

INTERNATIONAL INSURANCE RELATIONS (G) COMMITTEE

International Insurance Relations (G) Committee August 16, 2021, Minutes

International Insurance Relations (G) Committee May 5, 2021 Meeting Minutes (Attachment One)

IAIS Draft Application Paper on Macroprudential Supervision – NAIC Approved Comments
(Attachment One-A)

IAIS Draft Revised Application Paper on Supervisory Colleges – NAIC Approved Comments
(Attachment Two)

IAIS Draft Issues Paper on Insurer Culture – APCI Comment (Attachment Three)

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Draft: 5/11/21

International Insurance Relations (G) Committee
Virtual Meeting
May 5, 2021

The International Insurance Relations (G) Committee met May 5, 2021. The following Committee members participated: Gary D. Anderson, Chair (MA); Raymond G. Farmer, Vice Chair (SC); Evan G. Daniels (AZ); Andrew N. Mais (CT); Karima M. Woods (DC); David Altmaier (FL); Doug Ommen (IA); James J. Donelon (LA); Kathleen A. Birrane (MD); Anita G. Fox represented by Steve Mayhew (MI); Chlora Lindley-Myers (MO); Eric Dunning (NE); Marlene Caride represented by Dave Wolf (NJ); Andrew R. Stolfi (OR); and Jessica K. Altman (PA).

1. Discussed NAIC Comments on the IAIS Draft Application Paper on Macroprudential Supervision

Commissioner Anderson explained that the International Association of Insurance Supervisors (IAIS) draft Application Paper on Macroprudential Supervision aims to assist supervisors with the practical application of supervisory material related to macroprudential supervision under Insurance Core Principle (ICP) 24, Macroprudential Surveillance and Insurance Supervision. He noted that as part of developing the holistic framework for systemic risk, ICP 24 was revised to better articulate the elements of macroprudential supervision and to address more explicitly the build-up and transmission of systemic risk at the individual insurer and sector-wide levels.

Ryan Workman (NAIC) gave an overview of the NAIC's comments on the draft application paper, noting that most were editorial or for clarification. He provided more detail on those comments that were more substantial.

Steve Broadie (American Property Casualty Insurance Association—APCIA) noted APCIA's general concerns on the draft paper, including an overemphasis on looking at whether individual insurers are systemically important, rather than focusing on an activities-based approach (ABA) to looking at systemic risk in the insurance sector. He suggested that the current recommendation of horizontal reviews of individual insurers' Own Risk and Solvency Assessment (ORSA) reports should be taken out of the paper given that ORSA reports are not intended for such a purpose, as well as for confidentiality issues. Mr. Workman suggested that the focus on individual insurers may be a result of the IAIS having drawn from material related to the global systemically important insurer (G-SII) that took an entities-based approach (EBA), whereas the ABA is still being articulated.

David Leifer (American Council of Life Insurers—ACLI) spoke about similar concerns to the APCIA, noting that its comments to the IAIS will highlight the paper's emphasis on an EBA instead of an ABA. He said the ACLI has concerns with Section 4.1.3, which describes a reduced form approach for identifying systemically important insurers. He noted the paper gives too much attention to the approach, which has not been properly vetted elsewhere and may not be appropriate for insurers. He said that the use of risk dashboards gets a lot of attention throughout the paper, but while it is a useful tool, it should not be overly relied upon. The ACLI's comments will also focus on reigning in what it believes to be overly prescriptive language throughout the paper.

Commissioner Altmaier made a motion, seconded by Director Farmer, to approve submission of the NAIC comments on the draft Application Paper on Macroprudential Supervision (Attachment A).

2. Discussed Other Matters

Commissioner Anderson provided an update on planning currently underway for the 2021 NAIC International Insurance Forum scheduled for May 25–26. He encouraged everyone to join the virtual event for the robust panel discussions and featured speaker presentations that are scheduled to take place over the course of the two days.

Mr. Broadie noted that the IAIS has recently sent out an invitation to a June 8 virtual stakeholder session on the insurance capital standard (ICS) and that the APCIA plans to participate and welcomes the opportunity to work with "Team USA" to prepare for the event. Mr. Workman said the stakeholder session is most likely to be an update on results from the 2020 monitoring period data collection and upcoming work.

Robert Neill (ACLI) noted that the IAIS put forth results of the comparability assessment public consultation, leaving in place the high-level principles that will be used to develop the assessment criteria later this year. He said the ACLI submitted comments and suggested having a conversation to better understand where regulators stand on the topic. Commissioner Anderson said he would be open to having a dialogue with interested parties along with federal colleagues involved at the IAIS, noting the Committee has had similar meetings in the past, which have been helpful as this work progresses.

Having no further business, the International Insurance Relations (G) Committee adjourned.

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IAIS Draft Application Paper on Macroprudential Supervision – NAIC Approved Comments

Section/Paragraph	Comment
General	Overall the paper reads well and is quite comprehensive. However the Application paper continues to be overly granular in detail and/or come across as prescriptive in places.
4	Editorial: It should <u>not</u> , however, not be considered as an exhaustive guide to macroprudential supervision.
18	Suggest moving this statement to be the first in the paragraph with edits below: A risk dashboard is seen to be a descriptive data tool aimed at regularly assessing relevant risks and trends.
19	Editorial: The frequency of updating of indicators may depend on the availability of data, the stage of the financial cycle and other market developments or impending disruptions.
21	Editorial: The remainder of this section provides general guidance and examples on the construction and use of a risk dashboard. <u>As concrete Concrete examples, risk dashboards are included in Annex 2 provides the risk dashboards used by South Africa and EIOPA. for the following members:</u> <ul style="list-style-type: none"> • South Africa • EIOPA
27	Editorial: Trends typically reflect the behaviour of the risk <u>by</u> indicating how a certain exposure or indicator has developed over time.
52, Table 2	Noting both approaches as resource-intensive for supervisors is not phrased in a way that belongs in a table of reasons one approach might be preferred to the other. Therefore, suggest rewording the bottom-up disadvantage both to distinguish the two options and to better reflect the differences of the two approaches: <u>Somewhat less resource-intensive for supervisors, but more intensive for participants and supervisors.</u> All other things equal, model-driven is a plus, not a minus, because it is easier to implement, so the downside(s) are the whole point, not just parenthetical. Suggest: Model driven (less flexible) <u>Use of models may limit flexibility of approach.</u> Participants tend Incentive to present more favourable results.
59	Editorial: Sensitivity analysis is an evaluation of the effects of degree by which a model's results (ie by the function that describes analytically) <u>vary in response to changes induced by changes int to</u> the values of input variables.
60	Editorial:

	The data extracted by insurers should always follow the same criteria <u>to assist supervisors in be able to understanding the macroeconomic implications of view generated by a given factor.</u>
62	Editorial: Supervisors could also consider qualitative analysis methods (eg <u>review of questionnaires, or surveys, or published material</u>) to monitor and assess specific risks that might not necessarily be identified by quantitative analysis methods
79	Editorial: It becomes a macroprudential concern if a shock (the trigger event) leads to reactions causing liquidity shortages in a particular <u>across an entire sector or across several sectors.</u>
84	Editorial: The failure of a large insurer in a critical niche market may become a systemic concern if it leads to financial problems for its counterparts <u>counterparties</u> , particularly if these counterparties are critical financial market participants themselves. Hence, Limited substitutability refers to the difficulty for other components in the financial system to ensure the continuation of supply of insurance coverage after a failure or distress of an individual insurer. However, the exposure can also apply to groups of insurers that performs a specialised function.
96, Table 5	We are not sure that it is appropriate to rely on the “exposure-balance sheet” indicator to assist in the identification of off-balance sheet financing. It may be better to refer to Financial Statement Disclosures or perhaps to say that there is no individual type of indicator.
105	Editorial: Insurers’ overall score above thresholds as determined from the sample could be deemed systemically important, while those scoring below the thresholds would not be considered as systemically important financial institutions.
110	It is tautological that markets correctly price the market value; suggest: Behind this methodology, <u>is</u> the assumption is that markets are efficient and correctly price the market value of assets and liabilities.
112	Editorial: Reduced form models require an abundance of data to do appropriate time series econometric analysis with publicly available data for publically <u>publicly</u> traded entities.
124, Table 9	Editorial: Based on publically <u>publicly</u> available information and real time data Not all companies may be publically <u>publicly</u> traded, thus many of the measures may not be calculated
136	Editorial: However, as noted above, the aggregate impact of it would be important to take note that non-systemically risky insurers that have not been identified as systemically risky should also be considered when evaluating the identified from prior assessments are isolated from the perimeter of supervisory responses to systemic risk of the sector as a whole.
160	Typo:

	The concepts for both recovery and resolution planning are described in ICP 12 (Exit from the Market and Resolution) and ICP 16 and further guidance is provided in the Application <u>Paper</u> on Recovery Planning and the draft Application Paper on Resolution Powers and Planning.
175	Footnote 37 – editorial: An example can be found in 2020, when EIOPA issues a <u>is the</u> statement on dividends distribution and variable remuneration policies in the context of Covid-19 <u>issued by EIOPA in 2020</u> : (https://www.eiopa.europa.eu/sites/default/files/publications/statement-on-dividend-distribution-april2020.pdf)
176	Footnote 38 – editorial: An example can be found by <u>is</u> the Macroprudential database. Statistical data warehouse of the European Central bank. https://sdw.ecb.europa.eu/browse.do?node=9689335

IAIS Draft Revised Application Paper on the Supervisory Colleges – NAIC Approved Comments

Section/ Paragraph	Comment
15	The IAIS Glossary defines insurance legal entity as “A legal entity, including its branches, that is licensed to conduct insurance, regulated and subject to supervision” so if branches are mentioned in the first sentence, it should be with emphasis; suggest: ...the supervision of insurance legal entities, <u>including branches</u> , and branches most material... Otherwise including “branches” is redundant and should be deleted – see comments on paragraphs 35 and 37.
16	Suggest for clarification: The <u>broader</u> supervisory college should be informed of the topics and discussions within the tiers of the supervisory college.
18	The last sentence reads a bit awkward; suggest: In this regard, coordination agreements are used to establish a framework for supervisory college operations, and the procedures for information exchange, and confidentiality protection <u>and use of</u> as well as IT tools are utilised to <u>that</u> support the functioning of supervisory colleges.
22, footnote 20	As there is no one set of “professional secrecy requirements”, suggest for clarification: <u>In general, a jurisdiction’s</u> The professional secrecy requirements apply to any person currently or previously employed by or acting on behalf of a regulatory authority.
23	The IAIS typically refers to observance of, rather than compliance with, standards; suggest: The process includes an assessment of the present jurisdictional regime and practices and its compliance with <u>observance of</u> relevant international standards.
27	Given lessons learned from the pandemic, suggest adding to the end of this paragraph: The group-wide supervisor may also want to consider how to leverage IT tools to facilitate in-person as well as virtual meetings.
35	The IAIS Glossary defines insurance legal entity as “A legal entity, including its branches, that is licensed to conduct insurance, regulated and subject to supervision” so “branch” in the first sentence is redundant and should be deleted.
36	It seems “a list of ratios” is more of an example in this context; suggest: In this respect the group-wide supervisor and other members of a supervisory college may agree on <u>selected data, such as</u> a list of ratios, and other selected data to be exchanged within the supervisory college on a regular basis.
37	The IAIS Glossary defines insurance legal entity as “A legal entity, including its branches, that is licensed to conduct insurance, regulated and subject to supervision” so the first sentence should be revised: the group, and its legal entities and branches are exposed
40	Last sentence, suggest being more specific:

	<p>In this regard, ICPs<u>ICP 25</u> also recognises the role...</p> <p>Footnote 29, there is a typo – should be ICP 25.7.8 rather than 27.7.8</p>
43	<p>Editorial: Supervisory colleges <u>college</u> meetings should be well organised to support the effectiveness of <u>the</u> supervisory colleges <u>college</u>...</p>
49	<p>The latter part of the sentence seems like an example of what group-wide Senior Management may be asked to do; suggest for clarification: <u>For example</u>, group-wide Senior Management can be asked to provide...</p>



Distinguished Chair and Members of the NAIC International Insurance Relations (G) Committee:

Thank you for your engagement in international standard setting bodies and in holding public discussions on comments to IAIS papers, including the Draft Issues Paper on Insurer Culture. We plan to submit comments on that paper and are coordinating the comments of the Global Federation of Insurance Associations, as well.

There is one key point which we ask the NAIC to consider raising in general comments and/or as otherwise appropriate in comments on the insurer culture paper. It is to note that due to the subjectivity of the concept of culture, it should not be considered a regulatory or supervisory mandate above and beyond the particular standards for conduct and outcomes otherwise mandated by law and regulation.

Language such as this might be considered:

“NAIC agrees that the culture of insurers is important. However, due to the subjective nature of the concept of culture, it should be clear that culture is not intended to be an additional regulatory or supervisory layer beyond the legally established standards of conduct and outcomes.”

Thank you for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Snyder", with a stylized flourish at the end.

David F. Snyder,
Vice President
APCIA