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International Association of Insurance Supervisors

Proposed resolution of main issues from the comments on *Global Systemically Important Insurers (G-SIIs) Proposed Assessment Methodology*

Compilation period 31 May 2012 to 31 July 2012

For further information please refer to the IAIS website - http://www.iaisweb.org/index.cfm?pageID=918

G-SIIs consultation responses – proposed resolution of main issues from the comments on Global Systemically Important Insurers (G-SIIs) Proposed Assessment Methodology

Main issues raised in consultation responses	**Comments in response and proposed resolution of issues raised**
Comments on Methodology / Determining G-SII Status	
1. Consider using a staged process where public data is used first (final stage would use non-public data).	The IAIS would like to clarify again that the IAIS G-SIIs process has three stages of data collection: (1) public data used to select participating insurers, (2) data call from all participating insurers, and (3) additional data from G-SII candidates and further analysis of these G-SII candidates in the supervisory judgment and validation process. This will be made clearer in the final version of the assessment methodology.
2. The G-SII assessment methodology should follow the US Financial Stability Oversight Council (FSOC) guidelines for initial determination.	FSOC operates under statutory powers that allow it to obtain information from supervisors and/or financial institutions while the IAIS has no such powers and hence relies on voluntary participation of insurers and national supervisors.
3. Methodology should not encourage vacating/avoiding sound investments or activities in order to avoid regulation or G-SII status.	This issue may have an impact at the margin, as investments in financial institutions have different implications for measuring interconnectedness than other investments. Such impacts may be unavoidable as the underlying principle is that some investments or activities of G-SIIs must be treated differently from the same investments or activities of other insurers. Sound investments from a private perspective may increase the risk of contagion or interconnectedness when systemic implications are considered.

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4. The process suggests a need to designate a certain number of insurers as G-SIIs.	It was noted that this is not the case and collecting data from more or fewer companies is unlikely to change perceptions. The result of the identification exercise will remain open until the actual designations are made. This might also result in a case where no G-SII is identified. The designation of G-SIIs will be done by the FSB and national authorities, in consultation with the IAIS, therefore the primary responsibility for the cut-off issue (i.e. the line between G-SIIs and non G-SIIs) remains with the FSB and national authorities. This will be made clearer in the final version of the assessment methodology, via wording such as: "The FSB and national authorities, in consultation with the IAIS, will consider whether any insurers will be determined as global systemically important insurers (G-SIIs) and the FSB will decide, in due course, whether and when to publish the results of such classification."
5. Insurers should only be a G-SII if they are comparable to banks that are G-SIFIs. Benchmarks need to be comparable for all financial institutions.	Qualitative and quantitative indicators (as described in the G-SII Consultation Document) will be used to assess if any insurers should currently be considered to be systemically important at a global level. Summary results will be submitted to the IAIS and Insurance Supervisory Authorities. Summary results will be circulated to the FSB. On the basis of summary results, the FSB and national authorities, in consultation with the IAIS, will consider whether any insurers will be determined as G-SIIs and the FSB will decide, in due course, whether and when to publish the results of such classification.
6. The cut-off point is unclear (AIG could be a useful benchmark).	Refer to the two previous comments (especially issue #4). The situation of AIG in 2008 may be used as one example to provide clarity on the cut-off point question, amongst other analyses.
7. The conclusion that traditional insurance is not systemic is not reflected in the assessment methodology.	The weightings applied to each category have regard to the IAIS's views regarding traditional insurance.

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8. There are questions on the use of combining absolute values with ratios in the process.	Absolute values indicate possible impacts of an insurer's failure or distress while ratios indicate other characteristics, including, in some cases, the probability of an insurer's failure or distress. The IAIS regards both absolute value and ratios as useful components of the assessment methodology.
9. The assessment process should be based on absolute values (not scores in comparison to other insurers).	Relative scores are used as a central component of the assessment methodology while absolute values will be considered during the supervisory judgment and validation process and at other stages.
10. An appeals process should be established for G-SIIs / Goal should not be to reduce systemic importance, but to manage risks.	Designation of G-SIIs is not a legal process and will rely upon national authorities to implement agreed measures. The proposed appeals process allows for the supervisor to raise any concerns regarding the results of the assessment methodology before final reports are provided. This is consistent with a non-statutory process. G-SIIs will have opportunities for dialogue with their supervisors and members of the analysis team may be invited, at the discretion of the supervisor, to join some of those dialogues to clarify factual matters and/or to clarify proposed requests for additional data. Refer to issue #27 for proposed clarification.
11. The score calculation is unclear.	This is explained in paragraphs 38 and 39 of the Consultation Document. The IAIS can further explain the score calculation process, if required.
12. Weights in the IFS approach should be better explained.	The proposed weights are based on expert judgment and the primary purpose of the IFS approach is to provide a check on the indicator-based approach and to help select the appropriate G-SII candidates.

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Weighting and supervisory judgment	
13. Recommendation of higher weights for NT and NI (50%) and interconnectedness (35%) with size, global activity receiving less weight.	The IAIS will finalise the weights after reviewing the results derived from the 2011 data call, so that a list of G-SII candidates can be determined for the supervisory judgment process. The same weights will apply for all participating insurers.
14. Size and global activities is a sign of diversification and are over-emphasized in the methodology (size weighting is too high / global activities (GA) should not be scored).	Refer to the previous comment.
15. Normalisation of data and weighting is needed as an indicator can be artificially inflated due to a small number of insurers engaged in that activity completing the data row.	Normalisation of data and weightings may be considered as part of the process of finalising the category weights.
16. Mortgage guarantee insurance is a traditional product and should be distinguished from financial guarantee	The phrase 'traditional insurance', as we use it, does not mean that such products have existed for many years. Rather it is insurance that is concerned with interests that meet at least the principles of insurability based on insurance techniques and that is subject to insurance accounting. The Insurance and Financial Stability (IFS)[1] report (dated November 2011)

[1] Refer to http://www.iaisweb.org/Other-papers-and-reports-46

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insurance.	classifies mortgage guarantee insurance as semi-traditional and financial guarantee insurance as non-traditional. The IFS assessment approach has more granular categories than the indicator based approach within non-traditional businesses (i.e. distinguishing between semi-traditional and non-traditional).
17. Variable annuities are traditional insurance and pose less risk than other NTNI activities.	The phrase ‘traditional insurance’, as we use it, does not mean that such products have existed for many years. Refer to issue #16. Some variable annuities are close to traditional insurance, while others are closer to non-traditional insurance. The IAIS will finalise the weights after reviewing the results derived from the 2011 data call.
18. Semi-traditional and non-traditional insurance should be weighted lower than non-insurance activities.	Weightings within the NTNI category could be reviewed, as discussed above.
19. The role of supervisory judgment should be given more discussion / supervisory input is essential – Transparency of the process should be ensured (also towards insurers).	Clarification should be provided in the final assessment methodology, including: • Collection of the data for all participating insurers in the scope of the data collection • Methodical application of the indicator-based assessment approach, supported by the IFS assessment approach • For those insurers that are identified as G-SII candidates, discussions with supervisors and additional analyses as may be required • Reports, including summary results, to the IAIS and FSB • The FSB and national authorities, in consultation with the IAIS, drawing on relevant qualitative and quantitative indicators, determine and publish the cohort of any G-SIIs .
20. Consideration should be given to investment activities sanctioned by	This issue may have an impact at the margin, but such impacts are unavoidable as the underlying principle is that some investments or activities of G-SIIs should be treated differently from the same investments or activities of other insurers. Sound investments from a private

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domiciliary investment laws.	perspective may have systemic relevance when systemic implications and possible negative externalities are considered.
21. Publishing a list of G-SIIs without the supervisory consequences known would cause significant damage to companies.	The plan is that simultaneous publication of the list of G-SIIs with final policy measures will occur in April 2013.
Timing and Completion of Data Call:	
22. Companies completing the data call fully can be potentially disadvantaged due to the current calculation approach.	Clarification should be provided in the final assessment methodology, including: "If some or all of the requested data items are missing or found to be materially inaccurate by the analysis team, the relevant insurance supervisory authorities will be advised accordingly and each corresponding indicator will be set by expert judgment of the analysis team. Where the analysis team assesses there is insufficient data on which to determine an estimate, the indicator will be set to no lower than the highest value calculated for that indicator for any participating insurer. If accurate and complete data is subsequently provided, either before a stated deadline or during the supervisory judgment and validation process, or if the relevant insurance supervisory authority requests a review due to special circumstances, any estimates will be revised by the analysis team."
23. There is a concern that companies selected for the data call are pre-	Companies selected for the data call are not pre-selected as G-SIIs. It is noted that the initial list of companies in scope could be adjusted by either increasing or decreasing the initial population. If increased, it would include more companies that would not be G-SIIs (that would

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selected as G-SIIs.	require higher resources by insurers to provide data and for supervisors to review data) and if decreased, it would add to the speculation that those companies are pre-selected as G-SIIs. The IAIS considers it has the balance about right.
24. The data call should be delayed until methodology is set.	Relevant comments had been considered before the data call instructions were finalised.
25. Inconsistency of data is problematic with current methodology.	This issue has been considered in the design of the data call and the request for explanatory statements.
26. Impact of diverse accounting standards should be considered.	This issue has been considered in the design of the data call and the request for explanatory statements.
27. Procedure for discussions between analysis team, the group-wide supervisor and the G-SII candidate should be clarified.	Clarification should be provided in the final assessment methodology, including: "If needed, members of the analysis team may take part in discussions between the Involved Authority and the G-SII candidate if the involved authority agrees. The purpose of such discussions would be to clarify factual matters and/or to clarify proposed requests for additional data."
Specific Comments on Data Elements:	
28. Non-Traditional and Non-Insurance (NTNI) classifications need to be	The IFS and Reinsurance and Financial Stability (RFS) reports[2] provide the explanations to allow classification and participating insurers are expected to apply the principles from those

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clearly defined (including for the IFS assessment approach).	reports. There will also be a process of resolving technical questions from participating insurers, during the data call.
29. Reinsurance is not systemic, should not be an indicator of system risk / reinsurance is a source of stability	It should be noted that indicators can be either related to the drivers of systemic importance or to transmission mechanisms for contagion. The reinsurance indicator will be retained. However, the treatment of reinsurance will be discussed further to better align the methodology with the RFS report.
30. Turnover indicator does not seem to measure systemic risk.	As explained in the consultation document, this indicator could point towards insurers that are more active in the capital markets than is normal for a traditional insurance business.
31. Lack of substitutability does not seem to be an issue in the insurance area.	We need a system to detect increased lack of substitutability in future and potential lack of capacity. The issue is likely to be more significant for domestic SIIs, hence the low expected weighting for this category.
32. Credit, Marine and Aviation – These are not lines with problematic concentrations / Recommend use of the Herfindahl-Hirschman Index (HHI) to measure market concentration	The Herfindahl-Hirschman Index (HHI) could be used, in future, to select markets with high concentration levels. However, given their global nature and links to the real economy, the business lines of Credit, Marine and Aviation are regarded as useful indicators.
33. The Financial Guarantee Insurance (FGI) indicator should be restricted to financial guarantees on residential mortgage backed securities. They should not include financial guarantees which become due in	This appears to be a very narrow perspective, as many other financial guarantees could exist on assets other than residential mortgage backed securities The definition of the financial guarantee indicator (FGI) should not be narrowed.

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case of death, mortality or invalidity.	
34. Non-home country revenue should focus on NT and NI.	Premiums/revenues from outside the home country including not only NTNI business but also traditional business are better starting points for identifying participating insurers than those only from NTNI business. The weights determine the degree of importance.
35. Revenue items concerning global activity could generally punish insurers from smaller countries as their home market are small (reconsider defining the EU/EEA as one area).	This issue may have an impact at the margin. There is a good argument to retain global activity as one of the five categories, as there may be a need to distinguish between G-SIIs and domestic SIIs during the supervisory judgment process. EU/EEA should not be considered as a single country until at least a European level resolution scheme has been implemented and there is greater integration regarding financial supervision, etc.
36. Short term funding is not a common pattern in the insurance industry due to the matching of assets and liabilities.	This comment may be applicable to traditional insurance legal entities but does not always apply to non-insurance entities. Even if such funding is not common, we need the methodology to identify short term funding, where it does exist.
37. Hedging derivatives is a risk-mitigating factor. Derivative exposure should be limited to net of hedging derivatives. ALM of insurers might also include the use of such instruments to a certain extent.	The G-SIIs assessment methodology includes not only speculative derivatives but also derivative volumes in total because it should assess counter-party risks and interconnectedness. Whether derivatives are used for hedging purposes can be difficult to verify but the IAIS is trying to collate such data in the current data call.

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38. Pooling and separate accounts are risk mitigators.	In stressed situations, the absolute size of financial institutions could affect the potential impact on the financial system and economy if concerns are raised about the solvency or liquidity of the financial institution.
39. Variable annuities are traditional insurance activities.	Refer to issue #17.
40. Mortgage guarantee insurance is a traditional product and should be distinguished from financial guarantee. By asking for premiums on specific lines and collecting it for mortgage insurance, there is some double counting. The scope of the indicator should not extend to traditional mortgage insurance based upon death, sickness or disability which will not be correlated with the economic cycle.	The phrase 'traditional insurance', as we use it, does not mean that such products have existed for many years. Refer to issue #16.
Comments relating to Measures	
41. Incentives of policy measures.	For later discussion with other comments on the policy measures consultation document.
42. Concerns with lack of jurisdiction for global systemic risk.	For later discussion with other comments on the policy measures consultation document.

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Other Comments	
43. Sovereign debt should be excluded from “Large exposures”.	The treatment of sovereign debts in the large exposure indicator is still to be decided.
44. There is no clear rationale for equal weight weights for indicators within categories.	The IAIS will finalise the weights after reviewing the results derived from the 2011 data call, so that a list of G-SII candidates can be determined for the supervisory judgment process.
45. Insurance business model: “Insurance has an inverse financing cycle in contrast to other industries; Premiums are received up-front for claims payable in the future. Insurance is a portfolio driven business, whereas banking is transaction driven.”	Noted.
46. The G-SII assessment methodology - is too similar to the G-SIB assessment methodology. It should reflect differences to the banking G-SIB assessment methodology due to the acknowledged differences in business models between the insurance and banking industries.	The proposed indicators do take into account insurance specificities and size is not central to the process, due to its lower weighting.

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47. Pre-selection of participating insurers - consistency of the data items used for the pre-selection.	The system used for pre-selection makes adjustments from national accounting standards, where possible for consistency. In addition, all jurisdictions have the discretion to add additional insurers to the process, if they believe that is warranted.
48. Size - elements relating to traditional insurance activities be excluded from all size-relevant indicators.	The proposed indicators do take into account insurance specificities and size is not central to the process, due to its lower weighting.
49. Higher weighting should be given to the proposed interconnectedness indicators.	The IAIS will finalise the weights after reviewing the results derived from the 2011 data call, so that a list of G-SII candidates can be determined for the supervisory judgment process.