



AMERICAN ACADEMY *of* ACTUARIES

Objective. Independent. Effective.™

February 13, 2018

Mr. Jonathon Dixon
Secretary General
International Association of Insurance Supervisors
c/o Bank for International Settlements
CH-4002 Basel
Switzerland

Re: Interim Consultation Paper on Activities-Based Approach (ABA) to Systemic Risk

Dear Secretary General Dixon,

On behalf of the Solvency Committee of the American Academy of Actuaries,¹ I appreciate the opportunity to provide comments on the International Association of Insurance Supervisors' (IAIS) recent public consultation on the activities-based approach to systemic risk (ABA), dated Dec. 8, 2017.

Development of an ABA to evaluate and mitigate systemic risk in the insurance sector as well as the IAIS' approach of developing a holistic framework to consider systemic risk is a positive development in an international regulatory approach to systemic risk. We believe that entities engaging in similar activities should be subject to consistent solvency regulation, regardless of legal form.

Although each may not be significant to a particular insurer or group, as a general matter liquidity, macroeconomic, and operational risks are relevant sources of risk for the insurers and we agree that these are appropriate initial areas of focus of the development of an ABA. In particular, with respect to liquidity risk, the ability of an insurer or group to access capital and liquidity in a stress scenario is fundamental in solvency regulation. In addition, while we believe that macroeconomic risks are an important focus, the consultation's description of macroeconomic exposure appears broad.

We believe the development of an ABA should include the identification of areas where the entity-based approach or other IAIS initiatives already address the risk, to avoid duplication of policy measures. Although the consultation describes specific jurisdictional measures as out of scope in the gap analysis, a study of existing jurisdictional measures could be informative in the

¹ The American Academy of Actuaries is a 19,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

development of an ABA and may be an additional aid in avoiding duplication of international and nation-specific policy measures.

Finally, we believe that stress testing is a key component to assessing and understanding insurers' or groups' systemic risk. As acknowledged in the consultation document, there are calibration and other challenges associated with stress testing, including designing stresses that are informative for risk assessment but not an undue burden for an insurer or group to perform. Nonetheless, we believe it is a critical tool and should be explored in connection with the ABA approach.

We look forward to reviewing the ABA in more detail in the upcoming 2018 consultation and would like to offer continued assistance in that development.

Thank you for this opportunity to provide our views on the activities-based approach to systemic risk. If you have any questions or would like to discuss this letter in more detail, please contact Nikhail Nigam, the Academy's policy analyst for risk management and financial reporting issues, at +1-202-223-8196 or nigam@actuary.org.

Sincerely,

Elizabeth K. Brill, MAAA, FSA
Chairperson, Solvency Committee
Risk Management and Financial Reporting Council
American Academy of Actuaries

cc: Commissioner David Altmaier, Chair, ComFrame Development and Analysis Working Group, International Insurance Relations (G) Committee, National Association of Insurance Commissioners
David Sandberg, Chair, Insurance Regulation Committee, International Actuarial Association