

IAIS Consultation

Print view of your comments on "Development of Liquidity Metrics: Phase 2"

Organisation	Institut des actuaires
Jurisdiction	France
Role	Other (not IAIS Member)
Treat my comments as confidential	No

Question	
Answer	Yes
Answer Comment	<p>Yes, it is important for IAIS to set up guidelines and metrics to incentive insurers to monitor their liquidity risk exposure. To be noted that liquidity risk is already part of Solvency 2 pillar 2 framework, and many insurers already comment publicly on their exposure to liquidity risk. As of today the liquidity risk as presented by insurers is quite limited.</p> <p>We recall that good liquidity risk management is at the heart of ALM.</p>
Answer	Yes
Answer Comment	<p>Two interpretations of liquidity compete on the market: Solvency 2 that is based on asset & liability management of the insurers and IFRS (more particularly IFRS17) where insurers are basing their liquidity risk assessment only on the characteristics of insurance contracts (as required by the standard). Under Solvency 2, the assessment of liquidity metrics is appreciated based on quantitative assessment with reference to stress testing, while the former can be based on qualitative assessment and experts judgment. In previous consultation, the French Institute of Actuaries has taken position for metrics assessed based on liquidity testing through liquidity plans and cash-flow projections.</p>
Answer	No
Answer	Yes

Answer Comment Liquidity risk should also be assessed for separate account, this is mainly due to the liquidity characteristics of these contracts and the fact that most of the time, the policyholder is given the possibility to lapse at any moment. To be noted that in France for example, there are some liquidity constraints set by the regulation defining liquidity characteristics of funds that may be offered in insurance contracts. Liquidity metrics on separate account may be the same as the ones used for general account, and might also be based on policyholder past behaviour on similar products, mainly in case of strong market movements.

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 No

Answer Comment Liquidity metrics should be computed consistently with actual management practices in order to give more reliable and insightful results.

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 In a stressed situation enterprise approach could diverge from actual constraints (regulatory or other) or practices limiting fungibility of cash.

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 Yes

Answer Comment We do agree with the approach to use capital instruments in the liquidity risk metrics. To be noted that some instruments related to capital can be triggered or deactivated in case of liquidity risk e.g. dividend payment modulation.

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 No

Answer Comment We believe the detailed method is expected to bring more accurate information compared with the simplified one. However there is need to question the value added of such complex method compared to the simplified one that has the advantage of being simple and realistic.

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 Yes

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

Answer Yes

Answer Comment Yes at holding but also at solo level depending on capital fungibility and the possibility to perform intragroup transfers of capital

	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?
Answer	No
Answer Comment	it seems exhaustive
	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.
Answer	No
Answer Comment	Approach has its limits as it does not consider alternative possibilities than asset sale in case of liquidity deficit to limit to the loss the insurer will realize when selling its assets (for example credit lines...).
	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.
Answer	Yes
Answer Comment	from a macro supervision perspective companies should be given the flexibility to share only the result of the projections performed instead of sharing all details with their regulator.
	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.
Answer	
	Q15 Do you have any suggestions for changes or additions to the inflows and outflows as listed in Annex 2?
Answer	Yes
Answer Comment	In investing inflows no mention is made about rental / property income
	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.
Answer	Yes
	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.
Answer	Yes
Answer Comment	For macro assessment of the liquidity risk, time horizons chosen are aligned with the expectation and how liquidity risk is managed. Worthwhile to be noted, the shorter the time horizon, the less management actions may be enacted to prevent a liquidity crisis.
	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?
Answer	Yes

Answer Comment	It seems exhaustive.
	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?
Answer	Yes
Answer Comment	Can be considered for certain types of CFs like premiums/claims
	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?
Answer	Yes
Answer Comment	The financing CFs should be considered within LST. This approach would provide a holistic view of total company exposure to liquidity risk.
	Q21 Do you agree with the selected adverse liquidity stress scenario? If not, provide clarification.
Answer	Yes
	Q22 Do you want to propose a different liquidity stress scenario? If yes, provide its detailed parameters.
Answer	No
Answer Comment	The stress seems exhaustive.
	Q23 Do you agree with the proposed adverse GDP and market parameters? If not, provide clarification and suggestions.
Answer	
	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?
Answer	Yes
	Q25 Do you want to add other variables and parameters into the adverse liquidity stress scenario? If yes, provide suggestions.
Answer	
	Q26 Do you prefer to have several targeted stressed scenarios/projections (in comparison to the currently proposed one combined adverse scenario)?
Answer	Yes
Answer Comment	Yes, but this would depend on the operational charge for insurers to perform the described stresses
	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?
Answer	Yes

Answer Comment	Yes, but last liquidity risk stress test exercise performed on the French market has shown that the risk is very limited.
	Q28 Do you agree with the summary of benefits and limitations of the CPA? If not, please provide some clarification.
Answer	No
Answer Comment	We stress the fact that AIG was an outstanding case of an insurer massively implicated in non- traditional insurance. Such a case should be addressed primarily through macro-supervision.
	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.
Answer	Yes
Answer Comment	The risk profile of both life and non-life insurers justifies considering different liquidity factors while assessing the risk. However, the results show that Composite insurers present higher ILR than non-composite considered separately which does not seem logical. How can we explain that? Probably by diversification?
	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	Yes
	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	
	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	No
Answer Comment	The factor for non-life premium is very severe and we wonder what evidence supports such a strong figure.
	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.
Answer	
	Q42 Do you think any additional relevant liquidity source should be considered in the ILR calculation? If yes, please explain and provide your suggestions.
Answer	
	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.
Answer	Yes
Answer Comment	The calibration of surrender factors should indeed be based on historical data for specific business (in this case participating business). However, we understand the complexity of such a process, which, combined with the fact that all products with surrender options have different characteristics depending on the country/insurer or even product, this allows us to consider a common calibration for contracts with and without participation. Should be noticed that in this case, it would be fair to consider average calibration and not the worst one.
	Q44 Do you agree with the proposed 3-month time horizon factors? If not, provide your explanation and suggestions.
Answer	No
Answer Comment	As for above, larger time horizon should be considered in addition to the 3-months one for long duration business when possible
	Q45 Do you agree with the proposed factors for non-life claims and expenses? If not, please explain and provide your suggestions.
Answer	
	Q46 Do you agree that life premiums, claims and expenses are currently not included in the ILR? If not, please provide clarification.
Answer	Yes

Q47 Do you agree with the proposed factors for reserving risk? If not, please explain and provide your suggestions.

Answer

Q48 Do you agree with the proposed factors for unearned premiums? If not, please explain and provide your suggestions.

Answer

Q49 Do you agree with the proposed approach for reinsurance recoveries? If not, please explain and provide your suggestions.

Answer

Q50 Do you agree with the refined factors for catastrophe claim payments? If not, please explain and provide your suggestions.

Answer

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

No

Answer Comment

We believe that it is better if the calibration of catastrophe risk is based on the company's own assessment instead of a standardized one

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

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

Answer