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28 February 2018

Mark Carney
Chairman
Financial Stability Board

Re: AIA's Comments on the FSB's Consultative Document on *Key Attributes Assessment Methodology for the Insurance Sector*

Dear Chairman Carney:

AIA Group Limited appreciates the opportunity to provide comments on the consultation paper released on 21 December 2017 by the FSB entitled "Key Attributes Assessment Methodology for the Insurance Sector" (the "**Consultation Paper**").

We previously submitted comments to the FSB on Developing Effective Resolution Strategies and Plans for Systemically Important Insurers on 4 January 2016 which we have attached. We ask that you also refer to these comments as part of our response to the Consultation Paper.

We have the following comments, many of which are similar to those we conveyed in 2016:

- **While AIA is not considered a G-SII, AIA sees it as critically important as the only listed insurance group headquartered in Hong Kong that has substantial operations in a large number (now 17) of Asia Pacific jurisdictions that the recommendations adopted under the Consultation Paper are attuned to established practical need and specifically that they take full account of the potential for adverse or unintended consequences on insurance groups operating in Asia Pacific.**

- AIA strongly supports the development and promotion of effective and proportionate regulatory and supervisory measures designed to create greater financial stability. In this regard, we suggest **the Key Attributes not be prescriptive and allow for flexibility such that any laws for recovery and resolution introduced as a consequence of the Consultation Paper do not result in adverse or unintended consequences on insurance groups and are proportionate and matched to need rather than theory.**

- **The Key Attributes should not be bank-centric and should be carefully considered and tailored for the insurance sector.** For example, in discussing liquidity, we cannot stress too much the fundamental distinction between the risk profiles of retail banks, investment banks, life and general insurance companies, reinsurers and mutual fund companies. These are vastly different businesses. A fundamental principle is that sound life insurance underwriting requires the insurer to match closely the term of the assets held to support policies underwritten with the actuarially assumed term of the contract. In contrast, the essence of banking is to maintain a controlled mismatch and to generate a net interest margin on the difference between short term deposits and longer term loans. It is this mismatch and the need for instant liquidity to meet depositors' calls for repayment that gives rise to the possibility of liquidity crises occurring in respect of actual or perceived deterioration in either the financial climate or the stability of the bank. Insurers with appropriate asset/liability and liquidity management in contrast have a low liquidity risk. For life insurers, policyholder contracts extend well into the future, often for

several decades and the insurer is able to control the premature surrender value to match the payout with the underlying asset value. In addition, well run life insurers strive to eliminate maturity mismatch between assets and liabilities, allowing them considerable time for management actions to be taken with a view to achieving an orderly recovery in response to market downturns.

- **Resolution regimes should only apply to those insurers who currently are involved in activities that have been identified as systemically risky on a scale that poses a potential threat to the continuing viability of the overall insurance group.** The FSB should take into consideration the comments which are being made under the consultation issued on 8 December 2017 by the IAIS on the activities-based approach to systemic risk. **It is our view that an insurer which is engaged almost exclusively in the business of life insurance, when properly managed has few if any of the hallmarks of systemic risk associated with other financial institutions.** This is in contrast to banks that have broad derivative portfolios and high degrees of leverage in order to generate profit. In regards to the consultation by the IAIS on the activities-based approach, other than assessing the specific activities undertaken by an insurer, we have commented in the consultation on the potential impact of liquidity risk. As stated above, insurers with appropriate asset/liability and liquidity management have a low liquidity risk. We have also commented that in terms of macroeconomic risk exposures, in contrast to banks, which are heavily interdependent, insurers do not need to have strong connections in the form of lines of credit from banks and there is a lack of close business relationships between competing insurance companies. In addition, insurers do not typically provide critical short-term functions to the financial system or wider economy in the same way as banks (unless the insurer owns a bank or is part of a banking group). Given this lack of interconnectedness, it is therefore our view that the risk of contagion is limited and as such, the application of resolution regimes to insurers should also be limited.

- Moreover, the size of an insurer should not be factor in assessing whether a resolution regime would apply to an insurer. The fundamental principle of insurance is the law of large numbers. Well managed insurers (with sound underwriting and asset/liability management) reduce the relative risk of loss by insuring a large number of independent units of risk. Risk and volatility of loss may be further reduced within the basic insurance model by writing lines of life or general business and by operating in more than one jurisdiction. **A research paper released by the IAIS in November 2011 concluded that insurers engaged in traditional insurance activities were not a concern from a systemic risk perspective.**

- **There is no evidence that traditional tools (such as run off and the transfer of business) would not be sufficient for resolution. Resolution powers (such as setting up a bridge insurer or bail-in), while we do support as additional available tools for resolution authorities, should only be used in our view as a last stop measure so long as the exercise of these powers is not disproportionate and after traditional tools have been considered and deemed not to be sufficient.**

- We suggest consideration be given to the extent that current insolvency laws can be followed or amended to be used as a resolution tool where circumstances are such that there is less of a need to "resolve" a failing institution "over the weekend" than more of a need to preserve long-term value. Insolvency laws in a number of jurisdictions allow for a

failing enterprise to be placed into a court supervised process to prevent its immediate dissolution with caretaker management appointed. An insolvency regime administered by a court could prove to provide greater transparency and may be able to more easily balance what will necessarily be competing rights and priorities. In the context of insurance, there are generally not "runs" on insurance companies that require an expedited resolution tool be used. It is not typically in a policyholder's interest to redeem a life insurance policy as the protection value associated with the policy would be lost and depending on the duration that the policy has been in force, it may be difficult or impossible to replace.

- Some of the measures for restructuring liabilities go beyond what is permissible under insurance supervisory law. There may not be adequate protection such as review by the courts or independent valuations. **There should be safeguards to ensure ultimate equity of treatment when a resolution authority exercises its resolution power.** A resolution regime should have a requirement for reasonableness on how a resolution authority makes decisions and there should be a process in place to provide for recourse in the event that parties affected by a decision made by a resolution authority need to quickly make submissions concerning their interests to a judicial body distanced from the resolution authority.

- **The legal framework should prohibit any disclosure of non-public company information** unless the proposed recipient agrees and the relevant authority also agrees to keep the information confidential and to protect it from disclosure except where required by a court of competent jurisdiction or by law.

We look forward to the consultation conclusions and participating in any further consultations or discussions.

Yours faithfully,
For and on behalf of
AIA Group Limited

Mitch New
Group General Counsel

Encl.

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4 January 2016

Mark Carney
Chairman
Financial Stability Board

Re: AIA Comments on the FSB's Consultative Document on *Developing Effective Resolution Strategies and Plans for Systemically Important Insurers*

Dear Chairman Carney:

AIA Group Limited appreciates the opportunity to provide comments on the consultation paper released 3 November 2015 by the FSB entitled "Developing Effective Resolution Strategies and Plans for Systemically Important Insurers" (the "Consultation Paper").

While AIA is not considered a G-SII, AIA sees it as critically important as the only listed insurance group headquartered in Hong Kong that has substantial operations in a large number (16) of Asia Pacific jurisdictions that the recommendations adopted under the Consultation Paper are attuned to established practical need and specifically that they take full account of the potential for adverse consequences on insurance groups operating in Asia Pacific.

Below, please find our comments on the proposals:

- **Objectives of resolution strategies**

  AIA Group strongly supports the development and promotion of effective and proportionate regulatory and supervisory measures designed to create greater financial stability. Initiatives which reduce systemic risk and encourage transparency will benefit the global financial system.

  Insurers – although their core businesses are at the low risk end of the spectrum compared with banks – stand to benefit from the greater stability and support for economic growth which should result. Insurers play an important role as an investor in the financial markets and as a risk absorber for society. However, radical reform always carries a risk of disproportionate and unintended consequences, and **AIA sees it as very important to the stability of the economies in Asia that the measures including any laws for recovery and resolution introduced as a consequence of this consultation are proportionate and matched to need rather than theory.**

- **Determination of a preferred strategy**

  The preferred strategy must not be overly bank-centric and in this respect, careful consideration and tailoring should be made for the insurance sector. While the insurance industry does provide important services to its policyholders and the broader economy, substitutability within the sector and the availability of existing

appropriate resolution measures ensures continuity of cover of existing policyholders. Insurers do not typically provide critical short-term functions to the financial system or wider economy in the same way as banks (unless the insurer owns a bank or is part of a banking group).

There is no evidence that traditional tools (such as run off and the transfer of business) would not be sufficient for resolution. New resolution powers (such as setting up a bridge insurer or bail-in), while we do support as additional available tools for resolution authorities, should only be used in our view as a last stop measure so long as the exercise of these powers is not disproportionate and after traditional tools have been considered and deemed not to be sufficient.

Some of the proposed measures for restructuring liabilities go beyond what is permissible under insurance supervisory law. There may not be adequate protection such as review by the courts or independent valuations. **Therefore, when implementing any preferred strategy, it is critically important that there be safeguards to ensure ultimate equity of treatment when a resolution authority exercises its resolution power.**

- **Strategic analysis underlying the development of the resolution strategy**

We agree that the resolution strategy needs to be tailored to specific risks to which each individual insurer may be exposed.

As indicated above, life insurance products are highly substitutable. In most cases, the likely tool would be run-off or transfer of business. It would only be as a last stop to use expanded powers such as a bridge insurer or bail-in.

In addition, we agree that the definition of "critical function" is improved. It is unlikely given this definition for a traditional life insurer to trigger a failure of a critical function provided to a third party that would have a material impact on the financial system.

On cross-border cooperation, we agree that benefit can be derived from such cooperation among resolution authorities. Given that it is hard to imagine a scenario where national supervising authorities would not be compelled to consider local interests as paramount in any resolution process, our view is that greater coordination would be of greater value in areas like solvency and accounting standards, as well as in permitting the free flow of funds without adverse tax consequences, as these would help prevent the need for any resolution. **In this respect, it is important to recognise that given there are local interests that cannot be ignored, a resolution authority which is also a group supervisor of an insurance group operating in a number of jurisdictions may well face a conflict between the interests of the policyholders of the local entity it supervises and those of other entities within the group. We believe therefore that resolution should be based on a local entity approach to solvency rather than a consolidated basis.**

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- **Making the resolution strategy operational**

  Our view is that requirements to improve resolvability should be subject to rigorous analysis and justification in which the costs and undesired outcomes are carefully considered, including the impact on other jurisdictions.

  The financial institution must be given time to consider changes proposed by the resolution authority under any resolution plans and there should be an appeals mechanism, possibly including the courts, to ensure that these resolution plans are equitable.

  In regards to information systems and data requirements, our view is that the **legal framework should prohibit any disclosure of non-public company information** unless the proposed recipient agrees, and the relevant authority also agrees to keep the information confidential and protect it from disclosure except where required by a court of competent jurisdiction or by law.

Regardless, a resolution regime cannot be viewed in isolation from the existing regulatory regime or powers. **The ongoing focus on ensuring solvency and responsible behavior ought to remain the central tenet.**

We look forward to the consultation conclusions and participating in any further consultations or discussions. Should you require any further information, please do not hesitate to contact the undersigned at 852 2832 6162.

Yours faithfully,
For and on behalf of
AIA Group Limited

p.p.

Mitchell David New
Group General Counsel