IAIS Consultations

Print view of your comments on "i. ICPs 15 and 16 and ComFrame material integrated with ICPs 15 and 16 ii. Proposed definitions of ERM-related terms iii. Additional questions related to ICP 16 and ComFrame material integrated with ICP 16" - Date: 31.01.2018, Time: 17:27

Organisation	Global Federation of Insurance Associations
Jurisdiction	Global
Role	Other (not IAIS Member)
Email	secretariat@gfiainsurance.org
Phone	003228943081
Treat my comments as confidential	No

	Question
	Q1 General comment on ICP 15
Answer	GFIA welcomes the opportunity to comment on the revisions to ICP 15 and the inclusion of the ComFrame material. Overall, GFIA supports principle-based investment regulatory requirements, and considers that limits on investments, or any obligations to invest in specific assets, should not be part of a risk-based prudential framework. Insurers should be allowed flexibility to undertake investment risks, as long as they are able to appropriately identify, monitor, measure inherent risks, from a qualitative and/or quantitative perspective. Furthermore, GFIA notes that there is still significant overlap between this ICP and ICP 17, and that where the content relates to capital fungibility it is best-placed in ICP 17 rather than ICP 15.
	Q2 General comment on ComFrame material in ICP 15
Answer	
	Q3 Comment on Principle ICP 15
Answer	
	Q4 Comment on Standard ICP 15.1
Answer	Where firms are able to develop a comprehensive internal capital model for assessment of portfolio risk, this should be accepted in place of a rules-based approach.
	Q5 Comment on Guidance ICP 15.1.1
Answer	
	Q6 Comment on Guidance ICP 15.1.2

Answer

While GFIA appreciates the need for quantitative and qualitative requirements for investment risk, it does not support investment limits. It believes that the principle of "freedom of investment" should be incorporated in this ICP, on the basis that no limits on investment nor any obligations to invest in specific assets are appropriate. Instead, a risk-based and principle-based prudential framework should allow for full flexibility in the investment risks that an insurer takes, as long as the insurer is able to appropriately identify, monitor, measure the risks inherent in its investment, from a qualitative and/or quantitative perspective.

GFIA believes that guidance under 15.1 can usefully be expanded to cover the notion of a 'prudent person principle'. This principle should require that, with respect to the whole portfolio of an insurer's assets, it only invests in assets and instruments whose risk it can properly identify, measure, monitor, manage, control and report, and appropriately consider in the assessment of its overall solvency needs. In addition, assets should be required to be invested appropriate to the nature and duration of insurance liabilities, as well as to ensure the security, quality, liquidity and profitability of the portfolio as a whole. Furthermore, it should be required that investments are made in the best interests of policyholders and beneficiaries to avoid any potential conflicts of interest.

With respect to quantitative measures to address investment risk, GFIA notes it is key that framework measure the actual risks that insurers are exposed to.

GFIA notes that the area of investment risk is very important in the development of ComFrame and ICS, and highlight the need for ICS quantitative requirements to be appropriately balanced with qualitative requirements, to achieve outcomes that are not unduly complex.

Q7 Comment on Guidance ICP 15.1.3

Answer

GFIA believes that, in setting regulatory investment requirements, consideration must be given to the potential for these requirements to create systemic risk at a local or regional level. For this reason, principles-based investment requirements are to be preferred over arbitrary limits.

GFIA considers that bullet point 2 should be removed from ICP 15 and instead considered in ICP 17. Specifically, the way in which the quality of capital resources is addressed by the supervisor (second bullet point) in the establishment of regulatory investment requirements should be part of the framework on capital resources and their composition, and should therefore be addressed as part of ICP 17.

GFIA proposes that, in bullet point 3, "third parties" is replaced by "investors" or "market participants". As this guidance discusses comprehensiveness and transparency, it is unclear who the "third parties" referenced are. GFIA understands that this is a reference to investors in general and as such recommends altering the wording. "Investors" or "Market participants" would be more appropriate.

GFIA strongly supports the recognition given in the fifth bullet point to the practical implications of investment regulation. GFIA is, however, cognisant of the implication that regulation would need to be reviewed frequently and there would need to be willingness to amend the regulation with the innovation inherent in the financial markets.

Q8 Comment on Guidance ICP 15.1.4

Answer

GFIA believes that it would be appropriate to remove or at least redraft guidance 15.1.4.

While GFIA appreciates that supervisors consider requirements applied in other, non-insurance, financial sectors when establishing investment regulatory requirements, the current objective of "level playing field" introduces ambiguity rather than guidance. GFIA highlights that alignment is only viable if the regimes have the same fundamental principles. If not, alignment could create the regulatory arbitrage the IAIS is trying to avoid.

GFIA proposes the guidance to be removed or, alternatively, the following rewording:

"Additionally, the supervisor should consider requirements applied in other, non-insurance, financial sectors when establishing regulatory investment requirements for insurers. It is important that requirements across financial sectors are as consistent as possible to prevent groups from transferring assets between its entities to take advantage of the occurrence of the potential for regulatory arbitrage. Consistency of regulation between sectors may assist in maintaining a level playing field and enhancing fairness. However, such requirements should consider the differences in risk profiles and risk management between sectors."

Q9 Comment on Guidance ICP 15.1.5

Answer

GFIA supports the openness and transparency of the regulatory investment requirements and agrees that the objectives of the regulatory investment requirements should be explicitly stated.

Q10 Comment on Guidance ICP 15.1.6

Answer

GFIA supports principle-based investment regulatory requirements. Principle-based requirements promote enhanced understanding, assessment and quantification of investment risks, enables insurers to develop investment strategies to achieve their business objectives and improves market efficiency.

In addition, principle-based requirements on investments are consistent with a risk-based approach to prudential regulation.

Q11 Comment on Guidance ICP 15.1.7

Answer

Q12 Comment on Guidance ICP 15.1.8

Answer

Q13 Comment on Guidance ICP 15.1.9

Answer

Although rules-based approaches may be relatively easy for supervisors to enforce, this should not preclude firms from using an internal model to assess portfolio risks.

Q14 Comment on Guidance ICP 15.1.10

Answer

GFIA does not agree with the statement that it would be more difficult for the supervisor to take appropriate measures under a principles-based approach. Rather, it is more likely that measures may simply be delayed due to the need for the supervisor to take the time to understand the approach. This should not preclude the use of a principles-based approach, and the use of internal models.

Q15 Comment on Guidance ICP 15.1.11

Answer

GFIA notes that, while assets are primarily targeting coverage of liabilities (including technical provisions and capital requirements), any surplus in assets is at the discretion of management and the ultimate parent (if control is exercised), and should be free of restrictions.

Q16 Comment on Guidance ICP 15.1.12

Answer

GFIA believes that the content of ICP 15.1.12 is sufficiently similar to ICP 15.1.5 to justify amalgamation of these two sections.

GFIA believes that the reference to the fungibility of capital should be removed. All issues relating to capital resources should be addressed in ICP 17.

Q17 Comment on Guidance ICP 15.1.13

Answer	While GFIA appreciate the need for quantitative and qualitative requirements for investment risk, it does not support investment limits. It believes that the principle of "freedom of investment" should be incorporated in this ICP, with the understanding that no limits on investment nor any obligations to invest in specific assets are appropriate. Instead, a risk-based and principle-based prudential framework should allow for full flexibility in the investment risks that an insurer takes, as long as the insurer is able to appropriately identify, monitor, measure the risks inherent in its investment, from a qualitative and/or quantitative perspective. See comments on 15.1.2.
	Q18 Comment on Guidance ICP 15.1.14
Answer	GFIA highlights that regulatory requirements should not weaken the benefits of being part of a group. The risks related to intra-group transactions are not necessarily part of regulatory investment requirements. GFIA suggests amending the first sentence to 'Regulatory requirements should be set…'
	Q19 Comment on Standard ICP 15.2
Answer	
	Q20 Comment on Guidance ICP 15.2.1
Answer	
	Q21 Comment on Guidance ICP 15.2.2
Answer	GFIA does not support reference to regulatory investment requirements that may restrict investments in a selection of assets. As previously highlighted, from a qualitative perspective, GFIA strongly supports principle-based investment requirements, as opposed to arbitrary limits. GFIA believes that regulatory investment requirements should incorporate both a qualitative and a quantitative approach to investment risk, but no investment limits. From a qualitative perspective, investment requirements should be governed by the internal processes of the insurers such as ALM studies, definition of risk appetite, and market risk policies. See comments on 15.1.2.
	Q22 Comment on Guidance ICP 15.2.3
Answer	
	Q23 Comment on Guidance ICP 15.2.4
Answer	GFIA believes that the third sentence should be deleted or redrafted to improve clarity. It is not clear what the third sentence in this section is suggesting and why this would improve the security of investments. GFIA does not believe that the supervisor should be mandating requirements on what constitutes appropriate use or specifying limits. An insurer's own internal due diligence, using multiple rating agencies, market-based assessment and the resources and expertise of third-party investment asset manager should support its usage of external credit ratings in its overall risk assessments.
	Q24 Comment on Guidance ICP 15.2.5
Answer	

Q25 Comment on Guidance ICP 15.2.6

Answer

GFIA believes the third sentence should be deleted or redrafted to improve clarity. It suggests that investments located outside of the operating jurisdiction may pose a particular risk, by suggesting a limitation that the insurer can only invest in investments located in countries in which it writes underwriting business. This seems unnecessarily restrictive.

Q26 Comment on Guidance ICP 15.2.7

Answer

Q27 Comment on Guidance ICP 15.2.8

Answer

Q28 Comment on Guidance ICP 15.2.9

Answer

The last sentence in this guidance should be removed, not least because it is not consistent with the concept of a principles-based approach introduced in other parts of this ICP.

It is not appropriate for supervisors to prescribe investment limits for groups. Should supervisors wish to have a picture on particular types of risk concentration at group level, the best tool to achieve this would be via reporting.

See comments on 15.1.2.

Q29 Comment on ComFrame Standard CF 15.2a

Answer

Q30 Comment on ComFrame Guidance CF 15.2a.1

Answer

It is not clear why regulatory investment requirements for “investments in low-quality assets” are specifically singled out. An insurer would always need to take into account local regulatory investment requirements. GFIA suggests deleting this point.

Q31 Comment on ComFrame Standard CF 15.2b

Answer

GFIA considers that this provision is too vague to be meaningful; in particular it is extremely unclear what ‘undue reliance’ entails. It is also unrealistic to expect IAIGs to perform their own credit analysis on every investment.

Q32 Comment on ComFrame Guidance CF 15.2b.1

Answer

Q33 Comment on Guidance ICP 15.2.10

Answer

Q34 Comment on Guidance ICP 15.2.11

Answer

Q35 Comment on Guidance ICP 15.2.12

Answer

Q36 Comment on Guidance ICP 15.2.13

Answer

GFIA believes this standard should be removed as it related to capital fungibility, and not to investments, and should therefore be part of ICP 17.

Q37 Comment on Guidance ICP 15.2.14

Answer

Q38 Comment on Guidance ICP 15.2.15

Answer

GFIA believes that the last sentence of the guidance, referring to transfer pricing, should be removed.

Given that transfer pricing is an accounting/taxation concept, reference to it in the guidance adds no value.

Q39 Comment on Guidance ICP 15.2.16

Answer

The reference to fungibility of capital should be removed and considered instead in ICP 17.

Q40 Comment on ComFrame Standard CF 15.2c

Answer

GFIA believes this standard should be removed as it related to capital fungibility, and not to investments, and should therefore be part of ICP 17.

Q41 Comment on ComFrame Guidance CF 15.2c.1

Answer

GFIA believes this standard should be removed as it related to capital fungibility, and not to investments, and should therefore be part of ICP 17.

Q42 Comment on ComFrame Standard CF 15.2d

Answer

GFIA believes this standard should be removed as it related to capital fungibility, and not to investment, and should therefore be part of ICP 17.

Q43 Comment on Guidance ICP 15.2.17

Answer

Q44 Comment on Guidance ICP 15.2.18

Answer

Q45 Comment on Guidance ICP 15.2.19

Answer

Q46 Comment on Guidance ICP 15.2.20

Answer

Q47 Comment on Guidance ICP 15.2.21

Answer

Q48 Comment on ComFrame Standard CF 15.2e

Answer

GFIA is concerned by the requirements on investment limits and concentration risk and notes that both requirements can be replaced with a more principle-based approach, which would be in line with a risk-sensitive framework.

Concretely, GFIA believes the following redrafting would address the problem:

"The group-wide supervisor requires the Head of the IAIG to consider internal limits or other requirements in the group-wide investment policy so that assets are properly diversified and asset concentration risk remains within established limits."

See comments on 15.1.2.

Q49 Comment on ComFrame Guidance CF 15.2e.1

Answer

GFIA suggests deleting the final bullet point – "geographic area" – as currency risk exposure should not be effectively mandated.

Q50 Comment on ComFrame Standard CF 15.2f

Answer

Q51 Comment on ComFrame Guidance CF 15.2f.1

Answer

Q52 Comment on Standard ICP 15.3

Answer

Q53 Comment on Guidance ICP 15.3.1

Answer

Q54 Comment on Guidance ICP 15.3.2

Answer

Q55 Comment on Guidance ICP 15.3.3

Answer

GFIA notes that mismatched positions should be assessed in terms of risk, and, in the context of a risk-based framework, should be assessed against existing capital requirements, and not against technical provisions - which would not be able to capture the actual risk.

Q56 Comment on Guidance ICP 15.3.4

Answer

Q57 Comment on Guidance ICP 15.3.5

Answer

Q58 Comment on Guidance ICP 15.3.6

Answer

Q59 Comment on Standard ICP 15.4

Answer

GFIA supports proper assessment and management of risk. However, in some cases, full transparency into the underlying assets may not be available to the insurer. In these instances, investment should still be permitted, provided the insurer can demonstrate, via a supervisory-approved internal model or third-party sources, that the risks associated with the investment can be assessed and managed by the insurer.

Q60 Comment on Guidance ICP 15.4.1

Answer

Please see comments under question 6, which are also relevant to this section.

Q61 Comment on Guidance ICP 15.4.2

Answer

Q62 Comment on Guidance ICP 15.4.3

Answer

Q63 Comment on Guidance ICP 15.4.4

Answer

GFIA believes that the first sentence of the guidance should be removed, as it is not in line with a risk-based prudential framework.

In addition, GFIA notes that it is not correct to assume that non-traded assets are difficult to measure. Apart from assets that have quoted price, a wide range of assets can be measured on the basis of inputs that represent quoted prices (e.g. discounting cash flows of an unquoted bond based on quoted discount rates).

Q64 Comment on Guidance ICP 15.4.5

Answer

GFIA suggests the following wording change:

"The insurer should have access to the requisite knowledge and skills to assess and manage…"

Q65 Comment on Guidance ICP 15.4.6

Answer

Q66 Comment on ComFrame Standard CF 15.4a

Answer

Q67 Comment on ComFrame Guidance CF 15.4a.1

Answer

Q68 Comment on Standard ICP 15.5

Answer

While GFIA appreciate the need for quantitative and qualitative requirements for investment risk, it does not support investment limits. It believes that the principle of "freedom of investment" should be incorporated in this ICP, with the understanding that no limits on investment nor any obligations to invest in specific assets are appropriate. Instead, a risk-based and principle-based prudential framework should allow for full flexibility in the investment risks that an insurer takes, as long as the insurer is able to appropriately identify, monitor, measure the risks inherent in its investment, from a qualitative and/or quantitative perspective.

See comments on 15.1.2.

Q69 Comment on Guidance ICP 15.5.1

Answer

Q70 Comment on Guidance ICP 15.5.2

Answer

While GFIA appreciates the need for quantitative and qualitative requirements for investment risk, it does not support investment limits. It believes that the principle of "freedom of investment" should be incorporated in this ICP, with the understanding that no limits on investment nor any obligations to invest in specific assets are appropriate. Instead, a risk-based and principle-based prudential framework should allow for full flexibility in the investment risks that an insurer takes, as long as the insurer is able to appropriately identify, monitor, measure the risks inherent in its investment, from a qualitative and/or quantitative perspective.

Q71 Comment on Guidance ICP 15.5.3

Answer

While GFIA appreciates the need for quantitative and qualitative requirements for investment risk, it does not support investment limits. It believes that the principle of "freedom of investment" should be incorporated in this ICP, with the understanding that no limits on investment nor any obligations to invest in specific assets are appropriate. Instead, a risk-based and principle-based prudential framework should allow for full flexibility in the investment risks that an insurer takes, as long as the insurer is able to appropriately identify, monitor, measure the risks inherent in its investment, from a qualitative and/or quantitative perspective.

Q72 Comment on Guidance ICP 15.5.4

Answer

GFIA appreciates that there may be additional supervisory concerns related to SPEs. However, restrictions on investment strategy may lead to arbitrary limits, while prudential concerns could in fact be addressed differently. For example: Supervisors could require that SPEs are put on balance sheet; supervisors could require retention of the risks being transferred to a SPE, so an alignment of objectives remains.

Q73 Comment on Guidance ICP 15.5.5

Answer

Q74 Comment on Guidance ICP 15.5.6

Answer

Q75 Comment on Guidance ICP 15.5.7

Answer

Q76 Comment on Guidance ICP 15.5.8

Answer

Q77 Comment on Guidance ICP 15.5.9

Answer

Q78 Comment on Guidance ICP 15.5.10

Answer

Q79 Comment on Guidance ICP 15.5.11

Answer

Q80 Comment on Guidance ICP 15.5.12

Answer

Q81 General comment on ICP 16

Answer

GFIA appreciates the opportunity to comment on ICP 16. Due to the sensitive and forward-looking nature of the information required by ICP16, the importance of confidentiality and proportionality should be emphasized in this ICP. However, a large part of the guidance in ICP 16 is granular to an extent (i.e. 16.5 ALM, 16.6 Investment policy, 16.7 Underwriting policy, 16.8 ORSA) that it prevents the proportional implementation of an adequate risk management system. In addition, the principle-oriented regulation is endangered by 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.

Q82 General comment on ComFrame material in ICP 16

Answer

Q83 Comment on Principle ICP 16

Answer

Q84 Comment on Introductory Guidance ICP 16.0.1

Answer

Q85 Comment on Introductory Guidance ICP 16.0.2

Answer

Q86 Comment on Introductory Guidance ICP 16.0.3

Answer

Q87 Comment on Introductory Guidance ICP 16.0.4

Answer

Q88 Comment on Introductory Guidance ICP 16.0.5

Answer

Q89 Comment on Introductory Guidance ICP 16.0.6

Answer

GFIA wishes to emphasize the importance of this sentence:

“The objective of ERM is not to eliminate risk.”

Q90 Comment on Introductory Guidance ICP 16.0.7

Answer

Q91 Comment on Introductory Guidance ICP 16.0.8

Answer

Q92 Comment on Standard ICP 16.1

Answer

Whilst the separation of former Standards ICP 16.1 into proposed ICP 16.1 and 16.2 (i.e. separating the aspect of risk identification from risk quantification/measurement) is welcomed, it is unclear to what extent risk interdependencies for risk and capital management can be identified without quantifying the risk identified. Accordingly, Guidance ICPs 16.1.3 and 16.1.7 and 16.1.8 on group perspective introduce assumptions and links to groups' solvency assessments that are only discussed later in the ICP.

Q93 Comment on Guidance ICP 16.1.1

Answer

Q94 Comment on Guidance ICP 16.1.2

Answer

Q95 Comment on Guidance ICP 16.1.3

Answer

Q96 Comment on Guidance ICP 16.1.4

Answer

Q97 Comment on Guidance ICP 16.1.5

Answer

Q98 Comment on Guidance ICP 16.1.6

Answer

Q99 Comment on Guidance ICP 16.1.7

Answer

Guidance 16.1.7 and 16.1.8 on group perspectives go beyond identification of risks and their interdependencies. Furthermore, GFIA would like to stress that for the purpose of regulatory capital assessment, the ERM should not create an additional 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. Please also see comments provided on Guidance ICP 16.13.17.

Q100 Comment on Guidance ICP 16.1.8

Answer

Q101 Comment on ComFrame Standard CF 16.1a

Answer

GFIA believes that the local regulations significantly contribute to factors of differences in the ERM framework; therefore, the wording of "as well as local regulations" should be added to the second sentence.

Q102 Comment on ComFrame Standard CF 16.1b

Answer

In GFIA's view, strategic risk and concentration risks are not separate risk types, but are factors reflected in other risks. For example, Concentration risk is not a separate risk type, but is a reflection of too little diversification within or across risk types. Increased risk or volatility arising from concentrations is considered within each of the risk types. Strategic/Planning risks are not a separate category either. "Risks" often associated with strategic planning or change in the competitive landscape should be treated either as causes of other risks (e.g. inappropriate distribution planning could cause increased lapses or claims) or as operational risks.

Q103 Comment on ComFrame Standard CF 16.1c

Answer

GFIA would ask the IAIS to clearly define how they expect IAIGs to demonstrate this requirement. While IAIGs already undertake most of these activities, this information is not necessarily all held in a single document, and it would be burdensome and of little value to business to create a new document setting out things that are already addressed.

Q104 Comment on ComFrame Guidance CF 16.1c.1

Answer

Q105 Comment on ComFrame Guidance CF 16.1c.2

Answer

Intra-group transactions and factors groups and IAIGs are required to assess and manage accordingly (such as fungibility of capital and transferability of assets, etc), cross over areas that are covered by several ICPs (risk management and investment aspects, regulatory and economic capital setting and management, etc). GFIA appreciates that a harmonised approach across ICPs may not be feasible at this stage due to the staged approach in revising ICPs in silo teams. However, this will only result in significant work to be done in the overall review of ComFrame scheduled for 2018. This has two practical consequences: sufficient resources and time have to be reserved for the review on both sides, by IAIS and stakeholders, and the overall review in 2018 will likely result in the ICPs being largely amended again.

Q106 Comment on ComFrame Guidance CF 16.1c.3

Answer

Support may also be withdrawn due to regulatory action.

Q107 Comment on ComFrame Guidance CF 16.1c.4

Answer

Q108 Comment on Standard ICP 16.2

Answer

Q109 Comment on Guidance ICP 16.2.1

Answer

To clarify the exemplary nature of the list of the techniques, as well as the relationship between techniques and validation, GFIA would prefer if the Guidance read:

"… using appropriate forward-looking quantitative techniques, such as risk modelling and validation thereof (for example via stress testing, or scenario analysis)"

Q110 Comment on Guidance ICP 16.2.2

Answer

Q111 Comment on Guidance ICP 16.2.3

Answer	It should be emphasized that this does not require a change in accounting systems.
	Q112 Comment on Guidance ICP 16.2.4
Answer	
	Q113 Comment on Guidance ICP 16.2.5
Answer	
	Q114 Comment on Guidance ICP 16.2.6
Answer	
	Q115 Comment on Guidance ICP 16.2.7
Answer	
	Q116 Comment on Guidance ICP 16.2.8
Answer	GFIA supports the continued commitment to the use of internal models for the assessment of current financial resources and the calculation of regulatory capital requirements.
	Q117 Comment on Guidance ICP 16.2.9
Answer	
	Q118 Comment on Guidance ICP 16.2.10
Answer	
	Q119 Comment on Guidance ICP 16.2.11
Answer	
	Q120 Comment on Guidance ICP 16.2.12
Answer	
	Q121 Comment on Guidance ICP 16.2.13
Answer	
	Q122 Comment on Guidance ICP 16.2.14
Answer	
	Q123 Comment on Guidance ICP 16.2.15
Answer	
	Q124 Comment on Guidance ICP 16.2.16
Answer	
	Q125 Comment on Guidance ICP 16.2.17
Answer	

Q126 Comment on ComFrame Standard CF 16.2a

Answer

GFIA has doubts that requiring an economic capital model to be used by IAIGs is appropriate. First, it is possible to manage risk effectively through tools other than economic capital models. Second, some organisations may have strong incentives to manage risk and capital through their applicable regulatory framework. In that circumstance, a distinct economic capital model has little practical value.

Q127 Comment on ComFrame Guidance CF 16.2a.1

Answer

Q128 Comment on ComFrame Guidance CF 16.2a.2

Answer

Q129 Comment on ComFrame Guidance CF 16.2a.3

Answer

Q130 Comment on ComFrame Standard CF 16.2b

Answer

The requirement to have an independent review of the IAIG ERM framework at least every three years goes beyond current regulatory requirements and imposes another constraint on Groups in an area which is already well regulated – as such the cost may outweigh the benefits.

Q131 Comment on ComFrame Guidance CF 16.2b.1

Answer

Q132 Comment on Guidance ICP 16.2.18

Answer

Q133 Comment on Guidance ICP 16.2.19

Answer

Q134 Comment on Guidance ICP 16.2.20

Answer

Q135 Comment on Guidance ICP 16.2.21

Answer

Q136 Comment on ComFrame Standard CF 16.2c

Answer

Q137 Comment on ComFrame Guidance CF 16.2c.1

Answer

Q138 Comment on Standard ICP 16.3

Answer

GFIA would suggest that this Standard and General documentation requirement (the requirement to “describe”) goes beyond risk management for solvency purposes. Considering the overall intention of this review of addressing overlaps with ICP 8, the Standard may be better placed in ICP 8 (with a link to ICP 16 where reference is made to management of capital).

Q139 Comment on Guidance ICP 16.3.1

Answer

Q140 Comment on Guidance ICP 16.3.2

Answer

Q141 Comment on Guidance ICP 16.3.3

Answer

Q142 Comment on Guidance ICP 16.3.4

Answer

Q143 Comment on Guidance ICP 16.3.5

Answer

GFIA believes 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. Furthermore, the relationship between this Guidance and the content of Standard ICP 16.3 is unclear. If back-testing is ultimately recommended, the IAIS will need to provide clear requirements on which models are in scope as this could inadvertently become a very wide-ranging requirement. GFIA would recommend linking it to the internal model.

Q144 Comment on Guidance ICP 16.3.6

Answer

GFIA appreciates the acknowledgment of non-traditional forms of reinsurance (e.g. finite reinsurance) in ICP 16.3.6

Q145 Comment on Standard ICP 16.4

Answer

As per GFIA’s comment on revised Guidance ICP 8.1.2, a specific “risk appetite statement” 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.

Q146 Comment on Guidance ICP 16.4.1

Answer

Q147 Comment on Guidance ICP 16.4.2

Answer

Q148 Comment on Guidance ICP 16.4.3

Answer

Q149 Comment on Guidance ICP 16.4.4

Answer

Q150 Comment on Guidance ICP 16.4.5

Answer

Q151 Comment on Guidance ICP 16.4.6

Answer

Q152 Comment on Guidance ICP 16.4.7

Answer

Q153 Comment on Guidance ICP 16.4.8

Answer

Please refer to the response to ICP 16.4. Further, the current wording seems to imply that the group should set legal entity risk appetites. This is, however, inappropriate as legal entities will all have their own Boards. If what is meant is that the group should have a view on the contribution of any entity to its risk limits then this should be reworded to more appropriately reflect that point.

Q154 Comment on ComFrame Standard CF 16.4a

Answer

GFIA believes this Standard does not add significant value to Standard ICP 16.4 and questions whether groups and IAIGs require different treatment here.

Q155 Comment on Standard ICP 16.5

Answer

GFIA agrees that it is important for an insurance undertaking to have an ‘asset-liability management policy,’ however, prescribing the required content of such policy is too granular for Standard level and should be moved into the accompanying Guidance or be deleted.

Q156 Comment on Guidance ICP 16.5.1

Answer

Please refer to the response to ICP 16.5

Q157 Comment on Guidance ICP 16.5.2

Answer

Q158 Comment on Guidance ICP 16.5.3

Answer

Q159 Comment on Guidance ICP 16.5.4

Answer

Q160 Comment on Guidance ICP 16.5.5

Answer

Q161 Comment on Guidance ICP 16.5.6

Answer

Q162 Comment on Guidance ICP 16.5.7

Answer

Q163 Comment on Standard ICP 16.6

Answer

GFIA agrees an insurance undertaking should have an "investment policy", however, the decision on the detailed content of this policy should be at the discretion of the insurance undertaking. Overall, the Standard should be moved to ICP 15, including a reference to ICP 16 and the fact that the investment policy forms part of the ERM framework.

Q164 Comment on Guidance ICP 16.6.1

Answer

Q165 Comment on Guidance ICP 16.6.2

Answer

Please refer to the response to ICP 16.6. This Guidance is overly prescriptive and certainly cannot be applied to all (re)insurers to a full extent.

Additionally, GFIA would like to point out that the list of examples for “inherently risky financial instruments” 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.

Q166 Comment on Guidance ICP 16.6.3

Answer

Q167 Comment on Guidance ICP 16.6.4

Answer

Q168 Comment on Guidance ICP 16.6.5

Answer

Q169 Comment on Guidance ICP 16.6.6

Answer

Q170 Comment on Guidance ICP 16.6.7

Answer

Please refer to the response to Standard ICP 16.6

Q171 Comment on Guidance ICP 16.6.8

Answer

While GFIA agrees that stress-testing and contingency planning are useful tools to handle hard-to-model risks for complex strategies, it believes that the decision for the appropriate tools to assess these hard-to-model risks should be at the discretion of the insurance undertaking.

Q172 Comment on Guidance ICP 16.6.9

Answer

This Guidance is overly prescriptive. Insurers should have sufficient flexibility to make prudent investment decisions. The requirement for insurers to (self-)restrict their investments (in derivatives or any other asset class) via their investment policy would likely interfere with local supervisory frameworks that are principle-based.

Please refer to the responses to Standard ICP 16.6 and Guidance ICP 16.6.2

Q173 Comment on Standard ICP 16.7

Answer

GFIA generally agrees an insurance undertaking should have an ‘underwriting risk management policy’, however, detailed content of this policy should be at the discretion of the insurance undertaking. ICP 16.7 and its accompanying Guidance seem overly prescriptive and onerous, especially if the intention is to capture this in a single document. Replace “premium setting” with “pricing” or “pricing function”. ICP 16.7 and its accompanying Guidance seem overly prescriptive and onerous, especially if the intention is to capture this in a single document.

GFIA would further suggest replacing “premium setting” with “pricing” or “pricing function”.

Q174 Comment on Guidance ICP 16.7.1

Answer

Q175 Comment on Guidance ICP 16.7.2

Answer

Q176 Comment on Guidance ICP 16.7.3

Answer

Q177 Comment on Guidance ICP 16.7.4

Answer

The language should be broadened to allow for the policy to identify the risks that the company will decline too, rather than focusing only on the risks it will accept.

Q178 Comment on Guidance ICP 16.7.5

Answer

Q179 Comment on Guidance ICP 16.7.6

Answer

Q180 Comment on ComFrame Standard CF 16.7a

Answer

It is unclear how data quality, for the purposes of underwriting, pricing, reserving, and reinsurance processes is specific for IAIGs and hence why it is introduced at this level.

Q181 Comment on ComFrame Guidance CF 16.7a.1

Answer

It is not clear what the link is between the examples listed in this Guidance and the Standard CF 16.7a and – even more so – Standard ICP 16.7 on underwriting risk management policies. The example of the elimination of intra-group transactions seems out of place here. It is not clear what the connection with ERM is.

Q182 Comment on ComFrame Standard CF 16.7b

Answer

While GFIA agrees that having a "group-wide claims management policy" could be useful for an IAIG, it believes 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). Considering the overall intention of addressing overlaps with ICP 8 under this review, the Standard may be better placed in ICP 8 or elsewhere

Q183 Comment on ComFrame Guidance CF 16.7b.1

Answer

Please refer to the response to ComFrame Standard CF 16.7b

Q184 Comment on ComFrame Standard CF 16.7c

Answer

While GFIA agrees that an IAIG should be required to establish a "group-wide reinsurance and risk transfer strategy", the level of detail on the content of such policy in Standard CF 16.7c is too granular and should be left to the IAIG’s discretion.

Furthermore, reinsurance and other risk-mitigating techniques are not an IAIG-specific business area. The topic is broadly covered by ICP 13 (reinsurance and other forms of risk-mitigating techniques). While GFIA is aware that the IAIS has decided ICP 13 to be non-contagious with ComFrame and has therefore opted for an early adoption of this ICP, the content of this Standard should really form part of ICP 13 and likely not only at IAIG level.

Q185 Comment on ComFrame Standard CF 16.7d

Answer

GFIA believes 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.

Q186 Comment on ComFrame Guidance CF 16.7d.1

Answer

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.

Please refer to the response to ComFrame Standard CF 16.7d

Q187 Comment on ComFrame Guidance CF 16.7d.2

Answer

Please refer to the response to ComFrame Standard CF 16.7d

Q188 Comment on ComFrame Guidance CF 16.7d.3

Answer

Please refer to the response to ComFrame Standard CF 16.7d

Q189 Comment on ComFrame Standard CF 16.7e

Answer

While GFIA generally supports the yearly issuance of a report by the group-wide actuarial function, there is 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. Indeed, the prospective analysis of the IAIG financial situation is already included in the ORSA, so it seems to be potentially repetitive to also require a similar analysis in the actuarial function opinion. This seems to go beyond the current regulatory requirements in certain territories. It should be clarified how these two requirements interact and overlaps and inefficiencies should be avoided.

Q190 Comment on ComFrame Guidance CF 16.7e.1

Answer

Not all regulatory frameworks assign claims and investment management to the actuarial function and GFIA believes that actuarial expertise may not always 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.

Q191 Comment on ComFrame Guidance CF 16.7e.2

Answer

GFIA would like to note that the group in this paragraph may include non-insurance entities and non-regulated entities, which goes beyond the scope of actuarial policy. Therefore, the last bullet point in CF 16.7e should be deleted or specified by adding “related to actuarial function”.

Q192 Comment on Standard ICP 16.8

Answer

GFIA would welcome a clarification on the subsequent Guidance on how the ORSA (and its documentation as per Guidance ICP 16.8.1) form part and/or relate to the overall ERM framework for solvency purposes. In the revised document, ICPs 16.8 and the following seem to be unconnected with the rest of the document.

As mentioned in relation to ICP 8.1.18, 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 (including all tools foreseen therein). GFIA would suggest that a similar updated graph could be provided by the IAIS.

Q193 Comment on Guidance ICP 16.8.1

Answer

Q194 Comment on Guidance ICP 16.8.2

Answer

Q195 Comment on Standard ICP 16.9

Answer

Q196 Comment on Guidance ICP 16.9.1

Answer

GFIA would suggest that the role of the risk management function in the ORSA be clarified here as per ICP 8.4.

Q197 Comment on Standard ICP 16.10

Answer

Q198 Comment on Guidance ICP 16.10.1

Answer

Q199 Comment on Guidance ICP 16.10.2

Answer

Q200 Comment on Guidance ICP 16.10.3

Answer

Q201 Comment on Guidance ICP 16.10.4

Answer

Q202 Comment on Guidance ICP 16.10.5

Answer

GFIA agrees that – where foreseeable – changes in the group structure should be considered in the ORSA, however, this should be at the discretion of the IAIG. This will allow for a balance between reasonable stress tests and stress tests that cover every possible eventuality.

Q203 Comment on Guidance ICP 16.10.6

Answer

GFIA is not convinced the first sentence of this Guidance adds value and would suggest this be deleted.

Q204 Comment on Guidance ICP 16.10.7

Answer

Q205 Comment on ComFrame Standard CF 16.10a

Answer

GFIA believes 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 of the ORSA would be expected for: Restrictions on capital movement; the transferability of assets between jurisdictions and the fungibility of capital.

GFIA would appreciate if this could be clarified.

Q206 Comment on ComFrame Guidance CF 16.10a.1

Answer

GFIA believes it should be at the discretion of the IAIG to decide on the appropriate risks - beyond the minimum prescribed risks - to include in the ORSA. It is unclear why political and reputational risks are IAIG-specific.

The concept of “political risk” has been introduced without a definition. For the avoidance of doubt, the IAIS should provide a clear definition of what “political risk” means in this context.

Q207 Comment on Standard ICP 16.11

Answer

Q208 Comment on Guidance ICP 16.11.1

Answer

GFIA has strong concerns about the last sentence in this Guidance and would ask the IAIS to delete it. Compliance with the regulatory capital requirement (and not the economic capital) should determine whether a supervisor is "confident that risks are being well managed". As indicated in response to Guidance ICP 16.1.7, GFIA would like to stress that for the purpose of regulatory capital assessment, the ERM/ORSA should not create an additional solvency capital requirement. A deviation between the economic capital and the calculation of the regulatory capital must not lead to an automatic increase of capital. The supervisory authorities have a range of supervisory tools if they deem it necessary to react.

Q209 Comment on Guidance ICP 16.11.2

Answer

Please refer to response on Guidance ICP 16.11.1

Q210 Comment on Guidance ICP 16.11.3

Answer

Q211 Comment on Guidance ICP 16.11.4

Answer

GFIA agrees it is important for an insurance undertaking to take into account the fact that it may need to raise new capital, however the necessity and the way to reflect this in the ORSA should be at the discretion of the insurance undertaking It should be at the discretion of the insurer to demonstrate that is has reasonably considered recapitalising in a stress scenario. The content of this guidance is furthermore also included in ICP 17 and should not be repeated in ERM.

Q212 Comment on Guidance ICP 16.11.5

Answer

Q213 Comment on Guidance ICP 16.11.6

Answer

While GFIA does not necessarily disagree with the content of Guidance ICP 16.11.6, the paragraph is misplaced in ICP 16. Capital adequacy / quality should be addressed in ICP 17.

Q214 Comment on Guidance ICP 16.11.7

Answer

Q215 Comment on Guidance ICP 16.11.8

Answer

GFIA believes that the group-wide factors listed in the Guidance are important, however it believes that it should be at the discretion of the group to decide on the relevant factors to take into account. This should be reflected in the Guidance.

Q216 Comment on Standard ICP 16.12

Answer

GFIA agrees that the continuity analysis is appropriate for insurance undertakings, however it should be at the discretion of the insurance undertaking to decide whether and how to perform the continuity analysis. If it is to be at the discretion of the supervisor, proportionality would be a key concern in the level of documentation or stress testing expected by the supervisor as part of prescribed continuity analysis.

The comparison to the time horizon typically used to determine regulatory capital requirements is inappropriate. The underlying assumptions for models used to determine regulatory capital requirements vary and often extend to long horizons.

Finally, for the reasons listed in response to Guidance ICP 16.1.7 and ICP 16.11.1, the comparison between the outcomes of the ORSA and the determination of the regulatory capital requirement is inappropriate.

Q217 Comment on Guidance ICP 16.12.1

Answer

GFIA believes the requirement should be deleted. Long term scenarios are in most cases not adequate for non-life insurers, as they do not have long-term business or long-term investments.

Q218 Comment on Guidance ICP 16.12.2

Answer

Q219 Comment on Guidance ICP 16.12.3

Answer

Reverse stress testing could be a valuable tool for insurance undertakings in order to determine the scenarios that would be the likely cause of failure, however, the decision about the use of reverse stress test should be at the discretion of the insurance undertaking.

Q220 Comment on Guidance ICP 16.12.4

Answer

Q221 Comment on Guidance ICP 16.12.5

Answer

Please refer to the response to Standard ICP 16.12

Q222 Comment on Guidance ICP 16.12.6

Answer

Please refer to the response to Standard ICP 16.12

Q223 Comment on Guidance ICP 16.12.7

Answer

Please refer to the response to Standard ICP 16.12

Q224 Comment on Guidance ICP 16.12.8

Answer

Q225 Comment on Guidance ICP 16.12.9

Answer

Q226 Comment on Guidance ICP 16.12.10

Answer

GFIA believes it should be at the discretion of the insurance group how to analyse its ability to continue in business, and to decide whether it is appropriate to consider its ability to continue to exist as an insurance group.

Q227 Comment on Guidance ICP 16.12.11

Answer

Please refer to the response to Standard ICP 16.12

Q228 Comment on Guidance ICP 16.12.12

Answer

Please refer to the response to Standard ICP 16.12

Q229 Comment on Guidance ICP 16.12.13

Answer

Please refer to the response to Standard ICP 16.12

Q230 Comment on Guidance ICP 16.12.14

Answer

Please refer to the response to Standard ICP 16.12

Q231 Comment on ComFrame Standard CF 16.12a

Answer

Q232 Comment on ComFrame Guidance CF 16.12a.1

Answer

GFIA believes the scope of the risks should be decided by the IAIG.

Q233 Comment on Standard ICP 16.13

Answer

GFIA believes that, overall, Standard ICP 16.13 and its accompanying Guidance provide valuable information on the interaction between supervisor and insurer in the context of its ERM framework. It should, nevertheless, be clarified that when the material addresses solvency assessment and capital management processes, the regulatory capital setting is not automatically affected. Please refer to comments made in response to Guidance ICP 16.1.7 and others. However, much of the guidance under this standard, including .5 through .11, have the potential for regulatory overreach.

Q234 Comment on Guidance ICP 16.13.1

Answer

Q235 Comment on Guidance ICP 16.13.2

Answer

Q236 Comment on Guidance ICP 16.13.3

Answer

Q237 Comment on Guidance ICP 16.13.4

Answer

Q238 Comment on Guidance ICP 16.13.5

Answer

Q239 Comment on Guidance ICP 16.13.6

Answer GFIA believes the requirement to provide long-term assessments of capital adequacy should be deleted. Long term scenarios are in most cases not adequate for non-life insurers, as they do not have long-term business or long-term investments.

Q240 Comment on Guidance ICP 16.13.7

Answer

Q241 Comment on Guidance ICP 16.13.8

Answer GFIA appreciates that supervisors will require all underlying information on the ERM material in order to assess whether appropriate management action has been taken in response. However, the ERM framework interlinks with an insurer's business strategy and supervisory involvement in the ERM framework therefore means supervisory involvement in the business strategy, it is crucial that sufficient reasons are provided to the insurers to explain the supervisor's decision. This involvement can potentially result in quite intrusive action by the supervisor and GFIA would therefore urge, at least, that sufficient communication between the supervisor and the insurer takes place.

Q242 Comment on Guidance ICP 16.13.9

Answer Prescribed market-wide stress test, with appropriately selected (realistic) stress scenarios can play a valuable role in allowing industry-wide vulnerabilities to be assessed and understood. Most regulatory frameworks in place, however, represent a system based on extreme stress scenarios. Therefore, care must be taken to avoid the stress test exercises resulting in unjustified additional capital requirements. Stress test exercises have been seen to create confusion where results of such stress-tests and comparisons were misrepresented in public and had unforeseen detrimental consequences. Stress testing should never be narrowed down to a “pass-or-fail” exercise.

Q243 Comment on Guidance ICP 16.13.10

Answer

Q244 Comment on Guidance ICP 16.13.11

Answer

Q245 Comment on Guidance ICP 16.13.12

Answer

Q246 Comment on Guidance ICP 16.13.13

Answer

Q247 Comment on Guidance ICP 16.13.14

Answer

Q248 Comment on Guidance ICP 16.13.15

Answer

Q249 Comment on Guidance ICP 16.13.16

Answer

Q250 Comment on Guidance ICP 16.13.17

Answer

GFIA strongly disagrees that the supervisory assessment of the group's ERM framework should in every case affect the level of capital that the insurance group is required to hold for regulatory purposes and any regulatory restrictions that are applied. Situations where potential findings from the ERM affect the regulatory capital assessment should be limited to clearly defined scenarios and triggers.

This link between ERM and regulatory capital is a key element of the overall IAIS framework and should not be mentioned in a Guidance at the end of ICP 16. It should form an integral part of ICP 17 instead and be deleted here for consistency.

Q251 Comment on Guidance ICP 16.13.18

Answer

Q252 Comment on Guidance ICP 16.13.19

Answer

In the context of the thematic review and ComFrame, GFIA believes that the introduction of another sub-category of groups (i.e. "insurance groups that are regarded as particularly important") is not helpful and should be deleted or aligned with the overall framework.

Q253 General comment on proposed definition of ERM-related terms to be added to the IAIS Glossary

Answer

Q254 Comment on proposed definition of "ERM for Solvency Purposes"

Answer

Q255 Comment on proposed definition of "ERM framework"

Answer

Q256 Comment on proposed definition of "Risk Capacity"

Answer

Q257 Comment on proposed definition of "Risk Limit"

Answer

Q258 Comment on proposed definition of "Risk Limits Structure"

Answer

GFIA would appreciate a clarification of the relationship between the terms "risk limit", "risk limit structure", "risk appetite", and "risk appetite statement".

Q259 Comment on proposed definition of "Risk Profile"

Answer

Q260 Actuarial policy – In addition to existing ICP material,should ICP material on actuarial policy for the purpose of ERM for solvency purposes be developed?

Answer

No

Q261 ORSA – Should the interaction between ICS and ORSA be made clearer in ComFrame? If yes, what are the areas that are currently lacking in clarity?

Answer

	Q262 ORSA – Should the interaction between ICS and ORSA be made clearer by clarifying the assessment of the less readily quantifiable risks such as strategic risk and reputational risk?
Answer	No
	Q263 ORSA – Fungibility of capital: To what extent should the ORSA play a role as part of a holistic approach to the fungibility of capital within the ICS? In addition to the consideration of criteria within the capital resources framework of the ICS, would it be useful for ComFrame to provide some specificity on how supervisors should assess fungibility of capital and take that into account in assessing the overall capital adequacy of the IAIG?
Answer	
	Q264 ORSA – Would it be useful for ComFrame to provide explanation on how supervisors should review the output of an IAIG's economic capital model against regulatory requirements, including the determination of follow-up regulatory actions?
Answer	
	Q265 Stress testing – Should the complementarity between ICS and stress testing be made clearer in ComFrame? If yes, what are the areas that are currently lacking in clarity?
Answer	
	Q266 Stress testing – Should this ComFrame material be further developed to complement supervisor's assessment of an IAIG's capital adequacy?
Answer	
	Q267 Economic capital model – Should the interaction between the requirement to maintain a comprehensive economic capital model and any future possible use of internal models be clarified? If yes, what are the aspects that need to be clarified?
Answer	No
	Q268 Actuarial governance and reporting – Given what is already provided in Standards 8.3 and 8.6 and the accompanying guidance on the control function and the actuarial function, should ComFrame further elaborate on governance arrangements and controls relating specifically to group-wide actuarial policy and reporting? If yes, please specify the aspects that should be further described.
Answer	No
	Q269 Others – The ICS allows for the assessment of materiality by IAIGs. For example, a specific factor or rule in the valuation calculation could be simplified if the IAIG deems that the impact of simplification would be immaterial. Should the ComFrame provide clarification on materiality criteria or should this be supervisors' discretion?
Answer	No
	Q270 Others – Should the ComFrame provide clarification on differences (if any) between the model governance for internal models used to meet regulatory requirements (ICP 17 (Capital Adequacy)) and economic capital models used for strategic planning purposes/ORSA (ICP 16)?
Answer	
	Q271 Others – With regard to ERM for Solvency Purposes/ORSA, are there other items that should be taken into account or further clarified in ComFrame given the ongoing development of the ICS? Please elaborate.
Answer	No