

Consultation Question	Draft Response
1. Do you agree with the IAIS definition of an activities-based approach? If not, please provide an alternative definition and explain how it improves on the IAIS's one.	We believe that the approach to defining activities is reasonable but must be further clarified to avoid policy measures being applied too broadly. The risk exposure should be more specifically defined to identify the systemic activity (within a broad risk exposure) rather than simply indicating any company with a broad risk exposure (e.g., liquidity risk) could cause systemic risk. This would avoid the unintended consequence of all companies having policy measures applied.
2: Does the proposed definition allow the assessment of the most significant potential sources of systemic risk?	See response to Question 1.
3. What are your views on the comparison between ABA and EBA?	The comparison in Annex A is helpful and shows that a properly designed ABA should be able to pick up the salient EBA features.
4. Do you agree with the IAIS's conceptual approach? Please explain any suggested changes.	We believe that the 4 step process is appropriate; in particular policy measures should only be developed after a gap analysis is performed in step 3 to ensure that only risks that are not sufficiently mitigated are considered in step 4. In addition, in step 4 we agree that this step must entail an analysis of the scope of application as well as use of the proportionality principle.
5: Do you agree with defining activities broadly in terms of risk exposures (e.g. liquidity risk) rather than more narrowly in terms of their legal form (e.g. securities lending)? If not, what changes should the IAIS make and why?	<p>While we agree with defining activities broadly in terms of risk exposures, the risk exposure should be more specifically defined to identify the systemic activity rather than simply indicating any company with a broad risk exposure (e.g., liquidity risk) could cause systemic risk. This would avoid unintended consequence of all companies having policy measures applied.</p> <p>It is generally recognized that liquidity risk is one of the core risks to financial institutions and one that can lead to transmission of vulnerabilities, but not all liquidity risk facing individual firms could potentially threaten global financial stability.</p>
6: Do you agree with the two main risk exposures identified for the purposes of an ABA (i.e. liquidity risk and macroeconomic risk exposures)? If not, how could this be improved?	We agree with the approach of the IAIS in identifying the principal broad risk channels for systemic risks as liquidity risk and macroeconomic risk exposures. Further work is needed to identify the activities within these broad risk channels to identify potential systemic activity.
7: How should counterparty exposure be treated under the ABA?	We agree that counterparty exposure should be eliminated from consideration in an ABA context as this is mainly an entity-specific concept. However, if counterparty exposure is evaluated, it should only be done on an industry aggregate basis and should be compared across sectors to determine if systemic.
8: How should substitutability be treated under the ABA?	Experience has shown that lack of substitutability does not necessarily result in systemic risk.
9: Should any other activity or risk exposure be considered potentially systemically risky	Macroeconomic and liquidity risk are sufficiently broad and encompassing.

under this framework?	
10: Do you agree with the assessment of liquidity risk in the context of an ABA? If not, explain why and how this could be improved.	We generally agree with the description of the assessment of liquidity risk in an ABA environment, but the levels of impact by activity to the markets which would raise a systemic concern would have to be reasonably established using actual data in normal and stressed environments.
11: Do you agree with the transmission channel, i.e. the reasons and conditions for this [liquidity] risk to be potentially systemic and how it is described in this section?	We generally agree with some of the reasons and conditions for this risk to be potentially systemic, though as stated in Question 10, reasonable parameters by activity would need to be established to gauge the level of systemic impact to markets. We suggest further review to identify the activities within the broad risk exposures to determine what may be systemic. For example, the legal right to surrender a policy at short notice could have other mitigating factors that would not result in systemic risk to the financial markets.
12: Are there additional examples of significant exposure to liquidity risk that should be considered?	While the IAIS has already studied many sources and reviewed many significant examples of liquidity risk exposures that have resulted in notable issues, there should be additional work on mitigating factors to such risk, such as supervisor's stay ability and policy features available to insurers.
13: Do you agree with the IAIS's assessment of macroeconomic risk in the context of an ABA? If not, please explain why and what changes you think should be made.	We generally agree with the analysis and assessment. However, there may be details that require further clarification. For example, in paragraph 53, we suggest deleting the reference to insurance guarantee schemes since it is unclear and may be misleading to reference that a number of correlated failures could result in knock-on effects through insurance guarantee schemes without empirical data indicating such.
14: Do you agree with the transmission channel, i.e. the reasons and conditions for this risk to be potentially systemic and how it is described in this section?	We generally agree with the analysis and assessment. However, there may be details that require further clarification.
15: What are your views on the inclusion of the negative impact of reduced funding of other financial sectors?	We believe that this aspect is indirect and secondary to other more substantial macroeconomic exposures.
16: Are there additional examples for significant macroeconomic exposure that should be considered?	No additional examples to suggest at this time.
17: What are your views on IAIS's consideration of operational risk in development of ABA policy measures?	The description of operational risk seems appropriate, including the example of cyber risk.
18. What are your views on the IAIS's consideration of other common or procyclical behaviours that do not directly stem from either liquidity risk or macroeconomic exposure?	It is appropriate to consider other procyclical behaviours; however in doing so it is important to realistically assess whether there is potential for such behaviours to rise to the level of systemic impact. For example, under-pricing may have implications for the financial strength of firms but is unlikely to lead to systemic issues. Another example is that automated reallocation triggers within insurance contracts may help to stem liquidity outflow upon certain market occurrences.
19: Do you agree with the description of how the existing policy measures could mitigate	We strongly agree that policy measures currently in the ICPs and ComFrame, whether micro or macro prudential can be employed as macro-prudential policy measures. In particular ICPs 8, 15,

systemic risk?	16, and 24 have a significant bearing on systemic risk mitigation. Care should be taken when reviewing possible policy measures to ensure appropriate application. For example detailed Recovery and Resolution Plans may not be needed for all companies.
20: Are there other mitigating policy measures in the wider IAIS policy framework that should be taken into account? If so, what are they and how do they mitigate risk?	While consideration has been limited to IAIS mitigating policy measures, it is important to also consider jurisdictional mitigating factors.
21: Do you agree with the IAIS's description of the gap analysis? If not, please explain how it could be improved.	We agree with the IAIS's approach to policy measures resulting from the gap analysis. We believe that it is critical that existing policy measures be considered before additional measures are considered. We would support consideration of ALM, hedging certain insurance guarantees with derivatives and stress and scenario metrics.
22: Do you have any suggestion on how to measure (residual) liquidity risk in a proportionate manner?	Proportionality is essential and a balance must be found between enhancing the stability of markets and costs to insurers. As a first step, it may be appropriate to require disclosures of products with particular liquidity risk features; it is then possible, subject to supervisory judgement, to apply some testing (for example stress testing) only on a subset.
23: How can the (residual) macroeconomic risk be appropriately measured, taking into account the extent that this risk is managed through ALM?	In measuring macroeconomic risk, non-insurance activities such as yield-searching and securities lending should be quantified primarily on an industry aggregate basis and evaluated on a cross-sectoral basis. Also, consideration should be given as to whether there could be value in measuring the extent of such, on a firm or industry basis, in comparison with their other primary business liabilities (such as a ratio or percentage).
24: Are there any other important considerations that are not included?	No comment.
25: Do you have any comments on the potential policy measures considered?	A potential policy measure to be considered is stress testing prior to which an assessment of existing practices may be useful. Regarding recovery and resolution, care should be given to those aspects of the current plans that add significant value before their application is considered beyond G-SIIs and IAIGs (per the current draft of ComFrame).
26: How should the IAIS determine the scope of any proposed policy measures? Should scope vary based on the policy measure in question or should the scope be the same for all policy measures?	In order to keep the compliance burden for companies and regulators reasonable and given the time constraints, we believe that initially the scope should be the same for all policy measures. Moreover, it is unlikely that the scope of application for macroeconomic exposure and liquidity risks would be very different. At some stage this scope could be refined to increase granularity of application.
27: How could costs and benefits be measured by the IAIS?	On the costs side, an inventory should be prepared for both qualitative and quantitative elements derived from supervisor and industry feedback. On the benefits side, supervisors using their judgement are best positioned to assess the marginal benefits.
28: How could a materiality threshold be set?	The materiality threshold should be set based on the impact on a global basis.
29: Are there other aspects the IAIS should consider in assessing the implications of ABA work?	The insurance sector should not be viewed in isolation; it is an essential part of the financial system with insurers providing socially desirable products for the protection and savings of individuals. For example, many people reach retirement with significant lump sums and insurance

	<p>industry offerings provide them with opportunities to invest these sums with some form of guaranteed return. Insurers are skilled at such investments. Were these sums to be self-invested, there is a possibility that the monies could be dissipated and the burden would revert to the tax payers. Therefore, any policy measures should facilitate, not prohibit, insurers providing these products. The implications of the ABA should be considered across sectors to avoid unintended consequences within/across markets.</p>
<p>30: What impact, if any, do you think the ABA should have on the revision of the G-SII Assessment Methodology?</p>	<p>An appropriately designed ABA should replace the EBA. Data collection for the G-SII Assessment Methodology could be maintained as it will also be useful for ABA purposes, but with the understanding that no further G-SII list will be recommended to the FSB. Consideration should be given to shifting data collection to the respective jurisdictions rather than via the IAIS.</p>
<p>31: Any other comments on the approach taken?</p>	<p>No comment.</p>