IAIS Consultations

Print view of your comments - Date: 16.12.2013, Time: 16:09

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Treat my comments as confidential	No

Q-Nr.	Reference	Question

1. General Question

Q-1	General comments on 2013 Draft ComFrame. Different sections require demonstrating or analysing some aspect of the company's risk management. The document as written could imply a requirement for voluminous reporting that is duplicative of the ORSA. For example, some items listed that would likely be duplicated in an ORSA include – M2E3-2-8-2, M2E3-3-2-1, M2E3-3-6-1, M2E3-3-6-2, M2E4-4-1-2 and M2E4-7-1. Is an IAIG expected to report on all of these requirements or will the regulator validate them on their own? The IAIS document still includes items in ComFrame Module 2 that are either already in the Insurance Core Principles (ICPs) or should be in the ICPs. We understand this may have been intentional, but marking those sections, perhaps via italics or a footnote reference might help in navigating through the document. Other unaddressed items that emerge include: 1."What is appropriate and what are the consequences of failure? Some examples include M2E4-1, M2E4-1-1. 2. What is undue reliance? M2E4-1-3, M2E4-4-1-3. 3. How to tell if a reinsurance program exposes the balance sheet beyond its risk tolerance levels (also, this seems to be written more like a notice to the regulator of what to consider). 4. What will be the regulator tolerance for and options for addressing "failure" or weak compliance? In national jurisdictions, there are specific legal powers linked to instances of failure or weak compliance. The IAA will face a similar question if it creates standards that apply to actuaries working to comply with ComFrame requirements. 5. What criteria are to be used to assess materiality of entities or business units and materiality of concentration risk for intra-group reinsurance arrangements (M2E1-1-1-1, M2E1-1-1-3, M2E3-3-1-1, M3E2-1-3-1)? Lastly, the guidance seems silent on the specifics of a diversification credit – How will it be handled? It is referenced on M2E3-4-1-2, but not described elsewhere and if (or how) it is allowed.

2. Introductory Remarks

Q-2	General comments on the Introductory Remarks 3 ComFrame hierarchy; The ComFrame wording suggests that guidelines should rarely include the word "should." Later paragraphs in the main body are inconsistent in this regard. Some follow the concept of guidelines containing non-binding guidance and illustrations, while some include specific requirements. It would help to have a consistent decision of the usage.

3. Module 1

Q-3	General Comments on Module 1 Scope of ComFrame
Q-4	Comments on Module 1 Element 1 Identification of internationally active insurance groups

	• M1E1-1-2; We are not sure how to address the decentralized cases such as the Berkshire Hathaway situation, and not sure this parameter gives sufficient guidance. Berkshire's report to shareholders says that their underwriting functions are totally decentralized, but their investment functions are totally centralized. In such a case, would this guidance require it to be one IAIG, or would the 4 underwriting units be evaluated separately (with some qualifying as IAIGs and some not qualifying)? All four are included in the Berkshire consolidated reports, but with a breakout into the four groups. Are these four groups (some of which may be an IAIG and some not IAIGs) with common outsourcing, or are they one group? We do not raise this as a single situation, but only to be illustrative. We are aware of other situations in which not all the insurance operations within a conglomerate were within the "insurance" division, hence Module 1 needs to address this issue. .
Q-5	Comments on Module 1 Element 2 Process of identifying internationally active insurance groups • M1E2-1-2; We recommend also documenting the reasons for not identifying a group as an IAIG if it otherwise meets the criteria in M1E1-1-1.
Q-6	Comments on Module 1 Element 3 Scope of ComFrame supervision
Q-7	Comments on Module 1 Element 4 Identification of group-wide supervisor

4. Module 2

Q-8	General Comments on Module 2 The IAIG
Q-9	Comments on Module 2 Element 1 IAIG's legal and management structures • M2E1-1-1; The discussion of risks and how they are mitigated would be better placed in M2E3 (ERM). • M2E1-1-1-3 bullet point 4; We agree that this is a major item for evaluating an IAIG´s structure. The more intertwined the affiliate relationships within an IAIG, the fewer the options and the more difficult the rehabilitation in the event of a crisis. • M2E1-1-1-4 second paragraph; This would be better placed in M2E3 (ERM). • M2E1-2-1; This requirement as worded could lead to action that detracts from the effective handling of problems if the plan is expected to be executed as originally drafted. The risk is that detailed plans drawn up may well be inoperative in times of crisis (due to implicit assumptions about conditions during crisis that may not exist during such times). In general, the more detailed such plans are, the less useful they are unless the assumptions behind them are clearly laid out and they clearly identify authority and responsibility, including backups, and identify a range or categories of options. • M2E1-2-2-1 first paragraph second sentence; Should change "would" to "could." A contingency plan should not overly restrict management´s options nor commit them to a single course of action in a time of crisis, as every crisis is different. The value of a contingency plan is that the preparations done ahead of time will provide a better starting point for considering actual alternatives actions at a time of crisis. • M2E1-3; We are unsure why this is needed in ComFrame. It does not seem to be material enough to mention separately. It should be in an ICP. If it is material for an IAIG, then it would be applied in the IAIG´s ERM (under Module 3).
Q-10	Comments on Module 2 Element 2 Governance • M2E2-1-1 first paragraph first bullet point; This would be better placed in the Element 3 (ERM) rather than Element 2 (Governance). • M2E2-2-3-1; The only thing that seems to be different here from the ICPs is the requirement for an annual review. According to the hierarchy in the Introductory Remarks, such a requirement should be in the parameter and not in a guideline. • M2E2-4; The parameters and guidelines that accompany this standard seem to be rather general and not unique to IAIGs. Therefore, we do not see the need for this section in ComFrame. • M2E2-5-1-1; There is no mention in this guideline about conflicts between group-wide versus individual entity incentives, but suggest there probably should be. • M2E2-11; What is effective and what is the consequence if it is deemed not effective? This could be linked to E4-8. • M2E2-11-1-2 first sentence; It is clear that these are examples, but it would be better if "providing advice and opinion" were replaced by "advising on, opining on, reporting on, or reviewing." • M2E2-13-1 first sentence; The scope of this parameter is expansive. As worded, it would include outsourcing of the employee cafeteria, grounds maintenance, and other administrative areas with low risk. We recommend that it be reworded to require such controls for areas with a potentially material impact on solvency and viability risks. Note: Accompanying guideline also says to "provide for group-wide monitoring and oversight of the outsourced (intra-group or external) activities." This is burdensome for some administrative functions.
Q-11	Comments on Module 2 Element 3 Enterprise Risk Management (ERM)

• M2E3-1-1; Could also include here “the identification of unknown risks via an emerging risk process” Also, it may help to have a section that discusses how non-insurance entity risk is to be addressed • M2E3-1-2; While ComFrame may be trying to get additional comparative comments into the ERM documentation, this request might be better appearing in an ICP rather than ComFrame itself, as long as the ICP included a requirement to emphasize the differences between the risks as they apply to entities within a larger organization. • M2E3-1-4; What does it mean to be “fit for purpose”? Since the guideline says the review may be carried out by an internal or external body, how will the independent reviewers know how to evaluate it? This is an example of where actuarial standards that apply to this situation may be a useful sufficient condition for “fit for purpose”. • M2E3-1-4-1; Is the desired output of the review a “clean bill of health” a list of red, yellow, green comments or a “what is working well and what needs to be better”? Who is the audience for the review? Is it the board or the regulator? • M2E3-1-6; It would be useful to include here some reference to or clarification of examples about qualitative risk tolerance. Qualitative is also used in M2E3-2-8. • M2E3-2-1; This sentence is confusing and we suggest it could be rewritten for greater clarity: “During the development, statement and testing of its group-wide ERM policy, the IAIG both defines the basis for how it determines the relationships among the IAIG’s risk tolerance limits, regulatory capital requirements, and economic capital and also formalizes the processes and methods for monitoring risk.” • M2E3-2-2; Why is this done at the group level? For some of this (e.g., underwriting, reserving) the practices should be created locally with oversight via principles and policies. This should not be done at the group level in most cases. We would require that the group ensures such processes are in place at a company level. Note also that the accompanying Guideline M2E3-2-2-1 doesn´t seem to fit this parameter. • M2E3-2-6; In general, property/casualty product development and pricing are not impacted at all by the ALM policy. The ALM policy instead needs to adjust to what is sold. Hence this should be rewritten (or at least modified to say "where applicable" with regard to product development and pricing). • M2E3-2-8; The first paragraph deals with Corporate Governance, not ERM. It is only the second paragraph that follows this that deals with ERM. Should the first paragraph be removed or placed elsewhere? Perhaps it is meant to require risk limits on intra-group transactions? • M2E3-3-1; Since this seems to be a comprehensive list, consider adding "counterparty risk". Counterparties are cited in the guideline, M2E3-3-1-2, that follows. • M2E3-3-1-1; Not clear why intra-group reinsurance arrangements will be different than external facilities especially for materiality and concentration risk. Does the concentration risk increase in the group because of the Intra Group Transactions? It also seems to contradict M2E3-2-1-2, which says "When dealing with intra-group reinsurance arrangements, the IAIG should set up and manage such transactions in the same way as external reinsurance arrangements." Which point of view is intended? • M2E3-3-2-1; This reads like a Parameter (and doesn´t seem to fit well in the Parameter where it was placed). It also doesn´t seem to be IAIG specific but the group needs to ensure that such processes are in place on a company level. Suggest covering in an ICP instead, but if needed in ComFrame then one could devote a Parameter in this section to Reinsurance issues and place this issue in that parameter. • M2E3-4-4-1; Are these risks in the second paragraph different from, contained within or in addition to the operational risk mentioned in the accompanying Parameter? We would see operational risk as including strategic and reputational risk. It would seem that “Counterparty risk” should also be included. We don´t understand the last paragraph. Would a risk covered in an ERM Framework also be covered in a group´s "own risk assessment"? We are not sure what is being communicated here. • M2E3-4-5-1; Not clear why these should be included if they are not part of the strategic plan. Suggest adding "where applicable to the strategic plan".

Q-12

Comments on Module 2 Element 4 Enterprise Risk Management (ERM) policies
• M2E4-2-4-1; In the event of insolvency or winding-up the IAIG management will no longer be in control and they may not have knowledge of what the real options or restrictions are (as they may not know how flexible the authority of the supervisor is in such situations, as these situations may be confidential for the applicable jurisdiction(s)). Will the second paragraph link to Module 3 on the supervisory need to have similar documentation/preapproval already in place? We see this requirement here as aiding the regulators to also plan ahead on what management/regulatory options they may need to mitigate and/or successfully manage insolvency. • M2E4-2-5-1; Not clear why this is specific to an IAIG. Should not this just be placed in an ICP? • M2E4-4-1-3; We think that this is a general statement that belongs in an ICP (if not already there) and should not need more stress in ComFrame. • M2E4-4-1-4; Note that some IAIG´s have a policy to only write risks (or certain types of risks) that they can handle on a gross basis, so as to not be dependent on the reinsurance market and its potential volatility. • M2E4-5-2; We understand this parameter is fulfilled at a high general process level and not meant to presume to aggregate products and legal environments that differ significantly by jurisdiction. As such, the claim procedures, processes and data capture should reflect the particulars of the products and risks relative to the local environment as a top priority. • M2E4-7-1; The list in this parameter does not consider the possibility that local entities may be required to participate in certain reinsurance arrangements. The list should be adjusted to reflect this, perhaps in rewording the current fourth bullet in the list (which addresses locally entered into reinsurance cessions). This parameter does not address the need for a clear contractual description in such arrangements as to how recoveries are assigned to individual legal entities. Many group-wide contracts list multiple entities in the group as contributing to the contract´s subject losses, with recoveries from the contract paid to one entity in group (as the group´s "banker" for the contract), even if the subject losses that triggered the cede came from a different or multiple group entities. The agreements should specify how such recoveries are then allocated or assigned to

individual group entities. • M2E4-8-2; The expression in the second line "whether certified or not" should be clarified. In the first bullet point, it would be useful to either define reliability and sufficiency, or to make use of actuarial standards for this purpose to be sure they are applied consistently. This will not be the same as local unit statutory sufficiency if only the central estimate is booked in the consolidated balance sheet (without any risk margins). We expect that the intent of this actuarial opinion, in a "clean" situation, is a "clean opinion", rather than an assessment/report on green, yellow, red conditions, but clarification would be appreciated. If this is the case, it will require specific clarity as to what is being certified to. As commented below regarding M2E4-8-2-1, providing such an actuarial opinion which includes consideration of non-insurance or non-regulated entities may require the actuary to rely on another expert. In addition, the term "opinion" could add "report, advice or review" to be consistent with our earlier suggestion. • M2E4-8-2-1; It would be useful to add a bullet in the list of examples dealing with "the reliances made by the actuary in utilizing the values provided of non-insurance entities". We suggest that actuarial standards could play a useful role in providing guidance on several of the issues listed. In the meantime, some specific questions that arise include: 1. Is the input of other opinions then used as a basis for an opinion that is a statement of reliance to the board, or is the opinion to the board a documentation of current procedures, shortcomings and plans for improvement? 2. Will this include a requirement to opine on the opinions/attestations of the other mentioned group functions & policies? 3. Or is this meant to be an opinion that has been prepared in compliance with an actuarial standard? 4. Lastly, how much would this be duplicated in the ORSA (or would the ORSA rely on ComFrame)? The fifth bullet point regarding "recent experience in comparison with assumptions and valuations" could be improved by mentioning back-testing of assumptions and model validation, assuming that is the intent of this point. The sixth bullet point regarding "uncertainty in current estimates by both insurance entities and the aggregated/consolidated group level" could use further clarification. Does this imply estimating distributions of possible outcomes when the data for this is available? Or simply a general discussion of the types of uncertainty that could affect results and assumptions? Or both? This is the kind of question that may be well suited to be addressed in an actuarial standard. • M2E4-8-2-2; Should this be part of the ERM/ORSA section rather than the Actuarial Policy section? Or is this relied on in the ORSA repor

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Comments on Module 2 Element 5 Capital adequacy assessment. Please provide comments on this Element in the context of the future development of a global quantitative capital standard.
• M2E5-1; This assumes a single capital benchmark. The danger here is that it implies a group capital assessment can be represented by a comparison to a single number. Group capital assessment should be more involved than that. We expect further work and discussion in the field testing process may lead to the inclusion of stress testing into this capital assessment process (The issue of group capital assessment via a single numeric benchmark is a recurring issue in this Standard and of other already developed capital regimes.) Will the capital benchmark also compare or consider fungibility? • M2E5-3; Wording similar to M2E4-8-2 would be helpful here to identify who owns the determination role Presumably the Board will obtain an opinion from someone. Is it the, CFO, CRO, Actuary, or someone else? May need more details about the review. And whether it can be up to company to decide who owns this. • M2E5-5-2; Surplus notes should be a component of core capital even though they have a fixed maturity. For example, in the US, payments on surplus notes require regulatory approval. For this reason, they are available as capital in the event of a problem. Some words capturing that point might help the argument. Perhaps "...particularly for those jurisdictions, such as in the US, where regulatory approval is needed before payments of interest or capital can be made." • Consistency between M2E5-5-3 and M2E5-5-5; The minimum of five years mentioned in M2E5-5-3 seems to apply to M2E5-5-5, so suggest merging these two parameters. • M2E5-5-5-1 Pointing this out here seems redundant, since the instrument of fixed maturity date is meant as additional capital, and this parameter serves to define the acceptable fixed maturity date. • M2E5-10-1-1; "Expert judgment" should be supported by standards, or the required capital benchmark may not be reliable or useful. Where no data exists for an item it is frequently possible to find a lack of consensus and widely varying expert opinions. Hence the result is likely to be somewhat arbitrary. This argues for the use and inclusion of qualitative scenario analysis. • M2E5-10-1-2; This is frequently impossible in practice. A reliable quantification of risk at a 1-in-200 level requires many more than 200 years of data under a sufficiently similar environment as is envisioned for the future risk period. This will rarely exist. The ComFrame development process should be designed for this practical reality, as opposed to a theoretical ideal that does not exist. • M2E5-11; How does the IAIG demonstrate that these items have been addressed? Is it meant to require that operational risk (and other similar risks) need capital? • M2E5-11-1: The statement about the "benchmark is based on the potential adverse changes in capital resources resulting from unexpected changes in material risks" seems a bit confusing since actual future outcomes that are consistent with an estimated distribution of possible outcomes could be described as "expected" and entirely consistent with the process of calculating the benchmark. This could be improved by drawing a distinction between "measurable" outcomes which are those that can be readily estimated based on prior data and experience [these could also be described as "estimable" or "expected"] and "unmeasurable" which are those that need to be estimated based on informed judgment to account for possible outcomes which have not been observed (either not at all or with very low frequency) yet imaginable (e.g., contagion between lines from a new 9/11 event) [these could also be described as inestimable" or "unexpected"]. • M2E5-11-1-1; If these risks can be foreseen for purpose of setting a benchmark, why can they not be equally foreseen in the valuation of assets/liabilities? • M2E5-11-2: In the sixth bullet point the phrase "due to changes in expected future payments" would be more clear

	if written as “due to fluctuations in timing and amount in future payments”. • M2E5-11-2-2; Note that attempts to quantify such mass tort risks for future mass torts are of questionable reliability to-date. Hence such a risk may be more akin to speculation than estimation, and more appropriately included in other "claim reserve risk/revision risk" (This issue also applies to M2E5-12-5.). This item notes that catastrophe risk “should be dealt with separately and should not be included with other insurance risk when calculating the capital benchmark”. Does this include past catastrophic events that could be included in the risk for other unpaid claims? • M2E5-11-5; Where is agency risk? (Also, does the list include the risk of ill-advised acquisitions? Several groups have gone insolvent in the past partly due to such acquisitions.) • M2E5-12; More definition of what kind of a scenario based approach is contemplated would be helpful. How is it defined? Is it a company’s own capital benchmark or a regulator defined benchmark? Depending upon how this is defined by the IAIS, an actuarial standard might be useful in providing principles-based considerations. • M2E5-12-1: This parameter could be improved by adding a companion guideline which describes the difference between using a “set of scenarios” defined as a “small” set of pre-defined economic situations and/or extreme outcomes that would affect the entire IAIG or large parts of the IAIG, and a “distribution of possible outcomes” defined as a “large” set of simulated outcomes based on models and assumptions [which could also be described as a large number of scenarios]. Both of these approaches have value. • M2E5-12-3; None of the items in this list include the risk of major court decisions (that can change how contracts are interpreted) or changes in societal views on fair compensation (which can significantly impact jury awards). • M2E5-12-5-2 Doing this work "for each peril in each region" may not be feasible, although the following example is reasonable. Hence the wording "each peril", "each region" may need to be changed. • M2E5-13-3-1; The IAIS ComFrame drafters should be aware that these approaches, while scientific in nature, cannot avoid the highly judgmental nature of such approaches applied to the tail. It is generally highly unlikely that such correlations can be reliably parameterized based on observation. Any dependency structure chosen will be highly judgmental. As such, they cannot be calibrated as that term may be commonly used. They can be set for a target risk metric given the assumptions made, but they cannot be compared (calibrated) to observations as part of their verification. Calibrating the correlation of outcomes means prescribing the correlation structure to be used which is itself a subjective interpretation, and will be a trade-off between the expertise of the regulator versus that of the company. • M2E5-13-5 second bullet point; Scenario testing does not require the assignment of probabilities. In addition, the assignment or estimation of such probabilities is not necessarily required in order to benefit from such scenario testing. As such, this parameter may be misinterpreting the role of scenario testing or may be assuming too much from that tool.
Q-14	Comments on Module 2 Element 6 Public disclosure and group reporting

5. Module 3

Q-15	General Comments on Module 3 The Supervisor
Q-16	Comments on Module 3 Element 1 Group-wide supervisory process • M3E1-2-1-3; Not clear why the horizontal review concept is not part of a parameter or a standard. It probably should be. • M3E1-2-6; What criteria are used to “assess”? Is leverage based on total capital or free capital? Setting liabilities at central estimates will portray a less leveraged balance sheet even though the risks are unchanged.
Q-17	Comments on Module 3 Element 2 Supervisory colleges, cooperation and coordination • M3E2-1-5-2; In the second bullet point, the phrase "if necessary" should probably be changed to stronger wording in the direction of sharing more information among members of the supervisory college. The phrase "if necessary" may risk future conflicts among supervisors. • M3E2-1-6; Suggest deleting "and necessary". This phrase may risk future conflicts among supervisors and may prevent a sufficiently open discussion among supervisory college members.

While the work done to date on Module 3 Element 3 is not included in this consultation, in order to assist the IAIS with this work going forward, some questions have been included. For questions 18 and 19, you will need to refer to FSB documents. These can be found at:

- **For the *Key Attributes of Effective Resolution Regimes for Financial Institutions* (FSB Key Attributes): http://www.financialstabilityboard.org/publications/r_111104cc.pdf**
- **For the *Application of the Key Attributes of Effective Resolution***

***Regimes to Non-Bank Financial Institutions* (FSB consultative document): http://www.financialstabilityboard.org/publications/r_130812a.pdf**

Q-18	A question for supervisors: What plans do you currently have underway to implement the FSB Key Attributes in your jurisdiction with respect to IAIGs?
Q-19	Referring to the FSB Key Attributes (and Appendix II of the FSB consultative document), please explain whether you believe there should be any difference in the application of the FSB Key Attributes between IAIGs and G-SIIs. If you believe they should be treated the same way, please provide reasons for your view. If you believe there should be a difference between IAIGs and G-SIIs please explain that difference and your reasons. If you believe that some of the FSB Key Attributes should be applicable to IAIGs in certain circumstances, please state the relevant key attribute, the circumstances and your reasons.