7.17 Asset Concentration risk

Q129 Section 7.17 Due to the difficulties of designing an approach that can take into account those asset concentrations that arise from developing asset markets where investment opportunities may be limited, is there an alternative methodology for evaluating Asset Concentration risk? Please explain.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	Yes	The choices of good quality investments in emerging market like China are often limited. To ensure a low level of risk and a longer term to match insurance liabilities, the choices for insurers are further limited. The asset concentration is therefore naturally higher. We suggest setting a higher concentration threshold to insurers of emerging markets.
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	No	We believe asset concentrations should be addressed properly, through risk management practices and appropriate risk charges simultaneously. We appreciate that investment opportunities in some markets are limited, but in our view this is not a reason to drop asset concentration risk charges altogether or redesign the calibration in such a way that charges for substantial asset concentrations are reduced substantially. Therefore, we do not see a reason, nor a possibility to develop an alternative methodology.
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	No	We believe asset concentrations should be addressed properly, through risk management practices and appropriate risk charges simultaneously. We appreciate that investment opportunities in some markets are limited, but in our view this is not a reason to drop asset concentration risk charges altogether or redesign the calibration in such a way that charges for substantial asset concentrations are reduced substantially. Therefore, we do not see a reason, nor a possibility to develop an alternative methodology.

General Insurance Association of Japan	Japan	No	No	
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	No	
Legal & General	UK	No	Yes	We do not believe that capital requirements are an effective tool to manage asset concentrations and that instead these be managed through robust and validated risk management processes to impose internal limits and to regularly report and understand any exceptions to these limits. In the event that calculated capital requirements are felt to be necessary, the methodology used to assess this from 2018 field testing felt broadly appropriate.
National Association of Mutual Insurance Companies	United States	No	Yes	Asset concentration risk and all other risks and their factors could be determined by the local jurisdictional supervisor. NAMIC disagrees with the mandate of a standard method, the 99.5% VaR calibration level and the IAIS dictating the factors to be used in the formula. Jurisdictional flexibility is the appropriate way to capture these risks with mutual recognition and shared understanding of the jurisdictional approach at supervisory colleges. The ICS is not yet fit for purpose. Significant additional work is needed to achieve an appropriate global capital standard and it may be completely unachievable.
Property Casualty Insurers Association of America (PCI)	USA	No	Yes	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.

Q130 Section 7.17 Under the current ICS Credit risk design, short-term obligations at regulated banks (including demand deposits and other short term obligations) receive a stress factor of 0.4%, reflecting the low default risk of such investments. In order to address the potentially

significant impact generated by the concentration of such investments in developing asset markets, would it be appropriate to similarly allow for a single low risk charge under the Asset Concentration risk framework? If “no”, please provide details.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	Yes	
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	No	In some markets the number of banks may be limited, meaning that the respective threshold for asset concentrations will be reached more easily. Although, default risk associated with bank deposits is generally estimated to be relatively low, this does not mean large exposures on banks should be treated fundamentally different than other large exposures. On the contrary, large exposures from one financial institution (i.e. an insurance company) to other financial institution (i.e. a bank) contribute to the interconnectedness of the financial system. If the IAIS would contemplate addressing the issue of limited banks in developing markets by changing the asset concentration risk charge, we would favor a targeted solution for the relevant developing markets, instead of a general re-design of the asset concentration risk framework.
Insurance Europe	Europe	No	Yes	
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	No	In some markets the number of banks may be limited, meaning that the respective threshold for asset concentrations will be reached more easily. Although, default risk associated with bank deposits is generally estimated to be relatively low, this does not mean large exposures on banks should be treated fundamentally different than other large exposures. On the contrary, large exposures from one financial institution (i.e. an insurance company) to other financial institution (i.e. a bank) contribute to the interconnectedness of the financial system.

				If the IAIS would contemplate addressing the issue of limited banks in developing markets by changing the asset concentration risk charge, we would favor a targeted solution for the relevant developing markets, instead of a general re-design of the asset concentration risk framework.
General Insurance Association of Japan	Japan	No	Yes	
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	Yes	
Legal & General	UK	No	No	It is not entirely clear from the text what is being proposed – however as drafted it sounds like this risk charge would apply as a % to all exposures without taking into account their size. This does not feel appropriate to the concentration risk charge and would double count with credit risk. This issue would seem to be better addressed by recalibrating the credit risk charge for such assets if any action is required.
National Association of Mutual Insurance Companies	United States	No	No	Asset concentration risk and all other risks and their factors could be determined by the local jurisdictional supervisor. NAMIC disagrees with the mandate of a standard method, the 99.5% VaR calibration level and the IAIS dictating the factors to be used in the formula. Jurisdictional flexibility is the appropriate way to capture these risks with mutual recognition and shared understanding of the jurisdictional approach at supervisory colleges. The ICS is not yet fit for purpose. Significant additional work is needed to achieve an appropriate global capital standard and it may be completely unachievable.
Property Casualty Insurers Association of America (PCI)	USA	No	No	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.

Q131 Section 7.17 Should any modifications be made to the current approach for assessing Asset Concentration risk within the ICS? If “yes”, please elaborate.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	Yes	Please refer to our responses in Q129 and Q132.
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	No	
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	No	
General Insurance Association of Japan	Japan	No	No	
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	No	
Legal & General	UK	No	No	We are comfortable with the current approach.
National Association of Mutual Insurance Companies	United States	No	Yes	Asset concentration risk and all other risks and their factors could be determined by the local jurisdictional supervisor. NAMIC disagrees with the mandate of a standard method, the 99.5% VaR calibration level and the IAIS dictating the factors to be used in the formula. Jurisdictional flexibility is the appropriate way to capture these risks with mutual recognition and shared

				understanding of the jurisdictional approach at supervisory colleges. The ICS is not yet fit for purpose. Significant additional work is needed to achieve an appropriate global capital standard and it may be completely unachievable.
Property Casualty Insurers Association of America (PCI)	USA	No	Yes	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.

Q132 Section 7.17 Would this proposed approach be an improvement over the current Asset Concentration risk requirement? Please explain.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
Office of the Superintendent of Financial Institutions (OSFI)	Canada - OSFI	No	Yes	OSFI supports this approach. It would be an improvement over the current requirement because it would capture all granularity, not just large exposures above certain thresholds.
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	Yes	We support introducing the granularity adjustment, and linking the asset concentration risk charges to the level of credit risk of the underlying investment. The risk sensitivity can be improved as the risk charges will not only reflect the rating of the assets, but also other factors like asset type and term that has been reflected in the credit risk.
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	No	As explained in the answer to question 130, we believe that the low default risk generally associated with bank deposits, does not mean that large exposures in the bank deposits should be deemed equally riskless.

Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	No	As explained in the answer to Q132 we believe that the low default risk generally associated with bank deposits, does not mean that large exposures in bank deposits should be deemed equally riskless.
Dai-ichi Life Holdings, Inc.	Japan	No	No	We do not have any concern on the current measurement methods of Asset Concentration risk. Concentration risks should not be imposed if the degree of asset concentration is within a certain threshold. The proposed approach such as "Granularity Adjustment for Regulatory Capital Assessment" may be applied as an option only if the current approach determines that there is Asset Concentration risk.
General Insurance Association of Japan	Japan	No	No	
The Life Insurance Association of Japan	Japan	No	No	• The LIAJ does not feel a problem about the current measurement methods of Asset Concentration risk. Concentration risks should not be imposed if the degree of asset concentration is within a certain threshold. The proposed approach such as "Granularity Adjustment for Regulatory Capital Assessment" may be applied as an option only if the current approach determines that there is Asset Concentration risk. • In some jurisdictions, the implementation of ICS as a prudential regulation at legal entity level is also under consideration. In such a case, additional treatment to be excluded from the scope of the concentration risk should be allowed, on the ground that internal transactions between group-entities are considered appropriate in light of the objectives and effects of insurer´s efficient implementation of risk and capital management.
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	No	
Legal & General	UK	No	No	It is not entirely clear from the text what is being proposed – our interpretation is that the suggestion is that IAIS is proposing to remove the concentration risk module and instead introduce an adjustment to the credit and property risk modules. If so we would not be in favour of this, for a number of reasons:

				• Primarily, it would add complexity to the credit/property risk modules and would require additional data to be gathered than that required under the current approach (where further calculations are not required once it has been confirmed that individual exposures are below the threshold for concentration capital). • We also do not see how the proposed approach could be adapted to allow for situations where an IAIG has exposure to a counterparty through a combination of credit, equity and property risk (for example). We would prefer for the current approach to concentration risk to be retained.
National Association of Mutual Insurance Companies	United States	No	Yes	
Property Casualty Insurers Association of America (PCI)	USA	No	Yes	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.

Q133 Section 7.17 Are the current incremental risk charge factors appropriate for ICS Version 2.0? If “no”, please clarify.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments

Insurance Authority (IA)	China, Hong Kong	No	No	As most of the Asian corporate bonds and infrastructure bonds are not rated by international rating agencies, it should allow flexibility to Group-wide supervisor to determine the ratings of such bonds (e.g. whether the IAIG has a robust internal rating framework).
Dai-ichi Life Holdings, Inc.	Japan	No	Yes	
General Insurance Association of Japan	Japan	No	Yes	
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	Yes	
Legal & General	UK	No	Yes	We are comfortable with these.
National Association of Mutual Insurance Companies	United States	No	No	Asset concentration risk and all other risks and their factors could be determined by the local jurisdictional supervisor. NAMIC disagrees with the mandate of a standard method, the 99.5% VaR calibration level and the IAIS dictating the factors to be used in the formula. Jurisdictional flexibility is the appropriate way to capture these risks with mutual recognition and shared understanding of the jurisdictional approach at supervisory colleges. The ICS is not yet fit for purpose. Significant additional work is needed to achieve an appropriate global capital standard and it may be completely unachievable.
Property Casualty Insurers Association of America (PCI)	USA	No	No	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.

Q134 Section 7.17 Are there any further comments on Asset Concentration risk that the IAIS should consider in the development of ICS Version 2.0? If "yes", please elaborate.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	Yes	Yes. It is currently unclear which thresholds and incremental risk charges are applied to unrated exposures. Given the current calibration of credit risk charges (paragraph 13.5.9 FT18 technical specifications) it seems most appropriate to allocate unrated exposures to ICR5, ICR6 or ICR7, which in all cases would lead to the same threshold (1,5%) and risk charge (50%).
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	Yes	It is currently unclear which thresholds and incremental risk charges are applied to unrated exposures. Given the current calibration of credit risk charges (paragraph 13.5.9 FT18 technical specifications) it seems most appropriate to allocate unrated exposures to ICR5, ICR6 or ICR7, which in all cases would lead to the same threshold (1,5%) and risk charge (50%).
Dai-ichi Life Holdings, Inc.	Japan	No	Yes	
General Insurance Association of Japan	Japan	No	No	
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	No	
Legal & General	UK	No	No	No further comments.

National Association of Mutual Insurance Companies	United States	No	Yes	Asset concentration risk and all other risks and their factors could be determined by the local jurisdictional supervisor. NAMIC disagrees with the mandate of a standard method, the 99.5% VaR calibration level and the IAIS dictating the factors to be used in the formula. Jurisdictional flexibility is the appropriate way to capture these risks with mutual recognition and shared understanding of the jurisdictional approach at supervisory colleges. The ICS is not yet fit for purpose. Significant additional work is needed to achieve an appropriate global capital standard and it may be completely unachievable.
Property Casualty Insurers Association of America (PCI)	USA	No	Yes	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.

End of Section 7.17