy for solvency) of severe financial market crises far outweighs the adverse effect of large catastrophic loss events. Adding the default of one large reinsurer would make a comparatively small contribution to the total losses absorbed by primary insurers." A similar analysis on the 2014 EIOPA stress tests seems to yield the same results.</p> <p>Therefore, such analysis may be sensible and insightful, but at the same time costly, not only for the IAIS, but also for participating re/insurers. The IAIS should prepare a well-founded decision if it makes sense to require such an analysis or if it intends to spend the corresponding means more effectively.</p>
Institute and Faculty of Actuaries	UK	No	Loss scenarios could be overlaid onto the insurance network analysis. These could be hypothetical, or based on large historical losses expressed in today's terms: Hurricane Katrina or the World Trade Centre attacks for example.
KPMG	UK	No	Gathering and segmenting the information obtained by counterparties and by geographical region would help. However a full understanding would only be possible by understanding the reinsurer's retrocessions as well, so the IAIS understands the reinsurers' net exposures.
Prudential plc	UK	No	No response
Allstate Insurance Company	United States	No	
RAA	United States and many other jurisdictions	No	Reinsurance is unlikely to concentrate risk as that is counter to its purpose. A quantitative, standardized reinsurance supplement is unlikely to provide useful information in this regard. Phase 3 should include a qualitative evaluation of the insurers' risk management processes including its management of reinsurance accumulations.
American Insurance Association	United States of America	No	<p>Reinsurance Supplemental Assessment: the IAIS has suggested that insurance groups undergo a supplemental assessment to allow "the IAIS to better assess risks associated with an insurer's third-party reinsurance activities." (F/N 9) Contrary to the conclusions in the IAIS's own paper on reinsurance and Financial Stability, inclusion of this supplemental assessment seems to assume that the extent of a group's reinsurance activities could produce a systemic impact. AIA would urge the IAIS to proceed with caution here, and any supplemental assessment of reinsurance should be viewed through the lens of the IAIS's earlier white paper. In this regard, it might be important to focus not simply on aggregate reinsurance activities, but also on whether a single reinsurance provider is connected with a global SIFI.</p> <p>(F/N 9: IAIS G-SII Assessment Methodology Public Consultation at p. 19.)</p>

Prudential Financial, Inc.	United States of America	No	Please see our response to question 6 for our perspective on assessing reinsurance.
MetLife, Inc.	USA	No	No comment
<b>22 - Are an insurer's third-party reinsurance activities interconnected with financial markets and, if so, how? What additional data measures could be useful to understand the extent to which an insurer's third-party reinsurance activities are interconnected with other parts of the financial markets (e.g. banks or asset managers)?</b>			
China Association of Actuaries	China	No	We reckon that an insurer's third party reinsurance activities are interconnected with financial markets through insurance linked securities (ILS) etc. Data reflecting the amount of ILS issued such as CAT bond and sidecars could be useful to understand the extent of such interconnectedness.
European Insurance and Occupational Pensions Authority	European Union	No	EIOPA does not believe that it is appropriate or technically justifiable to have a differentiated analysis for reinsurance activities as part of the G-SII Methodology. Please refer to our response to Question 19.
GDV - German Insurance Association	Germany	No	Other parts of the financial market are involved if the reinsurer is engaged in forms of alternative risk transfer (ART). The IAIS report "Reinsurance and Financial Stability" stated that "in many cases, ART simply extends the range of traditional reinsurance (eg for multi-year, multi-line and multi-trigger products). As far as these extensions are concerned, ART does not facilitate credit intermediation, and it is unlikely to raise broader systemic concerns."
Munich Re	Germany	No	Other parts of the financial market are involved if the reinsurer is engaged in forms of alternative risk transfer (ART). The IAIS report "Reinsurance and Financial Stability" stated that "in many cases, ART simply extends the range of traditional reinsurance (e.g. for multi-year, multi-line and multi-trigger products). As far as these extensions are concerned, ART does not facilitate credit intermediation, and it is unlikely to raise broader systemic concerns." When (in theory) could such activities become a problem for the financial system? Only when: (1) the failure of a reinsurer leads to problems regarding the ARTs issued by the same and (2) the losses of the respective ART investors lead to systemic distortions. So the way to measure this would be: Look at additional relevant data to understand the extent to which an insurer's third-party reinsurance activities are the top exposures of banks and asset managers to ART assets issued by a given (re)insurer. In a last step it should be measured which effect the ART of one insurer has to the counterparty and which systemic relevant effects result from this connection.
Institute of International Finance/ The Geneva Association	Global	No	An insurer's third-party reinsurance activities are interconnected with financial markets if the reinsurer is engaged in forms of alternative risk transfer (ART). The IAIS report "Reinsurance and Financial Stability" stated that "in many cases, ART simply extends the range of traditional reinsurance (e.g. for multi-year, multi-line and multi-trigger products). As far as these extensions are concerned, ART does not facilitate credit intermediation, and it is unlikely to raise broader systemic concerns."

			Indeed, such interconnections can only lead to system-wide losses if (1) the failure of a reinsurer leads to problems regarding the ARTs issued by the same; and (2) the losses of the respective ART investors lead to further losses to be propagated through the system. To measure this, regulators should use data showing the extent to which an insurer's third-party reinsurance activities are the top exposures of banks and asset managers to ART assets issued by a given (re)insurer.
AIA Group	Hong Kong	No	We have no comment in this regard.
Global Reinsurance Forum	International	No	With the exception of some credit reinsurance lines, reinsurance activities are not interconnected with other parts of the financial markets. There is no difference between potential interconnectedness with financial markets between insurers and reinsurers. In addition, financial risks for reinsurance activities tend to be lower than for primary insurers since assets used for matching reinsurance liabilities tend to be more readily available than for many primary insurance products. Any interconnectedness with financial markets should be captured in Phase I and II for both insurers and reinsurers. With regards to credit reinsurance lines, this business should be recognized in the "financial guarantees" indicator of Phase II of the assessment.
General Insurance Association of Japan	Japan	No	According to "Insurance and Financial Stability", "interconnections between insurers and the banking system are relatively weak". Given the insurance industry's efforts to reduce systemic risk since then, the notion is still appropriate.
Swiss Re	Switzerland	No	There is no difference between potential NTNI-interconnectedness with financial markets (see our response to Question 1) between insurers and reinsurers. The IAIS should capture any NTNI-interconnectedness with financial markets in Phase I and II for both, insurers and reinsurers.
Institute and Faculty of Actuaries	UK	No	There is a connection between the providers, and ultimate owners, of any alternative reinsurance capital instruments (catastrophe bonds), or co-insuring capital (sidecars), which are exposed to the same loss events as the insurer.
KPMG	UK	No	Traditional Reinsurance, outside of catastrophe bonds and other insurance linked securities, are not interconnected with financial markets but reflect a transfer of risk between the insurer and the reinsurer. Some collateral arrangements can create an interconnectivity, but these arrangements may themselves be subject to further protection (such as being held in bankruptcy remote vehicles).  The level of catastrophe bonds and insurance linked securities in issue would be a measure of interconnectedness between insurance and financial markets.
Prudential plc	UK	No	No response
Allstate Insurance Company	United States	No	Yes, third party reinsurance activities can result in interconnectedness with other parts of the financial markets. For example, letters of credit are a type of collateral that can be used to secure a reinsurer's payment obligations. If the reinsurer were to fail



			this risk would transfer to the letter of credit provider (e.g., a bank) thereby transferring the systemic risk from the insurance market to the bank market.
American Insurance Association	United States of America	No	Reinsurance Supplemental Assessment: the IAIS has suggested that insurance groups undergo a supplemental assessment to allow "the IAIS to better assess risks associated with an insurer's third-party reinsurance activities." (F/N 9) Contrary to the conclusions in the IAIS's own paper on reinsurance and Financial Stability, inclusion of this supplemental assessment seems to assume that the extent of a group's reinsurance activities could produce a systemic impact. AIA would urge the IAIS to proceed with caution here, and any supplemental assessment of reinsurance should be viewed through the lens of the IAIS's earlier white paper. In this regard, it might be important to focus not simply on aggregate reinsurance activities, but also on whether a single reinsurance provider is connected with a global SIFI.  (F/N 9: IAIS G-SII Assessment Methodology Public Consultation at p. 19.)
Prudential Financial, Inc.	United States of America	No	Please see our response to question 6 for our perspective on assessing reinsurance.
MetLife, Inc.	USA	No	No comment
Property Casualty Insurers Association of America (PCI)	USA	No	P&C reinsurance activities are not interconnected in a material manner with financial markets.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Re-insurers can be systemic for the same reasons insurers can be systemic (e.g., as a result of NTNI activities) but the actual underwriting of reinsurance general involves interconnections with other companies within the insurance sector. Since reinsurance may involve the use of Letters of Credit, there is some additional interconnectedness with other financial counterparties.
<b>23 - What other data points would be relevant for the IAIS to consider in the Proposed Methodology when evaluating the extent to which the potential geographic risks (i.e. the risk that a reinsurer or insurer may be overly concentrated in one area) of the global reinsurance market are dispersed or concentrated among certain reinsurers or insurers?</b>			
China Association of Actuaries	China	No	We suppose the assumed and ceded premiums, exposures and PML by geographic region of (re)insurers would be relevant when evaluating the concentration of potential geographic risks.
European Insurance and Occupational	European Union	No	EIOPA does not believe that it is appropriate or technically justifiable to have a differentiated analysis for reinsurance activities as part of the G-SII Methodology. Please refer to our response to Question 19. One issue the IAIS should consider is whether the fact that a (re)insurer has a high market share in a certain region is, in itself, an exacerbating factor for the purpose of systemic risk identification.

Pensions Authority			
Munich Re	Germany	No	<p>None beyond the data in the questions 19-22.</p> <ul style="list-style-type: none"> <li>- Geographic concentration of a reinsurer might be an issue in terms of probability of default. For determining systemic risk, it would be necessary to look at the concentration of reinsurance liabilities at a primary insurer from one reinsurer (see questions 19-22).</li> <li>- Reinsurance stabilizes the financial system. As a consequence there must be an incentivisation for reinsurance in the G-SII designation process.</li> </ul>
Institute of International Finance/ The Geneva Association	Global	No	<p>If the IAIS is concerned about geographical concentration in a single reinsurer's liabilities, reinsurers can assess this much better and much more unambiguously using a simple quantitative measure. However, the reinsurance market is global in nature and a significant portion of reinsurance business is cross border. It is therefore less relevant to consider local concentrations in the context of global systemic risk. No definition of "area" i.e. country, region, jurisdiction, is fully appropriate in this global context. The focus of all analysis in the context of reinsurance should be on "global" systemic relevance.</p>
AIA Group	Hong Kong	No	<p>We have no comment in this regard.</p>
Global Reinsurance Forum	International	No	<p>The reinsurance market is global in nature and a significant portion of reinsurance business is cross border. For example, even if a single reinsurer is concentrated in a particular geographic region, substitutability in this region is not lower than in other regions since capacity can be made available cross border in short notice. No definition of "area" i.e. country, region, jurisdiction, is appropriate in this global context. The focus of all analysis in the context of reinsurance should be on "global" systemic relevance.</p>
Swiss Re	Switzerland	No	<p>If the IAIS is concerned about geographical, institutional or other concentrations in a single reinsurer's liabilities, reinsurers can assess this much better and much more unambiguously using a simple quantitative measure, e.g. corresponding assumed reinsurance technical provisions and/or corresponding assumed reinsurance premium. We are happy to elaborate on this in a dialog with the IAIS.</p> <p>However, the reinsurance market is global in nature and a significant portion of reinsurance business is cross border. It is therefore less relevant to consider local concentrations in the context of global systemic risk. The focus of all analysis in the context of G-SIIs should be on "global" systemic relevance.</p>
Institute and Faculty of Actuaries	UK	No	<p>Some reinsurance transactions can involve non-reinsurer third parties; e.g. a bank offering some form of financing for a longevity swap, which is trigger exposure to the non-insurance financial sector. An understanding of all parties involved in the reinsurance activities and the consequent net position would therefore be needed as they could be complex.</p> <p>Specific loss scenarios (Realistic Disaster Scenarios) could be specified for the (re)insurers to complete. These loss scenarios could be focused on geographical or risk categories of concern.</p>

KPMG	UK	No	Reinsurance/insurance premiums segmented by insurer/reinsurer and by geographical region are helpful. However, discussions with the related party to understand the stress and scenario tests performed and the robustness of their reserving methodology and solvency under stressed conditions may provide a better indication of whether the reinsurer is acting as a risk mitigant or potential creator of systemic risk.
Prudential plc	UK	No	No response
Allstate Insurance Company	United States	No	We believe the IAIS's proposed evaluation of a reinsurer's top 10 assumed reinsurance exposures and its top 5 exposures to other reinsurers provides a useful tool to identify risk concentrations when reviewing the information on a combined global basis.
American Insurance Association	United States of America	No	<p>Reinsurance Supplemental Assessment: the IAIS has suggested that insurance groups undergo a supplemental assessment to allow "the IAIS to better assess risks associated with an insurer's third-party reinsurance activities." (F/N 9) Contrary to the conclusions in the IAIS's own paper on reinsurance and Financial Stability, inclusion of this supplemental assessment seems to assume that the extent of a group's reinsurance activities could produce a systemic impact. AIA would urge the IAIS to proceed with caution here, and any supplemental assessment of reinsurance should be viewed through the lens of the IAIS's earlier white paper. In this regard, it might be important to focus not simply on aggregate reinsurance activities, but also on whether a single reinsurance provider is connected with a global SIFI.</p> <p>(F/N 9: IAIS G-SII Assessment Methodology Public Consultation at p. 19.)</p>
Prudential Financial, Inc.	United States of America	No	Please see our response to question 6 for our perspective on assessing reinsurance.
MetLife, Inc.	USA	No	<p>Please see our Opening Statement and summary description of our proposed approach to G-SII Assessment. We recommend the addition to the Size Category of a new business concentration indicator to replace Global Activity indicators because we believe a diversified group is less likely to transmit systemic risk to its markets than a firm of similar size concentrated in fewer markets.</p> <p>The new business concentration indicator we propose would measure the degree of balance sheet diversification. Level of systemic risk would be influenced by the following factors:</p> <ul style="list-style-type: none"> <li>- Product <ul style="list-style-type: none"> <li>o Product line classification (life vs P&amp;C)</li> </ul> </li> <li>- Geography <ul style="list-style-type: none"> <li>o High-level geographic market</li> </ul> </li> </ul> <p>Exposure Calculation could be a simple metric given that size is only 5% of the assessment score and we propose that systemic relevance would equal the HHI index calculated with according to a formula set out on slide 14 of the slide deck shared with IAIS principals prior to this submission. We have not incorporated the formula here as we understand the consultation tool will not support special characters.</p>

Property Casualty Insurers Association of America (PCI)	USA	No	Focusing solely on the concentration of the reinsurance risks assumed by a group inappropriately ignores the diversification that may be created by the group's other insurance activities. Focusing solely on concentration also ignores the adequacy of the risk pricing. A reinsurer may have far more concentration in a zone where the risk is appropriately priced. A system that encourages diversification into underpriced catastrophe zones can have unintended consequences and penalize responsible reinsurers.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Besides geography, re-insurance can be examined by business line. Another measure of re-insurer concentration is the Herfindahl-Hirschman Index. The large exposure information collected as part of the G-SII assessment may also be relevant when reviewing inter-connections between insurers and banks as well as between insurers and re-insurers.
<b>24 - What types and forms of information exchange with prospective G-SIIs should the IAIS consider?</b>			
CLHIA	Canada	No	There should be frank and in-depth conversations between the IAIS, the relevant authority and a prospective G-SII. The earlier the discussions with prospective G-SIIs the better as more communication will improve the process and decrease the likelihood that data provided does not suit the purpose for which it is being requested or that data is misinterpreted during the process. In addition, providing each prospective G-SII with its own results after each phase should result in better total analysis as issues can be addressed in a timelier manner.
China Insurance Regulatory Commission	China	No	We suggest IAIS provide participants with assessment methodologies, detailed assessment process, indicator results, Phase III analysis result, and a result distribution of the sample, so that each participant can understand their relative positions in the sample and how to improve.
Insurance Europe	Europe	No	There should be a frank and in-depth conversation between the IAIS, the relevant authority and a prospective G-SII. The IAIS should explain exactly how the assessment has been carried out and why the insurer has been designated as a prospective G-SII, so that the insurer has all the relevant information in order to be able to provide the IAIS with any additional information or arguments. During this dialogue, the prospective G-SII should have a chance to allay the IAIS' concerns, and this should then be considered in the designation process.
Insurance Europe	Europe	No	<p>There should be a frank and in-depth conversation between the IAIS, the relevant authority and a prospective G-SII. The IAIS should explain exactly how the assessment has been carried out and why the insurer has been designated a prospective G-SII, so that the insurer has all the relevant information, in order to be able to provide the IAIS with any additional information or arguments. During this dialogue, the prospective G-SII should have a chance to allay the IAIS' concerns, and this should then be considered in the designation process. More precisely, the following should occur:</p> <ul style="list-style-type: none"> <li>- The insurer should be asked for qualitative information surrounding the data request for the assessment methodology, so that it can highlight where it potentially considers that the data does not adequately represent the risk that the IAIS methodology is intended to address.</li> <li>- The group supervisor should consider representations made by insurers through the data collection exercise and take account of the Systemic Risk Management Plan (where an insurer has been required to prepare one) in its assessment. The</li> </ul>

			<p>group supervisor should issue a written preliminary response setting out where it agrees or disagrees with representations made, and whether and if so how it will amend the data included within the quantitative assessment leading to the overall score under the assessment process.</p> <p>- It would be helpful if this were followed up with a meeting between the group supervisor and the insurer, before a final determination by the group supervisor is reached. This determination should be confirmed in writing.</p>
European Insurance and Occupational Pensions Authority	European Union	No	As long as due consideration to confidentiality requirements is ensured, the IAIS should explore different forms of exchange of information which allow for a timely exchange of views which is beneficial for both the supervisors and the prospective G-SIIs.
GDV - German Insurance Association	Germany	No	The exchange should be scheduled well before the IAIS is due to submit its recommendations to the FSB to give potential G-SIIs the opportunity to provide additional information that may have an impact on the recommendation. In terms of content, the IAIS should be prepared to explain its conclusions in detail. G-SII-candidates should have chance to challenge main findings and to offer a different perspective or interpretation. The entire exchange and possible follow-up meetings should be documented.
Munich Re	Germany	No	The exchange should be scheduled well before the IAIS is due to submit its recommendations to the FSB to give potential G-SIIs the opportunity to provide additional information that may have an impact on the recommendation. In terms of content, the IAIS should be prepared to explain its conclusions in detail. G-SII-candidates should have a chance to challenge main findings and to offer a different perspective or interpretation. The entire exchange and possible follow-up meetings should be documented.
Global Federation of Insurance Associations	Global	No	There should be a frank and in-depth conversation between the IAIS, the relevant authority and a prospective G-SII. The IAIS should explain exactly how the assessment has been carried out and why the insurer has been designated as a prospective G-SII, so that the insurer has all the relevant information in order to be able to provide the IAIS with any additional information or arguments. During this dialogue, the prospective G-SII should have a chance to allay the IAIS' concerns, and this should then be considered in the designation process.
Institute of International Finance/ The Geneva Association	Global	No	<p>We advocate that insurers should already being involved in Phase III, as this phase requires extensive interpretation of insurance features. Insurers should be able to explain their qualitative features in the process, and could add value by providing an appropriate perspective on a firm's activities and risk profile.</p> <p>The information exchange in Phase IV should include a synopsis of the IAIS' interpretation of the data submitted for Phase I, a review of the assessment score - indicator by indicator, and a review of the results of the Phase III qualitative assessment - including the rationale for changing the assessment methodology score of the firm.</p>
AIA Group	Hong Kong	No	We have no comment in this regard.

Global Reinsurance Forum	International	No	The insurer should be given the opportunity to present its own analysis and argumentation regarding its systemic importance. The process should allow sufficient time for the prospective G-SII to prepare this analysis. For this, the IAIS should provide its preliminary assessment to the prospective G-SII in advance of the exchange, ensuring that potential G-SII is provided sufficient time to provide an adequate response. Should a qualitative assessment be carried out by the IAIS, then those individuals who carried out the assessment should be present to hear the case made by the potential G-SII and potentially revise their assessment accordingly.
on behalf of the European GSIs, Aegon, Allianz, Aviva, Axa and Prudential	International	No	<ul style="list-style-type: none"> <li>- The insurer should be asked for qualitative information surrounding the data request for the assessment methodology, so that it can highlight where it considers the data does not adequately represent the potential risk that the IAIS methodology is intended to address</li> <li>- The group supervisor should consider representations made by insurers through the data collection exercise and take account of the SRMP (where an insurer has been required to prepare one) in its assessment. The group supervisor should issue a written preliminary response setting out where it agrees or disagrees with representations made, and whether and if so how it will amend the data included within the quantitative assessment leading to the overall score under the assessment process</li> <li>- It would be helpful if this were followed up with a meeting between the group supervisor and the insurer to discuss before a final determination by the group supervisor is reached, which should be confirmed in writing. It should be made clear to prospective G-SIIs what systemic risk indicators have contributed to their score. Even if a firm is not ultimately designated, insurers need to have a clear understanding of how supervisors perceive their business models in order to make informed business judgments.</li> </ul>
General Insurance Association of Japan	Japan	No	<p>[Content]</p> <p>To improve transparency and objectivity with respect to the assessment methodology, the prospective G-SII should receive the following details of the discussions about it in Phases II and III.</p> <ol style="list-style-type: none"> <li>(1) Its full score and figures for each indicator</li> <li>(2) The denominators in each indicator score calculation (the sums of responses from the sample insurers and the absolute reference values)</li> <li>(3) The quantitative threshold and how it was established in Phase II</li> <li>(4) Whether (and how) adjustments were made in Phase III</li> </ol> <p>[Confidentiality]</p> <p>The exchange of information should be conducted confidentially.</p>
Swiss Re	Switzerland	No	The insurer should have the opportunity to present its own analysis and argumentation regarding its systemic importance. For this, the IAIS should provide its preliminary Phase II and III assessment appropriately documented to the prospective G-SII well in advance of the exchange. This ensures that the potential G-SII can clarify questions with its Group-wide supervisors and has sufficient time to prepare an adequate response. Individuals who carried out the Phase III assessment for the IAIS should be present in the G-SII presentation to hear the case made and potentially revise their assessment accordingly.
KPMG	UK	No	<p>As described, the IAIS can provide further details on the G-SII assessment methodology that are specific to the insurer to demonstrate the reasons for which the insurer has been identified as a potential G-SII.</p> <p>In turn, the potential G-SII may provide further data and information that demonstrates their lack of systemic risk within the</p>

			<p>industry.</p> <p>A further useful discussion could relate to risk management and stress and scenario analysis, as previously described.</p>
Prudential plc	UK	No	<p>We welcome the inclusion of the exchange with prospective G-SII as a step in the designation process. This exchange should comprise a dialogue and where the prospective G-SII is able to allay the IAIS' concerns, it should be considered in the designation process.</p> <p>The information exchange in Phase IV should include a synopsis of the IAIS' interpretation of the data submitted for Phase I, a review of the assessment score - indicator by indicator, and a review of the results and impact of the Phase III qualitative assessment - including the rationale for changing the assessment methodology score of the firm.</p>
Allstate Insurance Company	United States	No	<p>There should be no limitation on the type or form of information the IAIS exchanges with a potential G-SII. Moreover, we believe a more efficient and effective assessment would be possible if communications with potential G-SIIs occurred as early as Phase II of the evaluation. Dialogue should continue during Phase III among the IAIS, the potential G-SII, and their jurisdictional regulator. We believe the dialogue in Phase II and Phase III among the potential G-SII, the IAIS and the respective jurisdictional regulator would provide for a more efficient and effective evaluation process and reduce the potential for misunderstanding data that could otherwise result in incorrect conclusions reached in the identification of potential G-SIIs.</p>
American Council of Life Insurers	United States	No	<p>We strongly support the information exchange with prospective G-SIIs in Phase IV. The information exchange must be a meaningful dialogue between the insurer and the IAIS and the group-wide supervisor, not a pro-forma or check the box exercise.</p> <p>During the information exchange, prospective G-SIIs should learn why the firm is being considered for designation. The prospective G-SII's scores from Phase II and Phase III, along with information about how the IAIS determined the threshold in Phase II, should be communicated to the firms.</p> <p>It is critical that the assessment process be conducted in a transparent manner and includes meaningful dialogue with firm under consideration throughout the process so they understand the basis for their consideration / designation and measures that can be pursued to avoid / shed designation.</p> <p>To encourage the meaningfulness of the dialogue, it is important that there should be no conclusion reached by the IAIS regarding a prospective G-SII's status until after meaningful information exchange has occurred. The prospective G-SII should have the opportunity to provide the IAIS with additional information or arguments that it believes may allay the IAIS concerns about its potential status as a G-SII.</p>
RAA	United States and many other jurisdictions	No	<p>The information exchange should be early enough in the process to ensure the information supplied by the potential GSII could impact the determination. The information flow should be bidirectional, so that the GSII will understand which activities, balances or transactions may be creating the greatest amount of potential concern. In addition, the potential GSII should have ample opportunity to challenge the supervisors' findings and offer a different perspective or determination.</p>

American Insurance Association	United States of America	No	<p>Phase IV - Exchange with Prospective G-SIIs: while the Updated G-SII Methodology does not offer much detail on the Phase IV exchange, given the stage at which the discussion occurs, AIA fails to see how Phase IV will yield any meaningful due process protections for groups that may be designated as G-SIIs. While such process may be ancillary to the methodology itself, it is critical for every insurance group undergoing an assessment to understand its rights to contest a determination and its ability to protect the integrity of its business. Further, establishing a transparent and coherent process will be important to maintaining the legitimacy of G-SII assessments. AIA would be happy to work with the IAIS on development of a company-initiated process to incorporate into the Updated G-SII Methodology.</p> <p>In the interim, AIA assumes that the Updated G-SII Methodology still provides for a consultation process with a G-SII candidate's group-wide supervisor(s), as well as an opportunity for a particular supervisor to challenge findings. (F/N 10) However, a group-wide supervisor ought to be able to engage more than simply as an advocate on behalf of the company. Under certain conditions, the supervisor ought to be afforded the right to veto a company's designation. Such a supervisory right would be particularly appropriate where the IAIS fails to include the right for a company to contest a G-SII determination.</p> <p>(F/N 10: G-SII Assessment Methodology Consultation Document (July 31, 2012) at pp. 21 - 22, ¶¶ 48 - 52.)</p>
Prudential Financial, Inc.	United States of America	No	<p>The information exchange in Phase IV should include:</p> <ul style="list-style-type: none"> <li>+ a synopsis of the IAIS' interpretation of the data submitted for Phase I</li> <li>+ a review of the assessment score - indicator by indicator,</li> <li>+ a review of the results of the Phase III qualitative assessment - including the rationale for changing or not changing the assessment methodology score of the firm,</li> <li>+ a firm's position on the full G-SII list,</li> <li>+ a firm's HLA bucket placement, and</li> <li>+ an explanation of the G-SII cut-off threshold.</li> </ul> <p>Such transparency is critical in order for a firm to have sufficient clarity on the basis for their consideration / designation as a G-SII and measures they can pursue to avoid / shed designation.</p>
MassMutual Financial Group	USA	No	<p>As noted in our response to Question 14, the IAIS should ensure transparency of the methodology, confidential exchange of components of assessment prior to designation, and confidential communication of components' scores and thresholds to all companies contributing to the G-SII Phase I process.</p> <p>We also emphasize the need for confidentiality around the communication of scores and ranking under this process given that the methodology, components, thresholds and identification of systemic risk in insurance are still in early development stages and may affect markets inappropriately as a result.</p>
MetLife, Inc.	USA	No	<p>G-SIIs should have access to individual indicator scores, the method by which these were aggregated and the final overall score computed. G-SIIs should also have access to the threshold and the manner in which the threshold is computed.</p>



			<p>Information provided would be that relating to the particular G-SII and could be provided to senior management by the consolidated group wide supervisor. In this manner, confidentiality of other G-SII scores and position would be preserved.</p> <p>We reiterate here our strong recommendation that an appeal process be incorporated into Phase V of the Updated Methodology such that insurers slated for recommendation to the FSB for G-SII designation are afforded the opportunity to appeal the grounds for their designation with the FSB independently of the IAIS. Such an appeal presumes, however, that G-SIIs will have been able to engage with the IAIS and their group-wide supervisors in meaningful discussions of the reasons for their proposed designation as described in the first paragraph of this response to Question 24.</p>
Property Casualty Insurers Association of America (PCI)	USA	No	The data used to make the G-SII designation should be available to any potential designee. Significant due process and transparency needs to be added to the process. The provision of a summary of the IAIS' analysis and a single meeting to ask questions does not constitute adequate due process. Potential G-SIIs should be able to request additional information and the documents supporting the analysis. An arbitration or appeal process should also be introduced.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	It is important to ascertain (during Phase III and IV) the extent to which the firm may have de-risked year over year.
<b>25 - Is it reasonable for Phase 2 of the Methodology to be the basis for applying HLA to G-SIIs? Please indicate any alternative methods that the IAIS should consider for this allocation process. What constraints, if any, should be applied to Phase III's effect on the allocation of HLA?</b>			
CLHIA	Canada	No	Depending on the final framework of Phase III and the degree of subjectivity, etc. limits may need to be placed on the degree of impact the qualitative stage can have on the assessment.
China Association of Actuaries	China	No	We agree to apply the phase II result of the Methodology to be the sole basis for HLA application, since introducing other subjective judgements may reduce the credibility, transparency, comparability and consistency of HLA application. However, we would suggest IAIS to consider the impact of the introduction of absolute reference values on HLA bucketing. For example, it may not be appropriate anymore to set low bucket criterion based on calculation $1+50*200\%=0.04$ since the sample insurers' GSII scores now may not add up to 1 (after introducing absolute reference values). One possible solution could be replacing 1 by the sum of sample scores.
China Insurance Regulatory Commission	China	No	<p>Phase II score is a key element in HLA allocation, however we view that it is not complete and comprehensive based on the proposed methodologies. As according to IAIS, Phase I and II are for a standardized data collection and scoring only, any insurer specific assessment (e.g. reinsurance assessment) are included in Phase III. Phase III results, if not more, are the same important as Phase II scoring, by reflecting any individual group's systemic importance. So we strongly recommend Phase III results be included in the HLA allocation.</p> <p>For example, at least for any quantitative analysis in Phase III, the results can be incorporated into Phase II scores to do the HLA bucket allocation.</p>

Insurance Europe	Europe	No	<p>It is important that the HLA is based on appropriate data. Where Phase III assessment considers that the data is not indicative of potential risk (for example after considering the ancillary factors) then the data should be disregarded from the assessment and should not contribute to the G-SIIs overall score, as this could otherwise influence the bucket that the insurer is allocated to for the purposes of the HLA.</p> <p>The allocation for HLA purposes should be communicated to the potential G-SIIs as soon as possible. Any fundamental changes of assessment due to discoveries in Phase III or even Phase IV must be considered in the HLA bucket allocation. The IAIS clearly states that the assessment process is not final before Phase V and the HLA allocation cannot be based on a preliminary result.</p>
Insurance Europe	Europe	No	<p>It is important the HLA is based on appropriate data. Where Phase III assessment considers that the data is not indicative of potential risk, for example after considering the ancillary factors, then the data should be disregarded from the assessment and should not contribute to the G-SIIs overall score, as this could otherwise influence the bucket that the insurer is allocated to for the purposes of HLA.</p> <p>The allocation for HLA purposes should be determined and communicated to the potential G-SIIs as soon as possible. Therefore, it is reasonable to base the initial allocation on the initial G-SII assessment of Phase II. However, any fundamental changes of assessment due to discoveries in Phase III or even Phase IV must be considered in the HLA bucket allocation. The IAIS clearly states that the assessment process is not final before Phase V and the HLA allocation cannot be based on a preliminary result.</p>
European Insurance and Occupational Pensions Authority	European Union	No	<p>EIOPA believes that the process of HLA bucketing linked to the G-SII quantitative scores is a simple and effective manner of introducing a risk sensitivity element to the application of HLA (the higher the G-SII score, which is expected to measure systemic importance, the higher the HLA).</p> <p>Regarding the criticism that prospective G-SIIs cannot calculate their own score, this could be overcome by the public disclosure of certain data elements by the IAIS:</p> <ul style="list-style-type: none"> <li>- The quantitative threshold</li> <li>- The denominators used in the calculations of the scores</li> <li>- Other necessary information (such as absolute reference values, etc).</li> </ul> <p>To ensure full consistency between the outcome of the G-SII Methodology and HLA, the final scores should be used, reflecting in full the effects of the Qualitative phases of the Methodology.</p>
GDV - German Insurance Association	Germany	No	<p>The allocation for HLA purposes should be assessed and communicated to the potential G-SIIs as soon as possible. Therefore, it is reasonable to base the initial allocation on the initial G-SII assessment of Phase II. However, any fundamental changes of assessment due to discoveries in Phase III or even Phase IV must be considered in the HLA bucket allocation. The IAIS clearly states that the assessment process is not final before Phase V and the HLA allocation cannot be based on a preliminary result. Thus, any changes in scores in Phases III and IV should be taken into account when definitely assigning the G-SIIs to their HLA buckets.</p>
Munich Re	Germany	No	<p>The allocation for HLA purposes should be assessed and communicated to the potential G-SIIs as soon as possible. Therefore, it is reasonable to base the initial allocation on the initial G-SII assessment of Phase II. However, any fundamental changes of assessment due to discoveries in Phase III or even Phase IV must be considered in the HLA bucket allocation. The IAIS clearly states that the assessment process is not final before Phase V and the HLA allocation cannot be based on a</p>

			preliminary result. Thus, any changes in scores in Phases III and IV should be taken into account when definitely assigning the G-SIIs to their HLA buckets.
Global Federation of Insurance Associations	Global	No	<p>It is important that the HLA is based on appropriate data. Where Phase III assessment considers that the data is not indicative of potential risk (for example after considering the ancillary factors) then the data should be disregarded from the assessment and should not contribute to the G-SIIs overall score, as this could otherwise influence the bucket that the insurer is allocated to for the purposes of the HLA.</p> <p>The allocation for HLA purposes should be communicated to the potential G-SIIs as soon as possible. Any fundamental changes of assessment due to discoveries in Phase III or even Phase IV must be considered in the HLA bucket allocation. The IAIS clearly states that the assessment process is not final before Phase V and the HLA allocation cannot be based on a preliminary result.</p>
Institute of International Finance/ The Geneva Association	Global	No	<p>The current quantitative Phase II in the proposed methodology considers indicators of systemic relevance that in our view do not well define the systemic importance of insurers. In addition it does not account for the additional critical elements of the insurance business model (ALM and hedging, collateral, reinsurance agreements, asset liquidity profile, other risk management activities). Without a robust set of appropriate quantitative indicators that measure systemic risk, Phase II may not accurately measure the potential systemic importance of insurance groups, and until the IAIS has developed appropriate indicators it should not be used for HLA purposes.</p> <p>Subject to a framework that would ensure that Phase III evaluation is consistent, comparable and transparent (as described elsewhere in our response), we agree that Phase III criteria should act to ensure that an insurer's score and rank reflect the potential of its failure to impact the financial system at large. We therefore support using information gained from a transparent and comparable Phase III to adjust the quantitative score developed in Phase II and thereby be taken into account for HLA purposes.</p>
AIA Group	Hong Kong	No	We have no comment in this regard.
Global Reinsurance Forum	International	No	<p>The allocation for HLA purposes should be assessed and communicated to the potential G-SIIs as soon as possible. Therefore, it is reasonable to base the initial allocation on the initial G-SII assessment of Phase II. However, any fundamental changes of assessment due to discoveries in Phase III or even Phase IV must be considered in the HLA bucket allocation. The IAIS clearly states that the assessment process is not final before Phase V and the HLA allocation cannot be based on a preliminary result. Thus, any changes in scores in Phases III and IV should be taken into account when definitely assigning the G-SIIs to their HLA buckets.</p>
on behalf of the European GSIs, Aegon, Allianz, Aviva, Axa and Prudential	International	No	<p>It is reasonable and desirable to achieve consistency between the drivers of the G-SII score and HLA. In addition, given the supervisory goals of HLA, a low G-SII assessment score should result in a relatively low HLA. We do have concerns, however, around how HLA is based on the outcomes of the current relative scoring approach. Insurers need to be able to predict capital requirements in order to manage capital effectively, and they cannot do so if their capital requirements are effectively a function of the activities of other insurers.</p> <p>There should be at least one exception to the aforementioned principle of consistency: liquidity risk. Even if liquidity forms part</p>

			<p>of the basis for G-SII designation, it is not appropriate or relevant to use HLA as a policy measure to address liquidity-related systemic risk. (This is the function of the liquidity risk plan.) We therefore would recommend modifying the assessment score for purposes of applying HLA.</p> <p>Where phase III assessment considers that the data is not indicative of potential risk, for example after considering the ancillary factors, then the data should be disregarded from the assessment and not contribute to the GSII's overall score as this could otherwise influence the bucket that the insurer is allocated to for the purposes of HLA.</p>
General Insurance Association of Japan	Japan	No	<p>- In principle, the allocation process should be based on the individual G-SII's full score, as outlined in the HLA paper.</p> <p>- However, it is reasonable that insurers, which were added to the (potential) G-SII list as a result of the adjustments in Phase III, will be allocated into the low bucket.</p>
Swiss Re	Switzerland	No	<p>Our response to question 17 proposes using Phase II to assess the impact of Phase III considerations to the quantitative score of potential G-SIIs. An appropriately adjusted aggregated quantitative score should be the basis for applying HLA to G-SIIs.</p>
Aegon N.V.	The Netherlands	No	<p>We believe that the policy goals of HLA need additional consideration in light of the stabilizing role that insurers and insurance products have in financial markets.</p> <p>To the extent that HLA is used, it is reasonable and desirable to achieve consistency between the drivers of the G-SII score and HLA. We do have concerns, however, around how HLA is based on the outcomes of the current relative scoring approach. Insurers need to be able to predict capital requirements in order to manage capital effectively, and they cannot do so if their capital requirements are effectively a function of the activities of other insurers.</p> <p>There should also be at least one exception to the aforementioned principle of consistency: liquidity risk. Even if liquidity forms part of the basis for G-SII designation, it is not appropriate or relevant to use HLA as a policy measure to address liquidity-related systemic risk. This is the function of the liquidity risk management plan.</p>
KPMG	UK	No	<p>The HLA should apply to all identified G-SIIs after considering all phases of the G-SII assessment methodology. This is also why we indicated at question [x] above that we do not support fixing the G-SII assessment score (barring correction of substantial data errors) at phase 2.</p>
Prudential plc	UK	No	<p>We believe that the changes to the Methodology that will be implemented in 2016 will not fully address all the concerns that the industry has with the designation methodology. E.g. para 19 of the consultation states that more indicators will be considered for absolute reference in the next 3 year review and the NTNI framework continues to be further refined.</p> <p>Until the methodology improvements fully capture the true systemic nature of insurance business, we believe that it is not appropriate to use it as a basis for determining HLA.</p> <p>We also believe that if any products or activities are deemed to be systemically risky, capital add-ons should apply to all firms engaging in those activities.</p> <p>If, however, the IAIS continues with regulation of firms (and not activities), the Phase II score will be a more preferable basis for allocating G-SIIs to buckets. The allocation should also consider the impact of Phase III where this phase may identify that some of the indicators from Phase II do not appropriately reflect the true systemic impact of the failure of the insurer.</p>

Allstate Insurance Company	United States	No	No, the results of Phase II should not be the basis for applying HLA to G-SIIs. Phase II does not necessarily result in the conclusion that an entity is systemically important. The purpose of the HLA is to require entities specifically determined to be systemically important to hold additional capital. Entities are identified as systemically important only after the completion of all phases of the G-SII assessment.
American Council of Life Insurers	United States	No	No, we do not think it is reasonable for Phase II of the Methodology to be the basis for applying HLA to G-SIIs. There should be a mechanism for factoring in information gained in Phase III to the basis for applying HLA. Insurers should get credit in Phase II for quantifiable risk management techniques that mitigate their systemic exposures.  As currently designed in the consultation, the Phase II score is not a comprehensive evaluation of a firm's potential systemic relevance, and therefore it is not an appropriate metric to determine a basis for the HLA.  We emphasize again that any analysis must be conducted in a transparent and comparable manner to ensure consistent application to all firms.
Prudential Financial, Inc.	United States of America	No	We do not consider it reasonable to rely solely on the results of Phase 2 as the basis for applying HLA to G-SIIs. We respect and understand the IAIS preference for focusing on quantifiable measures however, at this point the assessment methodology and related measures overstate the potential risk of a firm to the global financial system. Phase III offers a forum for the firm and supervisors to address shortcomings of the quantitative portion of the assessment methodology, including a review of a firm's risk management framework and its effectiveness. Failing to account for such tools by limiting the basis for applying HLA to the results of Phase II may lead to excessive or insufficient capital charges for a firm.  While we ultimately believe a firm's risk management framework must be captured in Phases I and II, we recognize such modifications to the assessment methodology will take time. That said, given the ramifications that accompany designation, including increased capital requirements and other prudential measures, we believe it is critical that the IAIS develop an interim method for adjusting a firm's Phase II score to account for the knowledge gained in Phase III.
MassMutual Financial Group	USA	No	Since Phase II produces an initial indication, but not a final determination, of an insurer's systemic risk, we do not believe that Phase II alone should be the basis for the HLA allocation. Instead, any adjustments coming out of the additional quantitative and qualitative assessment of Phase III and Phase IV should be included in the basis for applying HLA.
MetLife, Inc.	USA	No	The current Updated Methodology quantitative Phase II considers indicators of systemic relevance that do not well define the systemic importance of any insurance group. In addition it does not account for the additional critical elements of the insurance business model (ALM and hedging, collateral, reinsurance agreements, asset liquidity profile, other risk management activities). In MetLife's view, without a robust set of appropriate quantitative indicators that measure for systemic risk such as suggested in its proposed alternative G-SII Assessment, Phase II falls substantially short of appropriately measuring the potential systemic importance of insurance groups and should therefore not be used as it stands as the basis for the application of HLA.  An additional reason not to use the Phase II score for the application of HLA lies in an apparent incongruity that arises when Paragraphs 39 and 40 of the Updated Methodology are read with current HLA guidance, which proposes that G-SIIs will be assigned to buckets on the basis of their overall assessment score. Paragraphs 39 and 40 together suggests that a potential G-SII's rank could be altered by considerations that take place in the qualitative Phase III but that Phase III considerations will

			<p>not alter Phase II scores unless there are "substantive errors" in data analysis.</p> <p>It seems wrong that a firm may fare better under Phase III and not have this reflected in any eventual HLA charge. However, any application of Phase III analysis to Phase II scores or ranking must be subject to a framework that would ensure that Phase III evaluation is comparable and transparent such that it is applied consistently to all potential G-SIIs.</p>
<b>26 - What factors, such as stability in the G-SII list, should the IAIS consider when determining the appropriate presumption period for G-SII status?</b>			
RenaissanceRe	Bermuda	No	<p>The IAIS should be cognizant of the transformational trends affecting the traditional (re)insurance industry particularly with respect to the way in which (re)insurers respond or adapt to the disruptions along the traditional insurance value chain as a result of the emergence of advanced technologies and distribution systems. The rate of transformation within the industry, as a result of these emerging potentially disruptive technologies, is bound to impact upon the stability of the GSII list and presumption period for GSII status.</p>
CLHIA	Canada	No	<p>The two year requirement seems arbitrary and completely ignores a company's risk mitigation activities and actual risk position. If one of the purposes of the G-SII designation process is to encourage appropriate risk mitigation and de-risking activities in prospective G-SIIs, the results of the activities should be recognized in a timely manner and without arbitrary delay. In encouraging appropriate risk mitigation and de-risking, extended designation periods may also encourage companies to take action based on time constraints to avoid an arbitrary two year designation rather than sound analysis that may require additional time to completion.</p> <p>If a minimum timeline is deemed necessary, then symmetry is recommended to allow adequate time for de-risking before designation rather than assuming de-risking would occur after designation. For example, if a new prospective G-SII is identified for designation, the first year they would be notified and given an opportunity to de-risk and it would only be after the second year if they were still identified for designation that the two year designation would begin</p>
China Insurance Regulatory Commission	China	No	<p>We suggest consider the level of market development. Different markets have very different level of development and speed of growth. "Stability" can be very different to different markets.</p>
Insurance Europe	Europe	No	<p>In GFIA's view, a relevant factor would be whether a change in an insurer's overall score in the designation process was due to temporary factors, or whether it is indicative of a more permanent view. Where it is a temporary factor, this should not necessarily lead to an insurer entering or exiting the list, but where the change is indicative of a more permanent view, there should be no reason to delay the insurer's entry or exit from the list of G-SIIs. This should be discussed with the insurer as part of the information exchange.</p> <p>GFIA does not agree with the two-year minimum presumption of G-SII status. It is not reasonable and proportionate for an insurer to remain on the G-SII list and subject to policy measures if it has taken satisfactory steps to reduce its systemic relevance. The stability of the G-SII list is not a value in itself that needs to be protected. The G-SII designation should be instantly effective without granting transitional periods.</p> <p>In the situation where an insurer not previously identified as a G-SII will be recommended for identification, the IAIS should</p>

			award the insurer some degree of flexibility. Namely, with regard to the requirements G-SIIs need to satisfy, such as additional funding, the IAIS could consider allowing a certain grace period that provides more time for the insurer to satisfy the requirements. This would be done based on close communication with the group-wide supervisor.
Insurance Europe	Europe	No	<p>In Insurance Europe's view, a relevant factor would be whether a change in an insurer's overall score in the designation process was due to temporary factors, or whether is indicative of a more permanent view. Where it is a temporary factor, this should not necessarily lead to an insurer entering or exiting the list, but where the change is indicative of a more permanent view, there should be no reason to delay the insurer's entry or exit from the list of G-SIIs. This should be discussed with the insurer as part of the information exchange.</p> <p>Insurance Europe does not agree with the two-year minimum presumption of G-SII status. It is not reasonable and proportionate for an insurer to remain on the G-SII list and subject to policy measures if it has taken satisfactory steps to reduce its systemic relevance. The stability of the G-SII list is not a value in itself that needs to be protected. The first G-SII designation should also be instantly effective without granting transitional periods.</p>
European Insurance and Occupational Pensions Authority	European Union	No	<p>EIOPA believes that stability is an important consideration when defining the criteria for entry and exit of the G-SII list, given the implications for prospective G-SIIs (the need to comply with all G-SII Policy Measures). However, stability needs to be weighted against the issue of the incentives which are embedded in the methodology. Presumption periods should not be too long, in order not to remove the incentives for newly designated G-SIIs to immediately implement measures aiming the reduction of their systemic footprint (and the consequent removal of the G-SII status). The proposed two years could constitute an appropriate balance.</p>
GDV - German Insurance Association	Germany	No	<p>The GDV opposes the establishment of presumption periods entirely. The stability of the G-SII-list is not a value in itself that needs to be protected. If a G-SII drops below the threshold after Phases I-III it should be immediately removed from the list, just as the first G-SII-designation would be instantly effective without granting transitional periods. It should not be subject to the IAIS' discretion to decide whether or not changes in the assessment are likely to be permanent.</p>
Munich Re	Germany	No	<p>The stability of the G-SII-list is not a value in itself that needs to be protected. If a G-SII drops below the threshold after Phases I-III it should be immediately removed from the list, just as the first G-SII-designation would be instantly effective without granting transitional periods. It should not be subject to the IAIS' discretion to decide whether or not changes in the assessment are likely to be permanent.</p>
Global Federation of Insurance Associations	Global	No	<p>In GFIA's view, a relevant factor would be whether a change in an insurer's overall score in the designation process was due to temporary factors, or whether it is indicative of a more permanent view. Where it is a temporary factor, this should not necessarily lead to an insurer entering or exiting the list, but where the change is indicative of a more permanent view, there should be no reason to delay the insurer's entry or exit from the list of G-SIIs. This should be discussed with the insurer as part of the information exchange.</p> <p>GFIA does not agree with the two-year minimum presumption of G-SII status. It is not reasonable and proportionate for an insurer to remain on the G-SII list and subject to policy measures if it has taken satisfactory steps to reduce its systemic relevance. The stability of the G-SII list is not a value in itself that needs to be protected. The G-SII designation should be instantly effective without granting transitional periods.</p> <p>In the situation where an insurer not previously identified as a G-SII will be recommended for identification, the IAIS should</p>

			award the insurer some degree of flexibility. Namely, with regard to the requirements G-SIIs need to satisfy, such as additional funding, the IAIS could consider allowing a certain grace period that provides more time for the insurer to satisfy the requirements. This would be done based on close communication with the group-wide supervisor.
Institute of International Finance/ The Geneva Association	Global	No	<p>Entry and exit from G-SII designation should be based on a high-quality and objective assessment of potential systemic risk. Where an insurer has taken planned steps agreed with their supervisor to address aspects of their systemic designation, the completion of those steps should dictate when the insurer should be regarded as no longer meeting the requirements for designation as a G-SII. We prefer that there is no arbitrary deadline in this respect.</p> <p>However, if the IAIS were to consider a 2-year presumption period, then we advocate that it follows a symmetrical approach where a 2-year delay is also applied to G-SII designation. If identified as a new candidate G-SII, the firm is notified, and maybe imposed the production of a systemic risk management plan. If reconfirmed the next year, it is designated. It would give both the group supervisor and the firm a chance to act upon the designation, at a minimum to prepare. However, if the designation is related to M&amp;A and/or the score in the interconnectedness and NTNI categories would explode, it would make sense to designate immediately.</p>
AIA Group	Hong Kong	No	Stability in the G-SII list should not be a goal. If an insurer's business model changes, either to become more or less risky, that should be taken into account and the insurer should be added or deleted as appropriate.
Global Reinsurance Forum	International	No	The stability of the G-SII-list is not a value in itself that needs to be protected. However, changes due to temporary factors (like currency fluctuations) should be avoided. Insurers should have incentives to exit the G-SII list by reducing potentially systemically relevant activities at the earliest feasible opportunity.
on behalf of the European GSII, Aegon, Allianz, Aviva, Axa and Prudential	International	No	<ul style="list-style-type: none"> <li>- The most relevant factor would be whether a change in an insurers overall score in the designation process was due to temporary factors, or is indicative of a more permanent view. Where it is a temporary factor this should not necessarily lead to an insurer entering or exiting the list, but where the change is indicative of a more permanent view there should be no reason to delay the insurers entry or exit from the list of GSII</li> <li>- This is something that should be discussed with the insurer as part of the information exchange</li> </ul> <p>Although we would agree that a sound G-SII construct would avoid unnecessarily moving an insurer on and off the list, we question the apparent bias for inclusion on the G-SII list due to the proposed minimum two-year presumption period. If a G-SII were to materially and permanently change its systemic risk profile, we see no reason to subject it to ongoing policy measures due solely to an arbitrary minimum time limit. The list of G-SIIs should keep pace with the systemic risk profiles of individual insurers.</p>
General Insurance Association of Japan	Japan	No	<ul style="list-style-type: none"> <li>- Allowing insurers to exit the G-SII list, one year after designation, when their scores have improved, will provide an incentive for insurers to strive to reduce systemic risk. If an assessment is carried out annually under a sufficiently transparent, appropriate process, G-SII status should also be reviewed every year.</li> <li>- If the IAIS is concerned about changes to the G-SII list caused by short term variations such as accidental underestimation of systemic risk following market fluctuations, etc., it will be reasonable to appropriately consider whether such changes are permanent in Phase III.</li> <li>- As some G-SII policy measures need to be completed within 24 months of G-SII designation, it will be necessary to determine whether G-SIIs that exited from the list after one year should be required to complete these measures. However,</li> </ul>



			this can be left to the judgement of the relevant national supervisor, and does not rationalize the proposed two-year minimum presumption of G-SII status.
The Life Insurance Association of Japan	Japan	No	<p>·In the light of significant impact of the G-SII designation on each insurer's business strategies and capital policies, the LIAJ does not support creation of a "two-year minimum presumption of G-SII status". It would be more relevant to directly reflect insurers' efforts to reduce systemic risk profile in G-SIIs designation from the perspective of increasing incentive to reduce systemic risk.</p> <p>·On the other hand, flexible approach is needed in the designation process where a non-G-SII group is newly designated as G-SII. More specifically, we would like the IAIS to introduce a certain grace period that allows more time for insurers before satisfying the requirements for G-SIIs such as additional capital funding, based on close communication with group-wide supervisor, rather than requiring them to immediately satisfy all requirements.</p>
Swiss Re	Switzerland	No	<p>We consider it reasonable to analyze to what degree a change in an insurer's overall score in the designation process was due to temporary factors, such as currency fluctuations. Where temporary factors materially influence the designation, this should not necessarily lead to an insurer entering or exiting the list.</p> <p>Swiss Re is opposed to a two-year minimum presumption of G-SII status. The G-SII list should include those insurers that are sources of systemic risk. When a G-SII ceases to be a source of systemic risk, it should be removed from the list at the earliest feasible opportunity. This creates a strong incentive for G-SIIs to reduce the systemic risk they may pose to the wider economy sooner rather than later.</p>
Institute and Faculty of Actuaries	UK	No	Changes to the G-SII list due to USD currency movements should be considered.
KPMG	UK	No	<p>The IAIS may consider the following factors:</p> <ul style="list-style-type: none"> <li>- Stability of the G-SII list year on year (G-SII status should not be assigned and revoked on a regular basis. G-SII status is an underlying feature of the insurer that will take time to reverse). Continual changes to G-SII status of insurers will put in question the credibility of the methodology adopted by the IAIS</li> <li>- Consider implications for the reputation of the insurer from retaining the G-SII status</li> <li>- Increased supervisor scrutiny applying to insurers labelled G-SIIs</li> <li>- Application of G-SII regulatory package including higher capital requirements</li> </ul> <p>However, we do not support the minimum two-year G-SII presumption. If a group has actively reduced its systemic risk, then it should not be penalised through continuation of its G-SII classification. Also, we do not support a static number of G-SIIs - the absolute number in any year should reflect also the systemic risk posed by the insurance sector as a whole.</p>
Prudential plc	UK	No	It is unnecessary and undesirable to have a 2-year delay in derecognizing a firm's G-SII status. Once a firm has derisked and as a result has fallen below the systemic risk threshold, it does not pose a systemic risk to the financial system anymore. Further, the 2-year delay will not create the appropriate incentive for the firm to de-risk immediately post designation.

Allstate Insurance Company	United States	No	We do not believe there should be a presumption period for G-SII status. Rather, G-SII status should be reviewed annually in accordance with the G-SII assessment methodology. The qualitative aspect of the G-SII methodology becomes critical in determining whether the G-SII remains on the list. The qualitative assessment provides information regarding any changes in the assessed entity's risk management profile relevant to the determination of whether a G-SII designation remains appropriate or should be rescinded.
American Council of Life Insurers	United States	No	<p>It is critical that designation and delisting are based upon a sound, objective, and transparent assessment process. The results of the assessment must be conveyed to the insurer in sufficient detail to allow its management to understand the reason(s) for its consideration / designation and thereby actions they could take to avoid / shed designation. We are concerned that the IAIS is contemplating creating a presumptive period of designation (e.g., 2 years) for a G-SII, regardless of whatever meaningful, measurable, and concrete actions - such as selling a business or changing the composition of a firm's liabilities and investment portfolios - the firm may have taken to lower its score. Therefore as an alternative to a fixed "presumption period", we suggest that the time frame for a G-SII delisting be flexible and account for the effective implementation of such management actions.</p> <p>If the IAIS creates a presumptive period of G-SII status, then there should be an equal period of time when a firm is not considered a G-SII. For example, if a two year presumptive period applies to firm's designated as G-SIIs, then after a firm has been evaluated and found not to qualify as a G-SII, it should have a two year presumptive "non G-SII" period before it is evaluated again for G-SII status. In addition, we request the IAIS give consideration to the incorporation of an appeal process to afford potential GSIIIs the opportunity to appeal the grounds of their designation with an independent party.</p>
RAA	United States and many other jurisdictions	No	There is no inherent value in the stability of the GSII list. As we have seen in recent circumstances, companies can cease or divest activities or operations that may give rise to increased systemic risk. If such designated GSII is no longer systemic, then it should be immediately removed from the GSII list. In practice, if the GSII methodology is appropriately designed with meaningful qualitative considerations and a robust bidirectional exchange of information the GSII list will: 1) likely to be stable and 2) any potential changes will be known in advance through the information exchange.
Prudential Financial, Inc.	United States of America	No	<p>The core goal of the G-SII Policy Measures, including the assessment methodology, should be the accurate identification, assessment and management of systemic risk the insurance sector imparts on the financial system. Stability of the G-SII list should not be a consideration.</p> <p>In addition, we do not support the 2 year presumption period for G-SII status. Entry and exit from the list should be symmetrical. If the IAIS retains the 2 year presumption period then a firm should be granted a one year delay in designation. Such a delay would grant an insurer time to take the necessary actions to change their business to avoid the punitive measures that accompany G-SII designation or prepare begin adoption of such measures.</p>
MassMutual Financial Group	USA	No	We believe a pre-defined quantitative threshold can provide additional clarity to companies on the entry and exit criteria from the G-SII list, will provide an understanding of which aspects of their business model are driving their status as a potential G-SII, and will allow insurance groups to manage those elements that are deemed by the IAIS to contribute to global systemic risk.
MetLife, Inc.	USA	No	If the assessment methodology is sufficiently objective (including using an absolute rather than relative approach), transparent and meaningful, it should be possible for G-SIIs to work with their consolidated group wide supervisor on a systemic risk reduction or management plan toward de-designation. The presumption period could in this instance vary depending on the

			degree to which actions are considered necessary to de-risk and the timeframe within which these actions could reasonably occur.
Property Casualty Insurers Association of America (PCI)	USA	No	There should be no such presumption. If a G-SII drops below the Phase II threshold or is determined not to be systemically important during the Phase III process, it should be dropped from the G-SII list with immediate effect.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	The IAIS should allow for a clear exit ramp for G-SII status. This needs to be addressed in the future considerations of the G-SII process. That said, the IAIS may require that certain policy measures be maintained during a phase out period.
<b>27 - How and, if so, to what extent should conceptual aspects of the Proposed Methodology, including , the data instructions, the data template, and the detailed formulas used for the calculation of indicator scores be made publicly available? If made publicly available, who should disseminate this information? What factors should the IAIS consider in this respect?</b>			
CLHIA	Canada	No	Once instructions, templates and formulas are in a final format including all changes based on consultations, they can be made public for transparency purposes. The results from data calls including data submissions, scores, supervisor analysis, etc. should not be communicated publically.
China Association of Actuaries	China	No	We would suggest IAIS not to make public the methodology. The purposes, rationale as well as the risk measurements are quite different between global systemic risk and group-level enterprise risk. The former is normally the concern of jurisdictional authorities and international regulators, which can be confusing and misleading (also not necessary) to investors.
China Insurance Regulatory Commission	China	No	We suggest not publicly disclose these. Systemic risks and corporate risks are of very different focuses and assessment approaches. The systemic risks are focuses of global and local regulators. To publicly disclose them may confuse the investors and analysts (who focus more on corporate risks).
Insurance Europe	Europe	No	There should be as much public disclosure as possible around the methodology, including the detailed formulas used for the calculation of indicator scores. The IAIS should disseminate this information via their website.
European Insurance and Occupational Pensions Authority	European Union	No	EIOPA supports an improved transparency of the methodology and the designation process. The abovementioned elements should be publicly disclosed by the IAIS.

GDV - German Insurance Association	Germany	No	We believe that sharing of conceptual aspect, data instructions, data template and formulas for the calculation would improve transparency and accountability of the process.
Munich Re	Germany	No	We believe that sharing of conceptual aspect, data instructions, data template and formulas for the calculation would improve transparency and accountability of the process. IAIS to disseminate this information.
Institute of International Finance/ The Geneva Association	Global	No	We see little value in the IAIS publishing the methodology for designating G-SIIs before it is final. The scores of G-SIIs should remain confidential.
AIA Group	Hong Kong	No	The IAIS should publicly disclose the conceptual aspects of the Proposed Methodology. The detailed formulas should be disclosed to all companies from which data is collected. No company data should be disclosed publicly (other than the final status) but each company should be told its own score.
Global Reinsurance Forum	International	No	We strongly urge the IAIS to be fully transparent regarding the conceptual aspects of the proposed methodology. The data instructions, data template, quantitative thresholds, and detailed formulas used for the calculation of indicator scores should be made publicly available. In particular, transparency on formulas used for the calculation of indicator scores enable G-SIIs and potential G-SIIs to more effectively reduce their systemically risky activities which lead to their designation.
on behalf of the European GSIIIs, Aegon, Allianz, Aviva, Axa and Prudential	International	No	- The methodology is currently a public document and there is no reason why it should not continue to be so.
General Insurance Association of Japan	Japan	No	To improve transparency and objectivity with respect to the assessment methodology, the following should be made publicly available: (1) How the quantitative threshold was established in Phase II (without disclosing figures) (2) Templates (finalized) (3) Technical specifications (finalized)
Swiss Re	Switzerland	No	We strongly urge the IAIS to be fully transparent regarding the conceptual aspects of the proposed methodology. The data instructions, data template and detailed formulas used for the calculation of indicator scores should be public. In particular, the denominator values as well as the limits for each indicator should be public. See also our response to Question 1.  The IAIS should publish the information.

KPMG	UK	No	All of the tools should be made publicly available through the IAIS website. The IAIS should adopt as transparent a process as is possible. However, the detailed assessment results should only be shared with the individual participant group (see questions 28 and 29 below).
Prudential plc	UK	No	No response
Allstate Insurance Company	United States	No	The IAIS should be as transparent as possible with insurers and reinsurers regarding the process, parameters, and results of the G-SII assessment. In contrast, we do not believe the indicator scores should be made publicly available at this time as the process is only in its initial stages and will need to mature before public dissemination of information would be appropriate for consideration.
American Council of Life Insurers	United States	No	We do not think it is appropriate for the IAIS to publish any information related to G-SII designations or the G-SII Policy Measures. Given the developmental nature of the measures, the IAIS should not release this information publicly because it has the potential to give rise to unintended consequences to firms, regulators, standard setters and financial markets. Ultimately, the publication of information should be limited to a list similar to that issued for the G-SIBs.
RAA	United States and many other jurisdictions	No	The RAA believes that the proposed methodology, its conceptual aspects, templates, formulas, etc. should be fully transparent and publicly available. Disseminating this information to potential GSII's and the public would improve accountability and confidence in the GSII designation process.
Prudential Financial, Inc.	United States of America	No	<p>It is critical that as a first step the transparency initiatives focus solely on providing designated firms with a clear, written explanation of their Phase II score and the results of the Phase III analysis. Firms that are assessed but not designated should be provided similar information.</p> <p>Given the developmental nature of the assessment methodology and the G-SII Policy Measures we believe it is far too premature to share information publicly. Further, to avoid unintended consequences to firms, regulators, standard setters and financial markets we believe no information should be published until the measures are further refined and / or finalized and adopted by jurisdictional supervisors. Ultimately, the publication of information should be limited to a list similar to that issued for the G-SIBs.</p>
MassMutual Financial Group	USA	No	We emphasize the need for confidentiality around the communication of scores and ranking under this process given that the methodology, components, thresholds and identification of systemic risk in insurance are still in early development stages and may affect markets inappropriately as a result.
MetLife, Inc.	USA	No	Blank data templates and instructions could be made public. However, we suggest that prior to achieving a reasonable level of confidence that the analysis proposed adequately assesses for systemic importance, there is no merit to publication. No data or scores (whether individual or aggregate) should be made public.
National Association of Insurance	USA, NAIC	No	The instructions and the data template should be made available by the IAIS in order to give supervisors, the companies, and the public some understanding of the data supporting designation. Some elements of the formulas should also be made available in order to publicly identify the factors that are driving designation. However, any release of the formulas must take into consideration the commitment to keep firm specific data confidential. Also, the drivers of the firm's systemic designation

Commissioners (NAIC)			should be communicated to the firm in order to facilitate a path to exit G-SII status. Further, all firms within the scope of the analysis should be provided their scores on each indicator as well as their ranking relative to other firms.
<b>28 - How and, if so, to what extent should the resulting score be communicated to the prospective G-SII?</b>			
CLHIA	Canada	No	Details of their own analysis should be released to each prospective G-SII after each Phase, preferably by category to allow prospective G-SIIs to recognize any areas for de-risking.
China Association of Actuaries	China	No	We would suggest IAIS to deliver information in reference to GSII scores (including the quantitative results, the score rankings and the Phase III findings) to potential GSII, either directly or via local regulators.
China Insurance Regulatory Commission	China	No	We agree to communicate the quantitative results with G-SII candidates, including overall score, and each indicator score. The communication should also focus on explaining any supervisory judgment in detail.
Insurance Europe	Europe	No	<p>Every firm evaluated by the IAIS for prospective G-SII status should receive its score promptly after the conclusion of each phase of the methodology. Feedback is particularly important after Phase II, considering that the firms whose score is under the threshold lack information about the score. The resulting score should be communicated to the prospective G-SII within Phase IV of the methodology, where the IAIS, the relevant authority and the prospective G-SII will have an in-depth conversation about the assessment and resulting score, allowing the prospective G-SII to provide additional information and arguments to inform the G-SII designation.</p> <p>It will be essential that the resulting score and the breakdown of how it has been calculated between the differing factors is clearly communicated to prospective G-SIIs to enable them to understand the nature of their designation and the actions they may need to take to address perceived systemic activity if they want to exit the list of G-SIIs.</p>
Insurance Europe	Europe	No	<p>The resulting score should be communicated to the prospective G-SII within Phase IV of the methodology, where the IAIS, the relevant authority and the prospective G-SII will have an in-depth conversation about the assessment and resulting score, allowing the prospective G-SII to provide additional information and arguments to inform the G-SII designation.</p> <p>It will be essential that the resulting score and the breakdown of how it has been calculated between the differing factors is clearly communicated to prospective G-SIIs to enable them to understand the nature of their designation and the actions they may need to take to address perceived systemic activity if they want to exit the list of G-SIIs.</p>
European Insurance and Occupational Pensions Authority	European Union	No	As proposed in previous responses (Question 25), the IAIS should publicly disclose all the elements necessary to allow each prospective G-SII to calculate its own score. If that approach is followed, there would be no need for the IAIS to communicate the scores to prospective G-SIIs (it could be done only as a validation measure).

GDV - German Insurance Association	Germany	No	The GDV would expect that revealing and subsequently discussing the score is part of the exchange foreseen in Phase IV. If not, the involvement of prospective G-SIIs would serve no meaningful purpose.
Munich Re	Germany	No	We support full transparency of the system. In an ideal world, the use of publicly available data would avoid unnecessary double work for the insurance companies. Furthermore, we suggest to make all results (individual scores!) and calculations of the G-SII designation process fully transparent to the participants of the process and to publish all relevant information. We strongly suggest that there should be a full transparency to the public regarding all criteria and methods used to measure systemically relevant insurers.
Global Federation of Insurance Associations	Global	No	Every firm evaluated by the IAIS for prospective G-SII status should receive its score promptly after the conclusion of each phase of the methodology. Feedback is particularly important after Phase II, considering that the firms whose score is under the threshold lack information about the score. The resulting score should be communicated to the prospective G-SII within Phase IV of the methodology, where the IAIS, the relevant authority and the prospective G-SII will have an in-depth conversation about the assessment and resulting score, allowing the prospective G-SII to provide additional information and arguments to inform the G-SII designation. It will be essential that the resulting score and the breakdown of how it has been calculated between the differing factors is clearly communicated to prospective G-SIIs to enable them to understand the nature of their designation and the actions they may need to take to address perceived systemic activity if they want to exit the list of G-SIIs.
Institute of International Finance/ The Geneva Association	Global	No	In this instance, prospective G-SII should be interpreted to include all firms participating in the G-SII exercise. The score should be communicated with the participating firm, preferably through the group wide supervisor. Such a notification should at a minimum include the G-SII's score for each of the indicators, as well as the overall score and HLA bucket applicable.
AIA Group	Hong Kong	No	The full details of the calculation of the score, including the score itself should be disclosed to the prospective G-SII, whether or not the company is designated a G-SII. This includes the denominators of all the indicators. In addition, the company should be told its overall rank and its rank in each indicator.
Global Reinsurance Forum	International	No	All re/insurers in the assessment should be informed of their scores immediately following Phase II. Also, if re/insurers are added by discretion of the relevant authorities despite falling below the threshold, then they should be informed well in advance. They should be provided sufficient time to prepare their own analysis before making their case in the "Exchange with prospective G-SIIs" phase (see our response to Question 24 above). For this, it is critical that potential G-SIIs are given enough information on the methodology to be able to reproduce their own scores. Furthermore, GRF believes that for transparency purposes, IAIS should think of providing to all assessed companies at least in an anonymous way the distribution of the individual scores of the whole sample of (re-)insurers.
on behalf of the European GSIs, Aegon, Allianz, Aviva,	International	No	- It is essential that the resulting score and the detailed breakdown of how it has been calculated between the differing factors is communicated to prospective G-SIIs to enable them to understand the nature of their designation and the action they may need to take to manage down perceived systemic activity if they want to exit the list of GSIs. Transparency in this respect is important to provide the right incentives to reduce systemic risk.

Axa and Prudential			
General Insurance Association of Japan	Japan	No	<p>[Disclosure to the prospective G-SII of information relevant to it]</p> <ul style="list-style-type: none"> <li>- The prospective G-SII should receive detailed information as mentioned in our comment on Question 24.</li> <li>- Even when the prospective G-SII ends up not being designated as a G-SII, notification of on what grounds the final decision was made will be useful for the insurer to take appropriate measures to reduce systemic risk in the future.</li> </ul> <p>[Disclosure to other prospective G-SIIs of information relevant to each prospective G-SII] The information on individual prospective G-SIIs includes internal factors, which should not be disclosed externally.</p>
The Life Insurance Association of Japan	Japan	No	<ul style="list-style-type: none"> <li>- We would like to suggest the IAIS to inform each of insurers involved in the data collection of its own score for each indicator and the quantitative threshold used in Phase II. Furthermore, we would like to suggest the IAIS to disclose, without disclosing insurers' specific names, scores of each insurer on the G-SII list or, at least, the score of the G-SII who is ranked at the bottom of the list. Through these types of disclosure, each insurer involved in the data collection phase will be able to know its score for each indicator and get some idea about how far it is away from or close to its designation as a G-SII. We think that informing insurers of this kind of numeric data would serve as incentive for insurers to reduce systemic risk.</li> </ul>
Swiss Re	Switzerland	No	<p>The Group-wide supervisors should inform the potential G-SIIs about their scores immediately after the closing of Phase II. The communication should comprise the</p> <ul style="list-style-type: none"> <li>- score for each indicator and the</li> <li>- distribution of the score for each indicator. The IAIS should approximate this distribution to avoid confidentiality issues.</li> </ul>
Aegon N.V.	The Netherlands	No	<p>The score should be confidentially communicated to all surveyed insurers—not just prospective G-SIIs—through the group supervisor. The communication should include all individual components of the score and any judgmental adjustments to the score, as well as clarity on the relative ranking of the insurer per indicator.</p>
Institute and Faculty of Actuaries	UK	No	<p>There are clear benefits on reporting the resulting score to the prospective G-SII, as it may aid the G-SII's internal risk management processes. It would also encourage feedback which could also be used to refine the scoring methodology over time. It is unlikely that disclosing the score would lead to any gaming of the system, as the methodology is transparent.</p>
KPMG	UK	No	<p>The IAIS should be transparent with all participants (not just identified G-SIIs) in explaining the calculation of their respective score so that both the supervisor and the insurer have a shared understanding of the data and information used in the calculation.</p> <p>It would also be useful to all firms to understand where on the scale they sit relative to other firms and we would encourage use of anonymised graphics to explain relative scores across all assessment criteria.</p>
Prudential plc	UK	No	<p>The score should be communicated with the prospective G-SII, preferably through the group wide supervisor. Such a notification should at a minimum include the G-SII's score for each indicator, as well as the overall score and HLA bucket</p>



			applicable. The cut-offs for the different buckets should also be disclosed to the G-SIIs to enable them to assess the likelihood of moving to a higher bucket and the quantum of de-risking that is needed to get to a lower bucket or get off the list.
Allstate Insurance Company	United States	No	For each phase, participating entities should be provided their respective results as well as the threshold against which they are measured. This transparency would allow entities to understand the factors contributing to the outcome. Communication of results and factors allows entities to consider actions to minimize exposures contributing to the G-SII designation.
American Council of Life Insurers	United States	No	Yes, all firms requested or required to submit data should receive their score and information necessary to understand their score relative to the thresholds for being designated a G-SII. Further, the assessment process must be conducted in a transparent manner. All firms evaluated by the IAIS for prospective GSII status must be provided a clear, written rationale of the basis for their consideration and/or designation. This will allow them to assess measures that can be pursued to avoid or shed designation, including potentially de-risking. This approach would advance the IAIS goal of reducing systemic risk.
RAA	United States and many other jurisdictions	No	Individual scores, calculations and qualitative determinations should be made fully transparent to the prospective GSII. The prospective GSII should understand which of its activities are causing a higher systemic score so that it can evaluate alternatives to exit the designation if desired. The transparency of the process, including communications with a designated GSII should provide enough information to provide a clear path to exit the GSII designation.
Prudential Financial, Inc.	United States of America	No	We believe transparency throughout the assessment process is critical. The resulting score should be communicated to all prospective G-SIIs sampled to help inform management decisions with respect to actions that - should they chose to implement them - would allow them to avoid / shed designation. The score should be communicated to the firm by their group wide supervisor.
MassMutual Financial Group	USA	No	The IAIS should ensure transparency of the methodology, confidential exchange of components of assessment prior to designation, and confidential communication of components' scores and thresholds to all companies contributing to the G-SII Phase I process. Scores should be communicated promptly after the conclusion of each phase.
MetLife, Inc.	USA	No	Communication to potential G-SIIs and G-SIIs facing re-designation could occur in confidence with consolidated group wide supervisors. Potential G-SIIs and those facing re-designation should have access to individual indicator scores, the overall score, the thresholds and how all of those amounts were calculated. Without this information no steps can reasonably be taken to avoid designation or re-designation and there is no true incentive or ability to de-risk.
Property Casualty Insurers Association of America (PCI)	USA	No	Prospective G-SII's should be presented with a full summary of the resulting score and be given the opportunity to request supporting data and documentation. If a group is designated as a G-SII, the IAIS should make it clear what activities caused the determination and how the group can terminate or reduce systemically important activities to exit G-SII status (an "exit ramp"). Along with fundamental fairness, this is necessary in order to promote reduction of systemic risk.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	The drivers of the G-SII designation could be communicated to each company in order to facilitate a path towards an exit ramp.

<b>29 - How and, if so, to what extent should the data used for the calculation of the scores and the resulting scores be made transparent to the public? If made publicly available, who should disseminate this information? What factors should the IAIS consider in this respect?</b>			
CLHIA	Canada	No	Increase transparency to insurers that are part of the data call but data and scores should not be made public
China Association of Actuaries	China	No	We would suggest IAIS not to make public the data or the scores (referring to our feedback on question 27).
China Insurance Regulatory Commission	China	No	We suggest not disclose the scores publicly.
Insurance Europe	Europe	No	The data used for the calculation of the scores and the resulting scores should not be made publicly available, given that the assessment methodology has not been sufficiently established and contains some indicators that may not necessarily be relevant to systemic risk. Such data might mislead the public if published at this stage.
Insurance Europe	Europe	No	The data used for the calculation of the scores and the resulting scores should not be made publicly available.
European Insurance and Occupational Pensions Authority	European Union	No	Please refer to our previous responses regarding this topic. EIOPA supports the public disclosure by IAIS of all elements necessary for prospective G-SIIs to calculate their own scores. In addition, EIOPA supports the introduction of the requirement for prospective G-SIIs (potentially above a certain threshold) to disclose publicly the results of their calculations for all the indicators which compose Part II of the IAIS methodology. This would introduce a strong element of market discipline in the overall G-SII designation process.
GDV - German Insurance Association	Germany	No	No. The data contains sensible, company-related information that should be kept strictly confidential.
Munich Re	Germany	No	In case that sensitive, company-related information is used for the calculation of the scores, this should only be discussed between the IAIS and the companies and be kept strictly confidential.
Global Federation of Insurance Associations	Global	No	The data used for the calculation of the scores and the resulting scores should not be made publicly available, given that the assessment methodology has not been sufficiently established and contains some indicators that may not necessarily be relevant to systemic risk. Such data might mislead the public if published at this stage.
Institute of International Finance/ The	Global	No	We are against the disclosure of G-SII scores, as the public sharing of such sensitive information could be interpreted or used by third parties. A list similar to that for G-SIBs could be used once the methodology has been refined. The current G-SII methodology is not an accurate assessment of systemic risk, which could give misleading signals to the market. Publishing G-SII scores without first building a clear, well understood link to systemic risk could also create problems for supervisors and

Geneva Association			industry and has the potential to unduly undermine the stability of insurance and the critical role that these parties play to their stakeholders, the policyholders and broader system.
AIA Group	Hong Kong	No	We are fine if data which is already publicly available and used for the calculation of the scores is disclosed in order to make the resulting scores more transparent to the public. However, in respect of any non-public company information, safeguards should be put in place to prohibit disclosure to the public unless the company which is the owner of this data first agrees in writing to such disclosure.
Global Reinsurance Forum	International	No	We advocate against making data used for the calculation of the scores and the resulting scores available to the public. This information is not publicly available and is not available for all publicly traded insurers.
on behalf of the European GSIs, Aegon, Allianz, Aviva, Axa and Prudential	International	No	This information should be kept between the insurer and its group supervisor and should not be publically disclosed.  Since the designation methodology utilises both public and private data, the calculation basis and results are market sensitive and should be treated as such by the IAIS and not be made public. The designation methodology itself is subject to ongoing development and public communication could give misleading signals to the market  Therefore transparent communication between supervisors and companies should be the focus.
General Insurance Association of Japan	Japan	No	Given that the assessment methodology is still under development, the data used for the calculation of the scores and the resulting scores should not be made public.
The Life Insurance Association of Japan	Japan	No	We think that it is too early to publicly disclose the data used for the calculation of the scores, under the current circumstances where assessment methodology has not been sufficiently refined, and it also still contains not a few indicators whose impact on systemic risk are not necessarily clear. We are concerned that publication of those data could cause misunderstanding.
Swiss Re	Switzerland	No	The IAIS should not publish scores and data of individual assessed prospective G-SIs.  The IAIS should publish the distribution of the score for each indicator after the closure of Phase V. The IAIS should approximate this distribution to avoid confidentiality issues.
Aegon N.V.	The Netherlands	No	Because the scores provide market sensitive information and because the designation methodology remains subject to ongoing development, public communication of the scores and data could give misleading signals to the market. We do not support making such information public at this time.
Institute and Faculty of Actuaries	UK	No	We believe it is appropriate to be transparent in relation to the scoring methodology; however individual scoring, which is likely to include some element of subjectivity, should only be shared with the G-SIs. This could lead to unintended and inappropriate benchmarking in the market.

KPMG	UK	No	<p>This should largely be private information between the IAIS and the participant firms. Much of the data used will not be readily available in the group's financial statements and respect must be given to private data used. In the same way as rating agencies do not provide full analysis of how they arrived at the rating, nor should the IAIS explain how the G-SII assessment score was determined.</p> <p>However, the IAIS may consider disclosing the range of G-SII scores, without identification, so as to avoid placing undue public scrutiny on insurers with excessively high G-SII scores, or as a minimum an indication of how many of the G-SIIs fall into which bucket of the HLA calculation.</p>
Prudential plc	UK	No	<p>We are against the disclosure of G-SII scores and any data used for calculation of the scores, as the public sharing of such sensitive information could be interpreted or used by third parties. A list similar to that for G-SIBs could be used once the methodology has been fully refined. The current G-SII methodology is not an accurate assessment of systemic risk, which could give misleading signals to the market. Publishing G-SII scores without first building a clear, well understood link to systemic risk could also create problems for supervisors and industry and has the potential to unduly undermine the stability of insurance and the critical role that these parties play to their stakeholders, the policyholders and broader system.</p>
Allstate Insurance Company	United States	No	<p>The IAIS should be as transparent as possible with insurers and reinsurers regarding the process, parameters, and results of the G-SII assessment. In contrast, we do not believe the indicator scores should be made publicly available at this time as the process is only in its initial stages and will need to mature before public dissemination of information would be appropriate for consideration.</p>
American Council of Life Insurers	United States	No	<p>The data used for the calculation of the scores and the resulting scores should not be made public. Please see our response to Question 27.</p> <p>Releasing the data implies that the Methodology has reached a level of precision that simply does not yet exist. We recognize that the IAIS is working diligently to construct and refine the Methodology, but the Methodology remains a work in process and the IAIS should refrain from releasing such market-moving information.</p>
RAA	United States and many other jurisdictions	No	<p>Sensitive proprietary information should not be made public. However, the GSII methodology, evaluation process and GSII list should be made public to ensure that the process and results are transparent. Individual company profiles and all other similarly sensitive information, including individual scores, must be kept confidential. The FSB or IASB should publish this information.</p>
Prudential Financial, Inc.	United States of America	No	<p>Publishing data used for the calculation of the scores raises the possibility of third parties accessing confidential non-public information. Given the developmental nature of the assessment methodology and the G-SII Policy Measures we believe it is far too premature to share information publically. Further, to avoid unintended consequences to firms, regulators, standard setters and financial markets we believe no information should be published until the measures are further refined and / or finalized and adopted by jurisdictional supervisors. Ultimately, the publication of information should be limited to a list similar to that issued for the G-SIBs.</p>
MassMutual Financial Group	USA	No	<p>As noted in responses to previous questions, we emphasize the need for confidentiality around the communication of scores and ranking under this process given that the methodology, components, thresholds and identification of systemic risk in insurance are still in early development stages and may affect markets inappropriately as a result.</p>

MetLife, Inc.	USA	No	To avoid un-necessary and spurious market reaction, no data or scores (whether aggregate or individual) should be made public.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	The FSB should be encouraged to disclose some information to the companies and to the public as to the basis of their designations. Any non-public data and data used for the calculations that was submitted voluntarily under a promise of confidentiality should be kept confidential. Commitments made to companies and supervisors by the IAIS, the BIS and the FSB should be taken into consideration as should the impact disclosure may have on the companies and supervisors.
<b>30 - Comments:</b>			
RenaissanceRe	Bermuda	No	<p>General Comments:</p> <p>RenaissanceRe Holdings Ltd. ("RenaissanceRe", "we" or "our") appreciates the opportunity to offer comments in response to the IAIS consultation that outlines the "Proposed updated Methodology" for assessing Global Systemically Important Insurers ("GSIs").</p> <p>RenaissanceRe is one of the world's leading property catastrophe reinsurers. The Company also provides reinsurance and insurance in several specialty and casualty lines. Founded in Bermuda in 1993, we went public in 1995 and currently operate through several entities located in offices around the world. We adhere to a strict code of ethics built on respect for our clients, partners and shareholders, and respect and compliance with relevant laws and regulations. RenaissanceRe maintains leading financial strength and enterprise risk management ratings on account of its strong risk-adjusted capitalization, strength and depth of the team, and strong track record. We are also very active in managing reinsurance joint ventures, some of which take the form of (re)insurance companies which have directly raised capital from third party investors, and which have played an important role in serving clients in constrained or challenging markets and classes of business.</p> <p>Comments on the IAIS's proposed updated methodology for assessing GSIs are being submitted by the Association of Bermuda Insurers and Reinsurers ("ABIR"), the Reinsurance Association of America ("RAA") and the Global Reinsurance Forum ("GRF"). We are writing to augment those comments with respect to factors in which we have differentiated expertise and market presence. In particular, given our leadership position as provider of catastrophe exposed coverage and respect of managed reinsurers' joint ventures we hope our perspective might be useful.</p> <p>We agree with the IAIS's previously published determination that the traditional reinsurance sector does not give rise to systemic risk. Given that the IAIS has already rightly concluded that traditional third party reinsurance is not a source or amplifier of systemic risk, we are concerned about the continued inclusion of reinsurance as an "individual indicator" within the "interconnectedness" category. We are also concerned about the proposal for a "reinsurance supplemental assessment" within the Proposed Methodology given that no other traditional risk transfer/ financing mechanism or financial product seems to have been subjected to an explicit and separate "supplemental assessment". We believe that the continued inclusion of bona fide third party traditional reinsurance within a systemic risk assessment could, among others, inadvertently increase the barrier to entry into (re)insurance and hence potentially decrease the rate at which risk is transferred to private reinsurance markets thereby reducing systemic risk.</p> <p>Finally, in the context of an exercise to reduce the impact of insurance-related systemic risk, we respectfully request that during</p>

		<p>this period of updating the assessment methodology, consideration should be given as to the extent of enhanced regulatory oversight that may be required for (re)insurance protection that is provided by government-sponsored or quasi-governmental (re)insurers given that among other factors such entities have been found to:</p> <ul style="list-style-type: none"><li>- charge premiums that do not fully reflect the risk loss; and/or</li><li>- have insufficient or no funding e.g. due to reliance on post event assessments or governmental guarantees; and/or</li><li>- not have bona fide risk transfer mechanisms in place.</li></ul> <p>A specific aspect that we would like consideration to be given to is whether insufficient regulatory oversight of government-backed programs or entities that have been set up to insure risks against severe natural catastrophes could pose systemic risk during economic distress as a potential result of risk retention and concentration within these entities against inadequate risk-adjusted capitalisation. Unfortunately, the retained risks within some of these public entities remain either unfunded or underfunded meaning that insufficient funds have been set aside in advance of the risk event translating into a realized loss. A Bank for International Settlements ("BIS") working paper [see reference: Goetz von Peter, Sebastian von Dahlen, Sweta Saxena- December 2012: "Unmitigated Disasters? New Evidence on the Macroeconomic Cost of Natural Catastrophes", BIS Working Papers No 394.] presented empirical analysis that revealed how in general "the uninsured part of catastrophe-related losses drives macroeconomic costs, whereas well insured catastrophes can be inconsequential or even positive for economic activity". An R Street policy study [see reference: R.J. Lehman- November 2013: Government sources of systemic insurable risk. R Street Policy Study No. 14] has raised the question of "excessive interconnectedness" within (quasi) government backed schemes that must be analysed as a source of potential systemic risk, "with the potential to bleed over into other segments of the financial services industry and the broader capital markets."</p> <p>The U.S. Government Accountability Office ("GAO") found that state programs have grown since 2005 and that most programs charged rates that do not fully reflect risk of loss and hence could inadvertently encourage further development and population growth in areas with high natural catastrophe risk [see reference: GAO Report: Economic Development, Natural Catastrophe Insurance Coverage Remains a Challenge for State Programs, GAO-10-568R, May 17, 2010]. There are government or state programs that are funded on a post-loss or post-event basis. Accordingly, government natural catastrophe funds that especially rely on post-event funding could increase taxpayers' exposure to the potential costs in the event of state financial difficulties hence potentially creating or amplifying distress in economic activity.</p> <p>Looking at just one specific example, the Florida Office of Insurance Regulation has observed that the Florida Hurricane Catastrophe Fund has at times been unable to meet its full obligations in current credit conditions, leaving more than two million homeowners' policies subject to default [according to an estimate provided by the Florida Office of Insurance Regulation]. Under such circumstances, it may be important to determine whether there could be genuine sources of systemic risk resulting from such defaults.</p> <p>As part of the process to update the systemic risk methodology, we also request the IAIS to analyse the extent to which excessive concentration of insured or insurable property and casualty risks could present risks to the broader economy given that in most cases, taxpayers are exposed to such insurable risks that should be borne by the insurance industry. While traditional third party (re)insurance is not generally systemically risky (as reinsurance serves to spread risk), government sponsored catastrophe pools generally concentrate risk, either by geography, peril or both. Such potential sources of systemic risk in the form of concentration and accumulation of catastrophe risks within government sponsored entities do not seem to be directly under the ambit of international regulation hence leading to inadequate risk transfer mechanisms within these entities.</p>
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			<p>The BIS working paper earlier referenced above, has documented certain evidence that the failure to sufficiently transfer the risk of natural catastrophes results in a significant and irreversible loss of economic output.</p> <p>The potential systemic risks to the economy in the form of U.S. Government Sponsored Enterprises ("GSEs") have in general been widely documented. However, less widely understood are the potentially systemic risks that may arise from the relative underinsurance of US earthquake risk that arises from exclusion that permits mortgages to be securitized through the GSE's without earthquake cover. This coverage gap exists despite the assessment that the second highest insured peak risk (after hurricane risk) is earthquake risk- in the U.S., especially California [see reference: Annual Global Climate and Catastrophe Report, 2008: Aon Benfield- Impact Forecasting]. Accordingly, the risk is that in the face of a major earthquake, there would be no insurance to recover on most of the damaged properties that secure mortgages held by the GSEs. In fact, it has been estimated that an earthquake in California could produce \$200 billion in damage, and much of that would be uninsured [see reference: R.J. Lehman- November 2013: Government sources of systemic insurable risk. R-Street Policy Study No. 14]. Certain commentators have recently warned that although the liabilities of government-backed entities may seem to be without cost (i.e. such liabilities facing government backed programs are usually not adequately reflected within the financial system), "the costs will appear later- just as they did for government housing finance guarantees in the U.S." [see reference: Alex J. Pollock and Thomas H. Stanton - January 10 2016: "The definition of SIFIs must include Fannie Mae and Freddie Mac, the Federal Reserve Banks and Open Market Committee, and Large Federal Credit programs"].</p> <p>Our understanding is that current regulatory oversight of cedants treats all entities providing catastrophe (re)insurance the same even though there may be significant differences in the way these programs are designed, including public entity reinsurance. That is, we understand that the purchase of unfunded public entity reinsurance is not subject to enhanced regulatory scrutiny compared to fully funded bona fide third party reinsurance (with the latter indeed now potentially subject to a proposed supplemental assessment). While we see no compelling current need for further and potentially duplicative regulatory tests for bona fide third party private (re)insurance market participants, we suggest that differentiated and enhanced regulatory oversight be considered regarding the potential systemic risks that government sponsored programs or entities could pose to financial markets and economic activity. We would hope that such enhanced regulatory oversight of these government or quasi government entities would also enhance policyholder protection.</p> <p>Once again, RenaissanceRe appreciates the opportunity to comment and provide input regarding the proposed updated methodology. We are happy to answer any questions or provide further information or clarification regarding any of the comments provided or other issues that may be deemed relevant to this discussion.</p>
CLHIA	Canada	No	<p>The Canadian Life and Health Insurance Association Inc. ("CLHIA") is a voluntary trade association whose member companies account for 99 percent of Canada's life and health insurance business. Our industry provides a wide range of financial security products such as life insurance, annuities and supplementary health insurance to about 26 million Canadians.</p> <p>The CLHIA actively follows and responds to developments from the International Association of Insurance Supervisors ("IAIS"). We appreciate the opportunities to make submissions. For example, the CLHIA was pleased to make submissions in 2012 on both the (initial) Assessment Methodology (inclusive of comments on NTNI) and the Policy Measures IAIS consultations. The CLHIA is also an on-going active participant in the Global Federation of Insurance Associations ("GFIA").</p> <p>We are supportive and appreciative of the IAIS's ongoing triennial review of the assessment methodology, including seeking</p>

			<p>stakeholder input. As the G-SII construct is still a work in progress, these triennial reviews are vital to incorporate improvements obtained through experience.</p> <p>Recognizing the challenge faced by the IAIS in creating an effective G-SII assessment methodology, we believe the IAIS has made progress with this Draft. However as our overarching comment, we encourage the IAIS to further increase the attributes of robustness, transparency, consistency, objectivity and predictability.</p> <p>More specifically, we recommend:</p> <ul style="list-style-type: none"> <li>- The use of absolute values in metrics wherever possible.</li> <li>- The IAIS ensure its focus is on measuring "systemic risk" rather than risk in general</li> <li>- A robust quantitative analysis is a reasonable initial screening. The IAIS's proposed phases III and IV can be vital steps in understanding the extent an individual insurer contributes to systemic risk, but only if the phases follow a more detailed framework which is objective, transparent and consistent. The CLHIA encourages the IAIS to emphasize the importance of the aforementioned attributes in application of these phases in practice to ensure G-SII designations are limited to only those insurers providing significant systemic risk, without an objective of having a set number of insurers designated as G-SIIs each year.</li> </ul>
Insurance Europe	Europe	No	<p>Insurance Europe welcomes the chance to respond to the consultation and recognises that the revised methodology is improved. Although a number of industry comments have been taken into account, the consultation presents a set of apparently unrelated changes in the methodology, which makes it difficult to fully understand the overarching rationale behind the update. Estimating the ultimate effect of these changes on the methodology is further obscured by the fact that the methodology is tightly interlinked with other parts of the G-SII framework, such as the bucketing approach in the Higher Loss Absorbency (HLA) and the parallel consultation on the definition of non-traditional non-insurance (NTNI) activities.</p> <p>The consultation reiterates the objective of the assessment methodology, (i.e. to identify any insurers whose distress or disorderly failure, because of size, complexity and interconnectedness, would cause significant disruption to the global financial system and economic activity). However, both the current and proposed methodologies do not adequately distinguish:</p> <ul style="list-style-type: none"> <li>- between institution-specific risks and sector-wide or even financial system-wide risks; and</li> <li>- between insurers being exposed to systemic risk and insurers creating systemic risk (i.e. where the failure of the insurer causes disruption to the financial system).</li> </ul> <p>The International Association of Insurance Supervisors' (IAIS) move toward absolute reference values for certain indicators appears like a positive development if it means that the systemic risk potential of insurers is rightfully assessed in relation to the financial system, as opposed to a sample of approximately 50 other insurers.</p> <p>The impact of this change remains unpredictable at this stage, because it is unclear how the threshold for dividing the sample of insurers into candidates and non-candidates is set. Insurance Europe would ask for more transparency in this respect and would also point out that:</p> <p>A number of details relating to the determination of absolute reference values are left open and therefore it is not clear how absolute reference values will lead to a potential G-SII designation and how the thresholds are set. Insurance Europe believes</p>



		<p>that an absolute threshold (set for example in the context of all participants in the financial system) for the level of activity that would lead a company to be considered systemic must be introduced. Activity below this level should be excluded from the assessment score as it would not be a relevant contributor towards systemic risk.</p> <p>The quantitative assessment will remain relative in nature if an absolute threshold is not introduced and in this case the purpose of assessing the contribution of the insurance industry to global systemic risk would be defeated because only a measure of contribution relative to other insurers would be provided.</p> <p>Based on the IAIS' comments during the stakeholder meeting of 20 January 2016, Insurance Europe understands that the IAIS intends to implement absolute reference values in its quantitative assessment and that it acknowledges the implicit indicator weight change and implicit impact on other indicators.</p> <p>Indeed, Insurance Europe notes that the use of absolute reference values for some indicators only would implicitly and artificially change the weights of the other indicators (typically by increasing them). Therefore, in Insurance Europe's view, it would be preferable to change the entire assessment into an absolute one or to limit the potential variation of indicators and categories for which relative values are still used.</p> <p>A way to address the implicit weight changes of absolute indicators and their impact on other indicators could be to re-balance the weights within their categories, so as to not affect the entire assessment approach.</p> <p>Under these conditions, Insurance Europe believes that additional indicators should be amended. A list is proposed in the answer to question 2.</p> <p>The use of absolute reference values for reinsurance may provide a better indication as to the level of use of reinsurance relative to the reinsurance market as a whole, rather than to a subset thereof. Nonetheless, the underlying assumption that reinsurance contributes to systemic interconnectedness or the use of exposure measures which do not take into account the risk mitigating benefits inherent in the use of reinsurance is not appropriate.</p> <p>Insurance Europe welcomes the inclusion of an exchange with prospective G-SII in Phase IV of the methodology. This exchange should consist of a dialogue and, if the prospective G-SII is able to allay concerns raised by the IAIS, this should be taken into account in the designation process.</p> <p>Insurance Europe remains concerned that not enough recognition is given to the fact that most activities of insurance undertakings do not give rise to systemic risk. Therefore, there remains a non-negligible likelihood of wrongful designation of firms as G-SIIs when they are not systemically risky. This is all the more concerning given the continued absence of a clear indication of how an insurer can exit the list of G-SIIs. From a legal process standpoint, Insurance Europe also remains concerned by the lack of remedies or means to challenge the G-SII designation.</p> <p>Finally, while Insurance Europe understands that the focus of the IAIS in this consultation is on the G-SII designation methodology, it also notes that, regardless of the final changes and improvements, the quantitative assessment must rest on unambiguous instructions and definitions. The data collection informing the 2016 G-SII designations will be the fourth such exercise but the data collection instructions and related definitions remain an area of the annual G-SII designation process</p>
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			<p>which is still in need of significant improvements, such as:</p> <p>Reinsurance. The scope of third party reinsurance is not fully defined yet. For instance, it is not clear whether firms are expected to report business volume originated through fronting under the reinsurance indicator or not. In economic terms, business originated through fronting (e.g. originated in jurisdictions where the insurer has no subsidiaries or branches by involving a third party), is equivalent to business originated directly, as the fronting party and the reinsurance contract between the parties act as a pass-through. The risk kept by the fronting party is negligible, if it exists at all. This would be a strong argument against reporting fronting under third party reinsurance. In case the IAIS takes the view that business volume originated through fronting is relevant and akin to third party reinsurance, then the instructions have to state that fronting must be reported and under what conditions.</p> <p>Life insurance. The NTNI consultation paper suggests assessing surrender values under normal economic conditions and stressed market conditions. However, the IAIS fails to define the stressed market conditions to establish a robust comparison among the sample firms. This is of particular relevance in regard of the applicability of stays on surrenders, their ultimate duration, and hence the pay-out pattern. While the ability of authorities to suspend surrenders is codified in various markets, it is situational and fraught with rational and behavioural considerations.</p>
AXA	France	No	<p>To Mr. Yoshihiro Kawai Secretary General International Association of Insurance Supervisors</p> <p>Re: IAIS Public Consultation Documents: Global Systematically Important Insurers: Proposed Updated Assessment Methodology Non-traditional Non-insurance Activities and Products</p> <p>Dear Mr. Kawai,</p> <p>AXA appreciates the opportunity to provide comments on the two consultation papers released by the IAIS on November 25, 2015, respectively addressing a Proposed Updated Assessment Methodology for Global Systematically Important Insurers (G-SIIs), and Non-traditional Non-insurance Activities and Products (NTNI).</p> <p>AXA actively contributed to the preparation of the two answers to these consultations that are filed, separately from this letter, on behalf of all European G-SIIs: please refer to these answers, which we fully and strongly support, and which provide a comprehensive set of comments and responses to the consultation papers.</p> <p>While we believe that all aspects of these comprehensive answers deserve careful attention, we would like nevertheless to highlight the following points.</p>

		<p>1. Overall, we do not believe that the approach of designating individual institutions is an efficient tool to address possible systemic risk in the insurance sector. Such an approach gives too much weight to political considerations (cf. discussion regarding reinsurers, opacity about why firms get on or off the list, treatment of pension funds, etc.) at the detriment of economic foundation and misses out on developments affecting the sector as a whole.</p> <p>2. We also think that the "Non Traditional" terminology is per se very confusing and too simplistic to address effectively where insurance activities may potentially give rise to systemic risk. It may refer to very "traditional" activities/products which address fundamental policyholders' needs, with a variety of characteristics specific to the Insurance business model, and which have never caused any threat to financial stability even at the worst peak of financial crisis. It would as well be misleading to link complexity, and innovation in insurance product design, to systemicity.</p> <p>3. The two IAIS consultation documents provide an opportunity to identify how Insurance products /activities may be exposed to system vulnerabilities, in particular market and liquidity risks, and how there may be transmission channels of firms vulnerabilities to the system. This analytical framework still requests some significant further work and improvements, as in its current state the distinctions between vulnerabilities and transmission channels, as well as between micro-prudential supervision and systemic risks, are too often blurred. We believe that a sound and appropriate framework should much more clearly separate the analysis of the way the insurer manages its risks in the first instance, and then the way the possible residual risk not kept by the insurer might be transmitted to the rest of the market, at which stage only there might be potential systemic risks.</p> <p>4. As illustrated by the previous point, as well as in other instances in the two consultation papers, we find the importance of Asset Liabilities Management and of Enterprise Risk Management more widely, to be systematically and significantly underestimated. We urge the IAIS to work on a drastic evolution of the proposed frameworks in that respect. Without such work, the IAIS would miss out on two key areas, and its framework would provide results that do not correspond to the reality in financial institutions and markets.</p> <p>5. In particular, both frameworks should much more clearly acknowledge the fact that the use of derivatives by the insurers, all the more in relation with products that have a strong social utility such as the provision of retirement coverage, is unlikely to create significant systemic risk, notably given the relatively small exposure of insurers to derivatives compared to other sector players such as banks. A typical systemic investment bank will hold about 100-200 times more derivatives than a systemically important insurer; these orders of magnitudes should be considered in the assessment of systemic risk in the financial system.</p> <p>We therefore fundamentally challenge the figure 2 (paragraph 3.5) of the NTNI consultation paper, that gives reward exclusively to the ability of the insurer to invest in assets that match the cash flows of the guaranteed payments, with no consideration given to alternative risk management tools including the use of derivatives. This binary approach is technically unjustified and represents a significant flaw of the currently proposed NTNI framework as it is substantially demonstrated in the European G-SIIs answer.</p> <p>6. With respect to the Proposed Updated assessment Methodology, while we welcome the intent to use more absolute reference values as well as the introduction of a Discovery Phase aiming at better capturing qualitative factors, we would like to encourage IAIS to go significantly further in extending the number of indicators where the score would give full consideration to</p>
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			<p>the comparison of the relevant measure of such indicator for a given insurer with the corresponding measure for the global economy, and in clarifying the way qualitative factors will be duly reflected in the final assessment.</p> <p>This Discovery Phase may also provide an opportunity for supervisors to appreciate whether a potentially systemically relevant activity, depending upon the way the risk is managed and mitigated, really poses a systemic threat to the system.</p> <p>7. Finally, with reference to the link made in paragraph 52 of the Proposed Updated assessment Methodology consultation paper with the application of HLA, we would like to stress that capital is not a tool to manage liquidity risk. Rather, we believe that liquidity risk can be appropriately addressed only by risk management considerations such as the ones embedded in the Liquidity Risk Management Plan (LRMP), and potentially also the Systemic Risk Management Plan (SRMP), that have already been shared with the relevant supervisors. As a further illustration, we note that the management of liquidity risk in the Banking industry is also largely independent of considerations on capital needs.</p> <p>We hope that the common answers provided by the European G-SIIS as well as this letter will be helpful to the IAIS in order to further improve the proposed frameworks, and thank you for your attention to these issues.</p> <p>Yours sincerely,</p> <p>Christian Thimann Group Head of Strategy and Public Affairs</p>
<p>GDV - German Insurance Association</p>	<p>Germany</p>	<p>No</p>	<p>The German Insurance Association (GDV) welcomes the opportunity to comment on the updated assessment methodology and would like to make the following key comments:</p> <ul style="list-style-type: none"> <li>- Although industry comments have been taken into account, the consultation presents a set of apparently unrelated changes in the methodology, which makes it difficult to fully reconcile the overarching rationale behind this update. Estimating the ultimate effect of these changes on the methodology is further obscured by the fact that the methodology is tightly interlinked with other parts of the G-SII framework, such as the bucketing approach in the HLA and the consultation on NTNI.</li> <li>- The proposed introduction of a quantitative threshold and of absolute reference values for some indicators increases the clarity of an insurer's score in the G-SII assessment methodology. We strongly encourage the IAIS to envisage absolute reference values for other indicators, too and combine the absolute reference values with a minimum threshold below which an insurer would no longer be considered for the relative scoring. For instance, the use of derivatives as an indicator for interconnectedness should be suitable for absolute reference values as well.</li> <li>- The updated assessment methodology still lacks transparency and predictability to an extent that insurers could reliably calculate the impact of the revisions on their scores and their designation or removal perspectives. This is mainly due to the still opaque procedure to determine the quantitative threshold according to Phase II.B. which will prejudice a recommendation to be included on the G-SII-list. Undertakings need to know upfront whether structural decisions to limit or remove their systemic relevance will eventually succeed. This is not possible if the quantitative threshold is unpredictable before such decisions are envisaged and enforced.</li> </ul>

			In addition, we reiterate our strong concerns in terms of a due legal process. G-SII-designation results in severe regulatory intervention requiring a strong and solid legal basis which holds authorities accountable and offers legal remedies for the undertakings concerned.
Munich Re	Germany	No	<p>Munich Re welcomes the opportunity to comment on the updated assessment methodology. In the course of this consultation we had also discussions within the German insurance industry, initiated by the German Insurance Association (GDV), and we have contributed to the GDV positioning. This explains the use of the same wording in some of our responses. We summarize our comments as follows:</p> <ul style="list-style-type: none"> <li>- Transparency: We support full transparency of the system. In an ideal world, the quantitative and qualitative aspects of the G-SII designation process would rely on the use of publicly available data. This would avoid unnecessary redundant work for the insurance companies. Furthermore, we suggest to make all results (individual scores) and calculations of the G-SII designation process fully transparent to the participants of the process and to publish all relevant information. We support a full transparency to the public regarding all criteria and methods used to measure systemically relevant insurers.</li> </ul> <p>Transparency is important with respect to all parts of the assessment, so that companies are in a position not only to replicate their individual quantitative scores, but also to understand the motivation behind any qualitative judgment (for example realising how the assessment of their risk management framework influences decisions in Phase III). The updated assessment methodology still lacks enough transparency and predictability to allow insurers to reliably calculate the impact of their business decisions on their scores and the potential for their designation or removal. This is mainly due to the still opaque procedure to determine the quantitative threshold according to Phase II.B. which will prejudice a recommendation to be included on the G-SII-list. Undertakings need to know upfront whether structural decisions to limit or remove their systemic relevance will eventually succeed. This is not possible if the quantitative threshold is unpredictable before such decisions are envisaged and enforced.</p> <ul style="list-style-type: none"> <li>- Assessing of risk management and financial strength: In the ranking and comparison of the systemic risk of an insurance company, there must be an incentivisation for financial strength and sophisticated risk management. In the event of a big financial crisis, a (re)insurer's ability to meet its obligations depends on many factors - including the repercussions of a failed counterparty that is not able to pay its obligations. A (re)insurer is not able to survive a counterparty failure either has not adequately implemented risk management protocols or has weak financial strength. To address this, we suggest to implement <ul style="list-style-type: none"> <li>- a quantitative factor that measures financial strength in the designation process. This factor should measure the overall quantity and quality of the financial strength (comparable to the solvency-ratio or the own fund tiering approach of Solvency II)</li> <li>- a qualitative factor that measures the quality of risk management or the internal capital model</li> <li>- recognition of more prudent local regulatory regimes (e.g. Solvency II) in contrast to less prescriptive regimes</li> </ul> </li> <li>- Incentivisation for reinsurance: Reinsurance stabilizes the financial system. As a consequence there must be an incentivisation for insurers to purchase reinsurance in the G-SII designation process.</li> <li>- Incentivisation for (local) protective mechanism: For example, in Germany there are two Guarantee Schemes in place, Protektor (for Life business) and Medicator (for health business). If an insurance company fails, these Guarantee Schemes, financed by contributions of every insurance company in the market, would absorb losses of the failed insurer, which is part of the collective. We would suggest to include an incentivisation for such protective mechanisms in the methodology.</li> </ul>

			<ul style="list-style-type: none"> <li>- Accepting Solvency II standards: In the overall context of the IAIS framework we would strongly recommend to allow best practices, which are used in the European Solvency II regime and are almost similar to the future IAIS-standards. This could be applied when similar practices, criteria or data will be used. Consequently, a double effort within the whole European Insurance Industry could be avoided.</li> <li>- No additional capital requirements (BCR or HLA) on non-systemically relevant activities: Existing or upcoming regulations (at least in Europe and the US) like Solvency II cover all risks of an insurance company. Additional capital requirements are not necessary.</li> <li>- Connection to other consultations: Although industry comments have been taken into account, the consultation presents a set of apparently unrelated changes in the methodology, which makes it difficult to fully reconcile the overarching rationale behind this update. Estimating the ultimate effect of these changes on the methodology is further obscured by the fact that the methodology is tightly interlinked with other parts of the G-SII framework, such as the bucketing approach in the HLA and the consultation on NTNI.</li> <li>- Quantitative thresholds and of absolute reference values in comparison to the whole market (including banking sector): Using absolute reference values is the second best option. The first best option would be to use as an indicator the exposure to individual counterparties in absolute values. The proposed introduction of a quantitative threshold and of absolute reference values for some indicators increases the clarity of an insurer's score in the G-SII assessment methodology. We strongly encourage the IAIS to envisage absolute reference values for other indicators too and to combine the absolute reference values with a minimum threshold below which an insurer would no longer be considered for the relative scoring. For instance, the use of derivatives as an indicator for interconnectedness should be suitable for absolute reference values as well. If absolute reference values would be the preferred option we would suggest to benchmark the reference values to the whole industry (including the banking sector) to make the real impact of systemic relevance transparent.</li> <li>- Approximated data allowed in Phase I+II: In the case that data is not available in the standard reporting processes, we suggest to allow approximated data in the data collection process of Phases I + II. The use of approximated data in the context of proportionality and materiality is also allowed in the Solvency II regime and would make the whole data delivery process more efficient.</li> <li>- Solid legal basis: In addition, we reiterate our strong concerns in terms of a due legal process. G-SII-designation results in severe regulatory intervention. The G-SII designations must be based on a strong and solid legal basis which holds authorities accountable and offers legal remedies for the undertakings concerned.</li> </ul>
<p>Institute of International Finance/ The Geneva Association</p>	<p>Global</p>	<p>No</p>	<p>GENERAL COMMENTS</p> <p>Before responding to the questions of the consultation documents, we would like to make some important comments of more general relevance. We appreciate that the IAIS is proposing revisions to the G-SII methodology as well as its core component, the definition of non-traditional, non-insurance (NTNI) products and activities. As indicated in the past, we believe the framework for systemic designations should be significantly revised in order to conclusively address systemic risk in a way that is compatible with the distinctive characteristics of insurance.</p>

		<p>On the whole, we think that the general intent of the proposed changes in both the G-SII and the NTNI methodologies proposed by these consultations is directionally appropriate. In particular, we note the following improvements in the proposals:</p> <ul style="list-style-type: none"><li>- In the G-SII methodology proposal, we generally support the application of absolute reference values as opposed to the current relative, sample-based reference values. The relative ranking of insurers among the sample of approximately 50 firms is not representative enough to determine the potentially systemic nature of an insurer. Taking system-wide indicators would enable the methodology to measure the contribution of insurers to systemic risk in the context of the financial system as a whole.</li><li>- The introduction of a qualitative phase to the assessment methodology provides an opportunity for the IAIS and supervisors to learn about critical elements of an insurer's business model that may be difficult to capture quantitatively at this point in time. Knowledge gained from the qualitative phases will provide the IAIS and supervisors relevant information to refine a firm's score in the quantitative assessment and provide insurers clarity on the basis for their consideration or designation as a G-SII and, thereby, how they can avoid or shed designation (1).</li><li>- The introduction of a quantitative threshold in Phase II of the designation methodology, if transparent and provided to the firms submitting the data, can provide additional clarity to firms on the entry and exit criteria from the G-SII list. The formalization of engagement between regulators and candidate G-SIIs in Phase IV of the assessment procedure is also welcomed as a positive development.</li><li>- We believe that the proposed NTNI framework offers more transparency primarily by structuring the thought process behind the categorization of products and activities as non-traditional.</li></ul> <p>However, we believe that major flaws in both the designation methodology and the NTNI concept are unfortunately not yet being addressed by the currently proposed changes. Below we highlight the major areas where we believe further work is required.</p> <p>Distinguishing between risk and systemic risk</p> <p>We believe the current G-SII assessment methodology and the underlying NTNI framework does not appropriately distinguish between macroprudential and microprudential risk. Both must better distinguish between the probability of default and the loss-given default; and between a firm's own risk profile or exposure to risk on the one hand and the potential for a firm to transmit or amplify risks to the system.</p> <p>Systemic risk, by nature, is macroprudential, and concerns loss-given default: the potential damage of an institution's failure on the financial system (2). In contrast, the likelihood of an individual institution's failure in itself is a microprudential issue, which is accounted for in microprudential regulation and supervision.</p> <p>The systemic risk framework should focus on system-wide and cross-sectoral risks beyond single institutions, propagating to the system through the identified transmission channels within the insurance sector, the financial system and the real economy. As of today, the IAIS has not demonstrated the link between these vulnerabilities and the transmission mechanisms of systemic risk.</p>
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		<p>financial system. The introduction of absolute reference values in the methodology is a step forwards; however absolute reference values need to be implemented in the G-SII methodology in a way that will actually have an impact on the designation or (non-designation) by reflecting system-wide developments.</p> <p>The introduction of absolute reference values can lead to some practical problems in the G-SII assessment methodology's quantitative assessment, as it leads to an implicit change in the indicator weights. This issue is currently not addressed by the IAIS in the G-SII methodology consultation document. For any indicator, changing reference values reflecting a sample of firms to one reflecting the entire financial system (or, where appropriate, the entire insurance sector) will increase the denominator. As the individual insurer's score for this indicator will now be divided by a larger denominator, the outcome value of the indicator will decrease in size. Since not all indicators in the G-SII assessment are being changed to absolute reference values, indicators with sample-based references will have a relatively larger impact on the total G-SII score, because their denominator is likely smaller.</p> <p>This issue illustrates the importance of the IAIS making clear choices on how to implement absolute reference values in the methodology. Yet the current proposal leaves open a possibility of (some) relative scoring, even using absolute reference values (4). We advocate that the IAIS implements absolute reference values in a way to reflect 'absolute', system-wide reference values. Only in that way can the contribution of the insurance sector to systemic risk in the financial system be measured. It is thus crucial for the IAIS to carefully assess the impact of the introduction of absolute references on the relative impacts of all the indicators, category weights, and on the total G-SII score.</p> <p>While the proposed introduction of a quantitative threshold and of absolute reference values for some indicators may increase the clarity and stability of an insurer's score in the G-SII assessment methodology, the scoring method remains largely relative and the intent of introducing these elements is not clearly explained in the consultation document. When a firm's designation and bucket allocation is determined not only by its own activities, but by the ranking of those activities relative to those of other firms, de-risking of the individual firm may not lead to a decrease of its score in the assessment procedure. Therefore, the use of absolute measures should be extended to include other indicators; we would advocate for the IAIS to find appropriate reference values for these indicators (please see our answer to question 2 of the G-SII designation methodology consultation).</p> <p>Asset liquidations and procyclicality</p> <p>In the NTNI consultation, the IAIS identifies the 'asset liquidation' channel and the related problem of procyclicality in investment behavior as a transmission channel of systemic risk. In this regard, designing an insurance policy framework that promotes stability in the valuation of insurer's balance sheets is important. Without any stabilizing arrangements, the market-adjusted valuation used by the IAIS in the BCR and HLA could have a procyclical impact on the valuation of insurer's balance sheets, potentially incentivizing fire sales when asset prices collapse in a market shock, as it will be more difficult to 'look through' cycles.</p> <p>The qualitative assessment in Phase III</p> <p>We support the inclusion of a qualitative assessment phase in the G-SII assessment methodology, given the heterogeneity of</p>
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		<p>the insurance sector and the difficulties in quantitatively measuring key elements of an insurer's business model, provided that the IAIS does not default to a qualitative assessment which reduces the comparability of G-SII assessments.</p> <p>The qualitative assessment under Phase III should assess both the quantitative data collected and relevant ancillary factors including the manner in which risk is managed within the insurer, for example utilizing the Systemic Risk Management Plan where available, to ensure that the data is representative of potential systemic risk. The qualitative assessment should ensure that quantitative outputs for each indicator that are not indicative of systemic risk are discounted from the assessment score, especially given the link between the score and the bucketing for HLA. Any adjustments to rank or score must, however be subject to a framework that would ensure consistent, comparable and transparent treatment of all GSII, such as described under this section paragraph 2 below. Should the IAIS choose to include in Phase II's quantitative assessment an indicator with no link to the financial system, we recommend that the qualitative assessment ensure that an insurer's ranking and score are commensurate with the potential of its failure to impact the financial system in a systemic manner(5).</p> <p>With the information available in the consultation document, it is hard to estimate the influence and role of Phase III in the process. Too large a role for supervisory judgment could make the G-SII process subjective and result in uncertain and inconsistent designation outcomes. In general, a qualitative assessment should be set up in such a way as to ensure consistent, comparable and transparent treatment of potential G-SIIs. The BCBS criteria and instructions for supervisory judgment in the G-SIB designation methodology, tailored for insurance as appropriate, may offer a starting point for parameters to guide the Phase III process. Guidelines should include a non-exhaustive list of elements to be considered and potentially a requirement for peer review of the effort. Given the necessary focus on risk management within an insurer, the group supervisor will be best placed to perform the qualitative assessment. We advocate that insurers are fully involved in Phase III to explain the features of their firm identified in the qualitative assessment.</p> <p>At the moment, it is hard to understand the underlying rationale for the IAIS to choose whether indicators are part of Phase II (Quantitative Assessment), Phase III (Qualitative Assessment) or of both phases (e.g. reinsurance). It is imperative that a consistent rationale underlies the distribution of indicators across Phases II and III.</p> <p>Transparency, entry and exit</p> <p>The designation process should not only provide a solid assessment of a companies' potential systemic impact, but provide them with a clear "off ramp" from G-SII status. For that reason, it is important that the entire designation process be transparent towards the companies. All firms participating in the G-SII designation exercise should know their individual score to allow them to make an informed decision on how to de-risk. They should be actively involved in the entire process.</p> <p>We recommend the IAIS consider inclusion of an appeal process in Phase V of the proposed updated methodology, such that insurers selected for recommendation to the FSB for G-SII designation are afforded the opportunity to appeal the grounds of their designation with the FSB independently of the IAIS. Such an appeal would presume that G-SIIs will have been able to engage with the IAIS and their group-wide supervisors in meaningful discussions of the reasons for their proposed designation. Meaningful discussions would include information on individual indicator and aggregate scores, rank and how the quantitative threshold was computed.</p> <p>Implementation of the G-SII assessment methodology and NTNI concept</p>
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		<p>It seems unclear which regulatory or supervisory body (national regulators, supervisory colleges or the IAIS) will be responsible for the designation of insurance activities as non-traditional in the current NT revision process. We would appreciate if the IAIS could clarify this. In our opinion, the most appropriate body here is the group supervisor with accompanying peer review, made in consultation with the insurer.</p> <p>We request further clarification from the IAIS on the process of implementing the changes in the G-SII assessment and NTNI methodologies in time for the 2016 G-SII assessment exercise. The consultations provide no guidance on the potential for future consultations or further stakeholder engagement on these critical topics.</p> <p>Instructions for the data collection and related definitions</p> <p>We welcome the periodic review process of the G-SII assessment methodology by the IAIS but note that whatever the changes and improvements, the quantitative and qualitative assessments must rest on unambiguous instructions and definitions. The data collection informing the 2016 G-SII designations will be the fourth. Accordingly, we request that the IAIS make a major improvement in regard of the instructions and definitions that are relevant for the data collection.</p> <p>To give some specific examples:</p> <ul style="list-style-type: none"><li>- The scope of third party reinsurance is not fully defined yet. It is not clear whether firms are expected to report business volume originated through fronting under the reinsurance indicator or not.</li><li>- As for life insurance, the 2015 data instructions suggest assessing surrender values under normal economic conditions and stressed market conditions (6). However, the IAIS fails to define the stressed market conditions to establish a robust comparison among the sample firms. This is of particular relevance in regard of the applicability of stays on surrenders, their ultimate duration, and hence the pay-out pattern. While the ability of authorities to suspend surrenders is codified in various markets, it is situational and fraught with rational and behavioral considerations.</li></ul> <p>Insight in the methodology</p> <p>The G-SII consultation proposes a range of punctual changes - process and quantitative assessment/indicators. The consultation paper does not articulate well how these changes interrelate, if they do at all, and what the overall expected impact and improvements are.</p> <p>All in all this makes it hard to fully grasp the overarching rationale behind this update. For example, it is difficult for stakeholders to give suggestions on how to improve the responsiveness, or address the normalization, of indicators without detailed knowledge of the underlying issues the IAIS is aiming to address. Estimating the ultimate and combined effect of these changes on the methodology is also difficult because the methodology is tightly interlinked with other parts of the G-SII framework, such as the bucketing approach in the Higher Loss Absorbency Capacity (HLA).</p>
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			(7) See IAIS, "Global Systemically Important Insurers: Proposed Updated Assessment Methodology - public consultation document," 25 November 2015, paragraph 15, p. 9.
AIA Group	Hong Kong	No	AIA Group is pleased to and appreciates the opportunity to participate on the consultation on "Global Systemically Important Insurers: Proposed Updated Assessment Methodology".
Global Reinsurance Forum	International	No	<p>The Global Reinsurance Forum (GRF) would like to thank the IAIS for the opportunity to submit a response to this Consultation Document on the Proposed Updated Assessment Methodology for Globally Systemically Important Insurers. The GRF is composed of twelve leading global reinsurers; its main objective is to promote a stable, innovative, and competitive worldwide reinsurance market. The members of the GRF, all private companies, are Gen Re, Hannover Re, Lloyd's, Munich Re, Partner Re, Renaissance Re, RGA, SCOR, Swiss Re, Toa Re, Transatlantic Re, and XL Catlin.</p> <p>The GRF is strongly opposed to the proposed supplemental assessment for reinsurance activities. Reinsurance is already included in the quantitative (Phase II) assessment - this is in our view already questionable given that there is no evidence that "traditional" reinsurance is source of systemic risk. This conclusion is shared by the IAIS in its report "Reinsurance and Financial Stability" dated 19 July 2012, in which the IAIS concludes "traditional reinsurance is unlikely to cause, or amplify, systemic risk." Despite this conclusion, the IAIS proposes to include reinsurance as the one and only activity to be evaluated by means of a dedicated supplemental assessment in addition to a quantitative indicator.</p> <p>We would like to reiterate that reinsurers act as absorbers and therefore mitigators of risk on a global scale. In the absence of evidence of systemic risk attributable to individual reinsurers, the IAIS would be better suited omitting the reinsurance supplementary assessment and focusing its efforts on activities that have been shown to cause or amplify systemic risk.</p> <p>That being said, we appreciate that the IAIS seeks to make use of absolute reference values for some indicators. Absolute reference values that are derived from aggregate market data and/or industry market share appear to be a better indicator of the level of systemically-risky activities than relative values based on the sample of insurers in the designation exercise, whose business volume may not be representative of the overall market for these activities. However, more clarity about the concrete deployment of reference values by IAIS would be needed prior to have a final view on this issue. In particular, for the reinsurance indicator, the absolute reference value should reflect the prevailing consensus that reinsurance activities do not contribute to systemic risk given the current market composition.</p> <p>Finally, the GRF agrees with the IAIS findings as published in "Insurance and Financial Stability," November 2011, that insurers contribute to systemic risk if at all through NTNI activities. Therefore, we advocate increasing the weight of the NTNI category in the designation, and decreasing the weight of interconnectedness. Moreover, we advocate that the "interconnectedness" category be strictly applied to measure the non-insurance interconnectedness of insurance groups with the financial sector (including but not limited to insurance companies). Insurance and reinsurance interconnections do not add to, but mitigate systemic risk.</p>
on behalf of the European GSIs, Aegon, Allianz, Aviva,	International	No	<p>Global Systemically Important Insurers: Proposed Updated Assessment Methodology</p> <p>- The European Global Systemically Important insurers (E-GSIs), Aegon, Allianz, Aviva, AXA, Prudential, appreciate the IAIS on-going dialogue with the industry in its review of the GSII assessment methodology as part of its ongoing refinement and</p>

Axa and Prudential

improvement to make it more sensitive to potential sources of systemic risk.

- The consultation reiterates the objective of the assessment methodology, i.e. to identify any insurers whose distress or disorderly failure, because of size, complexity and interconnectedness, would cause significant disruption to the global financial system and economic activity. However, we consider that the current and proposed methodology do not adequately distinguish between insurers being exposed to systemic risk and insurers creating risk
- The move toward absolute measures for selected indicators, the inclusion of qualitative elements and discussion with firms as part of the process are welcome developments in the process, although further improvement in the methodology are still required In particular:
  - o The use of absolute reference values needs to be combined with a threshold for the level of activity that would lead it to be considered systemic. Activity below this level should be excluded from the assessment score as it would not be a relevant contributor towards systemic risk
  - o The use of absolute measures should be extended to include other indicators where an appropriate reference value can be determined. Within the interconnectedness category this should include, intra-financial liabilities and derivatives. In the NTNI category this should include the short term funding indicators for securities lending and repo.
  - o The derivatives indicator should be improved to focus on potential systemic activity and strip out vanilla derivatives used to better match liabilities, as this is traditional activity that reduces risk
  - o An approach to measure derivatives on net fair value rather than gross notional basis would also represent an improvement as this would ensure that risk that is fully offsetable is excluded from the assessment
  - o The short term funding indicator should be improved to focus on potential systemic activity (involving maturity transformation and collateral hypothecation) rather than measuring all securities lending including vanilla transactions
  - o The level 3 assets indicator should be removed as it does not take into account Asset Liability Management perspective and the role of insurers in long term investment. The qualitative assessment should be based on an objective and transparent assessment, take into account the firms risk management
- An important general comment is that most indicators that would focus exclusively either on liability features or on assets held by insurers are insufficient indicators per se, due to the utmost importance of ALM considerations in insurance.
- For liquidity indicators (insurance liquid liabilities) their assessment must rely upon a sound methodology which considers residual risk. As noted by IAIS in the NTNI consultation document (3.11) liquidity risk is a complex interaction between contract features, the state of the insurer, the market environment, individual characteristics and other dynamics which will determine the extent to which counterparties have an incentive to surrender. Therefore, focusing on only two factors is not a good proxy to determine the risk of a run. It will be more appropriate to consider the insurers ability to manage liquidity risk.
- In addition it is important to note that in the designation methodology the concept of NTNI focuses on activities with the biggest potential impact to the global financial system. This macro prudential perspective requires a different concept of supervisory judgement focusing on the magnitude of spill-over effects. It is therefore important that the review of the designation methodology does not pre-empt the outcome of the review of NTNI.
- It is also not clear how the NTNI approach will impact the data collection exercise for the assessment process, or how the proposals under both consultations will impact designation outcomes and HLA scores/buckets making it difficult for firms to fully assess the potential impact. The updated assessment methodology still lacks transparency and predictability to an extent that insurers could reliably calculate the impact of the revisions on their scores and their designation or removal perspectives.
- Finally we disagree with the rationale set out in the appendix to the consultation paper for the "minimum guarantee on variable insurance products' indicator. This asserts that attempting to pay guaranteed amounts could accelerate asset sales exacerbating distressed market conditions. However, this fails to take into account that guarantees on variable annuities and

			unit linked products are generally not provided on surrender and payments on account of guarantees will usually be foreseeable. We therefore believe that this potential risk is being severely overstated.
General Insurance Association of Japan	Japan	No	To improve transparency and objectivity with respect to the assessment methodology, and encourage sample insurers to sufficiently manage systemic risk, the following should be disclosed to the insurers. (1) The insurer's full score and figures for each indicator (2) The denominators in each indicator score calculation (the sums of responses from the sample insurers and the absolute reference values) (3) The quantitative threshold in Phase II
Swiss Re	Switzerland	No	<p>Swiss Re would like to thank the IAIS for the opportunity to submit a response to this Consultation Document, CD, on the Proposed Updated Assessment Methodology for Globally Systemically Important Insurers (G-SIIs). We are pleased to submit our response, which we hope will prove useful for the IAIS going forward. In particular, we have sought to provide constructive suggestions for multiple aspects of the proposed designation methodology. We also provide critical commentary on specific aspects of the methodology where we have serious concerns. We are happy to elaborate on any of our responses in a dialog with the IAIS.</p> <p>Swiss Re has serious concerns regarding a separate assessment for reinsurance activities in the Qualitative Phase. Firstly, there is no evidence that "traditional" reinsurance is a source of systemic risk. The IAIS in its report "Reinsurance and Financial Stability" dated 19 July 2012, has concluded: "traditional reinsurance is unlikely to cause, or amplify, systemic risk". Secondly, Swiss Re offers to work together with the IAIS to understand its underlying concerns and to assist to define appropriate quantitative tests of institutional, geographic, or other concentrations. All companies, i.e. not only professional reinsurers, should test the corresponding concentrations. Since such tests are quantitative in nature and all companies should participate, these tests must be part of the quantitative assessment in Phase II. The qualitative assessment in Phase III should concentrate on a short, clearly defined list of assessments to ensure consistent and meaningful interpretation of data from Phase II, e.g. taking account of the different creditor hierarchies for insurers and reinsurers in some jurisdictions.</p> <p>More generally, Swiss Re believes that a qualitative phase that exposes potential G-SIIs to subjective judgment should be set up in such a way as to ensure objective, consistent, comparable, transparent, reproducible and well-founded treatment of all potential G-SIIs. So far, the consultation document does not provide adequate assurance that this will be the case. Our response outlines minimum criteria that a qualitative assessment should adhere to and suggests a framework for limiting the degree of subjectivity imposed by this phase. However, we are not convinced that the goal of a consistent and comparable qualitative assessment is truly feasible and would advise the IAIS to forgo the use of a qualitative phase unless it can provide a more detailed proposal for a robust process with a short list of clear, transparent criteria to ensure consistency of application.</p> <p>Particularly, the qualitative phase must not completely overrule the quantitative assessment in Phase II. In most jurisdictions, such an overruling would only be consistent with the requirements of the legal framework when based on an objective, consistent, comparable, transparent, reproducible and well-founded assessment. For the purpose of the proposed assessment, we suggest to facilitate this requirement as follows: If the final post-Phase III judgment regarding the systemic riskiness of an indicator would differ significantly from the Phase II assessment, the quantitative assessment must be refined to ensure objective, consistent, comparable, transparent, reproducible and well-founded treatment. The term "differ significantly"</p>

		<p>must be objectively defined: The Phase III assessment differs significantly if an equivalent overall assessment would only be reached by a change of the score in the corresponding quantitative indicator of, say, 20%.</p> <p>The IAIS should only give recommendation on the G-SII status if the refined assessment mentioned above is available.</p> <p>Swiss Re welcomes that the IAIS seeks to make use of "absolute reference values" for some indicators. However, we feel that the IAIS should significantly refine the concept and should broaden it, where possible.</p> <p>The IAIS should define two quantities for each indicator:</p> <ul style="list-style-type: none"><li>- A denominator to determine the relative size of the associated activity to the activity in the financial sector or, where this is impossible, to the insurance sector. The IAIS should derive denominator values from aggregate market or industry data.</li><li>- A critical amount for each indicator that specifies the level of the underlying activity that it considers systemically risky. Our response uses the term "limit". Other appropriate terms would be "threshold", "weight" or "normalizing factor". This limit represents the amount of the activity that must fail in order to trigger a systemic event.</li></ul> <p>In implementing the methodology, the IAIS should take care to ensure that limits and denominators are set at appropriate levels in order not to under- or overestimate the potential for systemic risk.</p> <p>In particular, for the reinsurance indicator, the absolute reference value should be set appropriately high to reflect the prevailing consensus that reinsurance activities do not contribute to systemic risk.</p> <p>Swiss Re also supports the removal of the large exposures and intra-group commitments indicators, since we believe they are not indicative of systemic risk. For all derivatives indicators, the IAIS should adjust the current exposure to a derivative counterparty to reflect legally enforceable netting (e.g. via ISDA agreements) and collateral arrangements.</p> <p>Swiss Re agrees with the IAIS findings published in "Insurance and Financial Stability," November 2011, that insurers contribute to systemic risk, if at all, through certain NTNI activities. NTNI-Interconnectedness that transfers the effect of NTNI activities may exacerbate this risk by increasing the risk of contagion. Therefore, the IAIS should strictly apply the "interconnectedness" category to measure the NTNI-interconnectedness of insurance groups with the financial sector (including but not limited to insurance companies). Note that the majority of indicators in the NTNI category are themselves measures of interconnectedness, whereas many indicators in the interconnectedness category, in particular reinsurance interconnections, do not add to, but mitigate systemic risk.</p> <p>In light of these considerations, Swiss Re advocates to increase the weight of the NTNI category in the designation to 60%, and decrease the weight of interconnectedness to 25%.</p> <p>Swiss Re advocates for maximal public transparency regarding the method and its parameters. Moreover, we ask that an assessed potential G-SII obtains maximal transparency on its own scoring and appropriate transparency about its position relative to other assessed groups.</p>
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Aegon N.V.	The Netherlands	No	<p>Aegon NV welcomes the opportunity to respond to the IAIS Public Consultation Document, Global Systemically Important Insurers: Proposed Updated Assessment Methodology. Aegon's mission is to help people achieve a lifetime of financial security. We fulfill this mission by providing insurance protection, lifetime income, and other financial services products to customers across the globe. Based in the Netherlands, Aegon's largest operations are in the United States, where we operate under the Transamerica brand. We also have significant operations in Europe and Asia.</p> <p>We appreciate the many opportunities that the IAIS provides for stakeholders to provide input into the IAIS's standard-setting process. Aegon participated in the development of the response submitted by the group of European-based Global Systemically Important Insurers and supports the viewpoints expressed in that response. In our response, we highlight issues of particular importance to us.</p> <p>We regard the proposed refinements as improvements to the existing Assessment Methodology. We appreciate the continued recognition that many insurance-related activities are not inherently systemically relevant. We agree that the various refinements to Phase II—the repositioning of certain indicators and the use of absolute reference values for others—should provide for an improved quantitative assessment. We also support the introduction of the Phase III qualitative assessment, which should allow for a more nuanced and refined understanding of an insurer's systemic profile. Finally, in order to advance transparency and understanding, we welcome and support the new Phase IV for potential G-SIIs. We view all of these reforms positively.</p> <p>At the same time, even if all of the proposed changes were adopted, significant imperfections would remain with the Assessment Methodology.</p> <p>- It would continue to focus inappropriate attention on the life insurance business model, particularly the offering of long-term guarantees. This is a consequence of a narrow focus on individual product features without a broader recognition of how the different features—along with the way insurers manage them—collectively operate. We believe that such guarantees provide both significant value to society and stability to financial markets. Sound regulatory policy should not discourage insurers from providing such guarantees.</p> <p>- It would continue to evaluate a firm's systemic risk footprint on a basis that is relative to other insurers. The actions and activities of external parties would continue to impact the IAIS's assessment of insurers, with consequent impacts on supervisory measures and capital requirements. Moreover, the proposed use of absolute reference values and the move of certain indicators from the quantitative to the qualitative phase of the assessment process would have the perverse effect of increasing the weight of the remaining indicators, several of which appear to have a tenuous relationship with systemic risk.</p> <p>Overall, the proposed changes would leave in place a framework that does not reliably assess the relationship between insurance and systemic risk. We believe this is evidence that additional research is required to better understand this complex relationship and to develop policy measures that have the desired effects on financial stability.</p>
American International Group (AIG)	U.S.	No	<p>January 22, 2016</p> <p>Yoshihiro Kawai, Ph.D. International Association of Insurance Supervisors Bank for International Settlements CH-4002 Basel Switzerland</p>

			<p>Re: Public Consultations on Assessment Methodology for Global Systemically Important Insurers (G-SIIs) and on Non-Traditional Non-Insurance (NTNI) Activities</p> <p>Dear Dr. Kawai:</p> <p>American International Group, Inc. (AIG) appreciates the opportunity to offer comments on the International Association of Insurance Supervisors' (IAIS) public consultations on Assessment Methodology for Global Systemically Important Insurers (G-SIIs) and on Non-traditional Non-insurance (NTNI) activities.</p> <p>In assessing macroprudential regulatory initiatives and standards such as the G-SII and NTNI assessment methodologies, AIG believes that the paramount policy consideration should be whether the proposed standard appropriately identifies, deters, and disincentivizes the build-up of demonstrable systemic risks within the financial system. In AIG's view, the following themes are vital to meeting this objective:</p> <p>Explicit and impactful recognition of risk mitigation. Both the G-SII and NTNI methodologies focus primarily, if not exclusively, on the attributes that are accretive to the IAIS's assessment of systemic risk. We believe that, both to promote the credibility of the assessment process and to incentivize de-risking actions, the G-SII and NTNI methodologies should each formally embed a consideration of a diverse and evolving array of risk mitigants, including sound risk controls and governance, stress testing, and hedging strategies, as well as other information that places quantified measures into a broader context.</p> <p>Modest initial calibration as framework develops. Achieving an effective systemic risk mitigation framework requires a range of tools, including risk-sensitive consolidated capital ratios, group-wide stress testing, robust enterprise risk management practices, and liquidity management. It is essential that this suite of tools be developed in a way that considers their potential interplay, complementarity, and, in certain cases, potential redundancy or excess. The potential for a still nascent policy framework to pose adverse, unwarranted consequences to the insurance market and to the provision of socially-valuable products is the prime reason why AIG continues to urge the importance of a capital calibration that is initially modest.</p> <p>System-wide perspective beyond insurance. Systemic risk is, fundamentally, a set of vulnerabilities that stem from risk factors that are present across the financial system. While the G-SII and NTNI methodologies focus specifically on insurer activities and their potential for posing systemic risk, AIG believes that this assessment should be aligned with, and reconcilable to, risk dynamics across the financial system.</p> <p>AIG directionally supports the aspects of the G-SII assessment methodology that seek to address some of the clear shortcomings of the current approach. In particular, AIG views the following as important progress in moving the G-SII process towards providing greater transparency for insurers to understand the drivers in their designation, establishing a clearer path for insurers to reduce their quantified systemic risk footprint, and enhancing the credibility of the overall designation process:</p> <ul style="list-style-type: none"><li>- Moving to the use of absolute benchmarks rather than relative peer scoring, a necessary shift which is incremental within the proposal and needs to be expanded considerably to better recognize broader trends in insurance industry de-risking and, in turn, incentivize insurers to take instrumental actions to reduce their systemic risk footprint;</li><li>- Reducing the reliance on a formulaic approach, by incorporating a specific stage in the process to weigh qualitative factors, contextual information, and potential mitigants;</li><li>- Establishing a more defined cut-off point for G-SII scoring, promoting transparency and greater comparability across bank and non-bank financial institutions, which we are confident would illustrate the substantially lower degree of systemic risk posed by G-SIIs and other large global insurers; and</li></ul>
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Center for Economic Justice	U.S.	No	The Center for Economic Justice is unable to submit comments by today's deadline due to unforeseen circumstances. We request the opportunity to submit comments by end of day tomorrow.

Prudential plc	UK	No	<p>We have contributed to industry responses on this consultation, including a European G-SII response, and this response should be read in conjunction with these other responses.</p> <p>We are very happy to discuss these points of feedback with you at your convenience. We also urge that regulators and policymakers acknowledge the material de-risking that the insurance industry has undergone following the crisis and in its current form, does not pose the same risks that it did during the crisis.</p> <p>Another overarching point that goes wider than responding to the detail within the Consultation Papers is that we believe it is important that the assessment of systemic risk be consistent for the same activity across different sectors within the financial system. It is not immediately apparent to us, for instance, why asset management activities conducted within insurance groups might attract a "systemic risk surcharge" whereas those in other (considerably larger) on-insurance asset managers do not.</p> <p>Further, we wish for our response to be private between the IAIS and us and this not be made public.</p>
Allstate Insurance Company	United States	No	<p>Thank you for the opportunity to comment on G-SII and NTNI Proposals. We appreciate that both of the consultation documents are part of the International Association of Insurance Supervisors' (IAIS) effort to develop a global framework against which systemic risk can be identified and measured for the purpose of allowing jurisdictional regulators to come together with a common set of facts and measures to identify and manage emerging and existing systemic risks that threaten the global financial system.</p> <p>Systemic risk for insurers is that which has the ability to impact the entire market or a substantial market segment. Systemic risk manifests itself by way of restricting liquidity or impairing capital and surplus through the recognition of losses. Historical examples of systemic risk in the insurance industry include derivatives with exposure to contingent collateral requirements, mortgage and financial guarantees supporting the issuance of mortgage-backed and other securities, long-term care insurance with direct exposure to mortality improvements and the cost and impacts of treatment advances, traditional life insurance exposure to pandemics, and annuity products exposure to mortality improvements. In addition to insurance products originated, purchased reinsurance also carries with it systemic risk generated by assuming reinsurers that may grow to such a size that their failure could create systemic risk as it could impact the entire insurance market or a substantial market segment.</p> <p>We believe the dialogue should focus on those activities that create or amplify systemic risk. For insurers the focus is on activities that systemically strain liquidity or systemically impair reported capital and surplus. Systemic strains on liquidity most often arise from funding mechanisms that allow lenders to put instruments to the insurer with little or no penalty involved. This could involve short-term funding mechanisms such as commercial paper programs as well as institutional funding agreements and retail annuities where surrender penalties are low or have otherwise expired. In contrast, activities or actions that may systemically impair reported capital and surplus include reinsurance concentrations, writing credit derivatives, and engaging in business activities that expose the insurer to fair value accounting in situations where asset-liability positions are not sufficiently matched to protect the erosion of capital and surplus.</p> <p>To manage reinsurance exposures market participants typically look to collateralize reinsurer obligations. While this is prevalent in the U.S., the world's largest market for reinsurance, it is not as common outside the U.S.; therefore, when assessing the existence and magnitude of systemic risk, regulators should evaluate reinsurers as well as the terms upon which reinsurance activities are executed. As stated in our detailed response to the G-SII proposal, efforts to reduce or eliminate collateral requirements for reinsurance treaties and contracts executed with assuming reinsurers not domiciled in the same</p>

			<p>jurisdiction as the ceding company may produce systemic risk upon failure of an assuming reinsurer of sufficient size and scope as it could reduce and potentially impair the capital and surplus of ceding reinsurers that would be required to pay direct claims and unable to obtain cash reimbursement from the assuming reinsurer. In this situation in the U.S. currently, the assuming company could draw on a letter of credit or from funds held within a collateral account supporting the assuming reinsurer's obligations, however, this is contemplated to be removed in connection with the Covered Agreement negotiations intended to begin in early 2016.</p> <p>The importance of the G-SII Proposal is in its identification of G-SIIs based on their ability to produce or amplify systemic risk, as described above, for the purpose of applying additional capital charges to reduce the likelihood that a designated G-SII will fail and cause a systemic risk event to occur. The increased capital requirements placed on G-SIIs reduces returns on equity and otherwise serves as a constraint to growth and other actions and activities that an insurer may otherwise seek to pursue. Accordingly, the G-SII designation is one that most firms would seek to avoid if possible. As such, we believe it is critical that the designation framework and process remain both simple and transparent to provide firms who desire to avoid the G-SII designation a clear understanding of the steps to take to avoid such designation.</p> <p>The importance of the NTNI Proposal is that the principal activities considered to create systemic risk in insurers are non-traditional insurance activities (i.e., traditional insurance has been determined not to produce or amplify systemic risk) and non-insurance activities (e.g., writing credit derivatives). Our principal concern with the NTNI proposal is that it has yet to achieve a level of clarity necessary to allow insurance and reinsurance entities to run their business and make decisions with a clear understanding of the capital consequences of their actions. We believe there needs to be more robust discussions among the IAIS, jurisdictional regulators and regulated insurers to better define, identify, and measure those activities considered to produce or amplify systemic risk. In addition, we believe the term NTNI may be confusing in that it attempts to identify activities in terms of what they are not as opposed to what they are. As such, we believe it would be helpful to consider replacing the notion of NTNI with Potentially Systemically Relevant Activities (PSRAs) which is a direct identifier.</p> <p>In general, we view the NTNI Proposal as a positive step, although we believe that much more work must be undertaken between the IAIS, jurisdictional regulators, and regulated insurers to more comprehensively identify and measure activities that produce or amplify systemic risk. For example, we believe more work must be done in the area of reinsurance. Specifically, as it relates to ceding companies, we believe that reinsurance tends to reduce systemic risk as it diffuses otherwise concentrated risks throughout the insurance and other financial markets. In contrast, assuming reinsurers can both diffuse as well as produce systemic risk depending on the size of the assuming reinsurer. That is, spreading reinsurance risk between many moderately sized assuming reinsurers around the globe diffuses systemic risk whereas the concentration of reinsurance in very large, global assuming reinsurers can produce or amplify systemic risk upon the failure of one of these mega reinsurers.</p> <p>Responses to specific questions in the G-SII and NTNI Proposals have been submitted on-line.</p> <p>We hope you find our responses and observations helpful and would be available for any questions or further clarification you may have.</p>
American Council of Life Insurers	United States	No	The American Council of Life Insurers (ACLI) is a Washington, D.C.-based trade association with approximately 300 member companies operating in the United States and abroad. ACLI advocates in federal, state, and international forums for public policy that supports the industry marketplace and the 75 million American families that rely on life insurers' products for

		<p>financial and retirement security. ACLI members offer life insurance, annuities, retirement plans, long-term care and disability income insurance, and reinsurance, representing more than 90 percent of the U.S. industry assets and premiums. Learn more at <a href="http://www.acli.com">www.acli.com</a>.</p> <p>ACLI welcomes the IAIS' ongoing commitment to review and update the Assessment Methodology for Globally Systemically Important Insurers (G-SIIs). We understand that the Methodology and the related work- stream on non-traditional, non-insurance (NTNI) products and activities are a work in progress. In order to meet the IAIS' goal of reducing systemic risk, the Methodology should focus on the creation and transmission of systemic risk. As noted in our response to the NTNI consultation, we have grave concerns that the outcome of the debate over the treatment of "NTNI" products and activities may diminish the availability of retirement security products at the expense of aging populations in developed societies.</p> <p>We remain concerned that while the IAIS states its intention is to assess on a loss-given-default basis, the Assessment Methodology combines criteria that measure impact in the event of default with those that measure the vulnerability to market stress as measures of systemic risk. The assessment score in Phase II lacks credit for quantifiable and globally comparable product and risk management techniques that reduce systemic exposures. In addition, the Assessment Methodology continues to rely on a relative ranking of insurance firms to determine G-SII status. It is critical that assessment for potential systemic exposure be conducted through a loss-given-default lens and that vulnerabilities be demonstrated to link to a systemic risk transmission channel. It is equally critical that the assessment process be conducted in a transparent manner and include meaningful dialogue with the firm under consideration throughout the process so they understand the basis for their consideration and/or designation and measures that can be pursued to avoid or shed designation.</p> <p>We would also note that while we recognize the IAIS is required to proceed with the development of means to identify and standards for the management of systemic risk in the system, that there remains little empirical research and data to form the basis for an understanding of how activities insurers engage in could, in the event of disorderly failure, cause significant disruption to the global financial system and economic activity. We encourage the IAIS and FSB to devote the time and resources to improve this understanding.</p> <p>Below is a summary of our main viewpoints on the consultation:</p> <ul style="list-style-type: none"><li>- We prefer an assessment methodology that uses absolute amounts to analyze an insurer relative to the global financial system instead of a relative ranking of firms according to limited industry data. The creation of absolute reference values may be a slight improvement, but the underlying methodology is still a relative assessment of insurance firms. To avoid issues arising from relative assessments of firms, we propose absolute amounts should be used for all metrics included in the Phase II quantitative assessment.</li><li>- Cross-sectoral analysis is critical to ensure that G-SIIs are truly systemic and not just large insurance firms. A firm is systemically important because of its systemic importance to the global financial system, which can only be understood on a cross-sectoral basis, not because of its relative ranking in the insurance sector. Accordingly, cross-sectoral analysis should play a role in the Assessment Methodology.</li><li>- In Phase II, firms should receive credit for product and risk management tools that limit the impact on other financial institutions if the insurer were to fail. Giving credit for sound risk management practices that mitigate systemic risk exposures</li></ul>
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			<p>rewards good systemic risk management practices and incentivizes de-risking by giving higher G-SII assessment scores to firms that take on greater risk and pose a greater risk of loss (on default) to other institutions. We believe that a number of objective and globally comparable measures exist, including collateral (following FSB recommended guidelines), netting, withdrawal limitations, and asset-liability matching.</p> <ul style="list-style-type: none"> <li>- A robust qualitative evaluation is necessary to ensure an accurate and comprehensive understanding of insurance firms. Specifically, the methodology should recognize and better incorporate product and risk management tools, both in Phase II and Phase III, that lessen systemic risk. Liquidity management, collateralization, and separate accounts can limit the impact on other financial institutions if the insurer were to fail. If Phase III is to impact the scores or rankings of insurers, this evaluation should be conducted in accordance with a framework that ensures transparency, comparability, and consistency in application across groups.</li> <li>- The IAIS' focus on total derivatives traded or held is not a sound measure of potential systemic risk exposure, given that most CDS used by insurers are used purely for hedging or replication. The potential systemic risk exposure of derivatives must also consider credit support and collateral agreements that are frequently risk offsets to exposures to counterparties and other risks.</li> <li>- The information exchange only has value if it's a meaningful opportunity for dialogue between the firm and the IAIS. Firms should have the opportunity to present information that may allay supervisors' concerns. To do so, they must receive enough information to understand how their scores were calculated and which aspects of their business model/s is driving their status as potential G-SIIs. This will allow firms to make an informed decision about whether or not to de-risk, which could ultimately reduce the global systemic exposures. No conclusion regarding status should be reached until after the information exchange has occurred.</li> <li>- It is critical that the assessment process be conducted in a transparent manner and includes meaningful dialogue with the firm under consideration throughout the process so they understand the basis for their consideration and/or designation and measures that can be pursued to avoid or shed designation ("exit" G-SII status). The net decrease in systemic risk that occurs when a firm opts to de-risk to exit G-SII status furthers the IAIS goal of promoting financial stability. We do not think it is appropriate for the IAIS to publish any information related to G-SII designations or the G-SII Policy Measures. Given the developmental nature of the measures, the IAIS should not release this information publicly because it has the potential to give rise to unintended consequences to firms, regulators, standard setters and financial markets. Ultimately, the publication of information should be limited to a list similar to that issued for the G-SIBs.</li> <li>- All firms evaluated by the IAIS for prospective GSII status should receive their score and, through meaningful dialogue between the IAIS and firm throughout the assessment process, understand the basis for their consideration / designation and measures that can be pursued to avoid / shed designation, including potentially de-risking to reduce their systemic importance, which would advance the IAIS' goal of reducing systemic risk.</li> </ul>
National Association of Mutual Insurance Companies	United States	No	<p>General Comments (also included in response to Q1)</p> <p>This submission represents the collective comments of the membership of the National Association of Mutual Insurance Companies (NAMIC) in the United States. NAMIC is the largest property/casualty insurance trade association in the country, serving regional and local mutual insurance companies on main streets across America as well as many of the country's</p>



		<p>largest national insurers. NAMIC's 1,300 property/casualty insurance company members write \$208 billion in premium and serve more than 135 million policyholders in the U.S. NAMIC members serve 48 percent of the personal lines (automobile/homeowners) market and 33 percent of the business insurance market. Over 200,000 people are employed by NAMIC member companies.</p> <p>NAMIC participated in the comments submitted by the Global Federation of Insurance Associations and those of the U.S. Chamber of Commerce and supports these comments in relation to the GSII Criteria Consultation Draft. The responses to questions by these two organizations provide a more detailed focus on specific questions. NAMIC provides in the comments below important areas of emphasis and areas of concern for our membership that may not be fully addressed in the GFIA or U.S. Chamber remarks.</p> <p>Improvements to the GSII Criteria  NAMIC supports the emphasis on cross-sectoral comparisons in the criteria for GSII designations. Systemic risk does not necessarily apply to the largest entities in each financial sector. The largest insurers do not have nearly the same systemic impact as the smallest of GSIBs. The IAIS correctly stated in its November 2011 paper entitled, Insurance and Financial Stability, "for most lines of business there is little evidence of traditional insurance either generating or amplifying systemic risk within the financial system or in the real economy." Consequently the effort of the IAIS to focus GSII criteria on cross-sectoral comparisons is appreciated by NAMIC. There are additional revisions in the consultation draft that would further the goal of a cross-sectoral comparison for systemic risk.</p> <p>To further the efforts toward a more complete cross-sectoral comparison, NAMIC also agrees with increased use of absolute reference values in the data collection for designation. Taking this to the next step, by using absolute values on more than a limited basis and assuring that the absolute reference values are used and compared in the cross-sectoral analysis will help place insurers in the proper perspective to banks. To further improve the designation process other changes are recommended to the five phase process:</p> <p>1. Phase I - Size Without International Activities: Also following the lead of the IAIS NAMIC asserts that the first phase of the analysis should not randomly look at the top 50 insurers based solely on asset size and draw relative comparisons between the top 50, but should consider the asset size as compared to the asset size of the banks designated as GSIBs. If insurance organizations remain outside the scope of the banking impact on systemic risk and their products do not generally create systemic risk then it seems unreasonable to select insurers for GSII designation without more evidence of systemic risk.</p> <p>The changes suggested in this draft in Phase I move further away from the goal of reducing systemic risk. The change in criteria to include a large insurer with over \$200B in assets with no international insurance writings even ignores the actual definition of the designation that is being developed. The focus is on a "Global" Systemically Important Insurer, not a non-global insurer. Allowing asset size alone to dominate Phase I without even a consideration of whether the insurer is involved in the global market goes beyond the scope of the FSB charge and the IAIS role in identifying global financial institutions that might cause systemic risk. A company with no international business should be left to the analysis of their country of domicile. We suggest, at a minimum, there must be a clarification that an insurance organization must have at least 1% of their business written in foreign jurisdictions.</p> <p>2. Factors Unrelated to Probability of Failure: The focus of the revised criteria seems to be on the effect of an insurers' global</p>
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			<p>failure and not on the probability of that failure. Similar to the points made in the NAMIC comments on the NTNI definition document, individual insurers' ERM practices and investment strategies should be considered in determining GSII status as well. At the very least the probability of failure should be a key factor under the qualitative portion of the analysis. Focus on the strengths of companies: Strong ERM, Strong Governance; Conservative Business and investment Strategies etc. can provide a means to assess probability of failure. Without considering probability of failure the IAIS will be engaging unnecessarily with insurance organizations through the various phases of the process, resulted in wasted time for the IAIS, for the prudential regulator and for the organization. But most importantly the IAIS will not be impacting systemic risk in any meaningful way.</p> <p>3. Property/Casualty Not Correlated with Systemic Risk: NAMIC agrees with the IAIS analysis in the NTNI definition that conclude that most property/casualty lines of insurance show no connection to systemic risk, no substantial market risk and no correlation with the movements of the market. We support revision of the GSII criteria to eliminate such traditional insurance products from the analysis as well.</p> <p>Exit Ramp The goal of reducing or eliminating systemic risk from the global economy is laudable and worthy of pursuit. However, requiring GSII designated organizations to maintain high levels of capital and loss absorbency, to meet voluminous resolution planning requirements, and to comply with other enhanced prudential requirements that effect those organizations on a public, competitive and financial level is a mechanism that should be used sparingly and should only be applied as long as it is needed to achieve the goal of systemic risk reduction. As soon as an organization has made changes that remove it from qualifying as a GSII they should be allowed to exit from the enhanced prudential requirements. Requiring an organization to remain designated for no less than 2 years does not address the real goal of the designation and does not reward an organization that has taken action to eliminate or significantly reduce any potential systemic risk they may have created.</p> <p>NAMIC supports no time restriction on the designation and removal from the GSII designation as soon as the insurance organization has made necessary changes that disqualify it as a GSII.</p> <p>NAMIC recognizes that the decisions under discussion are challenging and the potential impact is critical, but bear in mind that most of the systemic impacts on insurers start outside of the insurance industry. The insurance industry can be a gatekeeper, but they are generally victims of the financial activities of other financial institutions and sovereign entities that impact the general economy and the global markets. Once such actions are taken and the markets and global economies are compromised the insurance industry, as a major global institutional investor, can be significantly impacted by the falling markets and this can accelerate the overall size of any crisis. However, this role is not unlike any number of other entities, financial or otherwise, that rely on the markets and the strength of the global economy for success. We urge the IAIS to keep this in mind as they push for a stronger emphasis on a cross-sectoral analysis of systemic risk and the use of absolute values instead of relative comparisons between the largest insurance organizations.</p>
RAA	United States and	No	<p>General Comments:</p> <p>The RAA is the leading trade association of property and casualty reinsurers and life reinsurers doing business in the United</p>

	<p>many other jurisdictions</p>	<p>States. RAA membership is diverse, including reinsurance underwriters and intermediaries licensed in the U.S. and those that conduct business on a cross border basis. We appreciate the opportunity to provide comments on the IAIS Proposed Updated Assessment Methodology for Global Systemically Important Insurers (the Paper) and agree that all financial sectors, including insurance, should be assessed for their systemic relevance.</p> <p>We believe the consultation paper represents progress over the 2013 version, but significant issues remain. We are particularly pleased with the proposed changes to use absolute reference values rather than relative values and the additions of phases 2 and 3, which include more qualitative assessments and the direct exchange between supervisors and the potential GSII.</p> <p>The methodology is still based on a selection, based on size and global activity, of the most systemic insurance groups among a population of approximately 50 financial conglomerates. This implies that a certain number of insurance conglomerates will be designated as systemic, regardless of their relative systemic importance compared to banks and other non-insurance financial institutions. Ultimately, a cross sectoral comparison of those other institutions should be made by the FSB to determine which, if any, insurance conglomerates are as systemic as the banks not named to the FSB GSIB list.</p> <p>The revised methodology is intended to "identify insurance dominated financial conglomerates whose distress or disorderly failure...would cause a disruption to the global financial system and economic activity." It ignores the probability of failure, which due to the nature of insurance is low, and instead focuses on the impact of a complete failure of the potential GSII. The probability of failure including other aspects such as existing financial strength, the effectiveness of enterprise risk management and other factors such as insurance guaranty fund mechanisms should be incorporated in the methodology.</p> <p>The reinsurance indicator and the reinsurance supplemental assessment continue to suggest that reinsurance is an activity that contributes to systemic risk. This implication is inconsistent with research by the RAA, the Geneva Association and many others, which clearly demonstrate that reinsurance does not create or amplify systemic risk. Similarly the methodology is inconsistent with the 2012 IAIS Reinsurance and Financial Stability Report, which reached the same conclusion. We recommend that the reinsurance indicator be eliminated or significantly reduced.</p> <p>The methodology fails to define what qualifies as a "financial conglomerate." An initial filter should be employed when considering mixed activity groups to first determine whether they should be considered a financial conglomerate. For example, both the U.S. Dodd-Frank Act and the E.U. Financial Conglomerate Directive apply initial financial thresholds to determine the relative level of financial services within a mixed activity group before classifying such groups as a financial conglomerate. We believe that a revenue based threshold, similar to the "predominantly engaged in financial services" revenue threshold contained in Dodd Frank, should be added as an initial screen to the methodology.</p> <p>The revised indicator-based methodology will still have the effect of disincentivizing certain activities that would cause a higher systemic risk score. Since the categories and indicators are not limited to NTNI, certain beneficial industry activities will be discouraged. The methodology will penalize many core insurance activities that reduce systemic risk, including assumed reinsurance, diversification by asset or revenue size, global diversification and participation in certain business lines characterized as highly concentrated. We believe that structuring the methodology in this manner may result in unintended consequences inconsistent with supervisors' overall objectives.</p> <p>The updated assessment methodology should be fully transparent to the potential GSII. The process should provide a potential</p>
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			GSII with a clear basis for the rationale for a GSII designation, the weightings of the various quantitative and qualitative factors that caused the designation and a clear path to an exit from a GSII designation.
American Insurance Association	United States of America	No	<p>AIA COMMENTS ON UPDATED G-SII ASSESSMENT METHODOLOGY CONSULTATION DOCUMENT</p> <p>The American Insurance Association (AIA) appreciates the opportunity to submit comments on the International Association of Insurance Supervisors (IAIS) November 25, 2015 Public Consultation Document entitled "Global Systemically Important Insurers: Proposed Updated Assessment Methodology." (Updated G-SII Methodology) AIA represents approximately 325 major U.S. insurance companies that provide all lines of property-casualty insurance to consumers and businesses across the United States and around the world. AIA members write more than \$127 billion annually in U.S. property-casualty premiums and approximately \$225 billion annually in worldwide property-casualty premiums.</p> <p>AIA's membership includes U.S. insurers that write insurance only within the U.S., U.S. insurers that write insurance inside and outside the U.S., and the U.S. subsidiaries of multi-national insurers. This diversity gives AIA the ability to analyze issues from many perspectives and enables us to draw on the global experience and expertise of our companies with many forms of insurance regulation. We also have member companies that have been designated G-SIIs, as well as members that are considered internationally-active insurance groups (IAIGs). Therefore, AIA and its members have a strong interest in ensuring that the Updated G-SII Methodology focuses on activity and companies with the potential to be a source of systemic risk, and that it not reflect a simple ranking of companies that engage in insurance activities that are necessary to global commerce, but are unlikely to be a threat to financial stability.</p> <p>SUMMARY OF RECOMMENDATIONS</p> <p>As detailed more fully below, AIA has compared the Updated G-SII Methodology to the current G-SII Assessment Methodology. We respectfully recommend that the IAIS consider implementing the following revisions so that the assessment of insurance groups presents an accurate picture of their risk to global financial stability. More importantly, our recommended revisions would provide transparency to the process, and allow insurance groups to gauge whether their activities put them in danger of G-SII designation.</p> <p>Initial Data Collection Should Be Based on Public or Regulatory Sourced Information. Phase I data collection should not pre-determine a pool of insurance groups for a data call. Instead, the IAIS should focus on relevant indicators of systemic risk that can be analyzed by accessing public information or materials available already to regulators. Those indicators should be available across all financial sectors so that insurance groups are viewed in relation to those firms (not isolated). For example, degree of leverage was a critical common factor of firms that were the source of scrutiny during the 2008 financial crisis. Therefore, leverage ratio (total consolidated assets [excluding separate account assets] to total equity) would be a key consideration for this initial screening process. Other factors to consider would be metrics that defined a firm's role as a source of liquidity to the financial system, as well as whether the institution is the sole provider of a key financial product or service (without the ability of other institutions to step in and supply that product or service if the provider failed), but those factors would need to be carefully defined.</p>

		<p>Non-public Data Collection from Insurance Groups Should Occur Later in the Assessment Process. The IAIS should only collect non-public data directly from companies once it has a better idea of what the public data analysis yields. By pre-determining the pool of insurance groups based solely on asset size, the IAIS has effectively skewed the methodology from the outset.</p> <p>The IAIS Should View All Relevant Risk Indicators on an Absolute Basis. Even if the IAIS rejects AIA's recommended revisions to the data collection process, the IAIS should analyze insurance groups on a cross-sectoral basis. While the Updated G-SII Methodology's shift to absolute reference values for 3 risk indicators is a good start, it is insufficient. Using relevant risk indicators to only compare insurance groups to one another does not place the issue of "systemic" risk in proper perspective.</p> <p>AIA Has Ongoing Concerns with a Number of Individual Indicators. AIA continues to believe that the , the weighting and inclusion of certain risk categories and indicators in the Updated G-SII Methodology do not comport with the low risk nature of the insurance business model and the general conclusions of the consultation document. Those categories/indicators at issue include: (a) the double and triple-weighting of asset size in the methodology; (b) the relevance of the global activity indicators; (c) inclusion of "reinsurance" as an interconnectedness indicator (and as a separate basis for supplemental assessment) and the dual treatment of derivatives in that category; and (d) treatment of aviation and marine insurance as lines with "substitutability" problems.</p> <p>If the Methodology is Not Further Revised, AIA Would Support Regulatory Discretion in Phase III as a Mechanism to "Screen Out" Groups from Further G-SII Consideration. As discussed in more detail below, if the IAIS does not adopt further revisions to the Updated G-SII Methodology to make the process more transparent and cross-sectoral, AIA would encourage the use of qualitative regulatory discretion in Phase III as a way of eliminating potential G-SIIs from further consideration. AIA would not support the converse use of regulatory discretion as a means of considering groups for inclusion that are on the quantitative margins under a flawed methodology.</p> <p>Due Process Protections Should Be Afforded to G-SII Designees. The Updated G-SII Methodology continues to omit adequate notice and a meaningful opportunity for potential G-SIIs to contest their imminent designation. The Phase IV exchange does not overcome these deficiencies. AIA is willing to work with the IAIS to adopt reasonable due process protections.</p> <p>BACKGROUND AND DISCUSSION</p> <p>Changes to the G-SII Assessment Methodology</p> <p>The G-SII Assessment Methodology proposed in 2013 (based on a July 2012 consultation) was divided into three phases (data collection, assessment, and supervisory judgment/validation) and based on quantitative and qualitative risk indicators in five categories (size, global activity, interconnectedness, non-traditional and non-insurance activities [NTNI], and substitutability). Of the five categories, 85 percent of the weighting occurred in two categories (NTNI and interconnectedness), with the remaining 15 percent spread evenly among the remaining three categories. In brief, the Updated G-SII Methodology appears to shift and reorganize the three phases into five phases (data collection; quality control and scoring/determination of quantitative threshold; discovery; exchange with prospective G-SII; and IAIS recommendation) that emphasize and front-load</p>
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		<p>the quantitative aspects of the assessment, while reserving qualitative judgments to the latter phases of the determination process. Whether the IAIS proposed changes effect substantive reforms will largely depend on how the Updated G-SII Methodology is further revised to reflect stakeholder comments.</p> <p>AIA Concerns with the Methodology</p> <p>AIA originally submitted comments on the IAIS's initial proposed G-SII Assessment Methodology on July 31, 2012. While the July 31, 2012 comments stand on their own, some of the themes outlined in those comments remain relevant to the Updated G-SII Methodology.</p> <p>First, AIA was (and is) concerned that an insurance-centric analysis of systemic risk will result in a systemic "ranking" of insurers, rather than a determination of which financial activities are the source of instability across the financial system. AIA favors a broader, cross-sector analysis.</p> <p>Second, and related to the first concern, an insurance-specific perspective on systemic risk will end up elevating firm size (in terms of total consolidated assets) over other more relevant indicators, and cause otherwise non-risky insurance groups to be considered for designation, while potentially ignoring groups that engage in systemic activities.</p> <p>Third, failure to utilize risk-related benchmarks derived from public information to screen firms at the outset will shroud the designation process in mystery and prevent firms from avoiding the type of financial activities that would lead to a designation. Moreover, it may yield a pool of potential G-SII designees that reflects considerations other than the firms' systemically risky activities. Conversely, those firms that end up being designated as G-SIIs must have a clear exit ramp if they de-risk.</p> <p>Fourth, and perhaps most important, the G-SII Assessment Methodology must be viewed in context of the insurance business model. AIA has consistently stated that the insurance business model and the regulated insurance activities that flow from that model do not pose a systemic threat to global financial stability. To the contrary, the insurance business model possesses features that enhance financial market stability, not the least of which is the fact that property-casualty insurance operations are funded by upfront premiums, which therefore reduces the need to access the credit markets. Because the risks that a property-casualty insurer assumes are typically not correlated with macro-economic events, an insurer is not prone to a customer "run" on the company's assets and consequently, can better control its outflows. This low leverage environment of property-casualty insurers is a key element of stability. During the financial crisis, property-casualty insurers clearly demonstrated their ability to maintain steady capacity and business volume.</p> <p>The low risk nature of the insurance business model is aligned with the IAIS's views. As the IAIS stated in both papers on (re)insurance and financial stability, traditional insurance activities do not generate the type of systemic risk that would subject companies engaged in those activities to heightened supervision as G-SIIs. (F/N 1) While the IAIS has emphasized the difference between "traditional" and "non-traditional" insurance activities (which is the subject of a separate, related consultation), the Methodology should not allow semantics to obscure the principle that regulated insurance activities do not generally present the type of risk that would cause a "run" on an insurance group.</p> <p>(F/N 1: International Association of Insurance Supervisors, "Insurance and Financial Stability," p. 7 (November 2011)).</p>
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		<p>distribution of the historical leverage ratios of large financial institutions was used to identify the 15 to 1 threshold. Historical testing of this threshold demonstrated that it would have captured the major nonbank financial companies that encountered material financial distress and posed a threat to U.S. financial stability during the financial crisis, including Bear Stearns, Countrywide, IndyMac Bancorp, and Lehman Brothers." (F/N 3)</p> <p>(F/N 3: Financial Stability Oversight Council (FSOC) Final Rule and Interpretive Guidance, "Authority To Require Supervision and Regulation of Certain Nonbank Financial Companies," 12 C.F.R. Part 1310, RIN 4030-AA00, 77 Fed. Reg. 21637, 21661(Apr. 11, 2012) (Final SIFI Designation Rule)).</p> <p>Leverage is a particularly critical element with respect to insurance operations because it generally is not present, to any material degree, within an insurance business model. Other potentially relevant characteristics include (1) whether the business activity renders the G-SII a source of liquidity to the financial system and (2) whether the activity involves a product or service that cannot be provided by another company if the G-SII fails (substitutability), but the scope of the inquiry on these factors must be carefully defined.</p> <p>Phase IIA and IIB - Quality Control and Scoring/Threshold Determination</p> <p>The Updated G-SII Methodology proposes Phase IIA as the process for validating the completeness and accuracy of data that is received from the Phase I data collection pool of insurance groups. Phase IIB then becomes the manner in which quantitative thresholds are determined for each risk indicator; the outcome being the development of a list of those groups that are subject to further G-SII assessment because they score above the thresholds, and a list of those groups that are "screened out" of the process (unless the exercise of regulatory discretion warrants further scrutiny of the firm).</p> <p>As with Phase I, the reliability of the Phase II process depends on whether the "data" analyzed are relevant, publicly-available cross-sectoral measures of a source of risk to the financial system. Cross-sectoral indicators of systemic risk that are culled from public information will provide groups with a transparent way of determining whether their activities place them in danger of G-SII designation. Conversely, conducting a comparative analysis among the pool of insurance groups meeting a consolidated asset metric will produce flawed results that will permeate (and undercut) the entire assessment methodology.</p> <p>In this regard, turning to "absolute" (i.e., cross-sectoral) reference values for some risk indicators is a good, but insufficient start. The IAIS should look at absolute reference values for all indicators that are derived from public or regulatory sources. Those indicators that are the subject of non-public data collection directly from insurance groups should be deferred to a later phase of the G-SII assessment process, but should similarly have an absolute reference value.</p> <p>The IAIS has also asked what type of approach that it should use in establishing the Phase II quantitative thresholds. Consistent with our comments in favor of absolute reference values, AIA would support a cross-sectoral analytic approach that compares potential G-SIIs to systemically important firms in other financial sectors. AIA believes that such an approach would show that, with respect to systemic risk indicators, insurers are significantly smaller with respect to those indicators than banks. (F/N 4)</p> <p>(F/N 4: See Geneva Association, "Cross Industry Analysis: 28 G-SIBs vs. 28 Insurers Comparison of Systemic Risk Indicators," p. 4 (February 2013) (This updated version "to the cross industry analysis published in December 2012 [also]</p>
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		<p>highlights the need to establish a G-SIFI designation methodology which enables a comparison of identical indicators of companies from different sectors within the financial service industry.") (emphasis supplied)).</p> <p>Use of Specific Risk Indicators</p> <p>The IAIS has maintained the vast majority of risk indicators as a part of its quantitative analysis under Phase II. AIA has concerns with the following specific indicators:</p> <p>Size (Total assets and revenues)</p> <p>AIA has always been concerned that asset and revenue size will be overemphasized in the consideration of whether a company is systemically important. When coupled with the use of total assets in Phase I, size - while given a relatively low risk weight as an assessment category in the Updated G-SII Methodology - is actually given more emphasis, as it is also calculated as a part of the global activity assessment category. This "triple-weighting" of a company's asset/revenue size is inconsistent with the IAIS position on insurance and financial stability, which states that "[t]he risk profile of an insurer becomes less risky the more risks are assumed, i.e. the larger it is and the more diversified its business is (the more lines of business it writes)." The importance that the Updated G-SII Methodology assigns to size can be corrected if the IAIS utilizes a public information-based screen of risk indicators in Phase I and removes non-domestic revenues as an indicator in the global activity assessment category.</p> <p>Global Activity (Revenues derived outside of home country/number of countries)</p> <p>It is difficult to discern how these indicators of global activity relate to an insurance company's potential as a source of systemic risk, particularly where the company engages in insurance activities in multiple nations as a way of diversifying its business and spreading risk. Further, as noted above, to the extent that non-domestic revenue is an indicator of global activity, it replicates size as a determining factor but does not address the extent to which more than one market could be affected by a potential systemically important insurer. Moreover, in its original public consultation, the IAIS explained that global activity "is aimed at identifying components of the financial system whose failure can have large negative externalities on a global scale." This characterization seems to indicate that global activity is related to interconnectedness, which is also a separate assessment category. Yet, the only other global activity indicator apart from non-domestic revenue is the number of countries where a group operates through branches or subsidiaries. It is hard to understand how either non-domestic revenues or number of countries in which a company does business relate to the IAIS' explanation of the global activity category. Therefore, AIA strongly recommends that this category (and the associated indicators) be discarded and absorbed within size and interconnectedness as appropriate. (F/N 5)</p> <p>(F/N 5: Elimination of the global activity category will require a reweighting of the remaining categories. Since, in AIA's view, size is already skewed, we recommend that the interconnectedness category reflect a more appropriate systemic risk weighting.)</p> <p>Interconnectedness (Reinsurance; derivatives)</p> <p>AIA agrees with the Updated G-SII Methodology's focus on the interconnectedness assessment category, but we have strong</p>
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		<p>concerns with two of the referenced indicators. First, the IAIS seems to view reinsurance as an indicator of interconnectedness, yet has stated that "the degree of interconnectedness within the reinsurance sector is relatively small" and that reinsurance can be both a source of stability during crisis and risk-diversification for primary insurers. The low-risk nature of reinsurance is further reinforced by the IAIS report on reinsurance and financial stability, which states that traditional reinsurance and the bulk of alternative risk transfer mechanisms utilized by reinsurers are not sources of systemic risk and do not have the potential to be a threat. As a result, the inclusion of reinsurance as an interconnectedness indicator is puzzling. To the extent that it remains in scope, the parameters of its inclusion remain ambiguous. For instance, it is not clear whether firms are expected to report business volume originated through fronting under the reinsurance indicator or not. In economic terms, such business is effectively equivalent to business originated directly with the reinsurance contract between the parties serving as a pass-through mechanism. This would argue for not reporting such business under third party reinsurance. If the IAIS takes the view that business volume originated through fronting is relevant and akin to third-party reinsurance, then the instructions must be clear as to what must be reported and under what conditions.</p> <p>Second, the IAIS has also included derivatives as an interconnectedness indicator, but has provided little context. AIA notes that the Updated G-SII Methodology separately includes "gross notional" credit default swaps sold (CDS) as a non-traditional, non-insurance activity (NTNIA) indicator entitled "derivatives trading," although the amount of CDS traded on any particular insurance company is outside the control of the reference entity and is prone to subjective short-term investment decisions by those third parties. As such, while the indicator is put in the category of NTNI, it is really an assessment of interconnectedness. In particular, using an indicator to assess interconnectedness that is determined by others may not be valid without first fully understanding the nature of the interconnectedness with a third party, as the overreliance on a single insurer also puts the third party at risk. This approach also opens opportunities for third parties to game the system and act in a manner that adversely affects nonbank financial companies while putting the third party at risk. Further, assessing the "gross notional" value of CDS contracts exacerbates the problem by adding volume purchased and sold, rather than netting out the institutional exposure to a reference entity. We respectfully recommend that the IAIS assess the net notional value of CDS contracts for a reference entity rather than gross notional value.</p> <p>Substitutability (Premiums for specific business lines)</p> <p>While substitutability can be an appropriate category for systemic risk consideration, AIA continues to believe that the category may not be necessary for insurance lines that are not directly tied to credit risk. First, with respect to the specific product lines, AIA questions earlier IAIS inclusion of aviation and marine coverage, as those business lines have no inherent connection to systemically risky activity. Moreover, aviation and marine insurance are not well-defined and, in the U.S., differently defined terms could lead to confusion and ambiguity over the types of coverages impacted. (F/N 6) Even assuming the lines can be adequately defined, there is no evidence that failure of a company writing those coverages would cause a market disruption in certain economic quarters, much less a cascading effort across the financial system or widespread liquidity or credit problems that were at the center of the financial crisis. For example, in the U.S. market alone, there are over 70 insurance groups writing ocean marine insurance, with the leading writer having a 12.39% market share, and other competitors have gradually lower market shares, with the vast majority of ocean marine insurers writing less than 1 percent of direct written premiums in this line in the U.S. (F/N 7) Under these circumstances, it would be impossible for the failure of even the largest writer to cause any disruption in the ocean marine insurance marketplace. Indeed, any temporary disruption in the availability of aviation or marine coverage would be linked to war or an act of terrorism, and governments, including the U.S., have established programs precisely to address concerns associated with a temporary market disruption because of these events.</p>
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(F/N 9: IAIS G-SII Assessment Methodology Public Consultation at p. 19.)

Phase IV: Exchange with Prospective G-SIIs

While the Updated G-SII Methodology does not offer much detail on the Phase IV exchange, given the stage at which the discussion occurs, AIA fails to see how Phase IV will yield any meaningful due process protections for groups that may be designated as G-SIIs. While such process may be ancillary to the methodology itself, it is critical for every insurance group undergoing an assessment to understand its rights to contest a determination and its ability to protect the integrity of its business. Further, establishing a transparent and coherent process will be important to maintaining the legitimacy of G-SII assessments. AIA would be happy to work with the IAIS on development of a company-initiated process to incorporate into the Updated G-SII Methodology.

In the interim, AIA assumes that the Updated G-SII Methodology still provides for a consultation process with a G-SII candidate's group-wide supervisor(s), as well as an opportunity for a particular supervisor to challenge findings. (F/N 10) However, a group-wide supervisor ought to be able to engage more than simply as an advocate on behalf of the company. Under certain conditions, the supervisor ought to be afforded the right to veto a company's designation. Such a supervisory right would be particularly appropriate where the IAIS fails to include the right for a company to contest a G-SII determination.

(F/N 10: G-SII Assessment Methodology Consultation Document (July 31, 2012) at pp. 21 - 22, ¶¶ 48 - 52.)

CONCLUSION

Thank you again for the opportunity to comment, and AIA looks forward to participating in the IAIS consultation process on these and other critical regulatory issues.

Respectfully submitted,

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<p>Prudential Financial, Inc.</p>	<p>United States of America</p>	<p>No</p>	<p>Prudential Financial, Inc. (Prudential) would like to thank the IAIS for the opportunity to comment on the November 25, 2015 Global Systemically Important Insurers: Proposed updated Assessment Methodology consultation document.</p> <p>Prudential continues to remain committed to the further development of global regulatory standards for insurance and believes such standards are important for promoting effective and appropriate supervisory and regulatory practices. Such standards will contribute to our shared goals of effective policyholder protection, financial stability, sound regulatory outcomes, and more vibrant insurance markets.</p> <p>However, the evolution of global regulatory standards, including the refinement of the Global Systemically Important Insurers (G-SII) assessment methodology, must be carried out in a measured, comprehensive, and transparent manner. Further, it is critical that the IAIS consider the potential for their policy measures to adversely impact the ability of insurers to continue to offer socially necessary products to consumers and a steady flow of long term capital investment to financial markets. Every effort must be made to avoid such unintended consequences. We offer the following general comments on the consultation and request the IAIS review the comments we have provided to the consultation in conjunction with those we submitted on the separate consultation on Non-traditional Non-insurance (NTNI) Activities and Products.</p> <ul style="list-style-type: none"> <li>+ Prudential supports the IAIS efforts to continue to refine their suite of policy measures and in particular the G-SII assessment methodology. While the consultation offers incremental steps in the right direction, further improvement is needed. The IAIS should commit to further refinements more frequently than every three years. These refinements should be done as a serial exercise between 2017 and 2019 that more accurately focus on the externalities of systemic risk from the insurance sector.</li> <li>+ The assessment methodology should better reflect the IAIS stated mission of preventing the insurance sector from adversely impacting the global financial system.</li> <li>- The relative ranking of insurers among the population sampled remains a core underpinning of the assessment methodology. Such an approach overstates the risk the insurance industry presents to the global financial system as it ignores the overall low systemic impact of the insurance industry relative to banking.</li> <li>- An insurer should have complete control over their G-SII designation status, meaning they should have sufficient knowledge on the basis for their designation to determine actions that - should they chose to implement them - would shed designation. Under a relative ranking approach, a firm that implements such actions may still be designated as they are tied to other firms in the sample population who may be undertaking similar measures. While we support the introduction of absolute reference values as an initial step away from a relative ranking approach, their limited and nuanced use in the current proposal does not provide a firm sufficient autonomy.</li> <li>- The proposed assessment methodology and framework for assessing activities and products should more clearly articulate that the IAIS is focused solely on the propensity of a firm to transmit systemic risk to the financial system and not on a firm's probability of failure. The current proposals include undue emphasis on analyzing the micro-prudential risks of a firm, while failing to account for risk management practices.</li> <li>- The broad nature of the IAIS' stated mission calls for taking a holistic approach to analyzing firms under consideration for designation - one that takes full account of risk management practices, including risk mitigation accomplished through the use</li> </ul>
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		<p>of derivatives. Failure to sufficiently account for risk management practices will lead to an over statement of a firm's potential to cause significant disruption to the global financial system and economic activity. Such a holistic approach should carry through the assessment methodology to underpinning elements such as the proposed framework, for assessing activities and products which explicitly ignores an insurer's efforts to hedge market risk.</p> <ul style="list-style-type: none"> <li>- The concept of proportionality is often discussed in the context of determining the population of insurers the measures of the IAIS should apply to. We believe proportionality is a critical element of regulation and in particular the calibration of standards. In this context, the threshold or cut-off point for determining the recommended list of G-SIIs - and calibration of all G-SII Policy Measures - must reflect the widely acknowledged fact that insurers are less systemic than banks.</li> <li>+ Regarding the proposed framework for determining assessing activities and products, Prudential agrees that the exposure channel and asset liquidation channel underpinning the proposed framework have the potential to transmit risk to the financial system. The assessment methodology should take a more direct approach to assessing an insurer's exposure to these transmission channels. The IAIS should seek to eliminate the unnecessary complexity that accompanies a separate assessment of the likelihood of activities and products to impact the exposure and asset liquidation channels. The analysis of an insurer's exposure to these transmission channels should take place within the assessment methodology.</li> <li>+ We believe the interconnectedness category - which receives a 40% weighting in the assessment methodology - captures all aspects of the exposure channel put forward in the proposed framework for assessing activities and products. The IAIS' inclusion of the exposure channel in the NTNI category of the assessment methodology (assuming it remains as currently proposed by the IAIS), coupled with the interconnectedness category, results in a double count of an insurer's exposure. To avoid this double count and streamline the assessment process, the IAIS should replace the NTNI category with a sole focus on the asset liquidation channel.</li> <li>+ Prudential welcomes the introduction of the five phase process put forward in the consultation. Phase III: Discovery Phase and Phase IV: Exchange with Prospective G-SIIs, provide opportunities for the parties involved to partake in a transparent and constructive dialogue to, as the consultation rightly points out, "better understand and assess the heterogeneity of the insurance industry, differences in business mixes and product attributes across jurisdictions, and differences in data quality reported across insurers and across jurisdictions". With respect to Phases III and IV, the proposed updates to the assessment methodology could and should go further. In particular, we believe it is critical that the information gained from Phase III be incorporated into a firm's assessment methodology score. Failure to do so will insufficiently assess a firm's potential risk to the financial system and as a result give rise to inappropriate HLA capital charges.</li> <li>+ The information exchange in Phase IV should include: <ul style="list-style-type: none"> <li>- a synopsis of the IAIS' interpretation of the data submitted for Phase I,</li> <li>- a review of the assessment score - indicator by indicator,</li> <li>- a review of the results of the Phase III qualitative assessment - including the rationale for changing, or not changing, the assessment methodology score of the firm,</li> </ul> </li> </ul>
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			<ul style="list-style-type: none"> <li>- a firm's position on the full G-SII list,</li> <li>- a firm's HLA bucket placement, and</li> <li>- an explanation of the G-SII cut-off threshold.</li> </ul> <p>- Such transparency is critical in order for a firm to have sufficient clarity on the basis for their consideration / designation as a G-SII and so they can pursue measures to avoid / shed designation.</p> <p>+ It is important to note that "size" and "global activity" - which account for 10% of the G-SII assessment methodology on a combined basis - do not directly create or increase systemic risk. The IAIS has acknowledged "in an insurance context size is a prerequisite for the effective pooling and diversification of risks". Such pooling of risk and diversification can be further achieved through global diversification and should not be improperly penalized in the GSII assessment methodology.</p> <p>+ Continuing to focus on and designate a handful of large, globally active firms as systemic - and the G-SII Policy Measures that accompany designation - may drive activities and products to less capitalized insurers or market-based financing schemes (i.e. shadow insurance market). Such an outcome would be antithetical to the financial stability that the IAIS is striving to achieve through the designation and enhanced supervision of G-SIIs and would be a great disservice to the real economy and governments that face societal and economic challenges - including those related to longevity and long term capital investment - both today and into the future.</p> <p>+ We welcome the focus on increased transparency of the G-SII designation process and its outcomes. It is critical that as a first step the transparency initiatives focus solely on providing designated firms with a clear, written explanation of their Phase II score and the results of the Phase III analysis. Firms that are assessed but not designated should be provided similar information.</p> <p>+ Given the developmental nature of the assessment methodology and the G-SII Policy Measures we believe it is far too premature to share information publically. Further, to avoid unintended consequences to firms, regulators, standard setters and financial markets we believe no information should be published until the measures are further refined and / or finalized and adopted by jurisdictional supervisors. Ultimately, the publication of information should be limited to a list similar to that issued for the G-SIBs.</p>
U.S. Chamber of Commerce	United States of America	No	<p>January 25, 2016</p> <p>International Association of Insurance Supervisors  c/o Bank for International Settlements  CH-4002 Basel  Switzerland</p> <p>Re: Consultation Regarding Global Systemically Important Insurers: Proposed Updated Assessment Methodology</p> <p>To Whom it May Concern:</p>

		<p>The U.S. Chamber of Commerce ("Chamber") is the world's largest business federation representing the interests of more than three million companies of every size, sector, and region. Our members include purely U.S. domestic, as well as international and globally active insurance companies headquartered both in and outside of the United States. Perhaps more importantly, we have member companies that rely both on insurance products as well as the larger role insurance plays as an investor in our globally interconnected economy. Therefore, we are broadly supportive of the goal of safeguarding against systemic risk; however, we continue to have serious concerns about the global systemically important insurer ("G-SII") designation and supervision process.</p> <p>The Chamber appreciates the steps that the IAIS has taken to further clarify the G-SII designation process, particularly with respect to the adoption of absolute reference values for derivatives trading, financial guarantees in the non-traditional non-insurance ("NTNI") category, and reinsurance in the interconnectedness category. We also appreciate the inclusion of a balance sheet risk management tool, asset-liability matching as a way to reduce market risk, and product features, such as limitations on withdrawals, and recognizing that those can reduce or eliminate systemic risk transmission.</p> <p>However, we believe that the IAIS should take these steps further when revising the G-SII assessment methodology and fully evaluate potential G-SIIs on the basis of their business model, align indicators with systemic risk channels and incorporate recognized product and balance sheet risk management tools. Unlike banks, insurers match their long-term liabilities with long-term investments, and insurers typically use low levels of leverage and debt funding. Consequently, the types of activities, products, and channels by which systemic risk may flow differ substantially from the banking sector, meaning that the methodology for identifying G-SIIs should differ from that used for systemically important banks.</p> <p>The harm of a G-SII designation and its attendant capital requirements to the global economy should also be carefully considered by the IAIS. Importantly, insurers are integral to the global corporate bond markets, which businesses of all sizes use to raise capital. While not as liquid as equity markets, the global bond markets provide a stable form of financing, benefiting businesses and investors alike. As insurers are significant investors in the bond markets, the implementation of a poorly designed G-SII assessment methodology could reduce the capital available for investment. We fear that this could have a significant impact on the ability of many businesses to engage in normal capital formation activities, efficient cash management, and effective risk management.</p> <p>In this context, our response focuses on the changes proposed in the G-SII assessment methodology, emphasizing areas where the proposed methodology could be strengthened to focus on systemic risk (impact given default) and the insurance business model. We also believe that our response to the related consultation on non-traditional insurance activities and products should be read in conjunction with this response, as our view on whether the IAIS should consider certain products or activities to be "non-traditional" is directly relevant to the designation of an insurer as a G-SII.</p> <p>Discussion</p> <p>At the outset, we wish to emphasize the importance of distinguishing the probability of default for an insurer with the impact of failure of an insurer. Many of our members have noted that these two distinct concepts are used interchangeably in different parts of the G-SII assessment methodology when it would be more appropriate to consider each of these concepts at different times in the assessment. It is important to consider these concepts independently, as certain mitigators of risk, such as risk</p>
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		<p>management practices, are most directly relevant to different parts of this evaluation. Separating these concepts in a clear fashion will also help clarify which insurers should proceed through the various phases of G-SII assessment process.</p> <p>Indicators for Phase II</p> <p>As noted above, we appreciate the steps that the IAIS has taken to use absolute reference values for certain indicators, including derivatives trading, financial guarantees in the NTNI category, and reinsurance in the interconnectedness category. We also appreciate the IAIS's transfer of large exposures and intra-group commitments indicators from the quantitative assessment Phase II to a qualitative Phase III assessment given their questionable value in a quantitative analysis. However, we question whether these last indicators are in any way an effective measure of the potential impact of the failure of an insurer on the financial system and recommend they be dropped altogether.</p> <p>In addition, we remain concerned that the IAIS continues to use the global activity category, including the revenues derived outside of home country and number of countries, as part of its Phase II quantitative methodology. We believe that this metric does not provide meaningful insight into whether a particular insurer is subject to default risk and whether such risk could be spread through the financial system. In fact, the global activity category appears to satisfy the same goals as the size category combined with certain indicators in the interconnectedness category. The IAIS should consider removing the global activity category given this redundancy.</p> <p>We also believe that the non-traditional insurance and noninsurance activities category should be significantly revised and would refer you to our separate response on the IAIS consultation on the definition of non-insurance products and activities. As stated therein, we believe that a focus on "nontraditional" insurance activities has the ability to stifle innovation in the insurance market and also penalize insurers who offer products or engage in activities that the IAIS deems nontraditional, despite a track record within a given jurisdiction. This is particularly the case with the IAIS' evaluation of variable insurance products with minimum guarantees, which have been traditionally offered in the United States for over 30 years.</p> <p>The interconnectedness category also bears scrutiny. It includes an evaluation of the assets held by an insurer without a direct explanation of whether such assets cause systemic risk or a balance sheet risk. Nor is there any recognition that counterparty risk can be mitigated through a number of objective and recognized means of diminishing the impact of failure. We believe that certain indicators in the interconnectedness category should also be excluded. These include intra-financial assets, which could include the holdings of relatively safe securities issued by other financial institutions, and Level 3 assets, which may be illiquid but may not necessarily transmit systemic risk to the broader financial system, especially when held by an insurer.</p> <p>We also request that appropriate product and balance sheet risk management tools be assessed in Phase II in order to appropriately measure an insurer's impact given default. This permits a transparent assessment of risk mitigation techniques being used by an insurer for several products. For example, derivatives are a recognized effective means of offsetting the risk of options and guarantees embedded in many life insurance products. It does not appear that the current assessment methodology is appropriately crediting insurers for using these techniques.</p> <p>Phase III qualitative analysis</p> <p>The Chamber supports the introduction of a Phase III qualitative analysis that would include non-public data and account for</p>
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		<p>the very diverse nature of certain elements of the insurance business model. However, if any such qualitative assessment is to count toward adjustment of scores or ranking, given the possibility of subjective application, it must be subject to a framework that ensures a transparent, comparable and consistent evaluation. To explain, certain elements of market risk may indicate a vulnerability that merits scrutiny; the large exposures indicator may not necessarily indicate systemic risk, although it does provide detail on the level of interconnectedness an insurer may have with external parties. Alternatively, certain risk management practices may be well recognized but difficult to quantify for a quantitative analysis. All these considerations could be incorporated into a Phase III qualitative analysis.</p> <p>As regards intra-group commitments, we propose that elements of this indicator may have relevance in the development of resolution strategies but not in an assessment for systemic importance. As the IAIS notes in its consultation, data responsiveness and quality concerns have made this metric a poor indicator of whether an insurer has engaged in significant NTNI activities. It is also unclear to us to what extent intra-group commitments would be relevant and we recommend removing it from the assessment methodology.</p> <p>General Comments on Phase II and Phase III</p> <p>Outside of the indicators used in Phase II and Phase III of the revised G-SII assessment methodology, we would also like to highlight several procedural issues with the current assessment methodology.</p> <p>Broadly, we note that the IAIS emphasizes that the G-SII identification process "focuses on how an insurer's failure or distress would impact the global financial system, not the probability that an insurer will experience failure or distress." However, for the reasons noted above as well as in our separate response to the non-traditional insurance consultation paper, we believe that there continues to be an emphasis on the potential probability of default of an insurer, rather than whether that default would result in systemic consequences.</p> <p>While it is important to evaluate whether an individual firm may be engaging in certain risky activities or offering risky products, the emphasis of the IAIS' evaluation of a potential G-SII should be on whether an insurer's default is systemically important to the marketplace and the global economy. The solvency of a particular insurer should be, and is currently addressed by, local and international capital standards applicable to insurers of all sizes.</p> <p>We also believe that the IAIS should significantly clarify the relative importance of the Phase II and Phase III analyses, especially if the IAIS believes that an evaluation in one phase has more weight than the other. As currently drafted, the Phase I and Phase II analyses will provide an "initial ranking" of the relative systemic importance of insurers, but the IAIS believes a Phase III qualitative analysis could be useful "to better understand and assess the heterogeneity of the insurance industry, differences in business mixes and product attributes across jurisdictions, and differences in data quality reported across insurers and across jurisdictions."</p> <p>However, it remains unclear when a Phase III analysis would be initiated by the IAIS and whether such an analysis would impact the quantitative "score" attributed to an insurer under Phase II. First, the Phase II analysis establishes two "groups" that sorts insurers depending on whether they exceed the quantitative threshold established by the IAIS. Group 1 insurers score "above" the quantitative threshold and are automatically subject to additional analysis under the methodology. However, Group 2 insurers, which score below the quantitative threshold, "will not be recommended for identification as a G-SII unless added</p>
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		<p>by discretion of the relevant authorities."</p> <p>We believe that the development of a quantitative threshold which can be disregarded on the basis of a dissenting decision from the relevant authorities undermines the clear G-SII designation process that the IAIS is attempting to develop. This exception has the effect of not allowing insurers who may potentially be designated as a G-SII to know with reasonable certainty whether they are being considered for additional analysis in Phase III as a result of exceeding the quantitative threshold of Phase II or on the basis of a discretionary judgment. We also remain concerned about the scope of which regulators the IAIS would consider the "relevant authority" in these instances, and whether such determinations would include local, home jurisdiction supervisors, host jurisdiction supervisors, or even foreign standard-setters such as the Financial Stability Board.</p> <p>We appreciate that the IAIS is considering several approaches to establishing a quantitative threshold. Of the options listed by IAIS, we believe that establishing an annual floor for the quantitative threshold would provide the necessary clarity to potential G-SIIs while also encouraging those companies to "de-risk" in order to avoid such designations. Above all, the quantitative threshold established by the IAIS should be clear, stable, and easily understood by market participants.</p> <p>It is also unclear whether the IAIS has the ability in Phase III to adjust a score for a potential G-SII developed in Phase II. The IAIS consultation paper states that adjustments to a Phase II score will not occur unless "the Phase III analysis reveals there are substantive errors in the data submitted by insurers." There appears to be no process for determining whether there is a substantive error in submitted data other than in the discretion of the relevant supervisors; additionally, there appears to be no opportunity for an insurer to review data submitted by a third-party that is meant to correct a substantive error. Moreover, it is unclear whether the possibility of a score change applies to insurers that fall into Group 2 under the Phase II analysis, or whether it applies to all insurers being considered in the Phase II analysis. We believe that this requires significant clarification prior to moving forward with a revised G-SII assessment methodology.</p> <p>Finally, while we understand the need for a flexible approach in a Phase III qualitative analysis, specifying the actual factors that will be considered at this stage rather than listing the potential aspects of Phase III would provide more clarity for market participants. The factors list in the Consultation Paper that would be considered at this stage are helpful to understanding the vast heterogeneity among insurers, but the boundaries of a Phase III discretionary analysis should be clearly defined. This will ensure that potential G-SIIs have the ability to respond to the IAIS' Phase III analysis in an effective and robust manner.</p> <p>General Comments on Phase IV and Phase V</p> <p>While well intentioned, the Chamber believes that the review and exchange process incorporated in Phase IV comes too late in the G-SII assessment methodology process and does not offer a potential G-SII a meaningful opportunity to review all of the data used by the IAIS and relevant supervisors in Phases II and III.</p> <p>With respect to timing, we believe that a potential G-SII should have the opportunity to review the information being used by the IAIS during and after each phase of the designation process. Multiple opportunities for input will provide a potential G-SII with a meaningful opportunity to inform the IAIS of material issues in the data collected by relevant supervisors and whether additional information would clarify a lack of systemic importance. This is particularly important for the IAIS's Phase II analysis, where the IAIS calculates the initial score that would place an insurer above or below the quantitative threshold for G-SII</p>
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			<p>status. Dialogue with a potential G-SII at this stage is crucial to determining whether the IAIS should move forward with its qualitative analysis and whether any mitigating factors, such as risk management practices, exist at the potential G-SII. Moreover, regardless of whether there is an opportunity for dialogue at this stage, we strongly believe that the Phase II score should be communicated to a proposed G-SII immediately after completion of the Phase II assessment.</p> <p>The Chamber also believes that only providing a summary of the assessment process and analysis used by the IAIS throughout this process is insufficient. A potential G-SII should have access to the underlying data used by the IAIS and relevant supervisors in making its determinations in Phases I through III of the assessment process in order to identify and correct material errors in the data used. This is particularly important with respect to several indicators used in Phase II, such as derivatives trading, where there may be data quality issues associated with collecting such information from various sources.</p> <p>We also believe that it is inappropriate for Phase II to be the basis for applying HLA to G-SIIs, largely because of Phase II's heavy weighting towards the NTNI category (45%). Instead, a decision on applying HLA to G-SIIs should occur after Phase IV, particularly after the IAIS has had the opportunity to conduct a qualitative assessment of the proposed G-SII and after the proposed G-SII has submitted information and data identifying why the insurer does not pose a systemic risk. Phase III analysis that impacts score or ranking should always be conducted in accordance with a framework that ensures transparency, comparability and consistency in application to each G-SII.</p> <p>Finally, we do not believe that there should be a minimum "two-year presumption" regarding exit and entry from the G-SII list. While the Chamber appreciates that the presumption is rebuttable, it is unclear to what degree an insurer would have to de-risk after being designated in order to rebut this presumption. This is particularly concerning given that the consultation calls for continued G-SII status "even if the insurer's score drops below the threshold after Phases I through V." We believe that demonstrable steps reducing the quantitative score of a designated G-SII below the Phase II threshold should entitle a G-SII to an immediate review of its systemic status before the FSB and IAIS. Otherwise, there will be fewer incentives for a G-SII to de-risk during the two year rebuttable period.</p> <p>Conclusion</p> <p>In sum, the Chamber appreciates the steps that the IAIS has taken to clarify and enhance the G-SII assessment methodology but believes that significant changes are needed. The lack of clarity in Phases II and III and potential confusion between risks to an insurer and risks to the broader financial system counsel a deliberate and thorough review of the currently proposed changes to the assessment methodology. Moreover, additional opportunities for review and dialogue with potential G-SIIs are necessary in order to enhance the robustness and legitimacy of the assessment process. The Chamber would be pleased to continue this dialogue and work with you on ways to improve the G-SII assessment methodology.</p>
MassMutual Financial Group	USA	No	<p>MassMutual is supportive of the IAIS's mission to promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders and to contribute to global financial stability. We believe that these efforts to assure confidence, strength, and stability within the insurance industry align with our corporate values, namely helping our customers achieve their financial objectives. While we view the IAIS's proposed updates within the G-SII and NTNI Consultations as positive steps towards an improved framework for assessing potential systemic risk within the financial system, we remain concerned about the lack of</p>

			<p>transparency within the assessment process, the definition of activities that are systemically risky, and the proposed methodology's disincentive to prudently manage risks associated with long-term insurance products. We strongly encourage the IAIS to apply absolute reference values for all metrics used in the quantitative phase in order to assess an insurer's potential exposure to the overall financial system, rather than relative to a selected group of companies. Additionally, the identification and measurement of potentially systemically risky exposures within the Consultations, such as derivatives, short-term funding, and Level 3 assets, should be reconsidered.</p>
MetLife, Inc.	USA	No	<p>MetLife thanks the IAIS for the opportunity to comment on this critically important consultation on the Proposed Updated Assessment Methodology for G-SIIs ("Updated Methodology"). MetLife would like to recognize and thank the IAIS for the careful thought and effort it has invested in updating the 2013 Assessment Methodology. MetLife acknowledges that the G-20 leaders have called on the FSB and IAIS to develop an assessment methodology that results in individual designations, and we have developed a proposal that we believe aligns better with the insurance business. This proposal is intended to make a positive contribution to improving the assessment methodology, but we should also point out that we have not changed our strongly held view that a better solution would be the development of industry-wide measures to address any activities that might pose systemic risk.</p> <p>From this perspective, MetLife partnered with Oliver Wyman to develop what we believe is a more effective and transparent approach to determine potential systemic relevance in the insurance sector. MetLife's proposal focusses on Phases II (initial filtering) and III (discovery) of the IAIS Updated Methodology.</p> <p>The principal objectives of our proposal are to (i) provide an explicit link between the indicators and systemic risk transmission channels and (ii) reflect differences in insurer business profiles and risk management practices that affect the systemic relevance of a given activity to support (iii) reward sound risk management practices and create an incentive to de-risk.</p> <p>The MetLife proposal:</p> <ul style="list-style-type: none"> <li>- emphasizes the need for a multi-stage designation process that goes deeper than the current numerical indicators by incorporating measures that are more consistent with the insurance business model.</li> <li>- filters the phase II criteria for the G-SII assessment methodology to be aligned with sources of systemic relevance using a loss-given default (impact of failure) analysis, but includes vulnerability analysis (probability of default) as part of the qualitative phase III assessment.</li> <li>- incorporates into the phase II quantitative indicator analysis product and balance sheet risk management tools that can eliminate risk or reduce to residual risk that can be measured on an objective, numerical basis.</li> <li>- rewards good risk management and provides a clear path to de-risking and an eventual off-ramp for designated institutions. Indeed we would say the approach is designed to reward good risk management and incentivize de-risking by giving higher G-SII assessment scores to insurance business models that take on greater risk.</li> </ul> <p>MetLife's proposed Phase II quantitative assessment indicators are grouped under the following four categories:</p> <ul style="list-style-type: none"> <li>- Size</li> <li>- Interconnectedness</li> <li>- Substitutability</li> <li>- Asset Liquidation</li> </ul> <p>Given the prior emphasis on NTNI, its apparent elimination of NTNI requires some explanation. More accurately, our proposal</p>

		<p>actually reallocates the NTNI indicators based on the systemic risk transmission channels in the revised interconnectedness and new asset liquidation categories. Using this lens, our proposal provides a clear and self-contained evaluation of each transmission channel in the event of firm failure - part of a broader alignment of Phase II criteria with channels for systemic risk transmission on a "loss-given-default" basis. As all sources of systemic risk were covered, a separate NTNI category became redundant.</p> <p>We believe this re-allocation addresses a significant problem with the Updated Methodology. Both the FSB and IAIS have made it clear that their concern in assessment and management of systemic risk is with impact of default as opposed to probability of failure. The Updated Methodology continues to mix indicators that measure the impact in the event of default and the vulnerability to market stress, with no clear delineation between the two. Our proposal suggests that quantitative assessment would measure impact given default and include product and balance sheet risk management tools. We support a transparent assessment of insurer vulnerability to market stress in Phase III.</p> <p>Indicators eliminated or replaced are:</p> <p><b>Global Activity</b> Because (all else being equal) global activity alone is not a source of systemic relevance, we exclude:</p> <ul style="list-style-type: none"><li>- Revenues derived outside of home country</li><li>- Number of countries</li></ul> <p>Global Activity indicators are replaced with a new "business concentration" indicator under Size (see description of added indicators below). This change opposes the view implicit in the current methodology that participation in more markets increases systemic risk; rather, we view that a firm of a given size has more systemic relevance if concentrated in a single or small set of markets than if widely dispersed across markets.</p> <p><b>Interconnectedness</b> Because the systemic relevance of interconnectedness arises through the financial system's exposure to the insurance group, and an insurer's holdings of certain asset types alone does not transmit systemic risk from an insurer to the broader financial system (e.g., through counterparty exposure), we exclude</p> <ul style="list-style-type: none"><li>- Intra-financial assets</li><li>- Level 3 assets</li></ul> <p>We also exclude the indicator "turnover ratio" as it has no direct linkage to systemic relevance. The "large exposures" indicator has been removed by the IAIS.</p> <p><b>NTNI</b> Because the current NTNI indicators should directly link to the asset liquidation transmission channel, we reclassify the following:</p> <ul style="list-style-type: none"><li>- Non-policyholder liabilities and non-insurance revenues<ul style="list-style-type: none"><li>o These indicators are replaced by more targeted indicators focused on specific non-insurance liabilities</li></ul></li><li>- Derivatives Trading<ul style="list-style-type: none"><li>o Systemic relevance is better captured through a measure of the exposure created by outstanding derivatives</li></ul></li></ul>
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Property Casualty Insurers Association of America (PCI)	USA	No	<p>The Property Casualty Insurers Association of America (PCI) welcomes the opportunity to comment on this consultation paper. PCI's nearly 1,000 member property/casualty insurers and reinsurers represent over one-third of the U.S. non-life insurance market and conduct business all over the globe.</p> <p>Overall, this draft represents progress over the prior methodology, but significant issues remain.</p> <p>The move toward using absolute standards for certain indicators is positive and should be expanded, and should also include a minimum threshold below which insurers are not considered for Phase II. The methodology should also focus more on cross-sectoral systemic risk analysis rather than simply ranking insurance groups among themselves without recognizing that global insurers are engaged in far smaller amounts of systemically important activities than other financial market players. In particular cross-sectoral analysis must be a key factor considered in establishing the quantitative threshold in par. 37.</p>



			<p>The preface notes that the designation is targeted at "insurance-dominated financial conglomerates" but fails to define a "financial conglomerate." The criteria should include an initial filter that establishes a minimum relative revenue threshold for financial revenue as compared to non-financial revenue for mixed groups before they can be characterized as a financial conglomerate.</p> <p>The G-SII methodology continues to ignore the potential probability of failure and focuses only on the imagined impact in the event a failure occurs, without regard to credibility of the failure scenarios or the mitigating effects of risk management or effective supervision. As we have seen in the U.S., this can lead to unintended outcomes and creates a much higher likelihood of harm to consumers.</p> <p>The increased recognition of the heterogeneity of insurers' business models is an important improvement, but it should be further elaborated. Traditional P/C risks have no systemic connectedness and very little correlation with financial market results.</p> <p>The introduction of additional qualitative judgment to the process (Phase III) is a positive development and should be retained. This process, however, should provide for greater transparency.</p> <p>G-SIIs should be provided with a clear "exit ramp" that lets them know what steps they can take to remove their G-SII status.</p> <p>The IAIS should include a numerical example involving a hypothetical insurance group that would show how the quantitative methodology with absolute reference values would work. We strongly support the increased use of absolute reference values and cross-sectoral analysis, but the operation of the formula should be clarified.</p> <p>Due process protections should be added. G-SII designations subject designees to significant additional regulatory intervention, and insurers should be protected from improper designations.</p> <p>PCI also endorses the comments of the Global Federation of Insurance Associations (GFIA).</p>
Financial Services Roundtable	Washington, DC	No	<p>Re: IAIS Consultation on Updated G-SII Methodology and Proposed NTNI Framework</p> <p>Ladies and Gentlemen:</p> <p>The Financial Services Roundtable ("FSR") welcomes the opportunity to submit this letter to the International Association of Insurance Supervisors ("IAIS") in connection with two consultative documents, the first addressing the methodology and process for the designation of global systemically important insurers (the "G-SII Consultation"), and the second addressing the conceptual framework for non-traditional insurance / noninsurance ("NTNI") products (the "NTNI Consultation") (together, the "Consultations"). The IAIS has promulgated the Consultations to obtain stakeholder input on (i) reforms to the IAIS's methodology for determining whether a firm is a G-SII and (ii) the IAIS's definition of a NTNI product or activity.</p> <p>In this letter, we first comment on the fundamentals of the IAIS's approach to G-SII designation. We then comment on areas where we believe the IAIS could make further refinements to the proposed phased approach to G-SII designation. We then share our concerns with the NTNI Consultation which we believe should be altered or even discarded so that the IAIS</p>

		<p>framework will focus more specifically on the channels by which firms may transmit systemic risk. We conclude by commenting on the broader impact that the proposed methodology may have on consumers of insurance products, and insurance markets more generally.</p> <p>I. Fundamental Comments on G-SII Designation Methodology and Process</p> <p>A. G-SII Designation Approach</p> <p>We begin with a fundamental comment on the IAIS's overall approach to the G-SII designation methodology. The FSR supports the IAIS's efforts to continue to refine their suite of policy measures and in particular the G-SII assessment methodology.</p> <p>The Consultations address key topics, including some important concepts that must be analyzed and assessed over the next three years, which could be seen as incremental steps toward a more appropriate insurance methodology. If the IAIS feels obligated to implement changes to its methodology in 2016, it should also commit to further refinements more frequently than every three years. These refinements should be done between 2017 and 2019 as a serial exercise that more accurately focuses on the externalities of systemic risk from the insurance sector.</p> <p>The G-SII Consultation represents a step towards greater transparency in the G-SII designation process. While we applaud the IAIS for this shift, we believe the assessment methodology must better reflect the IAIS stated mission of preventing the insurance sector from adversely impacting the global financial system.</p> <p>First, the relative ranking of insurers among the population sampled remains a core underpinning of the assessment methodology. Such an approach overstates the risk that the insurance industry presents to the global financial system and does not achieve the IAIS's stated mission. In addition, an insurer should have the ability to manage their G-SII designation status by orienting their business and risk management practices in ways that reduce systemic risk. While we support the introduction of absolute reference values, their limited and nuanced use in the current proposal poses barriers to firms seeking to control or reduce their systemic footprint.</p> <p>Second, the proposed framework for assessing NTNI activities and products and proposed assessment methodology should focus solely on the propensity of a firm to transmit systemic risk to the financial system. The current proposals include undue emphasis on analyzing the micro-prudential risks that a firm faces, while failing to account for risk management practices (e.g., hedging of duration and interest rate risks, asset-liability matching, or other liquidity strategies and protocols) or the existence of regulatory systems which already supervise non-traditional activities and products. For example, the current NTNI definition only considers products that raise liquidity concerns while failing to consider how insurers who sell these products assess the liquidity of their portfolios.</p> <p>Third, the broad nature of the IAIS's stated mission calls for taking a holistic approach to analyzing firms under consideration for designation - one that takes full account of risk management practices as well as relevant regulatory policy, including the consideration of the risk mitigation that occurs through the use of derivatives or the presence of industry sponsored guaranty funds. Failure to sufficiently account for these and other types of risk management practices will lead to an over- or under-statement of a firm's potential to cause a disruption to the global financial system.</p> <p>Fourth, the concept of proportionality is often discussed in the context of determining the population of insurers to which the measures of the IAIS should apply. We believe proportionality is a critical element of regulation and, in particular, the calibration of standards. In this context, the threshold or cut-off point for determining the recommended list of G-SIIs - and calibration of all G-SII Policy Measures - should reflect the widely acknowledged fact that the nature of insurance products and the insurance market results in only nominal systemic risk.</p>
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		<p><b>B. The G-SII Designation Methodology</b></p> <p>The FSR offers the following comments regarding the indicator-based examination methodology. First, we believe the interconnectedness category - which receives a 40% weighting in the assessment methodology - captures all aspects of the exposure channel put forward in the proposed framework for assessing NTNI activities and products. Because including the exposure channel in a separate NTNI category of the assessment methodology, in addition to the interconnectedness category, results in a double count of an insurer's exposure to external market forces, we believe that the framework should dispense with using NTNI as a factor within the framework. Instead, the IAIS should replace the NTNI category with a sole focus on the asset liquidation channel, which will measure the extent to which the possible failure of an insurance group will affect the broader financial system.</p> <p>Second, it is important to note that "size" and "global activity" - which account for 10% of the G-SII assessment methodology on a combined basis - do not directly create or increase systemic risk. As such we would suggest that reliance on these factors be reduced or omitted as part of the final framework. The IAIS has acknowledged that "in an insurance context size is a prerequisite for the effective pooling and diversification of risks". Such pooling of risk and diversification can be further achieved through global diversification.</p> <p><b>II. Further Refinements to the G-SII Designation Process</b></p> <p>The FSR appreciates the introduction of the five phase process put forward in the G-SII Consultation. Phase III: Discovery Phase and Phase IV: Exchange with Prospective G-SIIs, provide opportunities for the parties involved in a review to partake in a transparent and constructive dialogue to, as the G-SII Consultation rightly points out, "better understand and assess the heterogeneity of the insurance industry, differences in business mixes and product attributes across jurisdictions, and differences in data quality reported across insurers and across jurisdictions". With respect to Phases III and IV, the proposed updates to the assessment methodology could and should go further. In particular, we believe it is critical that the information gained from Phase III be incorporated into a firm's assessment methodology score. Failure to do so will insufficiently assess a firm's potential risk to the financial system and risks the application of an inappropriate HLA capital charges.</p> <p>Further, the information exchange in Phase IV should include a synopsis of the IAIS's interpretation of the data submitted for Phase I, a review of the assessment score -indicator by indicator, and a review of the results of the Phase III qualitative assessment - including the rationale for changing, or not changing, the assessment methodology score of the firm. Such transparency is critical in order for a firm to have sufficient clarity on the basis for their consideration and designation as a G-SII, and so they can pursue measures to either avoid or exit a G-SII designation.</p> <p>Finally, the publication of information should be limited as much as possible. Further, the publication of any information related to the G-SII Policy Measures should be delayed until the measures are final and adopted by jurisdictional supervisors. Given the developmental nature of the measures, we believe it is far too premature to publicly share information, which has the potential to negatively impact firms, regulators, standard setters and financial markets before all factors pertinent to a designation can be considered.</p> <p><b>III. NTNI Consultation</b></p> <p>We appreciate the NTNI Consultation's examination of a wider array of potential products and services as NTNI. That being said, we disagree with the fundamental premise of the NTNI framework, namely the IAIS's continued focus on "non-traditional"</p>
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		<p>products, which may result in negative consequences for insurance markets. With respect to the inclusion of NTNI within the designation methodology, as discussed above, the IAIS should revise its framework and replace the NTNI category with a sole focus on the asset liquidation channel. Even if the IAIS partially retains the NTNI framework as a component of the designation methodology, the FSR believes that the credibility of the framework would be greatly enhanced if it was altered to focus more on the asset liquidation channels associated with the risk areas identified within the NTNI framework. As a result, the assessment methodology would take a more direct approach to assessing an insurance group's exposure to these transmission channels to determine the effect of a firm's failure on the broader financial system. Removing an NTNI analysis based on specific products would also eliminate the unnecessary complexity that accompanies separate assessment on the likelihood that certain activities and products will impact either the exposure and asset liquidation channels.</p> <p>IV. Impact of the G-SII Designation Framework on Insurance Markets and Consumers</p> <p>In conclusion, we urge the IAIS not to lose sight of the potential impacts of insufficiently tailored G-SII measures on consumers and insurance markets. Inappropriate regulatory burdens, including those burdens that spring from admirable goals, may reduce the incentives for insurance groups to provide essential products and services to consumers. A hasty decision based on incomplete information or an incorrect understanding of the issues at stake could have myriad unintended consequences that could harm the very people the regulations were designed to protect.</p> <p>A continued focus on large, globally active firms may unwittingly give rise to the very systemic risk issues the IAIS is attempting to prevent. The G-SII Policy Measures have the very real potential to push activities that could give rise to systemic risk to less capitalized insurance groups or into less regulated market-based financing schemes. This should not be an outcome that the IAIS endorses and will not benefit the real economy and governments that face longevity challenges both today and in the future.</p> <p>For these reasons, we urge the IAIS to continue to carefully examine the designation framework, and as part of this process, to actively consider and account for stakeholder views. Important regulatory reform should develop through a good-faith dialogue between all interested parties.</p> <p>Thank you for your consideration of our comments. If it would be helpful to discuss this matter further, please contact me via telephone at: +1 (202) 589-2424 or e-mail at: <a href="mailto:Richard.Foster@FSRoundtable.org">Richard.Foster@FSRoundtable.org</a> or my colleague Robert Hatch at <a href="mailto:Robert.Hatch@FSRoundtable.org">Robert.Hatch@FSRoundtable.org</a> or +1 (202) 589-2429.</p> <p>Sincerely Yours,</p> <p>K. Richard Foster Senior Vice President &amp; Senior Counsel for Regulatory and Legal Affairs Financial Services Roundtable</p>
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