Questions	Comments
No.23 (General) General comments on the Public Consultation Document on the Development of Liquidity Metrics: Phase 1 – Exposure Approach	The liquidity characteristics of each insurance group vary greatly, and as such we think it is clearly insufficient to use the metric derived from the Exposure Approach to precisely capture liquidity positions of individual insurance groups. We believe it is sufficient for the Group-Wide Supervisor (GWS) in each jurisdiction to ensure the liquidity position of each individual insurance group through supervision (e.g., by confirming the results of each group's liquidity stress test), as each jurisdiction is implementing (or considering to implement) supervisory and regulatory measures based on the Holistic Framework. Having said that, we agree that calculating the Insurance Liquidity Ratio can be viewed as meaningful and we support Exposure Approach as a simple "early risk indicator" to assess the liquidity of the whole insurance sector. However, in its use as an early risk indicator, using detailed internal data of individual insurance groups should be avoided, and publicly disclosed information should be used as much as possible. We believe that this will ensure evaluation objectivity while avoiding unnecessary burden on insurance companies. This document seeks stakeholders' views on each part of the proposal. However, due to insufficient information on the calculation method of ILR and for what purpose the ratio will be used, we find it difficult to assess the validity of the framework.
No. 1 Do you agree with the IAIS' plan for the development of liquidity metrics for monitoring? If not, please explain what changes you recommend and why.	As stated in our general comments, we agree that calculating the Insurance Liquidity Ratio can be viewed as meaningful and we support Exposure Approach as a simple "early risk indicator" to assess the liquidity of the whole insurance sector. However, in its use as an early risk indicator, using detailed internal data of individual companies should be avoided, and publicly disclosed information should be used as much as possible. We believe that this will ensure evaluation objectivity while avoiding unnecessary burden on insurance companies.
No. 2 Should the IAIS consider any other approaches or alternatives when	Whilst it is not our intention to be presented with other specific approaches or alternatives, as stated in our general comments, due to insufficient information on the calculation method of ILR and for what purpose the ratio will be used, we find it difficult to assess the validity of the framework.

developing liquidity metrics? If so, please explain.	
No. 3 Should the IAIS develop additional liquidity metrics that examine other time horizons? If so, how should these metrics differ from the proposed metric?	We agree that insurers have low short-term liquidity risks and therefore there is less need to monitor insurers with short-term indicators such as LCR for banks.
No. 5 Do you agree with the proposed factors for liquidity sources? If not, please explain.	As stated in our answers to Questions 6-9, there are some parts in the proposed factors to which we do not agree in their application. Furthermore, if liquidity needs are calculated on a one-year basis, it would be reasonable to include short-term loans to qualified investees in liquidity sources. Therefore, we suggest clearly stating that short-term loans to qualified investees such as call loans and receivables under resale agreements are included in liquidity sources.
No. 6 Do you agree with the treatment of investment funds? If not, please explain and suggest an alternative treatment.	Regarding "Most investments in investment funds will not qualify under these definitions for inclusion in the ILR" on p.12, some investment funds like ETFs have liquidity and, as such, we consider it overly conservative to conclude that the total amount of investment in investment funds do not have liquidity. Therefore, it is necessary to exclude liquid investments such as ETFs from investments in investment funds and apply some simple calculations (such as applying the haircut for common equity).
No.7 Do you agree with the treatment of premiums? If not, please explain how premiums and excluded expenses should be treated in the ILR.	-
No. 8 How should instruments issued by financial institutions be treated within the ILR?	Although we recognize that exposure to financial institutions may amplify risks, especially in the event of financial market turmoil, we understand this is an issue mainly involving derivatives. Considering risk mitigation efforts such as centralized clearing is in place for derivatives, we believe it is unnecessary to separate financial institutions and non-financial institutions in the Exposure Approach, which is based on a simple calculation method.

No. 9 Do you agree with the inclusion of certain encumbered assets as liquidity sources within the ILR or should the IAIS alternatively exclude these encumbered assets and measure the related liquidity needs on a net basis? Should any additional liquidity needs be included in the calculation because encumbered assets are included as a liquidity source?	We believe that the framework should be on a net basis (excluding encumbered assets and measuring the related liquidity needs on a net basis) rather than on a currently proposed gross basis (including certain encumbered assets as liquidity sources). This can contribute to the mitigation of systemic risk within the entire financial system by providing incentives for insurers to make the shift to funding with collateral. <Explanation> ・ As far as Annex 2 is concerned, we understand the ILR of insurers is expected to be above 100%. However, if the ILR is 100% or above, the more ILR will raise collateral, so the ILR will decrease towards 100%. (e.g., if ILR = 200/100 = 200%, increasing funding with collateral by 100 yields makes ILS = 300/200 = 150%). Since reserved assets are included as a liquidity source, results are similar even if financed without collateral. ・ On the other hand, when measured on a net basis, the ILR basically does not decrease even if funding with collateral is increased, but when raising funding without collateral, the ILR decreases toward 100% as the amount of funding without collateral is increased because the funds raised are included in liquidity sources while also included in liquidity needs as liabilities. ・ As described above, it is possible to prevent a decline in ILR in secured transactions by measuring on a net basis, and insurers would have an incentive to make the shift to funding with collateral. We believe that this will lead to the mitigation of systemic risk in the entire financial system.
No.10 Do you agree with the treatment of liquidity risk from surrenders and withdrawals from insurance products in the ILR? If not, please explain how this could be improved.	・ The risk factors are generally high, and it should be reduced significantly to match the actual risk regarding insurance liabilities. ・ Since the likelihood of policyholder runs occurring are lowered by various factors as described in the document, we do not anticipate high surrender rates. For instance, when the economic penalty is Low (no economic penalty) and the time restraints to cancel is Low (less than 1 week), the factor for retail contracts is set at 50%. However, in Japan, there have been no cases where insurers faced such high surrender rates.

	・ The risk factor for bank deposits proposed in the document is set at 25% for retail deposits and 50% or 100% for commercial deposits, applying factors close to the upper limit of the risk factor for deposits in banking regulations. However, liquidity risk of insurance liabilities is considered to be lower than that of bank deposits, and therefore, in terms of consistency, the highest risk factor applicable to insurance liabilities should be lower than the lowest risk factor applicable to bank deposits. ・ Specifically, it is proposed that the highest risk factor of insurance liabilities for individuals is 50% and that for corporations is 100%, but we consider that this should be lower than the lowest risk factor of retail/commercial deposits (25%/50%). ・ Overestimating the liquidity risk of insurers' liabilities may also constrain management of insurers in providing stable finance to risk assets. From this perspective, the liquidity risk of insurance liabilities should be carefully assessed and significantly reduced from current levels to match the actual risk of insurance products.
No.13 Do you agree with the treatment of unearned premiums in the ILR? If not, how can it be improved?	A certain percentage of unearned premiums is included in Liquidity Needs on the assumption that insurance policies will be cancelled in the future. However, given that the impact by cancellation refunds is small in general insurance whose products are mainly one-year policies, we do not agree with this calculation method.
No.14 Should the IAIS apply standardised factors to insurers projected ultimate catastrophe losses or rely on company projections for the speed of catastrophe payments and reinsurance recoveries?	In light of the Exposure Approach's intent to easily identify trends, standardized factors should be applied to insurers' final catastrophe loss predictions.
No.15 Do you agree with the proposed treatment of catastrophe insurance	In light of the Exposure Approach's intent to easily identify trends, it is better to use standardized methods (e.g., calculating payments for catastrophes based on disclosed information, using methods such as multiplying insurance premiums as exposures by a certain risk factor) instead of natural disaster risk figures calculated from each insurer's internal models.

claims? If not, how can it be improved?	
No.19 Do you agree with the treatment of derivatives? If not, please explain and suggest an alternative treatment.	The Initial Margin should be well defined. For example, there are both collected and paid Initial Margins. While the paper does not clearly indicate which Initial Margin it refers to, we understand it refers to the paid Initial Margin.