IAIS Consultations

Print view of your comments on "ComFrame in ICPs 15 and 16" - Date: 30.10.2018, Time: 18:01

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	Question
	Q1 General Comment on ComFrame in ICP 15

Answer

GFIA welcomes the opportunity to comment on the revisions to ComFrame material in ICP 15. GFIA would like to take the opportunity to also comment on some of the ICPs' provisions that do not directly relate to ComFrame material, but are however very relevant for GFIA members.

The summary box at the start of the ICP 15 section of the consultation states "The supervisor establishes investment requirements for solvency purposes in order for insurers to make appropriate investments taking account of the risks they face". However, the requirements should not restrict insurers from investing in line with their approved ALM mandates. There should be no possibility for the regulator to set explicit limits on certain investments, or to direct investment in certain assets. Only when a breach of capital requirements has occurred should the supervisory authority be empowered to provide such direction.

As a general comment, GFIA believes that quantitative requirements should be avoided. The regulator should not act as a shadow director – investment levels should be reflected in capital requirements and the supervisory review process as appropriate.

Paragraph 15.1.2 – The quantitative requirements referred to here should only be implemented when there is a supervisory reason, such as a breach of capital requirements.

Paragraph 15.1.3 – The development of internal investment and capital markets (fourth bullet point) should not be a factor to consider when establishing regulatory investment requirements. Insurers' investments are for the benefit of their policyholders and shareholders, although GFIA would note that increasing shareholder value does support the development of capital markets more broadly.

Paragraph 15.1.4 – GFIA acknowledges that assessing how other, non-insurance financial sectors apply capital requirements may help to provide a level playing field. However, IAIS needs to recognise that the insurance business model is fundamentally different from the banking business model, and there is a limited read-across that can be made from one to the other. Hence, a "one-size-fits-all" approach is unlikely to be appropriate; careful consideration should be given to fundamental differences in prudential regimes across sectors and jurisdictions.

Paragraph 15.1.8 – There should be a clear rationale and clear criteria for imposing limits and setting out rules on specific classes of investment – for example, investments that involve excessive risk taking should be inadmissible for regulatory capital purposes.

There should be no quantitative regulatory limits on concentrations of assets. If an insurer wants to concentrate its investments, it should maintain an appropriate level of capital for the corresponding concentration risk. The insurer should be able to explain the reasoning for holding a concentration of certain assets, counterparties or other characteristics, if the regulator deems the firm to be an outlier. Paragraph 15.1.11 – Regulatory group investment requirements should be limited to reporting, and should not restrict an insurer from achieving synergies across a group. Nor should they limit diversification benefits that can be obtained by the group. GFIA considers that groups should rely on the local supervisory rules of the jurisdiction in which they are based to demonstrate compliance with concentration requirements.

Paragraph 15.3.3 – If an insurer adopts a mis-matched position, this risk should be reflected in enhanced capital requirements. It should not be reflected in additional technical provisions (which are not risk-based). Technical provisions should be based on the principles guiding ICS version 2.0, and should not be impacted by other considerations.

Paragraph 15.5 – Again, quantitative limits should not be applied to these investments.

GFIA considers that further revisions to the text of ComFrame within ICP 15 are needed, in particular the removal of the provisions in Standard CF 15.2.b regarding the transfer of assets cross-border.

Q2 Comment on ComFrame Standard CF15.2.a

Answer

The standard should be revised to read “The group-wide supervisor requires the IAIG to conduct its own due diligence to avoid placing undue reliance on assessments by credit rating agencies with regard to investment selection and risk management processes”. There is no need to require “the head of the IAIG” to do so as long as the requirement is met.

Groups should consider how local entities are required to manage their investments; group investment policies should reflect these local practices and requirements, and not impede them. A group’s policies should reflect its internal organisation, and could be centralised or delegated downwards. A single, centrally organised policy may not be automatically applicable to all groups.

Q3 Comment on ComFrame Guidance CF15.2.a.1

Answer

GFIA considers it unrealistic to expect IAIGs to perform their own credit analysis on every investment, and that it is appropriate to place reliance on credit rating agencies that have been selected with appropriate due diligence. This is standard practice across the financial services industry.

Q4 Comment on ComFrame Guidance CF15.2.a.2

Answer

GFIA welcomes the clarification as to the meaning of “undue reliance”.

Q5 Comment on ComFrame Standard CF15.2.b

Answer

GFIA considers that this standard should be removed from ComFrame in ICP 15 as it does not relate to investments.

It should also be revised to refer to the IAIG rather than the head of the IAIG – i.e. “The group-wide supervisor requires the IAIG to consider the effect of potential legal and operational impediments to the IAIG’s ability to transfer capital and assets on a cross-border basis”. There is no need to require “the head of the IAIG” to do so as long as the requirement is met.

“Capital” is not the same as “assets”. In this context, references to “capital” should be removed from Standard CF 15.2.b.

Q6 Comment on ComFrame Guidance CF15.2.b.1

Answer

GFIA considers that this standard should be removed from ComFrame in ICP 15 as it does not relate to investments.

Furthermore, and as noted above, the requirement should apply to the IAIG as a whole and not “the head of the IAIG”.

Q7 General Comment on ComFrame in ICP 16

Answer

Revisions to ICP16 are needed. Reference is made to previous comments on ICP 16, submitted in January 2018

A large part of the guidance in ICP 16 is too granular (i.e. 16.5 ALM, 16.6 investment policy, 16.7 underwriting policy, 16.8-16.12 ORSA) and prevents the proportional implementation of an adequate risk management system. In fact, the principle-based approach of the framework is endangered by sections of this ICP. Many requirements may be adequate for complex insurers with long-term business and complex asset strategy but not for small or medium-sized insurers without long-term business and with a simple asset structure. ICPs 16.5.4 and 16.5.5 on ring-fencing of assets is overly prescriptive and not suitable for all jurisdictions. The list of examples for “inherently risky financial instruments” in ICP 16.6.2, for example, does not provide any valuable guidance for supervisors / (re)insurers and will become out of date (despite not being exhaustive). The inclusion of derivatives in this list should be clarified to extend only to derivatives that are uncollateralised and have potential for counterparty risk (of which explicit consideration in the investment risk policy is indeed required in 16.6.3). In most cases, insurers use derivatives for hedging purposes and this is part of the ALM of insurers intended to mitigate risks rather than amplify them. ICP 16.6.9, suggesting that the use of some types of derivatives should per se be restricted, is certainly to prescriptive and should be deleted. ICP 16.10.1 explicitly links the ORSA’s objective/scope with the insurer’s ability to meet its obligations to policyholders. This would exclude insurers focusing on certain business activities and, for example, reinsurers. As several references are made to regulatory capital requirements throughout ICP 16 (most notably in ICP 16.11 and related Guidance), GFIA would like to stress that for the purpose of regulatory capital assessment, the ERM framework should not create a third solvency capital requirement. A deviation between the ERM and the calculation of the regulatory capital must not lead to an automatic increase of capital. The supervisory authorities have a range of other supervisory tools if they deem it necessary to react. Intra-group transactions, and other factors groups and IAIGs are required to assess and manage accordingly (such as fungibility of capital and transferability of assets, etc.), cross over areas covered by several ICPs (risk management and investment aspects, regulatory and economic capital setting and management, etc.). These may be more suitable in ICP 17 and should be addressed in the further development of the ICS. It appears that numerous repetitions were introduced in ICP 16 due to moving the provisions on recovery planning (ICP 16.13) into this ICP. Some ORSA-related provisions on re-capitalisation (ICPs 16.11.4-16.11.6) and continuity analysis for example can also be found in the context of recovery planning. The IAIS should clarify its expectations on the compliance with these parallel requirements. The last sentence in ICP 16.0.6 on self-imposed limits should be deleted, as it is overly prescriptive without adding significant guidance to supervisors. The following sentence in ICP 16.1.2 is redundant and should be deleted, as the underlying requirements are covered in ICP 8 and repeated later in ICP 16. The obligation to use and improve risk management policies etc. furthermore goes beyond the scope of ICP 16.1 (risk identification in the ERM framework): “The insurer should use and improve risk management policies, techniques, and practices and change its organisational structure to make these improvements where necessary.” On ICP 16.3.5, GFIA continues to take the view that insurers should not be obliged to perform back-testing. Back-testing should be optional where - depending on the respective model used – it is appropriate for validation purposes. This and the general relationship between this guidance and Standard ICP 16.3 should be clarified. As per comments provided on ICP 8, a specific “risk appetite statement” (ICP 16.4) is not necessary. While identifying an insurer’s risk appetite should form an integral part of an effective risk management system and would be reflected throughout a company’s ERM system/ORSA/ALM/Investment policy, the format in which it is documented should not be mandated. Large parts of Guidance related to ICP 16.14 on the role of supervision in ERM for solvency purposes seems unsuitable and goes beyond supervision of ERM systems. ICPs 16.14.3 and 16.14.14 would certainly be more appropriate in an application paper, considering content and sty .

On the group / IAIG-specific aspects of ICP 16, ICP 16.6.6 introduces guidance applicable to “international insurers” in the context of investment strategies. The IAIS should clarify whether this refers to IAIGs (or another category of insurers) and why this Guidance is included in the ICP (and not in the ComFrame provisions)

The Guidance on group perspectives regarding the economic and regulatory capital in the ORSA (ICPs 16.11.7 and, in particular the list of key group-wide factors in 16.11.8, are overly prescriptive and should be considered in the review of ICP 17 and the ICS.

GFIA applauds the decision to move guidance on preparation of forward-looking recovery planning into the ComFrame sections related to ICP 16 (Enterprise Risk Management for solvency purposes) as a complement to other elements and criteria that address risk management, including ORSA. However, the separation of this guidance from ORSA sections raises concerns that it is not considered as an extension of robust ORSA requirements that now exist or are under development and may not be applied on a proportional basis to all insurers subject to ORSA requirements. What is more, GFIA cannot over-emphasize that for forward-looking recovery planning (as envisaged under CF 16.13) to be effective it must be IAIG driven. It must also reflect material risks and the manner in which these risks should be managed as determined by IAIG management. In this way recovery planning presents a menu of options available to management to restore financial strength and viability. Because the actual stress scenarios are inherently unpredictable, management must maintain wide discretion to select and utilize the appropriate recovery tools.

The Application Paper on Group Corporate Governance approved by IAIS in November 2017 states that both more centralized and more decentralized are allowed as the governance model of IAIG. Furthermore, Comframe clearly states that IAIG have different models of governance such as more centralized or more decentralized and ComFrame does not favour any particular governance model. However, since there are some provisions that seem to be described only in terms of a more centralized governance model, GFIA would like IAIS to clarify as much as possible that a more decentralized governance model is allowed.

Q8 Comment on ComFrame Standard CF16.1.a

Answer

The requirement in CF 16.1.a for “the group-wide ERM framework to be as consistent as possible across its legal entities” may not always be appropriate. For example, it may be possible to have the same framework everywhere, but not necessarily desirable due to differences in local markets. This requirement appears to be suggesting that consistency should over-ride local needs.

Q9 Comment on ComFrame Standard CF16.1.b

Answer

Q10 Comment on ComFrame Guidance CF16.1.b.1

Answer

GFIA appreciates this clarification.

Q11 Comment on ComFrame Standard CF16.1.c

Answer

Q12 Comment on ComFrame Guidance CF16.1.c.1

Answer

Q13 Comment on ComFrame Guidance CF16.1.c.2

Answer

Q14 Comment on ComFrame Guidance CF16.1.c.3

Answer

Q15 Comment on ComFrame Guidance CF16.1.c.4

Answer

In the paragraph 24 of the ComFrame introduction, it is clarified that IAIGs have different models of governance (i.e. more centralised or more decentralised). However there some provisions that are not clear to allow for the difference in governance model. Under such circumstances, GFIA is concerned that it likely leads to a misunderstanding that more centralised model should be appropriate in place, as in this provision that it is not clarified that both more centralized model and more decentralized model are allowed. Therefore, it should be amended to ensure that not only more centralised model but also more decentralized are fit in the group-wide investment policy. GFIA suggests adding “Where asset management is concentrated in the group” at the beginning or add “Where individual legal entities independently manage each portfolio, the Head of IAIG substitutes the group-wide investment policy by presenting the minimum viewpoint of risk management, monitoring and instructing individual legal entities."

Q16 Comment on ComFrame Standard CF16.2.a

Answer

Q17 Comment on ComFrame Guidance CF16.2.a.1

Answer

Q18 Comment on ComFrame Guidance CF16.2.a.2

Answer

Q19 Comment on ComFrame Guidance CF16.2.a.3

Answer

Q20 Comment on ComFrame Standard CF16.2.b

Answer

It should be clarified that scenarios and stresses are not established by the group-wide supervisors but insurers.

Q21 Comment on ComFrame Guidance CF16.2.b.1

Answer

Q22 Comment on ComFrame Standard CF16.2.c

Answer

An independent review of the ERM framework every three years is overly onerous and imposes another constraint on IAIGs in an area which is already well regulated – as such, the costs outweigh the benefits.

The nature of review should be at the discretion of the insurer and such a review may be best undertaken by the risk management function who will have practical experience of how the framework has operated, GFIA therefore recommends that 'independently' is deleted from CF16.2. c.

CF8.7. already requires that the internal audit function provides independent assessment and assurance regarding the design and operational effectiveness of the group-wide risk management and internal control systems, both individually and overall. This will implicitly include the ERM framework. The frequency of such reviews will be determined by the internal audit function on a risk-based approach.

Q23 Comment on ComFrame Guidance CF16.2.c.1

Answer

In line with our comments under CF16.2.c GFIA considers that a review of the framework would be better undertaken by a function that has practical experience of how it has operated than an external function independent of the framework. GFIA therefore recommends that CF16.2. c.1 is deleted

Q24 Comment on ComFrame Guidance CF16.2.c.2

Answer

Q25 Comment on ComFrame Standard CF16.4.a

Answer

GFIA is not convinced that this Standard is necessary in the context of ICP 16.4. and questions what the supervisory objective of requiring IAIGs to communicate their risk appetite externally would be. Standard CF16.4. a as well as Guidance CF16.4.a.1 should be deleted.

Q26 Comment on ComFrame Guidance CF16.4.a.1

Answer

Q27 Comment on ComFrame Standard CF16.6.a

Answer

Q28 Comment on ComFrame Guidance CF16.6.a.1

Answer

GFIA supports the explicit reference to jurisdictional requirements.

In the paragraph 24 of the ComFrame introduction, it is clarified that IAIGs have different models of governance (i.e. more centralised or more decentralised). However there some provisions that are not clear to allow for the difference in governance model. Under such circumstances, GFIA is concerned that it likely leads to a misunderstanding that more centralised model should be appropriate in place, as in this provision that it is not clarified that both more centralized model and more decentralized model are allowed. Therefore, it should be amended to ensure that not only more centralised model but also more decentralized are fit in the group-wide investment policy. GFIA suggests adding “Where asset management is concentrated in the group” at the beginning or add “Where individual legal entities independently manage each portfolio, the Head of IAIG substitutes the group-wide investment policy by presenting the minimum viewpoint of risk management, monitoring and instructing individual legal entities.”

Q29 Comment on ComFrame Standard CF16.6.b

Answer

In the paragraph 24 of the ComFrame introduction, it is clarified that IAIGs have different models of governance (i.e. more centralised or more decentralised). However, there are some provisions that do not clearly allow for the difference in governance models. Under such circumstances, GFIA is concerned that it likely leads to a misunderstanding that only the more centralised model is appropriate, as in this provision. Therefore, this provision should be amended to ensure that not only a more centralised model but also a more decentralized model would be appropriate in connection with the group-wide liquidity management. GFIA suggests adding “Where cash management is concentrated in the group” at the beginning or add “Where individual legal entities independently manage each cash, the Head of IAIG substitutes the group-wide investment policy by presenting the minimum viewpoint of risk management, monitoring and instructing individual legal entities.”

Q30 Comment on ComFrame Guidance CF16.6.b.1

Answer

Q31 Comment on ComFrame Standard CF16.6.c

Answer

GFIA proposes the redrafting of the provisions. While it appreciates that diversification and avoidance of concentration are appropriate concepts that should be part of good risk management, GFIA notes that, in some regimes, such concerns are dealt with by defining capital requirements to cover for such risks (and implicitly act as disincentives) as opposed to setting limits on types of assets/counterparts/etc.

GFIA proposes the following redrafting: “The group-wide supervisor requires the Head of the IAIG to set limits where appropriate, or consider other requirements, in the group-wide investment policy, to ensure effective risk management, including with respect to diversification and asset”

Q32 Comment on ComFrame Guidance CF16.6.c.1

Answer

See comment on ComFrame Standard CF16.6. c. GFIA suggests the following redrafting: “The IAIG should include, in its investment policy, references to either internal or regulatory requirements that deal with concentrations risk in any particular: type of asset; issuer/counterparty or related entities of an issuer/ counterparty; financial market; industry; or geographic area.”

In paragraph 24 of the ComFrame introduction, it is stated that IAIGs have different models of governance (i.e. more centralised or more decentralised). However, there are some provisions that do not clearly allow for the difference in governance models. Under such circumstances, GFIA is concerned that it likely leads to a misunderstanding that a more centralised model in the only appropriate model. Therefore, this provision should be amended to ensure that not only a more centralised model but also a more decentralized model would be recognized in connection with the group-wide investment policy. GFIA suggests adding: “Where asset management is concentrated in the group” at the beginning or add “Where individual legal entities independently manage each portfolio, the Head of IAIG substitutes the group-wide investment policy by presenting the minimum viewpoint of risk management, monitoring and instructing individual legal entities.”

Q33 Comment on ComFrame Standard CF16.6.d

Answer

GFIA suggests that this Standard is reconsidered to ensure consistency with the other standards relating to investments.

GFIA proposes that 1) this standard is removed and 2) reference to intra-group investments is introduced in the previous standard.

With respect to issues such as capital resources, reputational risk, valuation uncertainty – such issues should be covered in relevant ICPs/ComFrame material that deal with these issues (e.g. ICP 17 on capital resources, ICP 14 on valuation, etc).

In paragraph 24 of the ComFrame introduction, it is clarified that IAIGs have different models of governance (i.e. more centralised or more decentralised). However, there are some provisions that are not clear to allow for the difference in governance model. Under such circumstances, GFIA is concerned that it likely leads to a misunderstanding that more centralised model should be appropriate in place, as in this provision that it is not clarified that both more centralized model and more decentralized model are allowed. Therefore, it should be amended to ensure that not only more centralised model but also more decentralized are fit in the group-wide investment policy. GFIA suggests to add “Where a large risk transfer is conducted in the group” at the beginning, “Where asset management is concentrated in the group” at the beginning or add “Where individual legal entities independently manage each portfolio, the Head of IAIG substitutes the group-wide investment policy by presenting the minimum viewpoint of risk management, monitoring and instructing individual legal entities.”

Q34 Comment on ComFrame Guidance CF16.6.d.1

Answer

Q35 Comment on ComFrame Standard CF16.6.e

Answer

Q36 Comment on ComFrame Guidance CF16.6.e.1

Answer

Q37 Comment on ComFrame Standard CF16.7.a

Answer

Q38 Comment on ComFrame Standard CF16.7.b

Answer

While GFIA agrees that having a ‘group-wide claims management policy’ could be useful for an IAIG, GFIA is of the view that it should be at the discretion of the group to decide whether it establishes such a group-wide claims management policy, and what the content of such a policy would be.

GFIA would further suggest that this Standard on claims management goes beyond covering enterprise risk management for solvency purposes. Claims management generally is more of a governance topic than purely relating to risk management (or IAIGs for that matter). GFIA would suggest that the Standard may be better placed in ICP 8 or elsewhere.

In the paragraph 24 of the ComFrame introduction, it is clarified that IAIGs have different models of governance (i.e. more centralised or more decentralised). However, there are some provisions that do not clearly allow for the difference in governance models. Under such circumstances, GFIA is concerned that it likely leads to a misunderstanding that only a centralised model would be appropriate. The method for claims and settlement practices are quite different depending on the products sold by each legal entity and practical practices in each jurisdiction. In that case, it is not meaningful to establish a group-wide claim management policy as a unified policy. Therefore, the provision should be amended to ensure that not only a more centralised model but also a more decentralized model would be recognized. GFIA suggests adding “Where group-wide claims management is concentrated in the group” at the beginning or add “Where individual legal entities independently manage their claims management, the Head of IAIG substitutes the group-wide investment policy by presenting the minimum viewpoint of risk management, monitoring and instructing individual legal entities.”

Q39 Comment on ComFrame Guidance CF16.7.b.1

Answer

Q40 Comment on ComFrame Guidance CF16.7.b.2

Answer

Q41 Comment on ComFrame Guidance CF16.7.b.3

Answer

Q42 Comment on ComFrame Standard CF16.7.c

Answer

Q43 Comment on ComFrame Standard CF16.7.d

Answer

GFIA takes the view that a specific “group-wide actuarial policy” is not necessary, as an appropriate actuarial practice should form an integral part of an effective risk management system and would be reflected throughout a company’s ERM system/ORSA/ALM/Investment policy, and the format in which it is documented should not be mandated.

It should be sufficient to have the requirement elsewhere (which the IAIS does) for independent validation of the internal model and for senior reporting of outcomes of that.

Q44 Comment on ComFrame Guidance CF16.7.d.1

Answer

Please refer to the response to ComFrame Standard CF 16.7d. Furthermore, the actuarial policy should be limited to actuarial processes and should not be elaborated towards other process such as accounting. Of course, interaction among the various professions and functions within the insurer should be stimulated.

Furthermore, GFIA would suggest that the 4th bullet point is not necessary. Assumption-setting is inherently a local matter, as expertise is found at the local level. The merits of a group-level framework and process are not entirely clear.

Q45 Comment on ComFrame Guidance CF16.7.d.2

Answer

Q46 Comment on ComFrame Guidance CF16.7.d.3

Answer

Q47 Comment on ComFrame Guidance CF16.7.d.4

Answer

Q48 Comment on ComFrame Standard CF16.7.e

Answer

GFIA generally supports the yearly issuance of a report by the group-wide actuarial function. However, there continues to be a clear overlap with Standard CF 8.6a by which the IAIG actuarial function is required to provide an overview of its activities, including information on the IAIG's solvency positions and risk modelling in the IAIG's ORSA. In fact, the prospective analysis of the IAIG financial situation is already included in the ORSA, so it seems repetitive to also require a similar analysis in the actuarial function opinion. It should be clarified how these two requirements interact and overlaps and inefficiencies should be avoided.

There is a clear overlap with the proposed annual group-wide actuarial opinion and information that is already covered by the IAIG's ORSA. Further clarification is needed to avoid duplication. Additionally, the requirement to address pricing adequacy down to the legal entity level is onerous and pricing adequacy at the group level should be sufficient.

The bullet points listing the minimum content of these reports go beyond the responsibilities generally expected of the actuarial function. Notably, the actuary's role is not to work on non-insurance legal entities and non-regulated legal entities. GFIA would propose that the IAIS reconsiders bullet points 1 and 4.

The wording in the first bullet under 16.7.e is overly broad. Instead of requiring "a prospective analysis of the financial situation of the IAIG." GFIA recommends rephrasing to "a prospective analysis of the actuarial components that would factor into the financial situation of the IAIG…". While traditional actuarial items are a large component of the financial situation of an IAIG there are also significant non-actuarial items that would factor into the financial situation of the IAIG and the actuarial function would not be involved in the calculation of these items.

Q49 Comment on ComFrame Guidance CF16.7.e.1

Answer

Not all regulatory frameworks assign claims and investment management to the actuarial function and GFIA is of the view that actuarial expertise may not be critical to cover these areas. There should be sufficient leeway in the IAIS Guidance to allow the IAIG to assign these core responsibilities among its key functions freely.

GFIA recommends that the section be rephrased to emphasize that the actuarial function should provide an "analysis of the actuarial components of the current and future financial condition of the IAIG…"

Either the responsibilities set out in this standard should be adjusted or recognition given to the possibility that the actuarial function is not necessarily the area providing this information to the Board. Other areas such as ERM, Investments, and Finance can be presenting this analysis to the Board.

Q50 Comment on ComFrame Guidance CF16.7.e.2

Answer

GFIA recommends that the tenth bullet remove the term "adequacy" so that the language becomes "suitability of reinsurance or other forms of risk transfer arrangements …". The term "adequacy" doesn't seem appropriate in this context.

Q51 Comment on ComFrame Standard CF16.10.a

Answer

GFIA takes the view that it should be at the discretion of the IAIG to assess the appropriate approach (i.e. quantitative and/or qualitative) to perform each element of the ORSA.

It is not clear what content would be expected for the fungibility of capital and the transferability of assets within the group. GFIA would appreciate if this could be clarified.

Q52 Comment on ComFrame Guidance CF16.10.a.1

Answer

Q53 Comment on ComFrame Standard CF16.13.a

Answer

GFIA welcomes the work of the IAIS with regard to recovery planning following the original consultation on this material. Given the focus of the new material on pre-emptive recovery planning, rather than recovery planning as a supervisory measure, GFIA considers that this material more appropriately sits within this ICP on risk management.

GFIA welcomes the change of wording within this Standard and Guidance from “the supervisor” to “the group-wide supervisor” to recognise that the plan is intended to cover all material entities within the group (CF16.13. a.3). Group-wide or lead supervisors should consider the activities in which an IAIG engages (as well as the attendant costs and benefits) when determining the necessity, form, and content on a recovery plan, and not focus solely on the IAIG’s size, scope or complexity. Additionally, the supervisor should have the discretion to accept alternative submissions in lieu of a separate, formal recovery plan to the extent that such submissions collectively satisfy the standard. Since not all IAIGs may need to develop a recovery plan, the first part of the sentence should read: “The group-wide supervisor may require the Head of the IAIG to:”

Q54 Comment on ComFrame Guidance CF16.13.a.1

Answer

GFIA welcomes the explicit reference to considering the particular characteristics of the IAIG, rather than adopting a one-size-fits-all approach to recovery planning.

GFIA agrees that the form, content and detail of the recovery plan should be determined by the nature of the insurer, and suggest that the Guidance clarifies that a “recovery plan” need not always be a stand-alone, specially-prepared “plan”, but could instead point to work the insurer had already done to consider options for restoring financial strength and viability, e.g. internal capital policies.

Given the recovery plan is an internal risk management tool, the frequency of updating it should be determined by the IAIG, based on material changes to risk or business structure. The long-term nature of life insurance business, in particular, suggests that the requirement to update the plan should not be unnecessarily frequent.

GFIA is of the view that the proportionality principle should be applied when considering whether the set-up of recovery plans is actually needed in all cases. Applying the proportionality principle would ensure that certain firms do not devote unnecessary resources developing such plans when the relevance of doing so is rather limited and could be counter-productive where it acts as a distraction from more effective, preventative measures. There should be a possibility for national supervisory authorities to exclude insurers that are less complex from the scope of this requirement.

Therefore, GFIA suggests that it be modified to read: “The group-wide supervisor should consider the IAIG’s nature, scale, and complexity when determining if a recovery plan is required and when setting recovery plan requirements”. In addition, the following sentence should be added: “The group-wide supervisor should have the discretion to accept alternative submissions in lieu of a separate recovery plan so long as such submission meets the standards set forth in this section”.

Q55 Comment on ComFrame Guidance CF16.13.a.2

Answer

The exact nature and timing of recovery action will be a matter requiring management discretion depending on the circumstances. Pre-defined triggers should not impede this, and therefore the GFIA suggests that pre-defined criteria should only trigger consideration of recovery actions under the recovery plan, as the exact nature and timing of recovery action will be a matter requiring management discretion depending on the circumstances. The recovery actions anticipated in the recovery plan will not always be the appropriate actions to take, and actions should be taken on a case-by-case basis.

As noted in ICP 16.13, the recovery plan identifies in advance the range of options available to an insurer to restore financial strength and viability. As such, and consistent with Revised 16.13.a.5, a recovery plan should serve as a guide for the insurer and the supervisors for crisis preparedness and management, rather than a directive to take specific actions upon the occurrence of per-defined triggers. Since actual stress events are inherently unpredictable, management must maintain wide discretion to select and utilize the appropriate recovery tools. As such, GFIA would strongly urge against the establishment of rigid, pre-defined triggers for recovery actions.

Q56 Comment on ComFrame Guidance CF16.13.a.3

Answer

Q57 Comment on ComFrame Guidance CF16.13.a.4

Answer

Q58 Comment on ComFrame Guidance CF16.13.a.5

Answer

The GFIA welcomes the statement that the recovery plan should serve as a guide, as the recovery plan is a management tool, with the actions taken for management to decide.

Q59 Comment on ComFrame Guidance CF16.13.a.6

Answer

GFIA would suggest the following principles that should be followed when drafting a recovery plan: In general, if the probability of a company to enter in regulatory recovery is low, an additional pre-emptive recovery plan is less or not necessary. A group recovery plan should be sufficient and should automatically satisfy requests for setting up national plans for subsidiaries, as recovery measures concern the whole group. A myriad of local recovery plans would unduly increase the regulatory burden without bringing added value. A group recovery plan should be deemed sufficient, as increased cooperation and coordination between relevant authorities will have ensured that such plan is appropriate. The adequacy of recovery options should be assessed against, and commensurate to, the stresses applied. The modelled stresses should be restricted to a few meaningful ones and an idiosyncratic one, to test the adequacy of recovery options. At the same time, it must be recognised that testing cannot cover all circumstances and eventualities. Data privacy must be secured when sharing the recovery plan among relevant supervisors and the confidentiality of the recovery plan must be ensured. The plan should include the identification of possible recovery options, such as actions to strengthen the capital situation.

Q60 Comment on ComFrame Guidance CF16.13.a.7

Answer

In the first bullet point, the inclusion of a description of the ‘main risks’ within the plan is unnecessary and should be deleted. The recovery plan should focus on actions that may be taken to recover from an event where it occurs, not on what risks may give rise to that event which will be the subject of risk management more generally.

With regard to the third bullet point, IAIS should clarify that the pre-defined criteria may trigger consideration of recovery actions by the insurer’s management. The recovery actions anticipated in the recovery plan will not always be the appropriate actions to take, and actions should be taken on a case-by-case basis.

Recovery plans outline the range of actions that may be taken in response to stress events. Again, GFIA would urge against dictating that an insurer take any specific, pre-defined course of action in response to a stress event.

Again, it should be underscored that the recovery measures included in the recovery plans are identified as provisional options and when recovery actions are initiated, the IAIG will determine the suitable measures they take as appropriate to the circumstances.

Q61 Comment on ComFrame Guidance CF16.13.a.8

Answer

The requirement in CF16.13. a.8 for triggers based on external factors (such as market conditions and macro-economic conditions) appears inappropriate, as it suggests that a firm must establish a recovery plan regardless of its own existence and realities. This does not appear to be realistic.

The relevant supervisors should have discretion to determine the necessity and appropriate content and detail of an insurer’s recovery plan. As such, GFIA would suggest that the lead-in to CF 16.13.a.8 be revised to state that “Recovery plans may, subject to the proportionality principle, include.”

Q62 Comment on ComFrame Guidance CF16.13.a.9

Answer

Pre-defined criteria seem unnecessary as criteria of PCR already works as the first trigger to communicate with the authority. In addition, given there is an on-going discussion on the calibration and the usage of ICS, GFIA takes the view that it is premature to include any cases. Therefore, the sentence “such as a potential breach of a prescribed capital requirement” should be deleted.

Q63 Comment on ComFrame Guidance CF16.13.a.10

Answer

The first part of the sentence should read: “Possible actions for recovery may include:”

Q64 Comment on ComFrame Guidance CF16.13.a.11

Answer

Q65 Comment on ComFrame Standard CF16.13.b

Answer

GFIA welcomes the amendments that have been made to this Standard and Guidance CF16.13. b.1 to make it clear that a separate MIS is not required for the purpose of recovery planning.

However, GFIA suggests that this Standard and Guidance could provide more clarity on how proportionality would apply in the requirement for the maintenance of a Management Information System.

The first part of the sentence should read: “The group-wide supervisor may require the Head of the IAIG”.

Q66 Comment on ComFrame Guidance CF16.13.b.1

Answer

Q67 Comment on ComFrame Guidance CF16.13.b.2

Answer