Public consultation on draft Issues Paper on structural shifts in the life insurance sector

Survey response 1

Please provide your information:
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Do you agree with your responses being made public on the IAIS website?
Yes

General comments on Issues Paper on structural shifts in the life insurance sector

General comments on the Issues Paper:
The only general comment the IAA has on the paper is that is could be edited in places to make it more concise.

Section 1 Executive summary

General comments on section 1 Executive summary:
The third paragraph refers to the merit of investing alternative assets for insurers – Ito this could be added the social needs for investing some alternative assets like infrastructure investments matching to the general liability features of life insurers. In addition, this paragraph refers to robust risk management, but robust risk quantification could also be added. In the third paragraph, the third sentence could be complemented with “hidden leverage” in addition to valuation uncertainty, illiquidity and complexity. The fifth paragraph refers to capital raising flexibility, but this could be expanded to “flexibility and leverage”. In the second to last paragraph counterparty risk could be mentioned

Section 2 Introduction

General comments on section 2 Introduction:
In section 2, counterparty risk could be included

Section 3 Increased allocation to alternative assets in life insurers’ portfolios

General comments on section 3 Increased allocation to alternative assets in life insurers’ portfolios

Comments on section 3.1 Background
In many countries. real estate is an asset class in which life insurers have traditionally invested, so it seems strange to treat real estate as alternative assets. It would therefore be helpful to explain the concerns in respect of the specific real estate investments (such as securitisation) which may be considered non-traditional.

Comments on section 3.2 Global trends in life insurers' investment in alternative assets
3.2.1 Under the heading "Potential transfer of assets between sectors", the first line in the third paragraph: "The growth in private credit provided by NBFIs....." does not make sense and needs to be rephrased.

Comments on section 3.3 A principles-based classification
The IAA agrees that it is important to establish a principle-based definition of what should classified as an alternative asset, and that this should be supported by guidance on how the definition should be interpreted Given that the valuation of many classes of asset is subject to the application of subjective assumptions, more thought needs to be given to when that subjectivity is such that an asset should be considered "alternative" - one example given is real estate, different values may have different comparable market data is available. Another example is long-term sovereign bond. It might be better not to focus on the characteristics of assets itself, but on the feature like complexity and unfamiliarity which align to the purpose of focusing alternative assets. 3.3.1 The "Principles-based definition of alternative assets:" may be amended to include "hidden leverage" in addition to the features like valuation uncertainty, illiquidity, or complexity. 3.3.2 Under "Proposed principles", the key principle of "hidden leverage", may be explained as the fourth principle, to be in line with the suggested definition above. 3.3.3 Whilst it makes sense for there to be flexibility through using a principles-based approach, so that different supervisors can adapt their approach to the local context, it is important for there to be clarity in how each supervisor is interpreting the principle to give clarity to insurers. 3.3.3 In the sixth paragraph under Figure 2, the third sentence specifies the ranking which does not corresponds to Figure 3 and may be amended.

Comments on section 3.4 Benefits associated with alternative assets

Comments on section 3.5 Supervisory concerns and areas of attention
To be consistent with earlier comments, the first sentence of the first paragraph may be amended to include "hidden leverage".

Comments on section 3.6 Macroeconomic considerations

Section 4 Rising adoption of AIR in the life insurance sector

General comments on section 4 Rising adoption of AIR in the life insurance sector
One of the drivers for AIR is the leveraging effect, as described in 4.2.6. This could be included in the introduction.

Comments on section 4.1 Understanding AIR

Comments on section 4.2 Jurisdictional approaches to reserving, capital requirement and investment flexibility
The IAA notes that different jurisdictions have quite different approaches and Table 2 could be moved to an appendix, leaving only the takeaways to the main part. Also in table 2, the row on Japan comments on "transitioning to a Economic value-based methodology" only on the column of Capital. For the solvency purpose, it should be mentioned also in the columns of Valuation Basis and Technical Provisions / Reserves.

Comments on section 4.3 Supervisory concerns and responses
4.3.1 Under paragraph on “Motivation for AIR”, the word “cedent supervisors” is used in second sentence. Similarly, in paragraph on “Increasing complexity”, the word “cedent regulators” is used in the sentence before the last sentence. It would be helpful if the difference between the two, i.e., “cedent supervisors” and “cedent regulators” is clearly specified. If both meant the same, then for the sake of uniformity, one of those should be used to avoid confusion.

Section 5 Macroprudential and financial stability considerations arising from structural shifts in life insurance

General comments on section 5 Macroprudential and financial stability considerations arising from structural shifts in life insurance

Comments on section 5.1 Macroprudential considerations

Comments on section 5.2 Interconnectedness with the broader market

Comments on section 5.3 Current financial stability risks and the future

Section 6 Review of the IAIS supervisory material

General comments on section 6 Review of the IAIS supervisory material

Comments on section 6.1 Purpose of the analysis

Comments on section 6.2 Scope and Methodology of the Analysis

Comments on section 6.3 Potential areas of enhancement in the IAIS supervisory and/or supporting material

Section 7 Conclusion

General comments on section 7 Conclusion

Section 8 Next steps

General comments on section 8 Next steps

Section 9 Annex 1: Survey on alternative assets to IAIS members

General comments on section 9 Annex 1: Survey on alternative assets to IAIS members:

Section 10 Annex 2: Solvency frameworks of various jurisdictions

General comments on section 10 Annex 2: Solvency frameworks of various jurisdictions: