IAIS Consultations

Print view of your comments for "Consultation Document: Issues Paper on Conduct of Business Risk and its Management" - Date: 14.08.2015, Time: 21:41

Organisation	International Actuarial Association
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Name	Amali Seneviratne
Email	amali.seneviratne@actuaries.org
Phone	+1-613-236-0886 (Ext:116)

Q-Nr.	Reference	Question
Question 1		**General Comment on the paper:** The paper has done a very good job of explaining the issues involved but would benefit from further focus on efficient approaches (and actual successes) that have occurred in this area, as well as more background on the complexities involved. These include: a. What is an appropriate definition of "fair" for all stakeholders? Fairness needs to be defined to take into account risk AND uncertainty, as well as effort and timing of corresponding expenses, compensation, benefits and profits. Although there may not be a single right or best answer and there are mentions of it in the paper, the examples and issues raised in the paper sometimes sound like there may be easy "black and white" way to distinguish a lack of fairness. The unique value proposition of insurance depends on customers, distribution and shareholders believing that their long term interests are being safeguarded and managed in a fair manner. For example, there are several references to complex products with many options for the consumer, which may allow variable premiums and/or benefit levels to be chosen over the life of the product. In contrast, there are other product designs that provide for no risk sharing, a modest risk sharing or extensive acceptance of risk with the policyholder (as well as the option to move from one risk exposure profile to another over the life of the product). Although allowing more choice and flexibility is often of benefit to the consumer, it also suggests that the distribution arm should be paid more to provide the needed (and appropriate) education and facts to the consumer, tailoring the options to better meet the needs of the consumer in a more "complex" (flexible) product design. This focus on fairness introduces a newer focus for valuable regulation – that is, to assess the gray area of balancing key stakeholder interests that may contrast with the common historical focus on black and white compliance with the law and regulatory rules. An example beyond the tradeoff of optionality versus simplicity is: i. Bundled products that may have a greater margin as a way to enable a (relatively) less expensive base product for those customers who do not need the additional features. In fact, inclusion of the additional benefits may still cost less than purchasing the combined coverages separately due to the underlying insurance concept that increasing the pooling of uncorrelated risks can make the total risk coverage less expensive (as well as reducing the administrative and distribution costs). This does not deny the possibility that abuses may arise, but does point out that there may be legitimate reasons for the cited behaviors/product pricing. b. It is not clear at times who should "own" or be responsible for the consequences of business risk. If an agent commits an illegal or unsuitable act, should the regulator or company necessarily be expected to carry out the discipline and should the company also be held liable (beyond the obvious legal need to honor statements made by its agent)? The answer will depend upon the circumstances involved. At times, market behavior may be in response to a change in laws and regulations that did not anticipate normal human reactions of a changed environment. c. We found the linkages to systemic risk a bit weak. Certainly the market in general is affected by bad behaviors, and the culture of individual companies may consequently adversely affect their long term success. Nevertheless, if business risk has a systemic impact, that is not necessarily a consequence of a "bad" culture, but may be a problem with the larger regulatory and economic framework of the industry. We feel that many of the examples given in the paper argue for a systemic consequence of business risk with this short

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VI Conclusion

Question 151	**VI**	**General Comment on Conclusion Section:** We strongly agree that a very important tool is to “follow the money” by means of assessment of sources of profits and sales growth. Regulations/standards related to suitability and disclosures have been established, for example, in the U.S. for many products. There is even a requirement for the actuary to certify that sales illustrations used for universal life insurance products meet a set of defined sustainability criteria. Other national requirements at a high level include: i. France – There is an obligation called "devoir de conseil" and a dedicated recommendation of the supervisory authority on that topic. ii. Japan – Disclosure relating to products and checking for suitability of policyholders are required for certain products. Details are specified by the supervisory guidelines of the FSA. iii. Portugal – There are requirements for disclosure (risk, commission, etc.) and for unit-link products, a company has to validate the suitability for the policyholder. iv. Australia – Sales illustration rules prevent unrealistic policy projections have been implemented. v. South Africa – In addition to policy protection rules that include disclosure requirements, they are implementing TCF (“Treating Customers Fairly”). The 6 outcomes of TCF are: 1. Customers can be confident they are dealing with firms where TCF is central to the corporate culture; 2. Products and services marketed and sold in the retail market are designed to meet the needs of identified customer groups and are targeted accordingly; 3. Customers are provided with clear information and kept appropriately informed before, during and after point of sale; 4. Where advice is given, it is suitable and takes account of customer circumstance; 5. Products perform as firms have led customers to expect, and service is of an acceptable standard and as they have been led to expect; and 6. Customers do not face unreasonable post-sale barriers imposed by firms to change

		product, switch providers, submit a claim or make a complaint. Expanding on the above, it is and has often been the province of the actuary by training and background to assess the long term sustainability of a product with its options and guarantees, along with the company management strategy for that product. Should there be more mention of the role actuaries can play here in disclosing and assessing the long range sustainability for the various stakeholders? Lastly, the ORSA is an invaluable resource for assembling the company's views on emerging risks, including the risks discussed in this paper.
Question 152	**139**	**Comment on paragraph 139:**
Question 153	**140**	**Comment on paragraph 140:**
Question 154	**Annex I**	**General Comment on Annex I:** The IAA appreciates the way how conduct of business risk indicators are addressed in Annex I. The approach taken to identify and explain issues or focus areas for supervisors to consider is appropriate for this type of risk. We are concerned quantitative assessments for the conduct of business risks may not be valid for a wider range of markets and insurance products.
Question 155	**Annex II**	**General Comment on Annex II:**