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GIAJ comments on the FSB's methodology for assessing implementation of the Key Attributes of Effective Resolution Regimes in the insurance sector

The General Insurance Association of Japan (GIAJ) is an industry organization whose 26 member companies account for around 95 percent of the total general insurance premiums written in Japan.

We appreciate the opportunity to comment on the Financial Stability Board's consultation document on a methodology for assessing implementation of the Key Attributes of Effective Resolution Regimes for Financial Institutions (Key Attributes) in the insurance sector.

We would like to make the following comments:

Question 1

We are of the opinion that the draft methodology describes specific measures regarding resolution.

When a jurisdiction's resolution regime is assessed by assessors in practice, it is important to identify and capture systemic risk in accordance with characteristics of individual jurisdictions and insurance policies/products, and to avoid regulatory overlaps by appropriately confirming and verifying whether relevant regulations currently exist in and across the insurance and other financial sectors, as well as whether such existing regulations are sufficient.

In addition, for recommendations that will be made after assessments, those on financial products/transactions that have potentially systemic features should be in line with recommendations given to other financial sectors. Due consideration should be given to the very low degree of systemic risk that other insurance products/transactions are likely to entail.

If measures such as conduct regulations are to be imposed only on the insurance sector, the size of which is relatively small compared to other sectors, insurers' sound businesses and the development of the insurance sector would be impeded, as restrictions would occur in terms of the level playing field, and insurance industry-specific risk management and ALM practices.

Question 4

We are of the opinion that the preconditions in Section V cover the relevant elements that are

necessary for resolution regimes for insurers to operate effectively.

However, assessment of the preconditions should allow for resolution schemes that are in accordance with characteristics of individual markets and insurance products, and for jurisdictional supervisors' discretion and powers in establishing such schemes. For example, it is very unlikely for systemic risk to occur in the Japanese insurance market. Thanks to the effectiveness of relevant laws and schemes, there have never been any cases of systemic risk occurring due to the failure of a general insurance company in Japan.

Question 5

KA 11 provides that the home authority requires a firm to develop RRP when it determines that the firm could affect financial stability if it fails. Since insurers mainly deal with insurance products/transactions of which systemic risk is very small, any impact on the stability of the financial system and the economy as a whole due to their failure would be extremely small.

Furthermore, because of the long-term nature of most life insurance liabilities and some non-life ones, it is unlikely that an insurer would sell all its assets at once.

In addition to the magnitude of potential systemic risk, the above perspective of urgency should be considered in order to distinguish insurers from other financial institutions in terms of how strict RRP should be.

Question 9

For systemic risk assessment, the IAIS is considering an activities-based approach (ABA) that focuses on activities that could impact the financial sector as well as the real economy. It released a consultation document on the ABA in December 2017.

If the FSB's resolution framework for financial institutions and the IAIS's approach to systemic risk assessment are not interrelated, and different assessment methodologies and measures are developed to cope with systemic risk in the insurance sector, the unnecessary burden that will be imposed on supervisors and insurers will impede the sound development of the insurance market. Therefore, the way in which the FSB's consideration and the IAIS's are related should be explained.

Sincerely,

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The General Insurance Association of Japan