

# IAIS Consultations

Print view of your comments on "ComFrame in ICPs 5, 7, 8" - Date: 30.10.2018, Time: 17:14

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<b>Treat my comments as confidential</b>	No

Question	
<b>Answer</b>	<p>Q1 General Comment on ComFrame in ICP 5</p> <p>GFIA appreciates the opportunity to comment. GFIA encourages the IAIS to avoid creating even greater complexity by introducing additional suitability requirements beyond those already in place.</p> <p>While the IAIS requests comments only on the ComFrame portion of text, given that ComFrame guidance must be read in the context of the underlying ICP GFIA would point out that there are frequent references to actions that group-wide supervisors are expected to take, such as verification of appropriateness of functions. There is however no guidance on how these actions should take place and more importantly a lack of objective criteria to determine the appropriateness of the action. An example is ICP 5.5,</p> <p>In particular, as noted in our response to the consultation on ICP 5 in 2017, ICP 5.4 and ICP 5.6 purport to give supervisors far-reaching powers, and it is uncertain how these powers would be applied in practice, in particular if there is a conflict between the group-wide and legal entity supervisors.</p> <p>Save as a resolution measure in exceptional circumstances, GFIA would like to stress that supervisors should not be able to actively choose and appoint Board Members or other decision-making or management functions. The fourth bullet point in ICP 5.5.1 seems to indicate that this was the case. The selection of candidates and their appointment – subject to their suitability – should remain in the responsibility of the insurer/IAIG and supervisors should not be able to actively interfere with this decision.</p> <p>Imposing additional reporting requirements and increasing solvency monitoring activities (fifth bullet point in ICP 5.5.1) is not the most obvious/suitable supervisory measure to take in case of governance / suitability shortcomings. The former (additional reporting requirements) does not address any shortcomings and should be deleted. The latter (increasing solvency monitoring activities) is further just the realisation of the overarching concept of risk-based supervision and would not have to be listed here as a separate measure.</p>
<b>Answer</b>	<p>Q2 Comment on ComFrame Standard CF5.2.a</p> <p>GFIA welcomes the clarification that this Standard is focusing on the IAIG Board Members, as opposed to the "Head of the IAIG". This helps to clarify who is ultimately responsible for fulfilling this requirement.</p> <p>The GFIA also welcomes the explicit recognition of the need for proportionality in this Standard. GFIA suggests that the Standard could go further and include ownership structure, and stage of development, per the Financial Stability Board's recommendations following its peer review on corporate governance.</p>

### Q3 Comment on ComFrame Guidance CF5.2.a.1

#### Answer

GFIA welcomes the amendments to this Guidance to provide examples of what competence is to be expected by supervisors.

However, does not take the view that this Guidance should require that Board members on an individual basis possess “knowledge of and experience with international business and processes, as well as different business models”. This is an acceptable requirement for the IAIG Board, collectively. To this end, GFIA suggests replacing “knowledge of and experience with” with “knowledge of or experience with”, or alternatively, “knowledge of and experience with international business and processes where appropriate, as well as different business models”.

### Q4 General Comment on ComFrame in ICP 7

#### Answer

While the IAIS requests comments only on the ComFrame portion of text, given that ComFrame guidance must be read in the context of the underlying ICP and GFIA would express the following concerns with ICP 7:

**Lack of Objective Criteria or Standards to Guide Supervisory Action** There are frequent references to actions that group-wide supervisors are expected to take, such as verification of appropriateness of functions. There is however no guidance on how these actions should take place and more importantly a lack of objective criteria to determine the appropriateness of the action. Examples are ICP 7.8.7 and 7.8.8..

**Lack of Reference to Globally Recognized Control Structures for Guidance as to Application of Principles of Proportionality and Absence of Concept of Materiality** While implicit in the concept of proportionality which is set out in Paragraph 9 of the ICP Introduction, the concept of materiality and reference to globally recognized control structures and industry standards are largely absent from the ICPs and related ComFrame sections. Without these important reference points, the nature, timing and extent of required review procedures could be significantly misunderstood and/or misinterpreted, putting an exceptional burden on firms and their supervisors.

While it may be clear that a supervisor applies the concept of proportionality when considering what requirements should apply to an insurer based on its size and the nature and complexity of its business, it is less clear once the decision is made what proportionality governs and what are the depth/granularity of understanding, reporting or other requirements recommended in guidance. As such, GFIA would propose that materiality be made an explicit element of the concept of proportionality and that the IAIS consider either adding an additional “Overarching Concept” paragraph or expanding the concept of proportionality to incorporate globally recognized control structures or industry standards that could be appropriate guides to how to right-size governance, risk management and internal control measures. See, for example, our comments on in response to Qs 11,13, 15 and 16 below.

**Board Qualification and Role Rotation of chairs of Committees** would require the need for more experts in that area. Board members should be more strategic and focus on leading the company in the right direction. Senior management is responsible for the day to day business and sound functioning of the enterprise (see ICP 7.3.6). The failure to distinguish between group and legal entity boards and the roles they play continues in ICP 7 where it is inferred that the board has responsibility for every legal entity. Legal entities have their own boards with local requirements and fiduciary duties. This distinction must be recognized.

**External Auditor Reporting to Regulators** In some jurisdictions, there may be no generally applicable legal or regulatory requirement for external auditors to report directly to regulators. Therefore, GFIA suggest that the exchange of information between external auditor and supervisors referenced in several areas throughout the ICPs and related ComFrame provisions (see for example ICPs 7.8.5 and 9.4.9) needs review and revision in line with current general practice. In many instances it would be inappropriate, if not a conflict of interest, for an external auditor engaged by the insurer to engage directly with the supervisor and/or for the group-wide supervisor to access work of an external auditor engaged by an insurer. External auditors’ findings may be consulted during insurer examination but always in accordance with established protocols that may include insurer consent. Also, professional standards may also apply.

The group-wide supervisor may not have authority over the external auditor. Instead of requiring the auditor to report to the group-wide supervisor if it suspects fraud or regulatory breaches, the external auditor should be required to report such findings to the IAIG’s Board or Audit Committee, and the IAIG should be required to provide that report to the group-wide supervisor

The consultation document seems to repeat the text of ICP 5 instead of ICP 7 in the beginning of the chapter. GFIA assumes that the text of ICP 7 is not intended to change from: “The supervisor requires insurers to establish and implement a corporate governance framework which provides for sound and prudent management and oversight of the insurer’s business and adequately recognises and protects the interests of policyholders”.

The GFIA welcomes the focus on key risk managers and decision makers within the IAIG and encourages the IAIS to further explicitly incorporate the principle of proportionality in the integration of ComFrame with ICP 7. However, GFIA considers that more consideration needs to be given to whether the governance requirements are properly imposed on the group’s Board or the corporate legal entity.

On some of the ICP content: It goes beyond the remit of insurance supervisors to require some Board members to be non-executive, let alone the Chair. The good practice and other references to executive and non-executive members mentioned in ICPs 7.3.5 and 7.6.3 should therefore be deleted. It is not clear what the IAIS would expect as “clear and objective independence criteria” insurers are meant to establish for “an adequate number of members of the Board (i.e. non-executive Board members)” in ICP 7.3.8 and whether this would not be more appropriate in the context of ICP 5, rather than ICP 7. GFIA would suggest that the duties laid out in ICP 7.6 and related Guidance on remuneration policies is overly detailed and prescriptive. As a principle-based framework, it would suffice that the ICPs/ComFrame require that written policies be established with the aim of implementing remuneration systems that do not induce excessive or inappropriate risk taking or any other misconduct. In particular, the means listed in ICP 7.6.7 by which conflicts of interest (supposedly, using this more general term interchangeably with “conflicts of interest emanating specifically from remuneration structures”) should be mitigated is inappropriate and the supervisory measures proposed would be overly intrusive without evidence that the integrity and objectivity of staff have in fact been compromised. Any further detail and examples would – if necessary at all – suffice in an issues paper to assist supervisors in practice. Furthermore, there are overlaps with ICP 8 (e.g. in ICP 7.6.2). External audits are regulatory requirements implemented via external auditors. The supervisor doesn’t supervise auditors. Therefore, the supervisor should not be able to require a new audit by another auditor (ICP 7.8.8). GFIA suggests the deletion of the sentence “The supervisor should require a further audit by a different external auditor where necessary”. However, it is recognized that jurisdictions handle this issue in different ways. Where ICP 7.9 covers communication to stakeholders/disclosure (as opposed to communications to the supervisor), there seems to be an overlap with ICP 20. GFIA would ask that the IAIS aligns the disclosure regime within the framework.

Q5 Comment on ComFrame Standard CF7.0.a

**Answer**

GFIA appreciates the flexibility for the concrete form of policy documentation introduced in the amended wording. However, it is unclear from this Standard whether the purpose of the document anticipated by this Standard is to enable the supervisor and/or the IAIG to have the understanding of the IAIG’s structure. GFIA is of the view that it should be the IAIG.

Q6 Comment on ComFrame Guidance CF7.0.a.1

**Answer**

GFIA welcomes the clarification that CF7.0.a can be met via « documentation » rather than a single specific document.

GFIA suggests that the requirement to provide information with regard to off-balance sheet entities (new bullet point three) and financial and non-financial ties (new bullet point five) should be subject to materiality considerations.

Q7 Comment on ComFrame Standard CF7.0.b

**Answer**

GFIA welcomes the explicit reference to proportionality in this Standard.

Q8 Comment on ComFrame Standard CF7.0.c

<b>Answer</b>	<p>GFIA welcomes the new aligned wording of Standard CF7.0c with the ICP framework. However, GFIA questions whether this standard is emphasizing a centralized governance model over a decentralized approach. In addition, some jurisdictions strictly ensure that authority resides in-country. The notion of “clear reporting lines” to the parent therefore is not always possible.</p>
Q9 Comment on ComFrame Standard CF7.1.a	
<b>Answer</b>	<p>The text – “independent of day-to-day management” at the end of the sentence should be deleted as day-to-day management should be integral to the governance structure.</p>
Q10 Comment on ComFrame Standard CF7.2.a	
<b>Answer</b>	<p>While GFIA agrees that an IAIG’s strategy will broadly account for the listed features in CF7.2a, the setting of concrete objectives and of the overall strategy should remain in the IAIG’s commercial decision-making power. In establishing an IAIG’s strategy, suitable members of an IAIG Board will act prudently and take into account the necessary requirements and interests. GFIA would propose that the list in CF7.2a be moved into the subsequent Guidance and the Standard be amended to require the IAIG Board to act responsibly and prudently when setting and implementing the IAIG’s corporate culture, objectives, and strategy. This would, in fact, reflect the approach taken for the respective provisions for non-IAIGs in 7.2 and 7.2.1.</p> <p>GFIA would strongly recommend use of a term other than “ensure” to describe the responsibility of the IAIG Board for the content of group-wide business objectives and strategies for achieving objectives. Under many jurisdictional models, senior management is responsible for developing and advising the board on strategy, as well as executing on it and this responsibility falls within senior management responsibilities.</p> <p>In addition, it is doubtful that the group-wide or lead insurance supervisor has authority over the board of directors in all jurisdictions. Our comments under Q4 Board Qualifications and Role on the need to consider the distinction between group and jurisdictional level board responsibilities also apply. Therefore, GFIA recommends rewording CF 7.2.a (and similar guidance) as follows:</p> <p>The IAIG Board oversees the development by IAIG Key Persons of group-wide business objectives, and strategies for achieving those objectives, that should take into account at least the following: In the 3rd bullet, “customers” should be added after “policyholders”. The 4th bullet should be deleted since the word “fair” is very subjective.</p>
Q11 Comment on ComFrame Guidance CF7.2.a.1	
<b>Answer</b>	<p>A materiality qualifier should be added to the concept of risks. Goals and measures need to be defined. The first part of the sentence should be modified to read “The IAIG Board should establish oversee the establishment of processes for identifying and addressing material risks”.</p>
Q12 Comment on ComFrame Guidance CF7.2.a.2	
<b>Answer</b>	<p>This Guidance should indicate that information sharing between supervisors is subject to confidentiality requirements.</p>
Q13 Comment on ComFrame Standard CF7.2.b	
<b>Answer</b>	<p>While the concept of “key legal entities” has been removed, there is now no materiality qualifier for the Head of the IAIG’s responsibility regarding the business strategy of all legal entities within a group. If the goal is to ensure that the Head of the IAIG is monitoring the business strategy set forth by the IAIG Board, this oversight responsibility should be limited to “material” entities, and “material” should be defined.</p> <p>It should be clarified in this Standard to whom the Head of the IAIG is required to provide this explanation of strategy; alternatively, GFIA suggests that “provide” is replaced with</p>

“develop”.

GFIA suggests removing the requirement for annual provision of this explanation of strategy, so that supervisors can require this on a more proportionate basis, for example when there is a change in strategy. While it may be reasonable to provide an update on strategy annually, the requirement in CF 7.2.b for an explanation of the strategy is too prescriptive.

GFIA would also reiterate an overarching comment in Q4 above as to the failure of ComFrame and the ICPs to make the important distinction between group and legal entity boards and the roles they play. Legal entities have their own boards with local requirements and fiduciary duties. This distinction must be recognized.

The phrase “to the IAIG Board” should follow “The group-wide supervisor requires the Head of the IAIG to provide”.

The word “set” should be replaced with “approved”.

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Q14 Comment on ComFrame Guidance CF7.2.b.1

**Answer**

The use of the term “among other things” creates uncertainty and should be removed.

GFIA suggests that the bullet points 3, 5 and 6 be qualified by including the word ‘material’ or ‘significant’. GFIA also questions whether it is necessary for the strategy document to include anticipated changes in market share (bullet point five).

The concept of proportionality should be raised here, as there is no specific guidance for the level of detail required to be provided by the IAIG. Also, what is the rationale behind adding the corporate governance framework to the initial paragraph but then setting out the other items in bullets? It seems that the corporate governance framework should be a bullet to be described along with the other items.

Also, confidentiality protection is especially important here.

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Q15 Comment on ComFrame Standard CF7.3.a

**Answer**

While GFIA supports the intention of this Standard, there could be greater recognition of the overarching concept of proportionality in how this is applied – for example, by amending the following bullet points to provide some further qualification: The second bullet point should be amended to include the concept of materiality: ‘the activities of the significant legal entities, within the IAIG, including significant associated risks’ or “ The third bullet point should be amended to ‘the main supervisory regimes applicable to the IAIG’

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Q16 Comment on ComFrame Guidance CF7.3a.1

**Answer**

The GFIA suggests an amendment to the text, to explicitly recognise the application of the overarching concept of proportionality: “The IAIG Board should be capable of understanding and describing the purpose, structure, strategy, material operations, and material risks of the IAIG, including those of material legal entities in other financial sectors and unregulated entities that are part of the group.”

GFIA would suggest that the concept of materiality should apply to the other legal entities within the group, as the IAIG could consist of hundreds of entities and the IAIG Board should not be expected to understand the risks associated with each of these entities, but should understand the risks impacting the “material” entities, with “material” being defined.

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Q17 Comment on ComFrame Standard CF7.3.b

**Answer**

The GFIA suggests that a materiality requirement is added to this Standard as follows: “conflicts of interest that may materially adversely affect the IAIG as a whole or any of its legal entities”.

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Q18 Comment on ComFrame Guidance CF7.3.b.1

**Answer** This section should be deleted because it is more editorial than guidance. In the alternative, GFIA suggests that this Guidance should also recognise the benefits of cross-representation within decision-making bodies of the IAIG, as well as the idea of group interest, acknowledging that directors of subsidiaries should be allowed to reasonably take the parent's interest into account without violating their fiduciary duties toward their subsidiary. Supervisory recognition of group interest, which provides enhanced flexibility for the management of groups especially on a cross-border basis, would provide directors with comfort when taking directions from the parent board. This section should be deleted since it is more editorial in nature, rather than guidance or a standard.

Q19 Comment on ComFrame Guidance CF7.3.b.2

**Answer** As per the comment on CF 7.3.b, a materiality threshold should be included. GFIA takes the view that not in all instances is it necessary to avoid conflicts of interest, but rather to deal with such conflicts, e.g. by way of mitigation. More nuanced language is required for this standard. As drafted, it suggests that a conflict will create a negative impact(s) while this will not be the case in every instance.

Q20 Comment on ComFrame Standard CF7.9.a

**Answer** GFIA welcomes the clarification as to who the reporting is to be provided to, and the reference to materiality. Again, confidentiality is critically important and should be referenced here or generally so it is clear that it especially applies here.

Q21 Comment on ComFrame Guidance CF7.9.a.1

**Answer**

Q22 General Comment on ComFrame in ICP 8

**Answer** ComFrame material in ICP 8 makes assumptions about the respective roles of internal control functions that are not always correct for every IAIG. Accordingly, the GFIA suggests amendments to some of the ComFrame Standards and Guidance to take account of the fact that not all IAIGs will be organised in the same way. On some of the specific ICPs: ICP 8.1.1 should focus on material risks. ICP 8.1.2 continues to be overly prescriptive and not necessary to achieve an increased convergence in risk management practices across insurers. The listed "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. Furthermore, an element of materiality should be added throughout the text. GFIA would for example suggest re-wording the following bullet point: "provide a documented process defining the Board approval required for significant deviations from the risk management strategy or the risk appetite and for settling any major interpretation issues that may arise;" On ICP 8.1.3 GFIA continues to take the view that listing conduct of business (separate from operational risk) as a risk to be at least covered by the risk management system has unwanted consequences for the supervision of some entities. Reference is made to the comments submitted in January this year. It appears superfluous to mention "foreseeable" and "emerging" risks separately in ICP 8.1.5. The requirement to notify supervisors of the reasons for dismissal of heads of control functions in ICP 8.3.5 is overly intrusive and does not serve any obvious supervisory objective. Supervisors will receive sufficient information / will have the opportunity to request additional information during the appointment process of a new control function, in accordance with ICP 5. Similarly, the provisions in ICPs 8.3.8 and 8.3.15 would be more appropriate in ICP 5. On conflicts of interest, GFIA supports the deletion of "for resolution" at the end of ICP 8.3.11. ICPs 8.4.2 (access and reporting to the Board by the risk management function) and 8.4.3 (Board access and reporting of the risk management function) seem to cover the same issues. The IAIS should consider combining these provisions (as, for example, for the internal audit function in ICPs 8.7.5 and 8.7.6). The authority to require an insurer to replace its Appointed Actuary in ICP 8.6.12 should only be enforced in exceptional circumstances, after extensive dialogue with the insurer, and after all other measures available have been exhausted. Given the ICPs' nature of minimum harmonisation, the last sentence in ICP 8.8.4 on additional local requirements on outsourcing to be considered by supervisors is redundant and should be deleted. In ICP 8.8.5, the first bullet point constitutes a repetition of what is already required

in ICP 8.8.3. The financial viability of a service provider (fourth bullet point) should further only have to be considered where appropriate/necessary (i.e. depending on the outsourced activities and relationship between the parties concerned).

On the group/IAIG-specific aspects of ICP 8, e.g. in ICP 8.0.6 and 8.0.7, the notion of “group interest” should be introduced and feature more prominently.

GFIA appreciates the IAIS moving former CF 8.1b.2 to ICP 8.1.9, however, the responsibility to undertake a risk assessment before entering into new business lines and products: should be limited to new business lines and materially new products, and may in some instances be better placed with local entity boards of operating subsidiaries who manufacture products, rather than the head of the group which may in fact be a parent/holding company.

While the IAIS requests comments only on the ComFrame portion of text, given that ComFrame guidance must be read in the context of the underlying ICP and GFIA reiterates here an overarching comment on the revised ComFrame in ICP section published for Consultation

While the ComFrame Introduction Section 24 recognizes that governance models vary by jurisdiction, and that ComFrame therefore focusses on outcomes that models need to achieve, this focus is inconsistently reflected in specific ComFrame sections (and related ICPs) that continue to make recommendations that could be inconsistent with governance structures and legal requirements in jurisdictions around the world.

An example is the assumed structure and role of the Board of Directors. Many jurisdictions follow the one-tier board model. Under this model (and perhaps others) the role of the board is essentially to assess and approve the overall direction and strategy of the business on recommendation and advice from senior management. Where this is the case, in addition to being responsible for the day-to-day operations of the business, senior management, not the Board of Directors, is responsible for developing business objectives and strategy, as well as executing on it. Therefore, guidance making the Board ultimately responsible for ensuring that the insurer has in place the effective systems of risk management and internal controls and functions to address key risks it faces (see ICP 8.0.1) is misplaced. GFIA would strongly recommend the IAIS consider rewording such guidance throughout the ICPs and ComFrame.

GFIA would also re-emphasize additional general comments that pertain to ICP 8 as the basis for ComFrame 8.

Lack of Reference to Globally Recognized Control Structures for Guidance as to Application of Principles of Proportionality and Absence of Concept of Materiality As mentioned in prior comments, while the concept of proportionality which is set out in Paragraph 9 of the ICP Introduction is implicit, the concept of materiality and reference to globally recognized control structures and industry standards are largely absent from the ICPs and related ComFrame sections. A further example where the addition of this concept would be important is ICP 8.1 Systems for risk management and internal controls where the term “material” used in the second bullet point is applicable to all following sub-sections (e.g., 8.1.1) where the term “material” is not used.

Clarification of Unclear Terminology ICP 8.3.15 Recommends that “Higher expectations apply to the head of each control function”. The purpose and interpretation of this sentence could be significantly misunderstood and/or misinterpreted and does not appear to be necessary. GFIA recommends removing the sentence.

Board Role ICP 8.7.1 (Internal Audit Function) inappropriately recommends that oversight role of the Board include ensuring that the information provided by Internal Audit allows the Board to “effectively validate the effectiveness of the internal control system”. Board oversight does not incorporate this level of responsibility in all jurisdictions and ComFrame and the ICPs should account for such differences. GFIA would strongly recommend use of a term other than “validate” to describe the responsibility of the IAIG Board for the effectiveness of the internal control system.

Main Activities of the Audit Function ICP 8.7.7. third bullet reviewing levels of compliance by employees, organisational units and third parties with laws, regulations and supervisory requirements, established policies, processes and controls, including those involving reporting; suggests that Internal Audit is required to perform substantive detail testing to evaluate compliance with laws, regulations and supervisory requirements. This would be inconsistent with objective governance models in place such as the three lines of defense framework. GFIA acknowledges the role of Internal Audit as the third line of defense and recommend the following alternative language: Evaluating the quality and effectiveness of internal controls relating to levels of compliance by employees, organisational units and third parties with laws, regulations and supervisory requirements, established policies, processes and controls, including those involving reporting.

	Q23 Comment on ComFrame Standard CF8.1.a
<b>Answer</b>	Where CF text is adapted, these changes should also be mirrored in the respective ICP text, e.g. changing “at a minimum” to “at least” to avoid any misunderstanding in the implementation of the provisions.
	Q24 Comment on ComFrame Guidance CF8.1.a.1
<b>Answer</b>	GFIA welcomes the removal of CF8.1b.2, which was too prescriptive, and applied too broadly.
	Q25 Comment on ComFrame Standard CF8.1.b
<b>Answer</b>	GFIA welcomes the removal of CF8.1a.1 and CF8.1a.2 which were overly-prescriptive. The introduction of a materiality element here is much appreciated. However, GFIA continues to advocate that 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).
	Q26 Comment on ComFrame Standard CF8.1.c
<b>Answer</b>	
	Q27 Comment on ComFrame Guidance CF8.1.c.1
<b>Answer</b>	<p>The GFIA suggests clarifying what is meant by the “issue of independence” mentioned in this Guidance. GFIA recommends that the wording is amended as follows: “Processes and procedures for promoting an appropriate risk culture should include risk management training, address the segregation of duties and create appropriate incentives for staff”.</p> <p>The phrase “segregation of duties” refers in particular to the risk-management second line being independent of the risk-taking first line. Clarification of the “issue of independence” should make this explicit. Also, the requirement for training is too prescriptive.</p>
	Q28 Comment on ComFrame Guidance CF8.1.c.2
<b>Answer</b>	
	Q29 Comment on ComFrame Standard CF8.1.d
<b>Answer</b>	The frequency of the review should not be annually but instead be periodically and should depend on the risk profile and be reactive to material changes of the structure/business strategy of the IAIG
	Q30 Comment on ComFrame Guidance CF8.1.d.1
<b>Answer</b>	This provision should be limited to material changes only. The changes proposed are welcome.
	Q31 Comment on ComFrame Guidance CF8.1.d.2
<b>Answer</b>	
	Q32 Comment on ComFrame Standard CF8.2.a

**Answer** Clarification should be provided as to who or what is the 'Head of the IAIG' in the context of this Standard.

Q33 Comment on ComFrame Standard CF8.2.b

**Answer** GFIA welcomes the changes to this Standard clarifying the role of the Head of the IAIG. However, it remains unclear what 'internal controls systems' extends to.

GFIA welcomes the clarification of the term "independent objective party" that was previously used in this Standard.

GFIA considers that primary assurance surrounding internal controls should be the responsibility of the business, but also open to review by Internal Audit Functions, in line with their audit planning approach.

Therefore, GFIA recommends that the wording of CF8.2. b should be adjusted as follows:

"The group-wide supervisor requires the Head of the IAIG to review at least annually the effectiveness of the IAIG's risk management and internal controls system and report the results the IAIG Board and Senior Management."

GFIA would suggest that references to annual assessments and/or testing should be replaced with guidance to the effect that assessment and testing should be required "periodically as deemed necessary by the group-wide supervisor, but no more frequent than annually."

Q34 Comment on ComFrame Standard CF8.3.a

**Answer** GFIA fails to see how the IAIG could ensure that there is no "duplication" of control function activities (as per the 2nd bullet) nor does GFIA see why potential instances of duplication is necessarily a negative.

Q35 Comment on ComFrame Standard CF8.3.b

**Answer**

Q36 Comment on ComFrame Standard CF8.3.c

**Answer** Bullet point one, which states that the IAIG is not to combine control functions, should be amended to address the particular concern of the IAIS, as it is neither uncommon nor inappropriate for risk and compliance functions to be combined or to overlap.

"ComFrame in ICPs 5, 7, 8, 9, 10, 12 and 25 and ICP 10.3: Responses to Comments received during 3 March. 1 June 2017 Consultation" published by IAIS in March this year shows the following interpretation about the first bullet point, which states that the group-wide supervisor requires the IAIG Board to ensure that the group-wide control functions are not combined.

"The prohibition of combination applies to the Key Person in Control Function as well as the staff supporting a control function. As regards the staff, relevant employees can work in the same unit, but one person should not be responsible for supporting two or more function, in order to avoid combination of those functions."

However, this seems to be contradictory to paras 8.3.10 and 8.3.11. According to these paragraphs, a combination of certain control functions seems possible, as long as potential conflicts of interest are avoided, and check and balance is ensured.

Therefore, the first bullet should be amended as follows: "are not combined if there are potential conflict of interest".

GFIA notes that there is no outright ban on combining control functions under Guideline M2E2-8-1-2. In relation to the second bullet point, internal audit functions are likely to have a mandate to review all aspects of an insurer's internal controls in line with their audit plan. The frequency at which reviews of control functions take place will necessarily be risk based. Insurers may also therefore have other measures to assess their effectiveness on a more frequent basis. In this respect, the reference to internal audit and external parties in CF 8.3.c seems unnecessary, and therefore GFIA would propose that the second bullet point under CF8.3.c is amended as follows: "are subject to periodic review as to their

effectiveness.”

Q37 Comment on ComFrame Standard CF8.4.a

**Answer**

There should be an element of materiality embedded in this standard.

Q38 Comment on ComFrame Standard CF8.4.b

**Answer**

Q39 Comment on ComFrame Standard CF8.5.a

**Answer**

GFIA welcomes the amendments to the bullet points to remove obligations which are not those of the compliance function, and the removal of the requirement for the Board to approve the compliance plan.

However, GFIA suggests that the reference to legal obligations in the second and third bullet points should be removed or be made more conditional on jurisdictional and company practice. While the compliance function will be necessarily concerned with the regulatory obligations, broadening its scope to also include all legal obligations would detract from its core purpose in terms of compliance with financial services-related rules and guidance. Broader legal obligations are better addressed by an IAIG’s legal function and should not therefore be allocated to the compliance function.

Q40 Comment on ComFrame Standard CF8.6.a

**Answer**

While GFIA welcomes the amendments to the bullet points in this standard, they still do not reflect the actuarial function’s role in assessing the appropriateness of methodologies and assumptions used in the calculation of capital requirements and technical provisions. GFIA recommends the following changes:

Amend the first and third bullet points to require a specific focus on the calculations, as follows: the appropriateness of methodologies and underlying models and controls relevant to govern the activities of the group-wide actuarial function or finance condition;’ and ‘the reliability of the calculation of the IAIG’s solvency position, assessing the methodology and assumptions used in the calculations of group-wide regulatory capital requirements and technical provisions;’

The fourth bullet point should be deleted entirely, as it is the role of the actuarial function to ensure the appropriateness of methodologies used in the calculation of the IAIG’s financial condition. Stress and scenario testing will be a function of risk management rather than the actuarial function.

The final bullet point should be amended to recognise that responsibility for the ORSA should be primarily a risk management function, although the actuarial function will contribute: “contribute to the effective implementation of the IAIG’s Own Risk and Solvency Assessment (ORSA) and use of internal models.” GFIA agrees that the current and prospective solvency position of an insurance entity should be monitored but this monitoring is not always an actuarial function as there are many components that factor into an entity’s solvency. As this is the case GFIA recommends rewording the introduction to the third and fourth bullets within CF 8.6a as follows: The actuarial components of the IAIG’s solvency position The actuarial components of the IAIG’s prospective solvency position

The phrase “adequacy of the IAIG’s reinsurance arrangements” as used in the fifth bullet is very broad and GFIA is of the view that it overlaps with the requirements to review the actuarial portion of an IAIG’s solvency position. GFIA suggests removing this bullet.

While the IAIS requests comments only on the ComFrame portion of text, given that ComFrame guidance must be read in the context of the underlying ICP and comments GFIA submitted in 2017 have not been taken into account, GFIA reiterates the following concerns with ICP 8.6

Our observations on ComFrame’s assumption of the scope of the actuarial function also apply to the related ICPs which, as the basis for ComFrame, should be adjusted as follows: 1. ICP 8.6 should remove “capital adequacy” from the requirements 2. ICP 8.6.2 bullet 4 should be removed 3. ICP 8.6.4 bullet 2 should remove the “and capital requirements, as

well as other obligations or activities” portion of the bullet 4. ICP 8.6.4 bullet 3 should remove “and the valuation of assets” portion of the bullet 5. ICP 8.6.4 bullet 4 and bullet 5 should be reworded so that the actuarial function is only reviewing the actuarial portion of the insurer’s current and prospective solvency position 6. ICP 8.6.4 bullet 6 should remove the “or the financial condition of the insurer” portion of the bullet 7. ICP 8.6.4 bullet 12 should remove the “or financial projections, or for solvency” portion of the bullet 8. ICP 8.6.4 bullet 13 should remove the “or financial matters” portion of the bullet.

In addition, ICP 8.6.12 should be removed in its entirety. The phrase “adequately perform” is open to interpretation and could lead the Appointed Actuary to be unable to adequately perform the duties of their position when regulators take positions that the Appointed Actuary may disagree with.

Q41 Comment on ComFrame Standard CF8.6.b

**Answer**

This standard seems to be described on the premise of a more centralized governance model on the review of actuarial information by the IAIGs actuarial function in cooperation with the actuarial function at the insurance legal entity level. To recognize that IAIGs have different models of governance including the more decentralized model, the first bullet should be amended as follows: “works with the actuarial functions at the insurance legal entity level to review actuarial information in accordance with its significance.”

Q42 Comment on ComFrame Standard CF8.7.a

**Answer**

The GFIA suggests that the bullet points in this Standard be amended to better reflect the focus of internal audit on processes and controls. For example, fraud prevention (second bullet point) is often a task of the compliance function. GFIA further questions the granularity of the reference to the way the IAIG ‘preserves its assets and those of policyholders’.

Q43 Comment on ComFrame Guidance CF8.7.a.1

**Answer**

This Guidance should recognise that the internal audit function will take a risk-based approach in the performance of its activities.

Q44 Comment on ComFrame Standard CF8.8.a

**Answer**

GFIA considers that the use of the word “material” in these bullet points does not go far enough to incorporate the overarching concept of proportionality and ensure a proportionate application of this requirement. A large IAIG may have a significant number of outsourcing arrangements that would fall under the term ‘outsourcing of any material group-wide activity or function.’ GFIA suggests that this Standard be drafted in a way to better accommodate a risk-based application.

Q45 Comment on ComFrame Standard CF8.8.b

**Answer**

The GFIA suggests that this Standard be amended to take a more risk-based approach, to better incorporate the overarching concept of proportionality. GFIA considers that the depth, and the formality, of the assessments and due diligence contemplated in the three bullet points should be proportionate to the complexity and the importance of the particular outsourcing arrangement; the reputation and standing of the potential service provider; and how familiar the insurer is with the potential service provider.

GFIA welcomes the amendment broadening bullet point three.

Q46 Comment on ComFrame Guidance CF8.8.b.1

**Answer**

Q47 Comment on ComFrame Standard CF8.8.c

**Answer**

GFIA suggests this Standard be further amended to take a risk-based approach.

Q48 Comment on ComFrame Standard CF8.8.d

**Answer**

GFIA welcomes the removal of the word “all” from this Standard. GFIA highlights that it needs to be assured that reviewing outsourced activities should be in accordance with their materiality and significance.