

Scope of Insurers Subject to the Recovery and Resolution Planning Requirements in the FSB Key Attributes: Consultation report

Response to Consultation

The Life Insurance Association of Japan

In general

1. Are the Draft Guidance and comments on the Draft Guidance clear? Where would commenters seek further discussion?

The Life Insurance Association of Japan (hereafter the “LIAJ”) appreciates the opportunity to submit comments on the FSB’s Draft Guidance. The LIAJ recognises that the FSB’s aim of enhancing the financial system and stabilising the global financial market through its member organisations, and the effective resolution regimes for that purpose, are important for financial stability and policyholder protection.

The LIAJ supports the statement in the Draft Guidance that it “does not reestablish the G-SII identification process.” The LIAJ does not consider approaches based on lists of individual insurers, such as G-SIIs, to be necessarily suitable for the insurance sector, for the following two reasons:

(i) the FSB discontinued its annual identification of G-SIIs in 2022 and has transitioned to a comprehensive approach using the IAIS Holistic Framework to assess systemic risk in the insurance sector. The LIAJ recognises this as a globally agreed policy between the FSB and the IAIS. In such circumstances, if the FSB were to proactively label specific insurers in a way that could make them appear systemically important, consistency with past decisions and alignment with regulations could be impaired, as this could be understood as implying the reintroduction of an approach involving identification of individual insurers, such as the designation of G-SIIs.

(ii) Such an approach could send the inappropriate message to the market, suggesting that there are shortcomings in the institutional framework of the insurance sector. This could lead to reputational risks for the insurers and distortion of competition.

Also, the LIAJ appreciates that the FSB and the IAIS highlight in the Draft Guidance their objective to align various concepts concerning the RRP requirements, as this alignment is highly important for readers subject to multiple supervisory authorities’ regulations under overlapping regulatory frameworks. However, it is difficult to determine whether the six

criteria proposed by the FSB and the IAIS's criteria are aligned not only terminologically, but also conceptually, based solely on ICPs 12.4 and 16.15. Therefore, it would be useful to provide clear references to explain each criterion when finalising the Guidance. For example, by newly identifying sections 24 and 25 of "Holistic Framework for Systemic Risk in the Insurance Sector", which was published by the IAIS in November 2019, as a reference to explain the IAIS's concept of interconnectedness, the Guidance would be able to demonstrate alignment with the IAIS's concept.

Although the LIAJ does not oppose the development of a guidance for jurisdictional supervisors to evaluate insurers that should be subject to the RRP requirements, we believe that the RRP requirements for the insurance sector should primarily be considered proactively by the IAIS and addressed ultimately by each supervisor, who should take into consideration the reality of their respective jurisdiction. The LIAJ also believes that it would be appropriate for the FSB to provide feedback on the IAIS's conclusion as necessary to ensure the consistency across the financial sector. The LIAJ would appreciate the FSB's further consideration on this, taking the following two reasons into account:

(i) Jurisdictional supervisors are responsible for supervising insurers within their own jurisdictions, and the IAIS is a standard-setting body whose members are jurisdictional supervisors. The LIAJ believes that the IAIS, which is most familiar with the insurance sector and has already accumulated expertise through the development of ICPs and ComFrame, should consider and develop insurance-specific global standards, including the scope of insurers subject to the RRP requirements. Another reason to support the effectiveness of consideration by the IAIS is that it comprises more than 200 jurisdictions as its members, including non-members of the FSB, and has an effective regime for summarising broad opinions when developing policies on RRP and other topics. Alongside this, the FSB's independent role (e.g. providing comments on the criteria developed by the IAIS from the viewpoint of ensuring consistency between sectors) should be clearly defined.

(ii) If the global criteria on RRP for the insurance sector were set out separately in documents issued by the FSB and the IAIS, readers would need to refer to more materials, which could lead to additional costs arising from increased complexity and confusion in practice. Consolidating the criteria in the IAIS document would reduce the amount of reference materials and help prevent inconsistencies or failure to reflect future changes.

Paragraph 3: Assessment criteria

2. How well-suited are the criteria in the Draft Guidance (nature, scale, complexity, substitutability, cross-border activities, interconnectedness) to determining which insurers should be subject to RRP requirements?

The LIAJ believes that the following two points concerning intrinsic nature of insurance activities in considering interconnectedness should be noted.

(i) Transmission channels of systemic risk in the insurance sector

In sections 1.2 and 1.3 of its "Holistic Framework for Systemic Risk in the Insurance Sector", published in November 2019, the IAIS describes that stresses and issues in individual insurers could lead to a systemic impact through multiple channels such as asset liquidation,

exposure channel and critical functions, while influencing each other. However, the explanation of interconnectedness in the proposed comments on the Draft Guidance can be interpreted as emphasising the direct transmission to counterparties and other entities rather than the complex of transmission channels described by the IAIS. This could lead to confusion with the transmission model in the banking sector. The LIAJ therefore requests that the explanation of interconnectedness in section 3.3.6 of the consultation report be consistent with the IAIS's materials, for example by referring to sections 1.2 and 1.3 of the "Holistic Framework for Systemic Risk in the Insurance Sector", published in November 2019.

(ii) Intrinsic nature of insurance activities

The statement in section 3.3.6 of the consultation report, "The 2008 global financial crisis highlighted the importance of this approach, as vulnerabilities were often linked to the intrinsic nature of insurance activities and their interconnectedness within the financial system", could lead to the misunderstanding that insurers' activities themselves are the source of vulnerabilities.

The declaration of the G20 Washington Summit in 2008, "Summit on Financial Markets and the World Economy" identified the root causes of the 2008 financial crisis as "weak underwriting standards, unsound risk management practices, increasingly complex and opaque financial products, and consequent excessive leverage combined to create vulnerabilities in the system". Additionally, the IAIS has not confirmed that the insurance business itself is a source of vulnerabilities.

Therefore, the LIAJ believes that relevant statement in section 3.3.6 of the consultation report should be removed. If removal is considered difficult, the LIAJ requests that the statement be revised to reflect reality, should it be difficult to remove. Specifically, the LIAJ proposes replacing the phrase "the intrinsic nature of insurance activities" with "weak underwriting standards, unsound risk management practices and the use of complex and opaque financial products within the insurance sector", in order to align with the 2008 G20 Washington Summit declaration.

- 3. What other criteria, if any, should be in the Draft Guidance for determining which insurers should be subject to RRP requirements? Discuss why any additional criteria should be added and the advantages and disadvantages of doing so.**
- 4. What other indicators could be provided as examples of ways that authorities could assess the criteria in the Draft Guidance?**
- 5. How could the comments to the Draft Guidance better explain the difference between any of the six criteria?**
- 6. How could the comments on the Draft Guidance be made clearer to explain how the six criteria should be applied, while still allowing authorities the flexibility to consider the criteria in a manner that aligns with the specific characteristics of their jurisdictions?**

Paragraph 4: Specific circumstances that should necessitate RRP requirements

7. **Should RRP requirements apply in the two sets of circumstances identified in paragraph 4 of the Draft Guidance, notwithstanding any other facts or circumstances?**
8. **What other circumstances should call for the application of RRP requirements to an insurer, notwithstanding any other facts or circumstances?**
9. **What are possible quantitative or qualitative thresholds concerning the six criteria or some combination of the six criteria that should necessitate RRP requirements, notwithstanding any other facts or circumstances? For example, should the Draft Guidance call for RRP requirements whenever the cross-border activities of an insurer exceed a certain threshold?**

Proposed revision to FSB guidance on critical functions

10. **What are the advantages and disadvantages of revising the FSB's guidance on the definition of a critical function for insurers by changing the phrase "the sudden failure to provide the function would be likely to have a material impact on the financial system *and* the real economy" to "the sudden failure to provide the function would be likely to have a material impact on the financial system *or* the real economy"?**