

# IAIS Consultation

Print view of your comments on "Development of Liquidity Metrics: Phase 2" - Date: 21.01.2022, Time: 22:04

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<b>Treat my comments as confidential</b>	No

Question	
<b>Question</b>	Q1 Do you agree with the IAIS' general objective and contemplated usage for the liquidity metrics? If not, please explain your rationale.
<b>Answer</b>	Yes
<b>Answer Comment</b>	<p>The American Academy of Actuaries ("Academy") ERM/ORSA and Solvency Committees ("the Committees") agree with the IAIS' overall objective of improving the tools available to insurance supervisors for the oversight of liquidity risk.</p> <p>The Committees recommend that the IAIS consider the following in further developing and implementing liquidity metrics:</p> <p>Consideration 1: The metrics would ideally recognize the unique liquidity risks presented by each enterprise's specific lines of business, products, and legal entities.</p> <p>Consideration 2: Robust liquidity metrics are customized to the business profile and intercompany fungibility constraints of each enterprise.</p> <p>Consideration 3: Generic liquidity risk charges for sources or uses of liquidity can mask significant differences in liquidity risk across a diverse range of products.</p> <p>Consideration 4: A dynamic approach to measuring liquidity risk, including consideration of management action in response to liquidity stress, is preferable to a static approach.</p> <p>Consideration 5: Prior to implementation, field testing would ideally demonstrate that the benefit of the liquidity metrics outweighs the cost, across all lines of insurance.</p> <p>Consideration 6: Effective supervisory oversight can be achieved through qualitative, principle-based regulatory guidance and oversight addressing key liquidity management tenets that support tailored metrics reflecting the unique characteristics and risks of the enterprise.</p> <p>Based on these considerations, the Committees would recommend the Company Projection Approach (CPA) as a framework for the development of liquidity metrics, as compared to the Exposure Approach (EA). However, refinements are needed for the CPA to fully address the considerations noted above. See the Committees' responses to the questions below for further details.</p> <p>The Committees agree with the IAIS intention for these liquidity metrics to be ancillary indicators of risk (and not metrics that automatically trigger regulatory action). However, the very existence of liquidity metrics based on the EA could lead to misleading metrics resulting in inappropriate supervisory actions, given the considerations noted above.</p> <p>The Committees recommend a focus on the CPA to better reflect the characteristics of each enterprise, but believe this approach would benefit from further refinement. Please see the Committees' specific comments on questions 9, 16, 45, and 46. In addition, field testing of the liquidity metrics is recommended prior to wide-scale implementation to ensure that the cost of developing the metrics is outweighed by the benefits.</p>

Q2 Do you want to propose an additional liquidity metric in addition to three metrics mentioned in this section? If yes, please describe a proposed metrics.

**Answer**

Q3 Do you know any public database with liquidity related data relevant for the development of liquidity metrics (either on a company level or on a jurisdictional level)?

**Answer**

Q4 Is there a need to develop supplementary liquidity metrics solely for separate accounts for both EA and CPA? If not, provide suggestions how the IAIS should monitor liquidity related to separate accounts (united-linked products) for both EA and CPA?

**Answer**

Q5 Do you prefer to collect data and calculate liquidity metrics using fungible liquidity pools approach instead of the current enterprise approach for both EA and CPA? If yes, please provide ideas on approaches to the group-wide aggregation of results.

**Answer**

Q6 Does the current enterprise approach lead to significant shortcomings of the liquidity monitoring? If yes, describe these shortcomings and limitations.

**Answer**

Yes

**Answer Comment**

A shortcoming is related to the lack of recognition of fungibility and legal entity-specific liquidity risks within the enterprise, per Considerations 1 and 2 noted in the response to Question 1. While an approach based on fungible liquidity pools is more liquidity risk-sensitive and reflects management actions more clearly, the additional complication versus the enterprise approach would need to be justified. The Committees recognize that the development of liquidity metrics based on fungible liquidity pools, legal entities, or other subsets of the enterprise will likely result in a potentially significant cost, and therefore recommend the use of field testing to determine whether the benefit outweighs the cost for whatever approach is adopted by the IAIS.

Q7 Do you agree with the proposal to include capital instruments in the CPA and EA metrics calculations as described in this section? If not, please provide rationale and alternative suggestions.

**Answer**

Q8 Do you prefer the detailed method for inclusion of capital instruments in the ILR calculation as described in this section? If not, please provide rationale.

**Answer**

Q9 Do you agree with the above described CPA to calculate the baseline cash flow projection, to apply the liquidity stress test and then to evaluate its impact and potential application of haircuts on assets? If not, please explain and provide suggestions.

**Answer**

No

**Answer Comment**

The Committees are supportive of the use of CPA as a framework for the development of liquidity metrics, but the use of the enterprise cash flow statement as the starting point will lead to distortions without sufficient refinement for the specific enterprise situation. As an example, a non-life insurer's expected premium inflows and paid claim outflows are heavily influenced by the extent to which the insurer is growing or contracting. The proposed CPA framework does not appear to consider this dynamic.

Q10 Do you agree with the proposal to perform the CPA at the holding company level? If not, please explain and provide suggestions.

<b>Answer</b>	<input type="text"/>
	Q11 Are there any other categories of cash inflows or outflows that should be added that were not captured by the cash flow statement, such as asset management activities?
<b>Answer</b>	<input type="text"/>
	Q12 Do you agree with using haircuts from the ILR for assets to be applied if there is a cash flow deficit? If not, provide your explanation and suggestions.
<b>Answer</b>	<input type="text"/>
	Q13 Do you prefer to collect and analyse only high-level cash flow projections, ie. aggregate cash inflows and outflows of the three categories mentioned above? If yes, provide your clarification.
<b>Answer</b>	<input type="text"/>
	Q14 Do you prefer to collect and analyse the underlying cash inflows and outflows as listed in Annex 2? Note that this option provides more accuracy at the cost of a higher reporting burden. If yes, explain your reasoning.
<b>Answer</b>	<input type="text"/>
	Q15 Do you have any suggestions for changes or additions to the inflows and outflows as listed in Annex 2?
<b>Answer</b>	<input type="text"/>
	Q16 Do you agree with the proposed main types of cash outflows as specified in this section? If not, please provide clarification and suggestions for other outflows that should be considered.
<b>Answer</b>	No
<b>Answer Comment</b>	All non-life insurance paid claims (and not just catastrophic claims) should be considered. This includes consideration of both gross payments and reinsurance recoveries. For stress tests, the potential for collateral calls should be considered. The Committees acknowledge that these items are identified in Annex 2 of the Discussion Paper as outflows to be considered but recommend adding more detail to be clear as to whether those types of outflows are to be considered.
	Q17 Do you agree with the three proposed time horizons (30 days, 90 days and 1-year) for the CPA? If not, please explain and provide your suggestions.
<b>Answer</b>	Yes
<b>Answer Comment</b>	Yes, given the macro-prudential perspective. A seven-day time horizon may be more appropriate for certain types of insurer activities and products, such as those with immediate call or put features.
	Q18 Do you think the investing section of the cash flow statement should be stressed in the LST? Would you add or subtract certain investing cash inflows or outflows as listed in Annex 2?
<b>Answer</b>	<input type="text"/>
	Q19 Do you think the operating section of the cash flow statement should be stressed in the LST? Would you add or subtract certain operating cash inflows or outflows as listed in Annex 2?
<b>Answer</b>	<input type="text"/>
	Q20 Do you think the financing section of the cash flow statement should be stressed in the LST? Would you add or subtract certain financing cash inflows or outflows as listed in Annex 2?

<b>Answer</b>	
	Q21 Do you agree with the selected adverse liquidity stress scenario? If not, provide clarification.
<b>Answer</b>	No
<b>Answer Comment</b>	No. The stress scenario presented is lower inflation and U.S. Treasury yields, and higher corporate and mortgage yields. Such an environment generally will not stress insurer liquidity. There are three dimensions of liquidity: a) operating liquidity, meaning cash to fund day-to-day operations; b) trading liquidity, the ability to liquidate assets very quickly when needed with minimal market price movement; and c) portfolio liquidity, the ability to raise cash over time and reposition a portfolio into different asset classes. The scenario presented focuses on c) portfolio liquidity. Thus the Committees suggest broader consideration: Are cash flows adequate to fund operations under stress scenarios?; and the trade-offs between position size, market capacity, and time to liquidate assets, and recommend scenarios that may be more likely to cause liquidity shortfalls in insurers, such as a spike in rates and disintermediation for a life insurer.
	Q22 Do you want to propose a different liquidity stress scenario? If yes, provide its detailed parameters.
<b>Answer</b>	
	Q23 Do you agree with the proposed adverse GDP and market parameters? If not, provide clarification and suggestions.
<b>Answer</b>	
	Q24 Do you agree that CPA adverse scenario should contain adverse parameters related to insurance liabilities? If yes, do you have any suggestions for adverse parameters for cash outflows related to insurance liabilities?
<b>Answer</b>	
	Q25 Do you want to add other variables and parameters into the adverse liquidity stress scenario? If yes, provide suggestions.
<b>Answer</b>	
	Q26 Do you prefer to have several targeted stressed scenarios/projections (in comparison to the currently proposed one combined adverse scenario)?
<b>Answer</b>	
	Q27 Do you believe the selected adverse liquidity scenario is relevant to the countries you operate in? If not, what would be the relevant stresses for the countries you operate in?
<b>Answer</b>	
	Q28 Do you agree with the summary of benefits and limitations of the CPA? If not, please provide some clarification.
<b>Answer</b>	
	Q29 Do you agree with the consideration of differences in liquidity profiles of life insurers, non-life insurers and reinsurers in the ILR liquidity needs factors? If not, please explain and provide your suggestions.
<b>Answer</b>	Yes
<b>Answer Comment</b>	Yes, this is consistent with Considerations 1 and 2 noted above in response to Question 1. To the extent the EA approach is used, the Insurance Liquidity Ratios (ILRs) resulting from this approach should reflect differences in the products written by the enterprise.

Q30 Do you agree with the use of two time horizons for the EA: 1-year and 3-month time horizons? If not, please explain and provide your suggestions.

**Answer**

Q31 Do you prefer to calculate 3-month time horizon similarly to the BCBS' LCR, ie. 3-month ILR liquidity sources (as defined in the Table 5) will be divided by net 3-month cash outflows (a difference between cash outflows and inflows from all operating, financing and funding activities as defined in the Chapter 2)? If not provide your comments.

**Answer**

Q32 Do you agree with the proposed approach to financials? If not, please explain and provide your suggestions.

**Answer**

Q33 Do you agree with the proposed approach to investment funds? If not, please explain and provide your suggestions.

**Answer**

Q34 Do you agree with the proposed factors for sovereign/PSE/GSE debt instruments? If not, please explain and provide your suggestions.

**Answer**

No

**Answer Comment**

The Committees do not recommend a factor-based approach for asset liquidity, as it does not reflect asset duration, nor the dynamic between position size, market capacity, and time to liquidate institutional-sized positions.

Q35 Do you agree with the proposed factors for non-financial corporate debt instruments (including covered bonds)? If not, please explain and provide your suggestions.

**Answer**

Q36 Do you agree with the proposed factors for financial corporate debt instruments? If not, please explain and provide your suggestions.

**Answer**

Q37 Do you agree with the proposed factors for common equity (both financials and non-financials)? If not, please explain and provide your suggestions.

**Answer**

Q38 Do you agree with the proposed factors for selected liquid investment funds? If not, please explain and provide your suggestions.

**Answer**

Q39 Do you agree with the proposed factors for non-life premiums? If not, please explain and provide your suggestions.

**Answer**

Q40 Do you agree with the proposed factors for certificates of deposit and undrawn committed lines? If not, please explain and provide your suggestions.

**Answer**

Q41 Do you agree with the proposed factors differentiation between 3-month and 1-year time horizons? If not, please explain and provide your suggestions.

<b>Answer</b>	<input type="text"/>
	Q42 Do you think any additional relevant liquidity source should be considered in the ILR calculation? If yes, please explain and provide your suggestions.
<b>Answer</b>	<input type="text"/>
	Q43 Do you prefer to conduct a detailed recalibration of factors for surrender values based on historical surrender rates of participating insurers? Such a recalibration would be a substantial reporting burden.
<b>Answer</b>	<input type="text"/>
	Q44 Do you agree with the proposed 3-month time horizon factors? If not, provide your explanation and suggestions.
<b>Answer</b>	<input type="text"/>
	Q45 Do you agree with the proposed factors for non-life claims and expenses? If not, please explain and provide your suggestions.
<b>Answer</b>	No
<b>Answer Comment</b>	The Committees do not agree with the use of incurred claims for the determination of non-life liquidity needs. Incurred claims are impacted by the extent to which the insurer is growing or contracting. Future paid cash flows should explicitly recognize this dynamic. One such approach is to apply a payment pattern to the non-life year-end reserves along with the expected payments associated with new earned exposure in the upcoming period for the projection.
	Q46 Do you agree that life premiums, claims and expenses are currently not included in the ILR? If not, please provide clarification.
<b>Answer</b>	No
<b>Answer Comment</b>	The Committees believe life premiums, claims, and expenses should be considered. New premiums can be significant to the outcome for a life insurer facing liquidity challenges. Similar to the considerations mentioned for non-life, premiums would be part of liquidity sources and claims and expenses would be part of liquidity uses.
	Q47 Do you agree with the proposed factors for reserving risk? If not, please explain and provide your suggestions.
<b>Answer</b>	<input type="text"/>
	Q48 Do you agree with the proposed factors for unearned premiums? If not, please explain and provide your suggestions.
<b>Answer</b>	<input type="text"/>
	Q49 Do you agree with the proposed approach for reinsurance recoveries? If not, please explain and provide your suggestions.
<b>Answer</b>	<input type="text"/>
	Q50 Do you agree with the refined factors for catastrophe claim payments? If not, please explain and provide your suggestions.
<b>Answer</b>	<input type="text"/>

Q51 Do you prefer a standardized 1/250 PML scenario to be applied for catastrophe claim payments? If yes, provide your suggestions for such a scenario. The current proposal counts with 1/250 PML scenario calculated using insurers' own projections and stress-testing.

**Answer**

Q52 Do you agree with the IAIS proposal to consider DGS in the ILR factors for bank deposits? Please provide your comments and suggestions.

**Answer**

Q53 Do you agree with the 3-month time horizon ILR factors for bank deposits? If not, provide your comments and suggestions.

**Answer**

Q54 Do you agree that there is currently no liquidity need considered for the non-financial type of business that some insurance groups may conduct? If not, please provide your suggestions.

**Answer**

Q55 Do you agree with the inclusion of derivative assets into the ILR Liquidity Sources? If not, please explain and provide your clarification. If yes, provide your suggestions on factors for such derivative assets.

**Answer**

Q56 Do you agree with the current IAIS proposal to include only cash collateral into the Eligible Cash Variation Margin? If not, provide your comments and suggestions.

**Answer**

Q57 Do you agree with the 3-month time horizon ILR treatment of and factors for derivatives? If not, provide your comments and suggestions.

**Answer**

Q58 Do you agree with the floor as proposed by the IAIS to protect a level-playing field for all insurers? If not, provide your comments and suggestions.

**Answer**

Q59 Do you agree with the proposed approach to securities lending transactions and repurchase agreements including the factors? If not, provide your comments and suggestions.

**Answer**

Q60 Do you agree with the 3-month time horizon ILR factors for other funding liabilities and potential liquidity needs? If not, provide your comments and suggestions.

**Answer**

Q61 Do you agree with the proposed factors for operational and cyber risk? If not, please explain and suggest an alternative treatment.

**Answer**

Q62 Did the IAIS omit any other material type of insurance, non-insurance or operational liquidity needs that should be considered in the ILR calculation? If yes, provide your suggestions.

**Answer**

Q63 Do you agree with the description of aspects of other liquidity metrics provided in Section 4?

**Answer**

Q64 Do you want to propose any other liquidity metric for liquidity risk monitoring that is not mentioned in sections 2, 3 and 4 of this document? If yes, please elaborate on its calculation and data requirements.

**Answer**

Q65 Do you prefer a set of liquidity metrics for liquidity risk monitoring purposes? If not, provide clarification.

**Answer**

Q66 Do you prefer a single liquidity metric (eg. ILR or CPA metrics) for liquidity risk monitoring purposes? If not, provide clarification.

**Answer**

Yes

**Answer Comment**

The Committees prefer the CPA metric, as noted in the response to Question 1.

Q67 General comments on the Public Consultation Document on the Development of Liquidity Metrics: Phase 2

**Answer**