

Comments from public consultation on draft Issues Paper on structural shifts in the life insurance sector

Thank you for your interest in the public consultation on draft Issues Paper on structural shifts in the life insurance sector. The Consultation Tool is available on the IAIS website.

Please do not submit this document to the IAIS. All responses to the Consultation Document must be made via the [Consultation Tool](#) to enable those responses to be considered.

Consultation questions

1	General comments on the Issues Paper on structural shifts in the life insurance sector
2	General comments on section 1 Executive summary
3	General comments on section 2 Introduction
4	General comments on section 3 Increased allocation to alternative assets in life insurers' portfolios
5	Comments on section 3.1 Background
6	<p>Comments on section 3.2 Global trends in life insurers' investment in alternative assets</p> <p>Page 9, fourth paragraph, last sentence - suggest an update for clarification describing U.S. NAIC Schedule BA assets so that the sentence reads: "This notably does not include alternative assets that have been structured <u>to be reported</u> as bonds."</p> <p>Page 10, paragraph below Figure 1, last sentence – suggest clarifying where the few examples of high exposures in the 90th percentile are found or remove that sentence entirely. Unclear if this is 2023 IIM data or the separate IAIS survey in Annex 1.</p> <p>Page 10, last sentence - what data in the referenced IAIS survey in Annex 1 suggests that there may be prudential supervision concerns for certain insurers? That survey collected information at the jurisdiction level, not the insurer level as with the IIM 2023 data. That survey, referenced in Annex 1, did not collect data on the number of insurers holding specific classes of assets or to what extent individual insurers invested in each asset class included in the survey. Suggest this sentence be revised to more accurately reflect the survey.</p>
7	<p>Comments on section 3.3 A principles-based classification</p> <p>Section 3.3.3, page 14, last paragraph begins with, "These results are outlined in Figure 2..." reading as if the information in Figure 2 comes from the survey discussed in Annex 1 in the prior paragraph, however that is not accurate. The results in Figure 2 come from a survey or SWM question completed prior to 2024, per footnote 29, while the survey in Annex 1 was completed during the fall of 2024. Suggest removing the reference to the survey in the prior paragraph. One option is to revise the beginning of the last paragraph to: "These results are outlined in Figure 2, where the shows assets classes ranked on average..."</p>
8	Comments on section 3.4 Benefits associated with alternative assets
9	<p>Comments on section 3.5 Supervisory concerns and areas of attention</p> <p>Section 3.5.6, page 28, first sentence, it is not particularly clear what "modular models" refers to as used in this paragraph. Additionally the sentence as a whole is a bit difficult to follow; suggest trying to clarify - splitting it into more than one sentence could help comprehension.</p>
10	Comments on section 3.6 Macroeconomic considerations
11	General comments on section 4 Rising adoption of AIR in the life insurance sector

12	Comments on section 4.1 Understanding AIR
13	<p>Comments on section 4.2 Jurisdictional approaches to reserving, capital requirement and investment flexibility</p> <p>Section 4.2.5 includes an attempt at a quantitative analysis to help identify key economic drivers. The NAIC appreciates the effort to achieve this goal but recognizes that the limited sample size and required simplifications significantly diminish the value that could come from such an exercise in this paper. The value of supervisory insight comes more from ongoing analysis of actual transactions as supported by the discussion in 4.2.6. Given the limited value of this quantitative exercise and the desire to have a well-focused paper, recommend deleting section 4.2.5.</p>
14	Comments on section 4.3 Supervisory concerns and responses
15	General comments on section 5 Macroprudential and financial stability considerations arising from structural shifts in life insurance
16	<p>Comments on section 5.1 Macroprudential considerations</p> <p>Page 59, suggest reviewing the introductory paragraphs for this section to further align with the existing IAIS language in the IAIS Holistic Framework (HF) and ICP 24.</p> <ul style="list-style-type: none"> • For example, the HF discusses the background and importance of identifying and setting supervisory policy measures for globally systemic institutions whose distress or disorderly failure causes significant disruption to the global financial system and economic activity. This page of the issues paper does not mention global or significant disruption or the global insurance sector. • The use of global systemic risk, global economic activity, etc. should be used consistently throughout the section and paper so the reader is reminded that is the level of concern and risk being discussed. • The text should also clearly point out that concentration of global systemic risk could be concentrated at an individual insurer or the sector-wide level. • In addition, ICP 24 regarding Macroprudential Supervision does not identify a key objective of macroprudential policy and neither does the HF. No one macroprudential consideration is more important than another. <p>Accordingly, language in these introductory paragraphs of this section should be adjusted to more fully align with established IAIS publications and concepts in these areas.</p> <p>Figure 8: for the language below the pink building under the Micro and Macro Vulnerabilities heading, specifically the phrase, "...or crystallization of insurance or liquidity risk", it is not clear what is meant by this phrase; suggest clarifying with additional text, revising the text, or by removing it from the figure.</p> <p>Page 60, bulleted list of key risks, suggest more clearly stating that these are the expected main three risks tied to alternative assets in the global life insurance sector. The current language and placement of the phrase above the bulleted list could be interpreted to say that those are the three most important macroprudential risks.</p> <p>Page 60, fourth paragraph – this text on policyholder behaviour should be removed from the report. While this is a microprudential concern that a GWS can mitigate with appropriate supervisory tools, a policyholder "run" on an insurer is not only extremely</p>

	<p>rare – almost non-existent when the appropriate supervisory tools and life insurance policy stipulations are present – but also do not typically arise to the level of systemic risk in one jurisdiction. While not impossible, it is certainly unlikely for a policyholder “run” to impact the global insurer sector or global financial stability.</p> <p>Page 60, final paragraph – this text is tied to the prior policyholder behaviour paragraph and should also be removed as well. In addition, what evidence is there that should a policyholder run occur of global systemic importance where liabilities are reinsured via AIR there would be any different impact compared to those liabilities being backed by “non-AIR”?</p>
17	Comments on section 5.2 Interconnectedness with the broader market
18	<p>Comments on section 5.3 Current financial stability risks and the future</p> <p>Page 62, penultimate paragraph, first sentence – is there evidence that “many cases of AIR use” is a result of insurers’ herd behaviour? If not, suggest revising: “Increased alternative asset allocation and the use of AIR are also in many cases leading may lead to herd behaviour amongst insurers.”</p>
19	<p>General comments on section 6 Review of the IAIS supervisory material</p> <p>The IAIS has historically and appropriately had a high standard to change an ICP. The list of potential enhancements to the ICPs in the current draft is unrealistic and disproportionate in light of how the IAIS approaches specific risks in its standard setting material. ICP language should remain broad to ensure its stability and future application as well as not to unnecessarily include specifics that could be interpreted as the only risk in an area or the most important risk. Risks evolve, including in global systemic significance over time.</p> <p>Many of the listed enhancements would be better as content for IAIS supporting material with educational material on others’ practices and updates; this paper already has a good start of this in several areas.</p> <p>Therefore, suggest a closer review and limit any potential enhancements to those not already covered elsewhere in the ICPs.</p>
20	<p>Comments on section 6.1 Purpose of the analysis</p> <p>Section 6.1, last paragraph – this paragraph does not seem necessary and reads as though stakeholders, including participants at IAIS CROs and GME roundtables, provided feedback directly on the material in sections 6.2 and 6.3. Suggest deleting this paragraph and revising the start of the second paragraph to be more general: “Taking into account the related work on this topic, this analysis aims...”</p>
21	<p>Comments on section 6.2 Scope and Methodology of the Analysis</p> <p>Panel A, suggest redesigning so that the text is large enough to be read and use the same color without fading or other differentiation, unless this has a communicative purpose. If that purpose exists, it should be explained.</p> <p>Panel B, suggest listing the ICPs in some organized way (eg, ascending numerically or most relevant to the paper). If organized other than numerically, explain in the text how and why Panel B is organized.</p>
22	Comments on section 6.3 Potential areas of enhancement in the IAIS supervisory and/or supporting material

	As an example of the general comment/suggestion provided above on section 6, ICP 3 is listed as potentially needing enhancement for information sharing on reinsurance treaties, outsourcing activities, information from non-insurance supervisors and to contemplate cross-border aspects. All these areas are already addressed by either ICP 3, 8, 13, 25 or possibly others. Additionally, ICP 3 uses the term, “reinsurance agreements” rather than “reinsurance treaties”; it is important for suggestions on potential areas of enhancement to be consistent with the existing material it may seek to enhance.
23	General comments on section 7 Conclusion
24	<p>General comments on section 8 Next steps</p> <p>The paper thoughtfully and thoroughly outlines alternative assets and AIR including areas of supervisory concerns or gaps. As far as next steps, addressing any specific concerns in greater detail would be most appropriate, as determined by IAIS parent committees, in supporting material for the reasons outlined in comments to Section 6.</p>
25	<p>General comments on section 9 Annex 1: Survey on alternative assets to IAIS members</p> <p>Page 73, second paragraph, second sentence, suggest moving the phrase, “as indicated in 2024 IAIS data,” to the beginning of the sentence so that the reader is clear this outlier data is not from the survey completed in October 2024 and as described in footnote 69.</p> <p>Page 73, second paragraph, last sentence – is Figure 2 reference to this paper or that of prior GIMAR publications? If this paper, then move “(Figure 2)” directly behind this phrase of the same sentence: “...the trends from the survey...”</p>
26	<p>General comments on section 10 Annex 2: Solvency frameworks of various jurisdictions</p> <p>Recommend changing the wording in the second sentence of footnote 71 on page 75 to:</p> <p>“Under the ICS, credit risk for alternative assets can be evaluated using either a standard method or a supervisor approved internal model. The standard method relies on a factor-based approach, consistent with the standard method used in most regulatory regimes.”</p>