

IAIS Consultations

Print view of your comments on "Consultation on ComFrame material integrated with ICPs 5, 7 and 8 " - Date: 01.06.2017, Time: 17:43

Organisation	Global Federation of Insurance Associations
Jurisdiction	Global
Role	Other (not IAIS Member)
Other Roles	Not Potential IAIG
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Treat my comments as confidential	No

Question	
	Q1 General Comment on ComFrame material integrated with ICP 5
Answer	<p>GFIA appreciates the opportunity to comment on ComFrame material integrated into ICPs 5, 7 and 8. GFIA appreciates that the IAIS is not seeking comments on the ICPs themselves. However, some of the GFIA members are submitting individual comments on ICPs. GFIA therefore decided to include in its submission some of the key emerging positions that are shared by these organisations, for consideration by the IAIS.</p> <p>The extent to which supervisors oversee suitability of Board Members, Senior Management and Key Persons in Control Functions differs significantly from jurisdiction to jurisdiction. In some jurisdictions, suitability is limited to assuring the absence of criminal or other wrong doing, and does not include a determination by the supervisor of competence. For those jurisdictions, ICP 5 goes far beyond existing supervisory authority and intrudes into matters left to company management, and ICP 5 would be considered inappropriate, most clearly exemplified by paragraphs 5.5, 5.5.1 and 5.5.2.</p> <p>It is also uncertain in some cases how ICP 5 applies to IAIGs. In particular, ICP 5.4 and ICP 5.6 also purport to give supervisors very far-reaching powers, and it is uncertain how these powers would be applied in practice, in particular if there is a conflict between the group-wide and legal entity supervisors. It is unclear how far the powers extend, i.e. whether they apply at the level of the individual legal entity and/or the group, and how the powers in ICP 5.6 interact with the provisions of ICPs 3 and 25.</p> <p>Different jurisdictions have different legal and regulatory systems with different rules and requirements, including those relating to a supervisor's powers, responsibilities and discretion, and this should be appropriately recognized and reflected in the underlying ICP. As a result, many of the elements within 5.3, 5.4, 5.5 and 5.6 should begin with "In certain jurisdictions," and the word "may" should be used in order to give a supervisor discretion with regard to certain actions.</p> <p>In addition, the term "Significant Owners" should be clarified in 5.0.1; the words "possible", "civil liability" and "pending proceedings" and the 2nd and 4th sub-bullets of the 4th bullet should be deleted in 5.3.7; all of the bullets in 5.5.1 should be deleted; and a statement that "any information exchanged with other authorities should be subject to the confidentiality provisions of such authorities" should be added to the elements within 5.6.</p> <p>Please find below comments on specific ICPs:</p> <p>ICP 5.2 and 5.4: A "Significant Owner" – especially one that is a natural person – is not ordinarily under the control of the insurer and therefore may not possess the information requested in this section. In general, these sections appear to over-reach regarding the powers of the supervisor, especially if the insurer consists of a group of companies, some of which are outside the jurisdiction of the supervisor.</p> <p>ICP 5.3.7 and 5.3.10: A factor to be considered in assessing the integrity of the listed persons is whether they have declared bankruptcy, or an entity in which the individual held</p>

a certain position went bankrupt. Not every business succeeds, and bankruptcy is not necessarily indicative of wrongdoing. Businesses must take risks and sometimes those come to fruition and result in bankruptcy. This criterion should be removed or qualified.

ICP 5.5.1: The supervisor may not have the power to prevent, delay or revoke the appointment of a key individual (or require the appointment of a different person), and this power may be deemed to interfere with the management of the insurer

ICP 5.6.3: The supervisor is urged to seek confirmation that an entity is "in good standing". However, the meaning of this term is not clear.

Q2 Comment on Standard CF5.2a

Answer

This ComFrame Guidance seems to be unprecise as it requires Key Persons in control functions to have appropriate competence to manage the IAIG. However, the internal control function, which is one of the governance control functions, is at the same time expected to maintain independence and be separated from the operational business of the IAIG. The internal control function therefore does not manage the IAIG and hence would not require related competences. We would propose tailoring this guidance to the respective roles, for example with the following minor adjustment:

"...Key Persons in control functions should have appropriate competences to fulfil their responsibilities within the IAIG, such as..." This Standard should be more process oriented rather than contain expectations that Board members possess knowledge of "any specific features of the jurisdictions where the IAIG operates". In terms of process, the focus should be on ensuring that Board members have adequate powers and resources to be able to discharge their duties fully and effectively.

We do not believe the standard should require that individual Board members possess "knowledge and experience with international business and processes as well as different business models". It should only apply to the IAIG Board collectively. The phrase "knowledge and experience" should be replaced with "knowledge or experience".

Q3 Comment on Guidance CF5.2a.1

Answer

This ComFrame Guidance seems to be unprecise as it requires Key Persons in control functions to have appropriate competence to manage the IAIG. However, the internal control function, which is one of the governance control functions, is at the same time expected to maintain independence and be separated from the operational business of the IAIG. The internal control function therefore does not manage the IAIG and hence would not require related competences. We would propose tailoring this guidance to the respective roles, for example with the following minor adjustment:

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Q4 General Comment on ComFrame material integrated with ICP 7

Answer

While we agree that general principles and expectations outlined in the ComFrame material under ICP 7 for corporate governance should be applicable to the Head of the IAIG, we are concerned that some of the standards and guidance come across as a prescriptive, one size fits all approach that requires the Head of the IAIG to perform specific oversight responsibilities for all of its insurance legal entities.

In our experience, insurance groups can also be effectively governed under decentralized approaches, whereby significant oversight responsibility is delegated to legal entity and/or other intermediate holding company levels. Under such a decentralized model, material issues or concerns are still communicated to the Head of the IAIG through an escalation process, but such a structure allows the concepts of proportionality and materiality to be

more effectively implemented at a local level. In addition, such an approach can allow the Head of the IAIG to focus on more substantive group-wide issues, as opposed to utilizing its time to address legal entity issues that may not affect the overall group.

While ICP 7 and recent IAIS Issue Papers and Application Papers recognize the variety of governance approaches insurance groups may have, this is not clear in some of the ComFrame material, which seems to assume a centralized approach for all IAIGs. We suggest making the ComFrame material more balanced, rather than favoring the centralized approach.

We also suggest further explanation should be provided as to how some of the requirements in ICP 7 are to be applied in a group situation, for example –

1. ICP 7.4 – there is potential for different supervisors to apply different standards, and it is unclear how an insurer/group should manage this;

2. ICP 7.8 – while the group Board may require oversight of the external audit process, it is the legal entities' Boards and audit committees that should be involved in the detail, and the ICP should clarify this;

3. ICP 7.10 – it is unclear how far-reaching these requirements are. We would expect the legal entity Board and senior management to be responsible for the legal entity, and the group Board at group level, with oversight of the rest;

ICP 7.11 – again, it would be useful for the IAIS to clarify how far-reaching this is in terms of the group. In many jurisdictions, insurers are allowed to have CEOs sit on and/or chair their Boards as such individuals can provide a valuable perspective and important insight to other Board members, including those relating to executive functions, and this should be appropriately recognized and reflected in the underlying ICP (7.1.1, 7.1.3, 7.3.5). In addition, not all Boards “set” the corporate culture or all business objectives and strategies, though they may “approve” these items, as their main function is to set the overall direction and broad policies of the insurer and to oversee their implementation (7.2).

While the interests of customers should be considered when a company sets its objectives and strategies, determining the “fair” treatment of such customers is too subjective and should not be included as a consideration (7.2.1, 7.3.1, 7.6.1). In addition, a Board’s review of its governance framework, objectives, strategies and performance should be performed “regularly” rather than “at least annually” (7.2.6, 7.3.3). With regard to variable remuneration in 7.6, different jurisdictions have different rules and regulations, and this should be appropriately recognized and reflected in the ICP.

Please find below comments on specific ICPs:

Standard ICP 7.4: The duties do not necessarily reflect longstanding Board members’ duty of care under common law. For instance, in these jurisdictions, the duties of board members are to “(a) act honestly and in good faith with a view to the best interests of the company; and (b) exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances”. These duties are supported by decades of jurisprudence. The duty set out in 7.4 will create a conflict with the well-established standard.

ICP 7.6.13: The last bullet seems identical to the following bullet in 7.6.14.

ICP 7.9.3: Supervisors are urged to safeguard confidential information. In some jurisdictions, protection of such information by statute is weak. For instance, in some jurisdictions, confidential information can be subpoenaed in a civil action. Jurisdictions should be urged to adopt legislation preventing this.

ICP 7.9.5: In some jurisdictions, the disclosure of remuneration is properly handled under securities law for publicly-traded entities, not through insurance regulation. GFIA requests that the text be amended to clarify that this is not requiring public disclosure, but rather reporting to the supervisor.

Q5 Comment on Standard CF7.0a

Answer

It does not seem reasonable to expect the IAIG to present the information necessary to sufficiently understand the legal/management structures and inter-relationships of the group within a single written outline. Therefore, we don’t agree with the supervisor requiring a specific document in this area for purposes of identifying and managing risks.

Instead, the standard should be revised to require the Head of the IAIG to have such an understanding and to demonstrate such an understanding at the request of the group-wide supervisor. Guidance could then suggest ways that such an understanding could be demonstrated.

Q6 Comment on Guidance CF7.0a.1

Answer

The requirement to provide the information in the 3rd and 4th bullet points of this Guidance should be subject to materiality considerations.
The items listed may not be covered in a single specific document or outline.

Q7 Comment on Standard CF7.0b

Answer

While we agree that general principles and expectations outlined in the ComFrame material under ICP 7 for corporate governance should be applicable to the Head of the IAIG, we feel that it should be the local supervisor's responsibility to ensure that a sufficient governance framework is in place to address the needs of each insurance legal entity. The group-wide supervisor should not have responsibility for reviewing the governance in place at each legal entity, with the exception of those legal entities that are domiciled in the group-wide supervisor's jurisdiction. Otherwise, supervisory review of processes and responsibilities can become duplicative and ineffective. We suggest amending CF7.0b and its guidance to clarify expectations in this area.

Q8 Comment on Guidance CF7.0b.1

Answer

This guidance should distinguish more clearly between the role of Boards in some jurisdictions which have more of an oversight function, and the role of Boards in other jurisdictions that have a tiered structure which includes both a Management Board and an Executive Board where we would expect a Management Board to have responsibility for the "sound and prudent management of the IAIG". Accordingly, the second sentence should begin with "In certain jurisdictions,".

Q9 Comment on Standard CF7.1a

Answer

As noted in the General Comment above, this ComFrame guidance is prescriptive and intrudes upon the roles of the Board and Senior Management.

Q10 Comment on Guidance CF7.1a.1

Answer

Q11 Comment on Guidance CF7.1a.2

Answer

Some level of "group interest" should be incorporated into this standard in order to offset the inherent implication that there will be conflict in cases of cross-representation on Boards. See our comment on CF7.3b.1. In addition, the words "so that there is no conflict" should be replaced with "to avoid potential conflict". Clarification is also needed to describe "appropriate measures".

Q12 Comment on Standard CF7.1b

Answer

This Standard should be more explicit in the application of the idea of proportionality to the reporting requirements. While the Standard requires material changes to be reported, a number of the bullet points listed could also be subject to a materiality requirement to avoid creating a great deal of onerous, non-material reporting. For example, reporting should be limited to material changes relating to material or significant management structures (3rd bullet point). Clarification is needed that the Head of the IAIG reports to the IAIG Board (as opposed to the group-wide supervisor).

Q13 Comment on Standard CF7.2a

Answer

In general, responsibility for ensuring that local laws and regulations are complied with should rest with the local boards and legal entity supervisors as opposed to the IAIG Board and the group-wide supervisor. However, we do recognize that major compliance issues and conflicting objectives between a legal entity and the group can impact the overall condition of the group. Therefore, we recommend that this standard be revised to clarify expectations in this area, as well as incorporate considerations related to proportionality and materiality (i.e. use of key or significant entities/jurisdictions when referring to group-wide supervisor responsibilities).

The words “, as appropriate,” should follow “ensure”. The third bullet should read “the interests of policyholders, customers and other stakeholders; and”. The fourth bullet regarding the “fair treatment of customers” should be deleted since the notion of “fair treatment” is very subjective.

The business objectives should take into account “the interests of policyholders and stakeholders” and also the “fair treatment of customers”. These do not seem to differ, so the latter can be removed.

Q14 Comment on Guidance CF7.2a.1

Answer

The word “material” should be inserted before “risks” in both instances.

Q15 Comment on Guidance CF7.2a.2

Answer

The information sharing anticipated by the Guidance must be subject to confidentiality or professional secrecy requirements.

Q16 Comment on Standard CF7.2b

Answer

This provision is too prescriptive and fails to address the confidentiality concern of such a request. We suggest the following re-write: “Subject to a confidentiality agreement, the group-wide supervisor periodically requests the Head of the IAIG to provide to the group-wide supervisor a clear, detailed explanation of the strategy that the IAIG Board has approved.

The phrase “at least annually” is too prescriptive and should be replaced with “periodically”. The words “(or approved)” should follow “set for the IAIG as a whole and its key legal entities and business lines.””.

Q17 Comment on Guidance CF7.2b.1

Answer

The fifth bullet should be deleted since we do not believe that an explanation of strategy necessarily needs to contain “anticipated changes in market share”.

Q18 Comment on Standard CF7.3a

Answer

It does not seem reasonable to require IAIG Board members to have a full understanding of the business of ALL legal entities of the IAIG, including their associated risks. We suggest incorporating materiality considerations into this standard.

Q19 Comment on Guidance CF7.3a.1

Answer

Same comment as on CF7.3a -- this guidance should include recognition of materiality considerations. Clarification is needed to confirm that the reference to “material operations” and “material risks” relates to “legal entities”.

Q20 Comment on Standard CF7.3b

Answer The approach to conflicts of interest in this Standard and the following Guidance is preferable to that in taken in the recent draft Application Paper on Group Corporate Governance, as it recognises that conflicts may be managed and mitigated by the insurer, and need not be a trigger for immediate supervisory action. We suggest that the word “materially” is added to this requirement – i.e. “...that may materially adversely affect the IAIG as a whole...”.

Q21 Comment on Guidance CF7.3b.1

Answer We suggest that this Guidance also recognise the benefits of cross-representation within decision-making bodies of the group, and also the idea of group interest, acknowledging that directors of subsidiaries should be allowed to reasonably take the parent’s interest into account without violating their fiduciary duties toward their subsidiary. Supervisory recognition of group interest, which provides enhanced flexibility for management of groups, especially on a cross-border basis, this would provide directors with comfort when taking directions from the parent board. In alternative, this provision can be viewed as more of an editorial comment than a regulatory standard and should be deleted.

Q22 Comment on Guidance CF7.3b.2

Answer

Q23 Comment on Guidance CF7.9.1

Answer We suggest that this Guidance is not necessary as, although the group Board will have an oversight role, it will not necessarily be directly involved in issues concerning particular insurance entities, and the information would come from the legal entity, as anticipated by ICP 7.9. At the very least, this Guidance should incorporate proportionality, by considering the materiality of individual legal entities.

Q24 General Comment on ComFrame material integrated with ICP 8

Answer Similar to our general comments on the ComFrame material under ICP 7, we are concerned that ComFrame material under ICP 8 is too prescriptive and would not allow for decentralized approaches in risk management and internal controls.

Responsibility for certain control functions and risk management processes can be delegated to local business units and/or legal entities without compromising the overall effectiveness of the group function. Guidance should be developed that would allow the Head of the IAIG to delegate certain responsibilities to local business units and/or legal entities, as long as an effective overall framework is in place to identify and address issues that should be escalated to the Head of the IAIG for remediation. Such an approach would allow the group-wide supervisor and the local supervisor to have separate and distinct roles in assessment and to avoid duplication in monitoring efforts. In addition, such an approach would further encourage supervisor communication across jurisdictions and leverage the use of supervisory college sessions that are currently taking place to facilitate this type of communication.

Please find below comments on specific ICPs:

ICP 8.2.8: There is a reporting requirement, but it is not clear who the intended recipient of the reports is. If it is to supervisors, it may not be appropriate to report "an assessment of how the various business units are performing against internal....goals". GFIA suggests that the first sentence be amended as follows: "reporting to the Board or Board Committees by the internal control system".

ICP 8.3.5: "The insurer should notify the supervisor of the reasons for dismissals of heads of control functions". As noted later in the document, there are statutory requirements to notify a supervisor of the dismissal of the appointed actuary or sometimes of the auditor. By implication, an insurer is not required to notify on all control functions. This could become unwieldy if heads of control functions include individuals who have the duties of, but not the title of, CCO, CRO, and Head of Internal Audit are included.

ICP 8.4.3: The title doesn't align with the section (should refer to Risk Management not to Compliance).

ICP 8.5.6: There are two bullets requiring the compliance function to "ensure" (1) that the insurer monitors and has appropriate policies. and (2) that the insurer ensures adequate disciplinary actions are taken. The compliance function does not have the authority to ensure either of these. The CCO can report to the Board on failures to do certain things, it can promote, facilitate, etc., but it can't "ensure".

ICP 8.6: Our observations on ComFrame's assumption of the scope of the actuarial function also apply to the ICP and if accepted for ComFrame should lead to the following adjustments at the ICP level:

1. ICP 8.6 should remove "capital adequacy" from the requirements
2. ICP 8.6.2 bullet 4 should be removed
3. ICP 8.6.4 bullet 2 should remove the "and capital requirements, as well as other obligations or activities" portion of the bullet
4. ICP 8.6.4 bullet 3 should remove "and the valuation of assets" portion of the bullet
5. ICP 8.6.4 bullet 4 and bullet 5 should be reworded so that the actuarial function is only reviewing the actuarial portion of the insurer's current and prospective solvency position
6. ICP 8.6.4 bullet 6 should remove the "or the financial condition of the insurer" portion of the bullet
7. ICP 8.6.4 bullet 12 should remove the "or financial projections, or for solvency" portion of the bullet
8. ICP 8.6.4 bullet 13 should remove the "or financial matters" portion of the bullet.
9. We have an additional ICP comment as follows: ICP 8.6.12 should be removed in its entirety. The phrase "adequately perform" is open to interpretation and could lead the Appointed Actuary to be unable to adequately perform the duties of their position when regulators take positions that the Appointed Actuary may disagree with.

Q25 Comment on Standard CF8.1a

Answer

The Head of the IAIG should be able to delegate responsibility for certain elements of risk management functions to local business units or legal entities. For example, the Head of the IAIG should not be required to ensure that the function covers compliance with all laws and regulations of the jurisdictions where the IAIG operates. We suggest revising this standard to allow additional flexibility in delegating responsibilities and recognizing materiality considerations.

We are concerned that CF 8.1a appears to mandate that the Head of the IAIG establish the risk management system that operates at all levels of the IAIG.

While we strongly support effective risk management systems, this ComFrame element does not recognize the principle of neutrality towards IAIGs governance structures that is documented in paragraph 23 of the ComFrame Introduction. Paragraph 23 states that "IAIGs have different models of governance (i.e., more centralized or more decentralized). ComFrame does not favour any particular governance model and instead focuses on the outcomes that the governance model needs to achieve."

We recommend that the IAIS strike the words "to establish, and" to avoid contradicting the overarching principle that ComFrame supports both centralized and decentralized governance model. The current phrasing seems to insist that the Head entity design and operate its risk management program for all group entities on a centralized basis. We believe the ultimate objectives of ensuring that the entire IAIG operate within an appropriately documented and effective risk management program can be achieved whether an IAIG is operating in a centralized or decentralized governance model.

Out of deference to ComFrame's neutrality to centralized/decentralized structures, guidance should be developed that permit the IAIG to delegate certain responsibilities to legal entities, as long as there is a framework in place to identify and escalate material issues to the Board and IAIG Senior Management.

Q26 Comment on Guidance CF8.1a.1

Answer The risk management function at the Head of the IAIG may not need to be fully integrated with that of a legal entity, as long as there is some level of collaboration and communication to ensure that the functions do not conflict and that material risk exposures are communicated to the Head of the IAIG. Suggest developing guidance in this area to recognize that different approaches may be appropriate in this regard.

Q27 Comment on Guidance CF8.1a.2

Answer The general requirement to properly assess risks associated with new business lines and products would sit better elsewhere in the framework. For example, the responsibility may be more appropriate at the level of the operating subsidiaries who manufacture products, rather than the head of the IAIG, which may in fact be a parent/holding company. Further, it may not be efficient and appropriate to require the Head of the IAIG to ensure that a full risk assessment is carried out before ANY new business lines and/or products are introduced at a legal entity level. Suggest adding some language related to materiality in this guidance, e.g. "...before the IAIG enters into material new business lines and products..."

Q28 Comment on Standard CF8.1b

Answer We support the concept of regularly reviewing the risk management system to ensure that emerging risks are taken into account and necessary modifications and improvements are identified and made in a timely fashion. However, as we noted in our comment to 8.1a, this function may not always be carried out by the Holding Company (the head of the IAIG) in IAIGs with a more decentralized governance structure and the ComFrame elements should be phrased in a manner which supports the overarching ComFrame methodology of not favoring or insisting on a centralized or decentralized governance structure. We are generally in support of the new structuring related to this Standard. However, the frequency of the review should not be annually but periodically depending on the risk profile of the undertaking.

Q29 Comment on Standard CF8.1c

Answer

Q30 Comment on Guidance CF8.1c.1

Answer

Q31 Comment on Standard CF8.2a

Answer It does not seem necessary to require the Head of the IAIG to ensure that the internal controls at the group-wide level cover issues that would typically be the responsibility of local business units or legal entities, unless they are clearly relevant and material to the entire group. Suggest revising this standard to allow additional flexibility in delegating responsibilities and recognizing materiality considerations.

Q32 Comment on Standard CF8.2b

Answer We support the regular assessment of internal control systems. We do have several suggested changes.

First, we recommend replacing the word "determine" with "evaluate" because an evaluation would fulfill the same objective that we believe CF 8.2b is attempting to achieve and avoids the implied decision-making capacity of the word "determine." The independent auditor's role is to provide honest and objective evaluations. Independent auditors may be reluctant to extend their opinions to a final "determination" on the coherence, completeness and effectiveness of the internal controls system.

Second, we believe that an annual assessment is overly burdensome and would not allow the Board and Senior Management enough time to review the results and implement modifications and determine if they are actually working. For example, an audit of this

depth would likely take the better part of a year to complete, the results must be reviewed by the Board and Senior Management. If the results indicate there are deficiencies in the internal controls, then the Board and Senior Management will need to agree on changes to the system, the changes must be implemented, and then given a period of time to evaluate their effectiveness. Back-to-back audits do not provide enough time for the potential implementation and evaluation of changes.

We recommend modifying the CF element to say that the independent assessment should occur on “a periodic basis depending on the nature, scale and complexity of the IAIG.” The Group Wide Supervisor and the IAIG should be able to agree on a practical period of time, depending on the scale or complexity of the group. This will also ensure that the independent auditors findings have real utility to the Board and Senior Management.

Depending upon the expectations here, this could be a significant undertaking for the group and its legal entities, depending upon how it is interpreted and implemented. We suggest additional clarification in this regard. Further, the frequency of the assessment should not be annually but periodically, depending on the risk profile of the undertaking. In general, the internal audit will be responsible for assessing and testing the internal control system on an ongoing process according to a multi-year plan.

Additionally, the Head of the IAIG should be able to delegate responsibility for certain elements of internal control systems to local business units or legal entities that are in a better position to test and review those functions. We consider that the legal entity Board would be best placed to assess the internal controls systems at the legal entity level. Under this approach, material issues or concerns could still be required to be communicated to the Head of the IAIG through a defined escalation process.

The term “independent objective party” should be clarified as being able to be performed by one of the independent second or third-line control functions within an organisation. It need not be performed by an external auditor, which would be inefficient and unnecessarily onerous.

The second bullet of this ComFrame Standard provides that testing and assessments to determine the appropriateness of the internal control system are carried out by “an independent objective party”. On the other hand, ICP 8.2.4 provides specific examples of such objective parties by stating that such testing and assessments are carried out by “objective parties such as an internal or external auditor”.

There is no need for ComFrame to deviate from the ICP with regard to who carries out such testing and assessments. The second bullet of this ComFrame Standard should be amended to read as follows in order to ensure consistency with ICP:

“periodic testing and assessments are carried out by objective parties such as an internal or external auditor”.

Q33 Comment on Standard CF8.3a

Answer

Q34 Comment on Standard CF8.3b

Answer

The second bullet point implies that the IAIG needs to track risks and internal capital measures on a legal entity basis. In some jurisdictions, an IAIG may have hundreds of legal entities as part of the IAIG. We recommend modifying CF 8.3b to permit the IAIG control functions to account for legal entity risk. Streamlining or centralizing control functions may be desirable, depending on the structure of the IAIG. The group-wide supervisor should consult with the IAIG regarding the structure and coordination of control functions.

We recommend modifying this sentence to say “coordinate with the control functions at the insurance legal entity level, in a manner appropriate to the IAIGs legal structure and jurisdictional laws.”

Q35 Comment on Standard CF8.3c

Answer We understand that some control functions, like the audit function, must be independent and should not be combined with other units. As currently written, this Element would have significant staffing functions by requiring a completely separate second line of control functions for every internal control function, regardless of whether the risks were material or not.

While we understand that material, high-risk control functions like audit should not be combined with other control functions, we believe that non-material risks or even some material but low-impacting risks, do not require a completely separate first and second line set of controls. Even for material risks that are lower-impact, having a combination of 1st line staff perform some 2nd line oversight should be acceptable. The staffing implications for having to maintain separate 1st and 2nd line oversight for every control function is not reasonable.

It is unclear what the phrase “are not combined” requires in practice. We note there is no outright ban on combining control functions under current guideline M2E2-8-1-2, and we suggest that this bullet point be deleted.

Q36 Comment on Standard CF8.4a

Answer The Head of the IAIG should be able to delegate responsibility for certain elements of risk management functions to local business units or legal entities. For example, the Head of the IAIG should not be required to monitor all risk management activities and mechanisms employed at the legal entity level or to conduct a full assessment of risks at that level.

This Standard should clarify that it does not require a risk management function to be embedded in each legal entity, and it should allow additional flexibility in delegating responsibilities and recognizing materiality considerations.

The quarterly risk management reports should be changed to periodically depending on the risk profile of the undertaking.

Q37 Comment on Standard CF8.4b

Answer

Q38 Comment on Standard CF8.5a

Answer It does not seem necessary for the Head of the IAIG to monitor ALL compliance mechanisms and activities across all levels of the company. In addition, it is not clear what would be included in a group-wide compliance plan as regulatory compliance varies extensively across jurisdictions. We suggest revising this standard to allow additional flexibility in delegating responsibilities and recognizing materiality considerations, and in particular, removing the obligations on the compliance function to coordinate and monitor consistent implementation of:

1. Legal obligations (in the first and second bullet)
2. Internal policies (in the second bullet)
3. Development and embedding of group-wide corporate values throughout the IAIG (the third bullet)
4. Approval of the compliance plan by the Board (final bullet point) – it should be sufficient that the Board receives a copy of the plan, discusses the plan, and receives (quarterly) updates on the progress of the plan.

Q39 Comment on Standard CF8.6a

Answer As the significance of reinsurance arrangements varies across IAIGs depending on their business models, adequacy of the IAIG’s reinsurance arrangements should be supervised in accordance with its significance. In particular, where an IAIG has a more decentralized governance approach, there may be cases where the IAIG assesses adequacy of reinsurance arrangements though the assessments of risks carried out by each entity within the IAIG. Accordingly, the fourth bullet referring to the development, pricing and assessment of the adequacy of the IAIG’s reinsurance arrangements should be deleted and reinsurance arrangements should be referred to in the first bullet by replacing “actuarial

matters” with “actuarial matters (including reinsurance arrangements)”.

Given that not all jurisdictions require direct actuarial involvement in the calculation of regulatory capital requirements (particularly when using a standard model/formula), the language in the second bullet requires revision, so that the actuarial function is responsible for overseeing the actuarial portions of the current and prospective solvency calculation. It is not appropriate to require IAIGs to place the responsibility for solvency calculations within the actuarial function. In some jurisdictions, the actuarial function is not tasked with calculating the IAIG’s solvency position. While actuarial calculations, such as technical provisions often factor in an IAIG’s solvency position, there are also items outside of the actuarial function that impact on IAIG’s solvency position, and therefore the responsibility for performing an overview of the current and prospective solvency calculations often lies outside of the actuarial function. For example, the Controller’s area often performs the current solvency calculation, with input from other areas as necessary. The Treasury Department may oversee the projection of future positions. This may vary company by company. The actuarial function is not the only area/function that contributes to the solvency calculation.

The third bullet point should either be deleted entirely or reworded so that the actuarial function is required to oversee the actuarial portions of the current and prospective solvency calculation only.

Q40 Comment on Standard CF8.6b

Answer

We are concerned that this ComFrame Standard lacks clarity with regard to the “actuarial information” to be reviewed by the IAIG actuarial function in cooperation with the actuarial function at the insurance legal entity level. It is not cost-efficient that IAIG actuarial function reviews any “actuarial information”.

We therefore propose to replace “actuarial information” in the first bullet with “all important actuarial information”.

Q41 Comment on Standard CF8.7a

Answer

We are concerned that as it is currently written, CF 8.7a is overly prescriptive and so broad that it may be extremely challenging for an internal auditor to provide a competent assessment of every item listed in the sub-bullets. For example, an internal audit function is unlikely to be the most capable function of providing an “assessment and assurance” of the “capacity and adaptability of IT architecture” to provide information in a timely manner to the Board and Senior Management. We recommend modifying the sub-bullets of CF 8.7a to eliminate any overly prescriptive mandates that are addressed elsewhere.

We recommend striking the sub-bullet 4 on “capacity and adaptability of IT architecture” because that is already addressed in sub-bullet 3, where the auditor is asked to assess the “reliability, integrity and completeness of the...information technology systems and risk reporting information.” If the nature and scale of the IAIG was such that the GWS had specific concerns about IT architecture and its ability to provide timely information to the Board or Management, the GWS could ask the IAIG to address it as part of the reliability assessment in CF 8.7a, sub-bullet 3.

Q42 Comment on Guidance CF8.7a.1

Answer

This Guidance should clarify that internal audit takes a risk-based approach to performing these activities.

Q43 Comment on Standard CF8.8a

Answer

Q44 Comment on Standard CF8.8b

Answer

Q45 Comment on Standard CF8.8c

Answer

Q46 Comment on Standard CF8.8d

Answer

This ComFrame Standard requires the IAIG to carry out a review of the cumulative risks of all outsourced activities and functions periodically. However, this ComFrame Standard should recognize that IAIGs outsource variety of activities and functions such as logistics, documentation, data management and software development. In light of cost-efficiency, it would not be appropriate to require IAIGs in a one-size-fits-all manner to review all outsourced activities and functions as it will create excess cost for IAIGs.

We therefore believe that “all outsourced activities and functions” should be replaced with “all important outsourced activities and functions”.