

## Main public consultation comments received and resolution to holistic framework supervisory material

### Introduction

- The IAIS received various comments from both Members and Stakeholders that provided valuable input for further improvements to the draft revisions to the supervisory material.
- With this document the IAIS provides responses to the main comments received and their resolution, with the aim to provide background on the final version of the ICPs and ComFrame that were adopted by the AGM on 14 November 2019.
- A compilation of all comments received is also available on the IAIS Website.

### ICP 9 and ComFrame integrated therein

Summary of comments received	IAIS response
Some comments were received on other parts of ICP 9.	These were not in scope for this public consultation.
The difference between "stress testing" and "scenario analysis" was not clear.	A reference to ICP 16 has been added, where these terms are defined and further clarified.
There was some confusion as to whom the requirements on macroprudential analysis were directed.	The guidance CF.9.2.b.8 is not a targeted at IAIGs but at the group-wide supervisor. Also, it should be noted that this guidance on macroprudential analysis was already part of the existing language; the proposed changes merely bring it in line with the holistic framework to not only refer to distress or failure of an individual IAIG but also to activities and exposures.

### ICP 10

Summary of comments received	IAIS response
Various comments related more to the existing material in ICP 10 and not necessarily to new material added for the holistic framework. Commentators for instance highlighted the need for supervisors to follow a due process, to communicate their concerns with the insurer.	Many of these concerns are actually already covered in existing material, including Standards and Guidance within ICP 10 and other ICPs such as the Introduction to the ICPs and ICP 9.

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Concerns about the IAIS “expanding” the scope of ICP 10 to financial stability concerns.	The Principle Statement of ICP 10 refers to the objectives of the supervisor, which, according to ICP 1 must also include the contribution to financial stability. Also, existing guidance within ICP 10 already touched on preventive and corrective measure in a financial stability context. With the holistic framework, the IAIS hence does not propose to expand the scope of regulatory actions in the existing ICP 10, the revisions simply provide some additional elaboration as well as some additional examples of powers the supervisor may have available.
Some concerns related to giving the supervisor the authority for requiring preventive measures while an insurer still operates consistent with regulatory requirements.	This is covered by 10.2; which is not a new Standard. Also, in order to effectively intervene and prevent systemic events, it is crucial that the supervisor has a power to require preventive measures if the insurer seems likely to operate in a manner that is inconsistent with regulatory requirements. At the same time, however, 10.2.1 provides guidance to the supervisors that the concerns that necessitate preventive measures should be well founded based on the supervisor’s assessment
The sentence in 10.2.2 was not clear.	The sentence has been amended to clarify that the supervisor should act more urgently in cases where the protection of policyholders’ interests or financial stability may be affected.
The inclusion of exposure limits in 10.2.6 was deemed inappropriate since insurers should manage counterparty exposures in line with their risk appetite.	No changes made. The restriction of exposures may be an effective tool. Also, it is proposed only as an example.

### ICP 16 and ComFrame integrated therein

Summary of comments received	IAIS response
Some concerns that the new language might imply that insurers would need to have insight in the risks that they may pose to financial stability. It is not clear how an insurer would, in practice, be able to measure that.	The ICP 16 deals mostly with “inward risk”, as explained in ICP 24 this relates to vulnerabilities of individual insurers to shocks and not so much how an individual insurer may contribute to the build-up of systemic risk. The latter indeed is not easily analysed by the insurer itself. Various amendments have been made through ICP 16 to better clarify this intent.

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A concern was raised about using the term “total balance sheet”.	“Total balance sheet” approach is a commonly used term, see 16.0.7, and reflects the interdependence between assets, liabilities, capital requirements and capital resources.
Some stressed that ERM is the responsibility of the insurer itself, and it should be up to the insurer to decide what frequency, scope and type of ERM tools, like for instance stress testing, is appropriate.	ICP 16 is meant to provide minimum requirements for the ERM Framework, including the use of tools such as stress testing, while noting that ultimately it is the responsibility of the insurer itself to carry out the ERM.
The examples provided in guidance material, for instance in explaining activities that may lead to increased macroeconomic exposure, are too detailed should be deleted. Also they may lead to a disproportionate emphasis on those examples.	Since these are relatively new terms, as part of the holistic framework, it is deemed helpful to provide examples. In some instances, the examples have been made more general. Also the list of examples makes clear that other items can also be taken into account so it is not limited to these only.
There was support for the liquidity risk requirements and for the use of stress testing as an ERM tool in general (noting that ultimately it is the responsibility of the insurer).	Support noted.
The relationship between the requirements under 16.2 and 16.12 was not clear.	The 16.2 refers to general ERM requirements, whereas 16.12 is related to the ORSA which is also reported to the supervisor. The insurer can leverage on existing processes where applicable, when complying with certain requirements.
Various requests to change the terminology of " high-quality liquid assets" in the second bullet point under ICP 16.9 and ComFrame 16.9.b. Also it was not clear what was meant.	This was changed into “highly liquid” assets. The IAIS will provide more guidance in the upcoming Application Paper on Liquidity Risk Management.

## ICP 20

Summary of comments received	IAIS response
The Standard is too prescriptive and burdensome, especially for smaller insurance companies. The Standard should incorporate the principle of proportionality, and should recognise that conventional non-life insurance activities are not a significant source of liquidity risk.	Please note the Introductory Guidance in ICP 20 on the proportionality principle. this also includes the phrase: “the supervisor may decide not to apply disclosure requirements if there is no potential threat to the financial system, no (...)”.
The inclusion of quantitative measures in supervisory standards is too prescriptive and should be removed. Prescribed metrics should be avoided for liquidity since these can give a distorted view.	ICP 20.11 does not prescribe any particular metric to be developed or disclosed. Also it is important to note that the “liquidity metric” mentioned in the November

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	2018 public consultation document is not linked to ICP 20 but to the global monitoring exercise. See also the document on the global monitoring exercise.
Some concerns about how simple quantitative information on surrender values could be misleading without more information.	The guidance text around quantitative disclosures has been amended to be more general. Also, the Standard requires both quantitative and qualitative information; whereby the later can provide the necessary context and background around any quantitative information disclosed.

## ICP 24

Summary of comments received	IAIS response
<p>There is still a lack of articulation around the nature of systemic risk in the insurance sector. For any activity to be deemed potentially systemically risky there needs to be a clear transmission channel into wider financial markets, with the quantification of the nature, scale and materiality of activities/exposures in the context of the size of the market as a whole. In terms of global collaboration and cross-sectoral consistency, it is not clear how this will work in practice.</p> <p>The guidance under ICP 24.3.4 mandates supervisors to require insurers to take action necessary to mitigate any particular vulnerabilities that have the potential to affect financial stability. No actual guidance is given as to how vulnerabilities could be mitigated.</p>	<p>As per the Holistic Framework for Mitigating Systemic Risk in the Insurance Sector, the IAIS has developed an approach for assessing systemic risk informed by both an entity-based analysis and an activity-based analysis. These are based on the Individual Monitoring data collection, Sector-Wide Monitoring data collection and their interplays.</p> <p>The Holistic Framework describes the IAIS' view in terms of transmission channels of systemic risk. The ICP 24 statement has been amended in this respect so it captures the macroprudential supervision around transmission of systemic risk as well. ICP 24.2.11 language has been amended to better reflect the cross-sectoral consistency.</p> <p>Also, the scope of ICP 24 is broader than systemic risk assessment, focusing on all aspects of macroprudential supervision These elements will be further developed and built upon in the planned Application Paper on Macroprudential Supervision.</p>
The analysis of vulnerabilities of individual insures and/or of the insurance market to macroeconomic shocks is sensible. Such analyses are regularly carried out by insurers and they are widely required by jurisdictional regulations today. The possible resulting supervisory actions however are not laid out tangibly in the proposed systemic risk framework.	Supervisory actions related to macroprudential supervision will be further developed in the planned Application Paper on Macroprudential Supervision.

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<p>ICP 24.0.4: the reference "serious negative consequences" (see also guidance 9.1.8 and CF 9.2.b.1 and other public consultation comments) is open to interpretation. Stakeholders recommend the seriousness of the negative consequence to be specified, probably here in ICP24, and illustrated with examples.</p>	<p>The notion of "serious negative consequences" will be further developed in the planned Application Paper on Macroprudential Supervision.</p>
<p>ICP 24 may be overly burdensome for smaller jurisdictions. The ICP, in parts, is relatively prescriptive in terms of what the supervisor needs to undertake. There does not appear to be any scope or reference to proportionality given the size and composition of the insurance market in any particular jurisdiction.</p>	<p>Even though the proportionality principle applies to all ICPs including ICP 24, the existing language in the Introductory Guidance has been moved to 24.0.1 and strengthened by explicitly linking the concept of proportionality to "a jurisdiction's macroprudential supervision processes and procedures".</p>
<p>There was support for the emphasis on activities, however concern for the fact that in ICP 24 the size of individual insurers is still considered a source of systemic risk.</p>	<p>As explained in the overarching document on the holistic framework, the size of an insurer may work as a risk amplifier which makes it relevant in the assessment of systemic risk in the insurance sector.</p>
<p>Some stakeholders requested for addressing the balance between policyholder protection and financial stability, with some stating that policyholder projections should be the primary objective.</p>	<p>Policyholder protection as well as financial stability are part of the IAIS mission as well as the overall objectives of the ICPs. Supervisory measures should take into account the appropriate balance between ensuring policyholder protection and contributing to financial stability (see also ICP 1 on the objectives of insurance supervision).</p>
<p>Supervisors should leverage data already collected before asking for additional data. Data and document requests should be tied to the need for information related to identifying systemic risks, analysing their significance, and formulating appropriate mitigation measures.</p>	<p>The IAIS agrees that data collection should be tied to, and tailored to, a specific objective. Therefore, the Standard 24.1 refers back to "macroprudential supervision", the purpose of which is described in the Principle Statement. ICP 24.1.1 also clearly stipulates data collections should take due account of efficiency. Cost and benefits of data collections, in particular in relation to the objectives of macroprudential supervisions, should be duly considered before issuing the data collection. Text amended accordingly within 24.1.1.</p>
<p>Concerns of microeconomic data collection as well as examples provided within ICP 24.1.5.</p>	<p>Microeconomic analysis is complementary to macroeconomic analysis. Macroeconomic supervision also relies on microeconomic data in an aggregate manner. The full range of microeconomic issues to be collected is at the supervisors' discretion. The Guidance material provides examples by way of illustration.</p>

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Environmental, social and governance risks may also have an impact on the insurance industry.	Text amended accordingly and now complementing changes in economic conditions and technology in 24.2.1. Para also moved out of 24.3 “Assessing systemic importance” to 24.2 “Insurance sector analysis”.
Concerns between linking horizontal reviews and relative rankings, by having supervisory measures and actions targeted more on outliers.	Text in 24.2.4 amended accordingly by better defining use of horizontal reviews. Horizontal reviews are an analytical supervisory tool and an important component of macroprudential supervision.
As for supervisory stress tests, top-down stress tests should in principle be conducted because, judging by their roles, precisely calculating each insurer’s figures is not very important. Conducting bottom-up stress tests should be limited to cases where there is a need to consider elements specific to individual insurers.	Macroprudential stress testing offers supervisors a quantitative, forward-looking assessment of the resilience of the targeted financial sector (in case of ICP 24, the insurance sector) to particularly adverse shocks. Macroprudential stress testing, consisting of both top-down and bottom-up stress tests, is therefore a vital part of macroprudential supervision as it supports the surveillance of macro-financial vulnerabilities of the targeted financial sector and informs the supervisor of the potential need to use (macroprudential) policy-instruments.
Some stakeholders support the development of supervisory tools that help achieve the objective of preserving financial stability. The use of powers of intervention based on macro-prudential surveillance should be subject to transparent triggers. More broadly, the powers should have a clear link to the risk exposure / transmission channel they are aiming to address with consideration given to the potential adverse impacts that may arise from exercising the powers. It was also requested th IAIS should further elaborate on how they envision this element of the Holistic Framework working in practice in future consultations and application papers.	For the usage of supervisory tools, please see responses to comments received related to ICP 10.  These elements will be further developed and built upon in the planned Application Paper on Macroprudential Supervision.
It would be helpful to include examples of "certain risk exposures" in the guidance (related to ICP 24.4.2).	Text amended accordingly. May be elaborated further in the planned Application Paper on Macroprudential Supervision.
Several stakeholders appreciate the removal of the ICS as a metric for assessing systemic risk, it is concerned that ICP 24.4.5 introduces the concept that supervisors may develop requirements that are time varying in nature depending on the economic environment. Stakeholders believe that supervisors should exercise extreme caution in considering such measures as they potentially risk creating incentives for procyclical behaviour.	One aspect of macroprudential supervision is to develop a set of measures which help the supervisor to mitigate systemic risk. Some of these measures could be time-varying in nature so as to prevent the excessive build-up of exposures/activities in good times and a (rapid) deleveraging/winding down of the same exposures/activities in stressed times. As such, these measures aim to work countercyclically and prevent procyclical behaviour.

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<p>In the Principle Statement of ICP 10 ("The supervisor: requires and enforces preventive and corrective measures; and imposes sanctions which are timely, necessary to achieve the objectives of insurance supervision, and based on clear, objective, consistent, and publicly disclosed general criteria"), there is a certain restriction on the implementation of preventive and corrective measures by the supervisor. On the other hand, Guidance 24.4.5 states that under certain circumstances, there is a possibility that supervisory measures be discretionary, rather than a rules-based approach, and stakeholders read this sentence as contradictory to the Principle Statement of ICP 10.</p>	<p>The IAIS has created the ICPs as a comprehensive framework, with each ICP being integral in the creation of a sound supervisory system. As stated in the Introduction to the ICPs, while an individual ICP may focus on one particular subject, the ICPs need to be considered as a whole with these overarching concepts being relevant throughout. So any preventive or corrective measures will be applied in line with ICP 10. Sound macroprudential supervision is furthermore set-up based on the availability of a mixture of both discretionary and rules-based approaches.</p>
<p>Concerns around confidentiality of data collections and reporting/disclosure of insurance sector data.</p>	<p>Text clarified in 24.5.1 and 24.5.2 while making it consistent with 24.5. Confidentiality falls under <i>ICP 3 Information Exchange and Confidentiality Requirements</i>.</p>