AMERICAN ACADEMY of ACTUARIES

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August 15, 2019

Mr. Jonathan Dixon
Secretary General
International Association of Insurance Supervisors
c/o Bank for International Settlements
CH-4002 Basel
Switzerland

Via electronic submission

RE: International Association of Insurance Supervisors (IAIS) Public Consultations on IAIS Supervisory Material and ICP 16

Dear Secretary General Dixon:

The American Academy of Actuaries has submitted the comments below electronically through the IAIS website's consultation pages for the Supervisory Material and the revisions related to the Holistic Framework for Systemic Risk in the Insurance Sector.

I. IAIS Supervisory Material

On behalf of the American Academy of Actuaries[1] ("Academy"), I thank you for the opportunity to comment on the June 2019 proposed revisions to the IAIS Supervisory Material. The Academy supports the IAIS's proposal to remove the definition of "actuary" and "actuarial report" from its draft revised Glossary. Just as insurance markets differ markedly from one another internationally, so do national requirements for the qualification of actuaries.

In the United States, the Academy determines who among its membership is qualified to practice as an actuary. The U.S. Qualification Standards (USQS) it has established and adopted include requirements relating to basic education, experience, and continuing education. The USQS also define what constitutes a Statement of Actuarial Opinion (SAO). In addition, federal and state governments impose requirements on insurers domiciled within their jurisdictions relating to the qualifications of actuaries who submit statutory actuarial opinions. Given that requirements for the qualification of actuaries and definitions of

[1] The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

what constitutes an actuarial report are not uniform worldwide, we agree that it is neither helpful nor possible to choose a single definition for these terms.

II. Holistic Framework for Systemic Risk in the Insurance Sector: ICP 16

The Academy's Enterprise Risk Management/ORSA Committee (ERM/ORSA) and the Solvency Committee have some specific comments on the Revisions to the Insurance Core Principles (ICPs) and ComFrame sections related to the Holistic Framework for Systemic Risk in the Insurance Sector also dated June 2019. These additional Academy comments are provided below.

Q11. General Comment on Revisions to ICP 16 and ComFrame

We believe that certain proposed revisions to ICP 16 would benefit from additional clarifications or amplification.

Q36. Comment on Standard ICP 16.9

We suggest adding a description of the term "high quality liquid asset." "High quality" could be identified as having a low risk of default. "Liquid" might consider the time horizon and price at which an asset could be sold. This common description might provide greater consistency in supervisory analysis.

Q37. Comment on Guidance 16.9.1

These three examples of activities that could generate unexpected liquidity needs provided here are more relevant to the life insurance area. Some examples covering other areas of practice such as general insurance or health insurance might be helpful. We also suggest it would be helpful to add a new bullet regarding the underperformance of assets.

Q39. Comment on Guidance ICP 16.9.3

We suggest adding insurance market and region to the examples:

> "Increased liquidity risk exposure **[~~may~~ *could*]** depend on, for example, the magnitude of potential collateral or margin calls from derivatives or other transactions, the use of securities financing transactions **[, ~~or~~]** the characteristics of insurance contracts that may affect policyholder behavior around lapse, withdrawal or renewal, **[*or the particular insurance market and region where the company is exposed/targeting that may affect policyholder's behavior*]."**

*Underlined bracketed materials signify an Academy suggested addition/deletion.

Q61. Comment on ComFrame Guidance CF 16.9.c.3

We propose adding the regulatory restrictions:

> "A contingency funding plan should include quantitative metrics that the IAIG would use to identify a liquidity stress event, including the level and nature of the effect it would have on the IAIG's liquidity position **[*reflecting the regulatory restrictions of the relevant host regulatory authority*]** and on sources of available funding."

*Underlined bracketed materials signify an Academy suggested addition/deletion.

Q67. Comment on Standard ICP 16.12

Explicit Own Risk and Solvency Assessment (ORSA) consideration of non-macroeconomic stresses which also contribute to the volatility in sources or uses of cash is needed. Possible additional wording to the third bullet is provided below:

> "assess the insurer's resilience against severe but plausible macroeconomic stresses **[*or other drivers of volatility in the sources or uses of cash*]** through scenario analysis or stress testing; and"

> *Underlined bracketed materials signify an Academy suggested addition/deletion.

Q68. Comment on Guidance ICP 16.12.3

In the following proposed paragraph, the asset allocation mechanism may not need to be limited to the automatic asset allocation mechanism. We suggest adding the same language proposed for 16.12 (Q 67) in 16.12.3 to expand the macroeconomic exposure to cover other drivers:

"In deciding whether it is **[*appropriate to perform ~~necessary to require~~*]** scenario analysis or stress testing as part of the ORSA, and the frequency, scope and type of such scenario analysis or stress testing, the supervisor **[*may want to ~~should~~*]** take into account, for example, the nature, scale and complexity of the insurer, its business model and products and the size of the insurer's exposures, both in absolute terms and relative to the insurer's portfolio. For macroeconomic exposure, relevant factors **[*might ~~may~~*]** include the characteristics of the guarantees the insurer provides and the extent to which such guarantees are matched or hedged, the characteristics of any **[*~~automatic~~*]** asset reallocation mechanisms, the use of dynamic hedging, the insurer's activity in derivatives markets, [***or other drivers of volatility in the sources or uses of cash***]. For counterparty exposure, particular attention [***is often ~~should be~~***] paid to financial sector counterparties, as these may be more likely to contribute to the build-up systemic risk, and to off-balance sheet exposures or commitments, as these may be more likely to materialize during stress."

> *Underlined bracketed materials signify an Academy suggested addition/deletion.

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Sincerely,

Tom Wildsmith

Thomas Wildsmith, International Secretary
American Academy of Actuaries