Life Insurance Association of Japan: response to the FSB consultative document: Evaluation of the effects of financial regulatory reforms on infrastructure finance

	Question	LIAJ response
Financial regulations 6.	・ Regulation vs other factors: How do the financial reforms rank relative to other factors (e.g. macroeconomic and financial conditions, political risks, institutional impediments) in terms of their influence on IF?	As for IF, life insurers and pension funds are ones of major investors in this asset class. Furthermore, their business nature, namely holding of long-term assets to match with their long-term liabilities, is different from those of other financial institutions (e.g. banks) that undertake shorter duration business activity. In insurance and pension fund sector, this difference makes an impact on IF more significant compared to banks. If the global insurance capital standard currently under development should be implemented in a manner that does not reflect business realities of investment with a certain level of risk-taking, including engagement in IF, under appropriate risk management like the above, and does not take into account its return, it will encourage insurers to take short term risk-averse behavior and hinder long-term risk-taking investment. As a result, capabilities of insurers for investment in long-term risk assets will be deteriorated, which makes it difficult for them to engage in infrastructure investment and results in stunting economic growth. It would be considered to introduce specific measures aimed to avoid such consequences, such as liability valuation approach that takes into account own asset yield curve and required capital framework that reduces calibrations of risk charge for infrastructure investment (i.e. application of lower risk calibration to qualifying infrastructure investments including unlisted equity shares of infrastructure projects, already introduced in Solvency II), however, it has not been concluded to introduce those measures to the Insurance Capital Standard (ICS) yet. While the report concludes that the effects of the financial regulatory reforms on IF is limited depending mainly on the analysis of the effects of those implemented for banks, it should be also recognized that in insurance sector global capital standard is being developed and implementation of this standard without proper solutions to the above issues in each jurisdiction creates material impact on IF provided by insurers (as the report mentioned in the page 111, the issue on insufficient clarity around the ICS under development by IAIS, which is raised by some insurance companies, is important.) As such, attention needs to be paid to insurance context that is different from that of banking sector.
Financial regulations	・ Relevant reforms: Are Basel III and OTC derivatives market reforms the most relevant G20 reforms for IF?	In insurance sector, the ICS is being developed by IAIS. If the ICS should become such a capital regulation that does not take into account investment activities with a certain level of risk-taking, including engagement in IF, under adequate risk management and too strongly encourages to take short-term risk-averse behavior which hinders or simply penalizes long-term risk-taking, it will cause

7.	Which other reforms may also be relevant for the purposes of the evaluation? Please elaborate.	adverse impact on long-term insurance business and deteriorate insurers' capabilities as a long-term investor. As a result, it can make it difficult for them to engage in infrastructure investment, which leads to stunting economic growth. Therefore, the ICS is important in the assessment of the effects of regulatory reforms on IF.
Financial regulations 8.	・ Transmission channels: Are there any major transmission channels in terms of the effects of financial regulation on IF that the evaluation has not considered?	Excessively risk-averse capital standards can be an additional transmission channel creating adverse impact on IF. Implementation of such standards would hinder long-term insurance business, resulting in deterioration of capability to invest in long-term assets. This mechanism brings about reduction of demand for long-term investment like infrastructure investment.
Evaluation approach 9.	・ Methodology: Is the analytical approach used to evaluate the effect of reforms appropriate? Are there other approaches to consider for this or future evaluations?	It is hard to properly evaluate effects of regulations even by analyzing them on only quantitative basis. Therefore it is important to also conduct qualitative analysis and to seek feedback from stakeholders such as financial institutions. In terms of question items for survey, they should be designed to fit to the context of each sector, as each sector has different viewpoints to identify; for example, raising respectively suitable sets of questions for each sector in order to make the survey more efficient and effective.
Evaluation approach 10.	・ Cost-benefit considerations: Do you have any comments on the approaches used in the report to assess the social costs and benefits of the reforms on IF? Are there other types of costs or benefits that should be considered by the evaluation?	It would be beneficial to store information from an early stage, related to the impact analysis that is conducted prior to and following implementation of regulations for key players in infrastructure investment including insurers and pension funds, and it would be also beneficial to utilize it to develop and revise regulations.

Contact: Tomohiro Koyanagi, Director for International Affairs, The Life Insurance Association of Japan (LIAJ) (kokusai@seiho.or.jp)