Question	Comments
4	We understand that the assessment in the second step (whether the insurer is able to invest the assets backing the guarantee in a manner that matches the cash-flows of the guarantee) is based on "whether there are contractual limitations on the insurer's investment activities". However, if it were based on "the insurer's asset management performance" rather than "the contractual limitations on investment", the following should be considered in the assessment of whether a product has substantial market risk. - While there are likely to be cases where the insurer does not have assets that match super long-term guarantees, it is still be possible to match the cash-flows through reinvestment. - Even when it is difficult to match the cash-flows, the insurer would not be exposed to substantial market risk as long as it is able to match the duration or interest rate sensitivity of its assets and liabilities.
6	- As liquidity risk related to insurance activities differs greatly across jurisdictions, relevant ancillary factors should be duly considered. For example, in Japan, there have been no cases where mass surrenders intensively occurred over a short period of time, even for products with a savings component. Accordingly, it is unlikely that credit uncertainty and market moves cause policyholder "runs". - Even when insurance activities could expose the insurer to substantial liquidity risk and "the time periods in which counterparties become able to access their funds" are considered, as for insurance activities, the wider set of ancillary factors such as policyholder protection schemes, loss of guarantees, and replacement of cover would greatly affect policyholders' lapse behavior. Therefore, unlike bank runs, it is difficult to expect that counterparties' decisions to surrender policies or insurers' measures to sell their assets and access liquidity will vastly differ over the threshold of "1 week" (for example, between 5 and 10 days). - Therefore, we suggest combining the Low (less than 1 week) and Medium (between 3 months and 1 week) ratings, i.e. having two ratings ("more than 3 months" or not). In addition, without being divided into the narrow and wider sets, ancillary factors should be comprehensively considered when the combination of delay and penalty ratings is not HH.
8	- As mentioned in our comment on Question 6, due consideration should be given to jurisdictional differences over liquidity risk according to relevant ancillary factors. - Even when insurance activities could expose the insurer to substantial liquidity risk and "economic penalties" were to be considered, it is unlikely that counterparties' decisions to surrender policies will significantly differ between when there is no penalty and when there is a very minor penalty. - Therefore, we suggest having two thresholds ("a penalty of more than 20%" or not) by removing the Low rating (no penalty). In addition, without being divided into the narrow and wider sets, ancillary factors should be comprehensively considered when the combination of delay and penalty ratings is not HH.
9	- These factors are relevant to insurers' exposure to liquidity risk. However, as for insurance activities, the wider set of factors, such as policyholder protection schemes, loss of guarantees, and replacement of cover, will also greatly affect incentives for surrender. Therefore, as mentioned in our comments on Questions 6 and 8, without being divided into the narrow and wider sets, ancillary factors should be comprehensively considered when the combination of delay and penalty ratings is not HH. - If the division into the narrow and wider sets were to remain unchanged, policyholder protection schemes should at least be included in the narrow set, rather than the wider set, because such schemes would greatly affect incentives for surrendering policies. Further, Japan's life insurance policyholder protection scheme is designed to keep as many policies as possible in the event of an insurer's failure, based on the premise that doing so contributes to policyholder protection when cover replacement is usually difficult to secure particularly for life insurance. Therefore, under the scheme, to maintain as many policies as possible and to prevent an outflow of assets caused by a sharp increase in surrenders, there are mechanisms to restrict an insurer’s operations regarding surrenders for a designated period of time following the insurer's failure, and to lower policy surrender values to a specified degree even after such a period, depending on the situation. - In assessing the "purpose of the policy" (protection or savings), the "purpose of the purchase" (whether premised on surrender in the future or on holding to maturity) should be considered. Specifically, even products with a savings component will only expose the insurer to low liquidity risk as long as customers purchase these with an eye to holding to maturity. Such products should be treated in a similar way to products providing protection. The purpose of the purchase could be assessed based on the historical data on the lapse rate of the product.
10	- As mentioned in our comment on Question 9, the "purpose of the purchase" (whether premised on surrender in the future or on holding to maturity) will significantly affect liquidity, and therefore should be considered in assessing the "purpose of the policy". - In addition, investment in assets that are realisable even in a stressed environment is unlikely to contribute to systemic risk. Hence, not only the liquidity of liabilities but also the liquidity of assets should be considered.
14	- "Other relevant but non-determinative factors" should not be taken into account as directly determinative in NTNI classification. - However, "liquidity of assets" vastly affects liquidity risk, and therefore should be added as an ancillary factor. - If "other relevant but non-determinative factors" were to be used in the Phase III analysis of the G-SII assessment process, their influence on systemic risk should be considered according to the principle of substance over form.