



CENTER FOR CAPITAL MARKETS
C O M P E T I T I V E N E S S

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August 15, 2019

International Association of Insurance Supervisors
c/o Bank for International Settlements
CH-4002 Basel
Switzerland

Re: Publication Consultation – Revisions to IAIS Supervisory Material

To Whom It May Concern:

The U.S. Chamber of Commerce (“the Chamber”) is the world’s largest business federation, representing the interests of more than three million businesses and organizations of every size, sector, and region. The Chamber appreciates the opportunity to comment on the “Revisions to IAIS Supervisory Material” issued by the International Association of Insurance Supervisors (“IAIS”) on June 14, 2019, and in particular, the components that pertain to the “Holistic Framework for Systemic Risk in the Insurance Sector” (“Holistic Framework”). The Chamber believes the development of international regulatory principles and standards must be done in a transparent manner.

Our members include insurance companies that operate only in the United States (“U.S.”) as well as insurance companies headquartered both in and outside of the United States. Perhaps more importantly, our membership includes non-financial companies that rely on insurance products, and we are mindful of the larger role insurance plays as an investor in a globally interconnected economy.

The Chamber provided comments to IAIS’ consultation document on the Holistic Framework on January 25, 2019.¹ The Chamber appreciates the IAIS

¹ Quaadman, T. Holistic Framework for Systemic Risk in the Insurance Sector. [Letter written January 25, 2019 to the International Association of Insurance Supervisors] Available at http://www.centerforcapitalmarkets.com/wp-content/uploads/2019/01/190125_Comments_InsuranceSystemicRisk_InsuranceSupervisors-FINAL-1.25.19.pdf?#

considering these comments and wishes to further reaffirm the points raised and offer additional feedback in response to the ongoing work to develop the Holistic Framework.

The Chamber does not believe the insurance business model contributes to systemic risk.² Investments made by all types of insurance companies are essential to a robust and competitive capital markets that businesses depend on as a stable source of financing.³ Inappropriately structured regulation for the insurance sector, even where unintentional, could have a significant impact on the ability of many public and private entities to access stable capital.

We also believe that global standards, including the Holistic Framework, should be principles-based and preserve flexibility for jurisdictional supervisors. As we stated in our previous letter, “a principles-based framework acknowledges that jurisdictional supervisors have the legal authority to implement the framework at their discretion and have an in depth understanding of firms and the risks they pose to financial markets.”

References to individual insurers as a potential source of systemic risk should be removed

The Chamber supports the IAIS’ decision to embrace an activities-based approach (ABA) for addressing systemic risk within the Holistic Framework. However, the Holistic Framework still includes extensive direct and indirect references to an entities-based approach (EBA) that we believe are inappropriate, unnecessary, and misguided.

The Chamber has opposed the use of an EBA to systemic risk in the United States and opposes standards that encourage an EBA for such purposes in other jurisdictions. The Chamber strongly supports repeal of the authority of the Financial Stability Council (“FSOC”), chaired by the U.S. Department of the Treasury, to

² “The financial crisis of 2008/09 has shown that, in general, the insurance business model enabled the majority of insurers to withstand the financial crisis better than other financial institutions. This reflects the fact that insurance underwriting risks are, in general, not correlated with the economic business cycle and financial market risks and that the magnitude of insurance liabilities are, in very broad terms, not affected by financial market losses.” (International Association of Insurance Supervisors, 2011)

³U.S. Chamber of Commerce. The Role of Insurance Investments in the U.S. Economy (Winter 2019), available at <https://www.uschamber.com/press-release/us-chamber-releases-report-the-role-of-insurance-investments-the-us-economy>

designate nonbank financial firms as systemically important.⁴ The Chamber has also advocated against designations of nonbank financial firms as systemically important by FSOC.⁵

Similarly, the Chamber believes development of EBAs by other jurisdictions and the potential designation of insurers within their market as systemic is inappropriate. Instead, the systemic risk related standards for both local and global supervisory purposes should focus on activities insurers engage in that could materially disrupt financial stability and/or the real economy. An EBA designation at the jurisdictional level would create an un-level playing field within markets and create redundant or potentially conflicting requirements across an insurance group.

In addition, we believe that by maintaining both elements of an ABA and EBA within the Holistic Framework is redundant given the overlap in areas of focus (i.e. liquidity risk, counterparty risk, and macroeconomic exposure), underpinning frameworks and mechanisms for identifying the potential building of risk, and policy measures employed for addressing any concerns identified.

For these reasons, we continue to believe focus on an ABA should be the sole focus of the Holistic Framework and that EBA elements – specifically those within ICP 24 – should be removed.

Intervention Authority of Supervisors

Read together, ICP 10 (Preventive Measures, Corrective Measures, and Sanctions) and ICP 24 (Macro-prudential Supervision) suggest supervisors should have overly expansive intervention authority. We believe the ICPs and related components of ComFrame should more expressly state that the execution of the authorities proposed should be tied to appropriate triggers that are clear to both the insurer and appropriate supervisor and in compliance with jurisdictional laws and

⁴ Hirschman, D. T. (n.d.). Review of Financial Stability Oversight Council determination and designation processes pursuant to the Presidential Memorandum for the Secretary of the Treasury of April 21, 2017 [Letter written August 15, 2017 to U.S. Secretary of the Treasury, Steven T. Mnuchin]. Available at <http://www.centerforcapitalmarkets.com/wp-content/uploads/2019/01/CCMC-Comment-on-FSOC-SIFIDesignation-Process-Aug-2017.pdf>

⁵ See generally Letter from Tom Quaadman, Center for Capital Markets Competitiveness, to the Bd. of Governors of the Fed. Reserve Sys. (Feb 2, 2015) (offering comments on the Application of Enhanced Prudential Standards and Reporting Requirements to General Electric Capital Corporation), available at https://www.federalreserve.gov/SECRS/2015/February/20150224/R-1503/R1503_020215_129875_536678533422_1.pdf

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prudential requirements. Further, any supervisory actions taken should be clearly linked to the resolution concerns entailing the potential transmission of risk via the liquidity or counterparty exposure transmission channels. We continue to disagree that macroeconomic exposure or substitutability are appropriate areas of focus to include in the Holistic Framework and call on the IAIS to remove them.

Global Monitoring Exercise / Data Sharing / Confidentiality

We recognize and support the IAIS' emphasis on the role of macroprudential surveillance as a supervisory tool. In pursuing this objective, it is critical that unnecessary or redundant data requests be avoided. More broadly, we reiterate our view that for the Holistic Framework to succeed and adequately balance the costs and benefits of regulation it must leverage existing jurisdictional practices to the greatest extent possible.

The role of the IAIS must be limited to facilitating data availability only where it is critically essential and appropriately focused on systemic risk and to monitoring the marketplace to identify issues of systemic concern. Specifically, the Chamber believes that the Holistic Framework should largely rely on jurisdictions to share aggregate data and qualitative assessment for their market with the IAIS for purposes of identifying global trends and achieving shared macro-prudential objectives. Such an approach would account for the fact that local regulators are best positioned to identify and evaluate risks within their market and are ultimately responsible for imposing regulatory standards that would be used to address the identified activities that are systemically risky. Furthermore, if data access by IAIS were not to be on an aggregate level via local regulators then confidentiality issues would need to be addressed.

Additional elements of concern with the current consultation

In addition to the points above, we note the following concerns with the material currently subject to consultation:

- While we recognize the importance of adequate public disclosure and transparency, the key focus of the Holistic Framework is ensuring supervisors have access to information to perform macroprudential assessments, which will better enable them to assess and mitigate potential sources of systemic risk. As such, we disagree with the inclusion of a call for expanding public disclosures on liquidity related risks (i.e., ICP 20.11) to broader market participants.

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- We fully agree, “the supervisor should examine costs and benefits when considering data collection” and note that this is especially true when considering measures such as stress testing (ICP 16) or restricting businesses activities (ICP 10). We believe guidance within these respective ICPs should include greater recognition of a need for cost/benefit analysis when considering these and other supervisory tools.

Closing

In aiming to address prudential and financial stability concerns, regulatory standards and policy measures developed by the IAIS must not undermine the ability of the insurance sector to continue to fulfill its vital role in meeting the needs of policyholders and the capital markets. The IAIS also must recognize the heterogeneity of the insurance sector, respect the primacy of jurisdictional supervisors, and avoid overly prescriptive. In many respects, the current material subject to consultation succeeds in delivering standards that are at an appropriate altitude for the global level; however, as noted above, there are several areas that are of concern to the Chamber that we hope the IAIS remediates before adopting the Holistic Framework in.

Sincerely,

A handwritten signature in black ink, appearing to read 'T. Quaadman', with a long, sweeping flourish extending to the right.

Tom Quaadman