

IAIS Consultations

Print view of your comments on "ICP 8 and ComFrame material integrated with ICP 8 " - Date: 15.01.2018, Time: 17:05

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Treat my comments as confidential	No

Question	
	Q1 General Comment on revisions made in ICP 8
Answer	<p>GFIA appreciates the opportunity to comment on revised ICP 8 and additional ComFrame material integrated in ICP 8. GFIA fully endorses the flexibility within this ICP, based on how the group is structured and how it approaches governance. However, both confidentiality and proportionality are critically important in connection with this ICP and ComFrame, and could be more explicitly encouraged by the ICP and ComFrame material.</p>
	Q2 Comment on the additional ComFrame material integrated with ICP 8
Answer	
	Q3 Comment on revised Standard ICP 8.1
Answer	<p>Whilst GFIA would not object to the illustration of minimum criteria to be fulfilled by an efficient risk management system, the last bullet point is unclear and should be deleted or clarified.</p> <p>Under the assumption that the IAIS intended to reflect Guidance ICP 8.1.16-8.1.19 in the third bullet point, GFIA would propose the following clearer wording instead:</p> <p>"Reporting procedures and processes which ensure that the effectiveness of the risk management system is actively monitored and analysed and that appropriate modifications to the system are made where necessary."</p>
	Q4 Comment on revised Guidance ICP 8.1.2
Answer	<p>Some of the edits proposed to Guidance ICP8.1.2 seem overly prescriptive and not necessary to achieve an increased convergence in risk management practices across insurers. The required "risk appetite statement" would be an example – 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 (please also refer to comment on Standard ICP 16.4).</p> <p>Comment on Guidance ICP 8.1.3</p> <p>GFIA would suggest that listing conduct of business (separate from operational risk) as a risk to be at least covered by the risk management system has two noteworthy and potentially problematic consequences:</p> <p>a) Not all insurers are exposed to conduct of business (risk) to a material extent – for some</p>

reinsurers or pure commercial insurers, for example, this may not play a role at all. b) Reflecting conduct of business risk for solvency purposes appears to be problematic and impracticable.

GFIA would suggest that instead of listing it as a separate category which must be covered, conduct of business – which is no doubt an important business area – should be subsumed by operational risk.

Q5 Comment on new Guidance ICP 8.1.8

Answer

Q6 Comment on new ComFrame Standard CF8.1a

Answer

GFIA would like to note that this additional requirement for groups to document differences in risk management systems across the individual group should not be a purely academic exercise. The granularity of this documentation and resources required should be balanced according to the purpose it has (i.e. to feed into the overall group risk management system and reveal risk concentrations and other relevant factors).

An element of materiality should therefore be included in CF8.1a, and the wording should be amended as follows:

“... major differences in risk management...”

Q7 Comment on new ComFrame Guidance CF8.1a.1

Answer

Q8 Comment on new ComFrame Guidance CF8.1a.2

Answer

Given that no detailed provisions on methodologies such as stress tests and scenario analysis are included in ICP 8.1 before CF8.1a.2, GFIA would suggest that this Guidance in its granularity may be better placed elsewhere.

Q9 Comment on revised Guidance ICP 8.1.9

Answer

Q10 Comment on new Guidance ICP 8.1.13

Answer

GFIA acknowledges that the content and direction of this Guidance have changed significantly. However, the details on product design and investment strategy introduced are too granular and should be deleted as follows:

“The insurer’s risk management policy should outline how all material categories of risk are managed, both in the insurer’s business strategy and its day-to-day activities. An insurer’s risk management policy typically includes a description of the insurer’s approach towards risk retention and strategies for risk management, such as the use of reinsurance and derivatives, and degree of diversification/specialisation. At a minimum, these risk management policies should address the insurer’s risk appetite, asset-liability management, investment, and underwriting risk.”

GFIA believes that a retention of the clarification in the previous version of ICP 8.1.13 that the risk management policies should be established, either as elements of the risk management policy, or as separate sub-policies would be desirable.

Q11 Comment on new Guidance ICP 8.1.14

Answer Risk management policies are not relevant for all employees but only for some staff. Therefore, the wording should be changed to:
“The insurer’s risk management policies should be written in a way to help relevant employees understand their responsibilities regarding risk management...”

Q12 Comment on new Guidance ICP 8.1.15

Answer This paragraph seems a bit out of context. GFIA understands the focus on “groups”, but there is preamble in 8.06-.09 that addresses “group” issues and the other major sections in ICP do not have such group guidance (save for 8.1.19 which is very brief). As written, it is also wordy as it winds the explanation from legal entity to insurance group to broader corporate group. If this is an issue, suggest it would be better to outline this concept in 8.06 or .07 and delete 8.1.15 and 8.1.19
Furthermore, consistency of risk management policies across the group is not a regulatory objective in and of itself. The risk management policies need to be consistent only in a way to enable group-wide risk management. This purpose should be clearly stated. From this perspective, especially “horizontal consistency” is often not necessary. GFIA would suggest deleting the references to “horizontal consistency” and “vertical consistency”.

Q13 Comment on revised ComFrame Standard CF8.1b

Answer GFIA supports the clarification made in the beginning of this Standard.
However, it is not entirely clear what is meant by “sophistication and functionality of information and reporting systems in addressing key group-wide risks”. GFIA believes that – if this refers to internal reporting lines and information exchange within the IAIG – a more general category should be adapted at Standard level. This category could say for example:
“Complexity of the IAIG structure and related operational risks, such as efficient information exchange.”
Comments on ComFrame Guidance CF8.1b.2
GFIA agrees with the content of the Guidance in general. However, the 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 better placed with local entity Boards of operating subsidiaries who manufacture products, rather than the Head of the IAIG which may in fact be a parent/holding company.
Furthermore, it may not be appropriate to require that a full risk assessment is carried out before any new business lines and/or products are introduced at a legal entity level. GFIA suggests amending this as follows:
“...before the IAIG enters into material new business lines and products...”

Q14 Comment on revised Guidance ICP 8.1.16

Answer This Guidance does not differentiate between changes in the risk management system and changes in risk profile. Changes in the risk profile are part of risk identification and assessment and should be included in ICPs 8.1.5 and/or 8.1.6.
GFIA disagrees that the risk management system should be directly “responsive to changing interests and reasonable expectations of policyholders and other stakeholders” and suggests deleting the last sentence of this Guidance. These factors should find appropriate reflection in concrete risk categories and the insurer’s business strategy. GFIA sees no value in adding such undefined terms in the Guidance. Additionally, the Guidance should be limited to material changes in risk profile (like ICP 8.1.17).

Q15 Comment on revised ComFrame Standard CF8.1c

Answer The frequency of the review should not be annually but periodically depending on the risk profile and reactive to material changes of the structure/business strategy of the IAIG.

Q16 Comment on new ComFrame Guidance CF8.1c.1

Answer

The purpose and addressee (IAIG or group supervisor) of the second sentence in this Guidance is unclear. GFIA therefore suggests deletion.

Also, an element of materiality should be clarified to enhance the cost-benefit performance, and the wording of first sentence should be amended as follows:

“The IAIG should assess whether a material change...”

Q17 Comment on new ComFrame Guidance CF8.1c.2

Answer

Q18 Comment on new ComFrame Guidance CF8.1d.2

Answer

Comment on ComFrame Guidance CF8.1d.1

GFIA would like to clarify that risk management training should be only necessary for staff it is of relevance to.

Furthermore, the phrase “issue of independence” is unnecessarily vague, so GFIA suggests the following slight re-wording in relation to the prescribed content for processes and procedures:

“Processes and procedures for promoting an appropriate risk culture should include risk management training, address the segregation of duties and create appropriate incentives for relevant staff”.

Q19 Comment on new Guidance ICP 8.1.18

Answer

GFIA believes that the feedback loop and monitoring of the effectiveness of the risk management system are crucial elements of risk management and should be reflected more prominently in ICP 8, including a reference to ICP 16.

Whilst it is clear that the content would require updating, GFIA found the figure previously included in ICP 16 (“Figure 16.1 The IAIS standard ERM framework”) helpful to clarify the risk management and ERM structure the IAIS had in mind. GFIA would suggest that a similar updated graph could be provided by the IAIS.

Q20 Comment on new Guidance ICP 8.1.19

Answer

Q21 Comment on revised Standard ICP 8.2

Answer

GFIA agrees with the amendment requiring that the internal controls of insurers generally, and not just those of IAIGs, should be appropriately documented. However, GFIA is concerned that this standard, and its requirement for an ‘effective’ system, is too subjective.

Q22 Comment on revised ComFrame Standard CF8.2a

Answer

GFIA would suggest clarification who or what the “Head of the IAIG” in the context of this proposal is.

Q23 Comment on revised ComFrame Standard CF8.6a

Answer

GFIA still considers that Standard CF8.6a as currently drafted does not adequately reflect the actuarial function's role in assessing the appropriateness of methodologies and assumptions used in the calculation of capital requirements and technical provisions. Furthermore, there appears to be an overlap with proposed Standard CF 16.7e (please refer to comments provided there). GFIA would recommend changing the bullet points as follows.

Amendment to the first bullet point to state a more specific focus on the calculations, as follows to clarify its scope and ensure consistency with ICP 8.6:

“assessment of the appropriateness of methodologies and underlying models and controls relevant to govern the activities of the IAIG’s actuarial function or financial condition”

The second bullet point as drafted refers to all compliance issues which should in fact fall under the responsibility of the compliance function. The bullet point should be deleted or, alternatively, specified as follows: to clarify its scope and ensure consistency with ICP 8.6:

“procedures to identify actuarial-related compliance issues on related statutory and regulatory requirements at one of the insurance legal entities in the IAIG or the IAIG as a whole, as applicable”

GFIA recommends rewording the third bullet point so that the actuarial function is responsible for overseeing the actuarial portions of the solvency calculation. 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 an 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. The third bullet point should be reworded to say:

“the reliability of the calculation of the actuarial portion of the IAIG’s solvency position, including assessing the methodology and assumptions used in the calculation of regulatory capital requirements and technical provisions;”

The fifth 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 in the first bullet by replacing “actuarial matters” with “actuarial matters (including reinsurance arrangements)”.

OR

The fifth bullet point should be amended to reflect that the actuarial function should express an opinion on pricing and reinsurance but not be responsible for the development of the arrangements. Therefore, recommend that the bullet point is amended as follows:

“an opinion on pricing and assessment of the adequacy of the IAIG’s reinsurance arrangements; and”

In addition, compliance functions may be assigned to other than the actuarial function.