

Question	
1	<p>While the ABA assesses and addresses systemic risk in a practical manner according to risk exposures from activities, rather than following the narrow definition based on their legal form, for the time being we are unable to determine whether we can agree with it, because the way in which the ABA will be implemented and how it will affect insurers are not clear.</p> <p>When an approach based on risk exposure is taken (as defined in the consultation document), the same regulations should be imposed on other financial sectors (such as banking and securities), if these sectors are subject to the same risk exposure. Even in cases where this is difficult to secure, the IAIS should recognize that, if measures such as conduct regulations are to be imposed only on the insurance sector, the size of which is relatively small compared to other sectors, insurers' sound businesses and the development of the insurance sector would be impeded, as restrictions would occur in terms of the level playing field, and insurance industry-specific risk management and ALM practices. The IAIS should consider the balance between possible regulatory measures under the ABA and similar measures in other financial sectors, in view of the size of the insurance industry relative to other sectors and the uniqueness of insurers' risk management and ALM practices.</p> <p>It is also necessary to identify and capture systemic risk in accordance with characteristics of individual jurisdictions and insurance policies/products, and to avoid regulatory overlaps by appropriately confirming and verifying whether relevant regulations currently exist in and across the insurance and other financial sectors, as well as whether such existing regulations are sufficient.</p>
2	<p>In order to identify and assess the most significant potential sources of systemic risk, the impact and other factors of potentially systemically risky activities should be assessed, based on confirmation and verification of whether relevant regulations currently exist in and across the insurance and other financial sectors, as well as whether such existing regulations are sufficient.</p> <p>Even among similar types of activities, whether certain activities are systemically risky or not could depend on the approaches taken for them, their size and scope. Therefore, narrowing down the scope of data/information gathering about exposures and that of regulatory measures will ensure that assessment of the most significant potential sources of systemic risk is effective.</p>
3	<p>When systemic risk is transmitted, there should be financial institutions whose volume of potentially systemically risky activities/transactions as well</p>

	<p>as risk exposure is material. In addition, as Paragraph 37 describes, counterparty exposure and substitutability are entity-specific concepts.</p> <p>While we believe this consultation is not premised on repealing the EBA, abolishment of the EBA would demonstrate that insurers are not sources of systemic risk. Based on this, if the EBA were to be cancelled, we suggest revising the document to clarify the materiality principle regarding G-SII measures which the IAIS is considering additionally applying to IAIGs, such as RRP and ICP 12/the ComFrame material integrated with it.</p> <p>Even when the ABA and EBA co-exist, overlaps in data collection and other relevant responses could occur. Therefore, measures should be taken to avoid increasing the burden on supervisors and the insurance industry, such as integrating the two approaches and simplifying the existing EBA, and setting less strict data collection requirements for insurers whose scores over the past few years have been low.</p>
4	<p>Regarding policy measures proposed under the ABA, rather than developing new measures to assess and mitigate systemic risk, there will be cases where the goal can be achieved by enhancing the effectiveness of existing measures (for example, by sophisticating scenario-based approaches for stress testing).</p> <p>In addition, to identify the most significant potential sources of systemic risk, the impact and other factors of potentially systemically risky activities should be assessed, based on confirmation and verification of whether relevant regulations currently exist in and across the insurance and other financial sectors, as well as whether such existing regulations are sufficient. In considering the approach, it is essential to avoid any excessive burden on both supervisors and insurers (such as an additional data and information gathering), by fully assessing whether the approach is relevant and necessary to achieve the objective.</p>
5	<p>At present, we are unable to determine whether we can agree with the definition, because its details are unclear. The IAIS should further analyse and make a cross-sectoral comparison of the impact of the relevant risk exposures on the broader economy, to ensure a level playing field.</p>
6	<p>At present, we are unable to determine whether we can agree with the definition, because its details are unclear. In the same way as we answered Question 1, due consideration should be given to ensuring a level playing field with other financial sectors.</p>
7	<p>As Paragraph 37 describes, counterparty exposure is an entity-specific concept. In addition, under the ABA, it is extremely difficult to exhaustively cover transaction/business relationships of insurers. Therefore, the IAIS should not seek to cover counterparty exposure under the ABA.</p>

8	<p>In view of the fact that traditional insurance is not a source of systemic risk, it is not necessary to treat substitutability as a risk under the ABA. In addition, as Paragraph 37 describes, substitutability is an entity-specific concept.</p>
9	<p>According to Paragraph 35, the development of ABA policy measures focuses on liquidity risk exposures and macroeconomic risk exposures. Therefore, there is no other activity nor risk exposure that needs to be considered under the ABA.</p>
10	<p>In the same way as we answered Question 1, due consideration should be given to ensuring a level playing field with other financial sectors. As for risks common to different financial sectors, it is necessary to adequately reflect the liquidity and purpose (i.e. for ALM or for profit-making) of insurers' investments, so as not to prevent insurers from taking sound measures to hedge such risks.</p> <p>As liquidity risk concerning insurance businesses varies greatly across jurisdictions, it is necessary to identify and capture such risk based on the characteristics of individual markets, insurance policies/products as well as the purpose of policies and purchases.</p> <p>For example, in Japan, there have never been any cases of intense mass surrenders occurring over a short period of time, even for products with a savings component. Accordingly, it is unlikely that credit uncertainty and market moves cause policyholder "runs".</p> <p>Furthermore, risk assessments should be made duly considering that a wider set of ancillary factors such as policyholder protection schemes, loss of guarantees, and replacement of cover would greatly affect policyholders' surrender behavior. Because of differences in the trend of mass surrender between products providing protection and those with a saving component, liquidity risk matters only to insurance products with a saving component for which penalties on surrender and liquidity of underlying assets are low.</p>
11	<p>At present, we are unable to determine whether we can agree with the definition, because its details are unclear. In the same way as we answered Question 10, actual risk transmissions will be greatly affected by factors such as characteristics of insurance policies/products in individual markets, the purpose of policies and purchases, as well as policyholder protection frameworks. In addition, due consideration should be given to the very low possibility that systemic risk could be created from traditional insurance.</p>
13	<p>In the same way as we answered Question 1, due consideration should be given to ensuring a level playing field with other financial sectors. As for risks common to different financial sectors, it is necessary to adequately reflect the liquidity and purpose (i.e. for ALM or for profit-making) of insurers' investments, so as not to prevent insurers from taking sound measures to hedge such risks.</p>

	<p>Regarding speculative derivatives (listed as one of the examples of activities or practices that involve macroeconomic risk exposure), the percentage of such transactions is relatively small among insurers compared to banks, because insurers mainly deal with traditional insurance products. This distinction should be duly reflected. Additional attention should be paid to the fact that, in many cases, insurers mainly use derivatives to hedge guarantees as part of their risk management. An assessment framework that considers the volume and purpose of derivative transactions is essential. Excessive regulations in a uniform manner should be avoided.</p>
14	<p>At present, we are unable to determine whether we can agree with the definition, because its details are unclear. In the same way as we answered Question 10, actual risk transmissions will be greatly affected by factors such as characteristics of insurance policies/products in individual markets, the purpose of policies and purchases, as well as policyholder protection frameworks. In addition, due consideration should be given to the very low possibility that systemic risk could be created from traditional insurance.</p>
15	<p>Whilst some negative impact could result from purchases of corporate bonds and lending activities, the extent of the funding function that these activities bear within insurers is relatively small compared to that of banks. Therefore, due consideration should be given to ensuring a level playing field with regulations in other financial sectors.</p>
16	<p>As an additional example for macroeconomic exposure, the IAIS should consider policyholder protection and resolution schemes that are in place and under development at the jurisdictional level. In Japan, relevant measures have been developed that to a certain degree prevent systemic risk. These include policyholder protection schemes, restrictions of surrenders through a (pre-failure) business suspension order, suspension of (post-failure) surrenders, reduction in technical provisions, and cut in guaranteed rates.</p>
17	<p>All operational risks described in the consultation document are common to financial institutions, and not unique to the insurance sector. Therefore, they should be given low priority when considering the ABA.</p>
18	<p>Regarding the case explained in Paragraph 60, while insurers might intentionally make changes to their immunized condition to enhance their "search for yield" behaviour, this is usually done in accordance with their risk appetite. Hence, it seems inappropriate to particularly regulate such behaviour. The decision on whether to aim to improve ROR and ROE by increasing interest risk taking (to a reasonable extent) should be left to insurers.</p>
19	<p>As the consultation document proposes, in considering new policy measures, it is quite important to examine overlaps with existing ones. However,</p>

	<p>it is too early to decide on an application of existing G-SIIs measures such as LRMP to all insurers in a uniform manner. Before that, the IAIS should duly consider the relationship between the ABA and EBA.</p> <p>In addition, regarding ICP 24, the following should also be examined.</p> <p>Insurers are likely to deal with products that have potentially systemic features and products without them. In assessing macroprudential surveillance, it is necessary to make a judgment in a holistic manner based on the impact on the economy, in consideration of differences between potentially systemically risky financial transactions/assets (including speculative derivatives and CDS) and insurance products without potentially systemic features, as well as other factors (such as the transaction volume and business characteristics of potentially systemic products).</p> <p>Furthermore, regarding information gathering for the purpose of macroprudential surveillance, it is essential to avoid an inappropriately excessive burden on insurers, by fully assessing whether the measures are relevant and necessary to achieve the objective. In addition, when utilising input obtained through macroprudential surveillance, the IAIS should avoid excessive regulation and supervision of small insurers, which are disproportionate to the size of their potentially systemically risky activities/transactions and risk exposure.</p>
20	<p>As for other mitigating policy measures, the IAIS should consider ICP 12, because policyholder protection schemes, supervisory powers to suspend operations of insurers under distressed conditions, and other measures would be effective to mitigate systemic risk.</p>
21	<p>It is more effective to discuss gap analysis, after the details of Steps 1 and 2 have been clarified.</p>
22	<p>Insurance products with a saving component for which penalties on surrender and liquidity of underlying assets are low, are the sources of liquidity risk. A possible approach would be to appropriately define such products and measure the aggregate total of surrender value by type of penalties (for example, by classification of Row 33.A and 33. B in the current G-SII Data Collection Template) and the aggregate total of asset value by type of liquidity (for example, by classification of Row 9.5 in the template). However, in order not to impose an unnecessary burden on both insurers and supervisors, the scope of data collection should be limited to insurers whose size exceeds a certain threshold.</p>
23	<p>While we agree that the extent to which macroeconomic risk is managed through ALM should be taken into account, optimization of individual insurers' ALM will not necessarily prevent the impact of macroeconomic risk. Therefore, regulatory measures that urge duration matching in a uniform manner (in order for the IAIS to assess the extent of risk management through ALM) should not be developed. It is necessary to utilize</p>

	input acquired through monitoring of actual ALM in policy measures.
25	<p>In the same way as we answered Question 4, regarding policy measures proposed under the ABA, rather than developing new measures to assess and mitigate systemic risk, there will be cases where the goal can be achieved by enhancing the effectiveness of existing measures (for example, by sophisticating scenario-based approaches for stress testing).</p> <p>In addition, an excessive burden on the industry as a whole should be avoided, by striking the balance between assessment of individual insurers and industry-wide response/measures based on confirmation and verification of whether relevant regulations currently exist in and across the insurance and other financial sectors, as well as whether such existing regulations are sufficient.</p> <p>From the proportionality perspective, the IAIS should be cautious not to extend the scope of the existing G-SII policy measures (LRMP and RRP) to other insurers without due consideration. The IAIS should first duly consider the relationship between the ABA and EBA.</p>
26	<p>The proportionality principle should be applied in determining the scope of policy measures. The IAIS should avoid measures which automatically apply to a certain number of the largest insurers based on transaction volume.</p> <p>For transactions under the proposed scope (such as securities lending and derivatives), it is necessary to have an assessment framework in accordance with the size and objective of such transactions. Therefore, excessive regulations should not be imposed in a uniform manner, and transactions for the purpose of hedging risks should basically be outside the scope.</p>
27	<p>Benefits are a virtual concept, and their quantitative measurement is not meaningful. However, qualitatively reaching a global consensus on the level of politically acceptable risks and application costs will be meaningful. On the other hand, overall application costs (for supervisors, the industry, and insurers) should not be raised.</p>
28	<p>In the same way as the current EBA, after limiting the scope to insurers whose size exceeds a quantitative threshold, qualitative factors such as operational characteristics and complexities of insurers' businesses should also be examined to make the final judgement.</p> <p>From the viewpoint of systemic risk, there is almost no concern over traditional insurance activities. As for risks common to different financial sectors, it is necessary to sufficiently consider cross-sectoral consistency to ensure that thresholds are set at a similar level across the sectors.</p>

	<p>While risks borne vary across sectors, the scope should not be extended to insurers if there is a significant gap between them and entities in other sectors. The IAIS should consider approaches such as excluding insurers which are quite distant from firms in other sectors (for example, the volume of their highly systemically risky transactions and total assets is less than half of those of the bank on the bottom of the G-SIB list).</p>
29	<p>In the same way as we answered Question 1, due consideration should be given to ensuring a level playing field with other financial sectors. As for risks common to different financial sectors, it is necessary to adequately reflect the liquidity and purpose (i.e. for ALM or for profit-making) of insurers' investments, so as not to prevent insurers from taking sound measures to hedge such risks.</p> <p>Furthermore, regarding information gathering for the purpose of macroprudential surveillance, it is essential to avoid an inappropriately excessive burden on insurers, by fully assessing whether the measures are relevant and necessary to achieve the objective. In addition, when utilising input obtained through macroprudential surveillance, the IAIS should avoid excessive regulation and supervision of small insurers, which are disproportionate to the size of their potentially systemically risky activities/transactions and risk exposure.</p> <p>As for risks not unique to insurance, it is of utmost importance to ensure consistency among insurers as well as across financial sectors, considering proportionality in terms of factors such as the volume of assets under management.</p>
30	<p>The IAIS should revisit this topic after further clarifying the complete picture of the ABA.</p>
31	<p>In times of stress, insurers' balance sheets will not be affected in a similar way to those of banks. This is thanks to requirements provided under current insurance regulations that necessitate the reserving and matching of assets with liabilities (reserves). Moreover, jurisdictions have already established processes to cope in the event of an insurer's failure, which give priority to the protection of policyholder rights. In addition, in view of the uniqueness of insurance products, sudden, mass surrenders by policyholders are unlikely to occur even under distressed conditions, and "runs" that may take place in times of a bank failure (and due to reputational effects) are not relevant to insurers. Therefore, the IAIS should consider that an insurer's resolution can be carried out in an orderly and stable manner. In Japan, related measures have been developed to ensure restrictions of surrenders through a (pre-failure) business suspension order, suspension of (post-failure) surrenders, reduction in technical provisions, and cut in guaranteed rates.</p> <p>On December 21, the FSB published a consultation document on a methodology for assessing the implementation of the Key Attributes (KAs) of</p>

<p>Effective Resolution Regimes for Financial Institutions in the insurance sector. The document provides that the Key Attributes apply to "any financial institution that could be systemically significant or critical in the event of failure", and this can be read to indicate that the document is premised on the EBA. In order to avoid regulatory overlaps in the insurance sector, the way in which the ABA (developed by the IAIS) and the KAs (by the FSB) are interrelated should be clarified.</p>
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