



AMERICAN ACADEMY *of* ACTUARIES

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Director John Huff, Chair
Solvency Modernization Initiative (E) Task Force
National Association of Insurance Commissioners

Commissioner Thomas B. Leonardi, Chair
International Insurance Relations (G) Committee
National Association of Insurance Commissioners

Via email: **Ryan Workman** (rworkman@naic.org)

Re: NAIC Comments on *Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame)*

On behalf of the American Academy of Actuaries'¹ Solvency Committee, I appreciate this opportunity to provide comments to the NAIC on the IAIS ComFrame paper.

Sincerely,

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Chairperson, Solvency Committee
American Academy of Actuaries

¹ The American Academy of Actuaries is 17,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policy-makers on all levels by providing leadership, objective expertise and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice and professionalism standards for actuaries in the United States.

American Academy of Actuaries' ¹ Solvency Committee comments on ComFrame

Paragraph Reference	ComFrame text	Academy comments
General Comments	General Comments	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. A removal of this overlap would provide focus. The IAIS document contains several incidences of this overlap that the final drafting should remove.
Introductory Remarks - 3. ComFrame Hierarchy	Guidelines illustrate practical approaches to implementing the standards and parameters, provide more detail and show how the requirements might be met.	The ComFrame wording would imply that guidelines should rarely include the word "should." The subsequent paragraphs are inconsistent in this regard. Some follow the concept of guidelines containing non-binding guidance and illustrations, while some include specific requirements. The document should make a consistent decision of the usage.
Introductory Remarks - 6. Preconditions	To carry out the role of a group-wide supervisor as set out under Module 3, supervisors should have ... powers and responsibilities to undertake group-wide supervision and supervisory cooperation	While the group-wide supervisory powers currently described in Module 3 do not rise to a level of concern at this time, the potential for legal-entity limitations could become an issue should group supervision be defined to include extra-jurisdictional reach.
ComFrame Standard M1E1-1	Supervisors identify whether or not a group qualifies as an internationally active insurance group (IAIG).	The committee is unsure how this would apply to a decentralized organization. For example, a company with underwriting operations that are completely decentralized and investment operations are centralized. Is this four groups (some of which may be IAIG and some not IAIGs) with common outsourcing, or one group? There may need to be some direction (via a parameter?) on how to handle this. <i>[The Committee is aware of other situations in which not all the insurance operations within a conglomerate were within the "insurance" division, hence Module 1 should address this issue.]</i>
Parameter M1E2-1-2	The group-wide supervisor documents the reasons for the identification of the group as an IAIG	Should also require the group-wide supervisor to document the reasons for not identifying a group as an IAIG if it would otherwise qualify based on the objective criteria in Element 1.
Parameter M2E1-1-1	The IAIG Profile provides sufficient information to enable the IAIG to determine whether the legal and management structures give rise to any specific risks and demonstrate how such risks are mitigated.	The discussion of risks and how they are mitigated would be better placed in M2E3 (ERM).
Guideline M2E1-1-1-3	Matters which could give rise to such risks and need to be considered include: ... the ability to restructure the IAIG during, or in response to, periods of stress.	The committee agrees 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.
Guideline M2E1-1-1-4	... Whatever structure is adopted, the IAIG should consider risks arising from: ...	This would be better placed in M2E3 (ERM).

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Parameter M2 E1-2-1	The IAIG draws up contingency plans... to achieve a) acceptable financial condition and b) protection of all policyholders	This requirement as worded could lead to action that detracts from the effective handling of problems. The risk is that detailed plans would be drawn up that would 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. The focus/guidance should be on clearly identifying authority and responsibility, including backups, and identifying a range or categories of options.
ComFrame Standard M2E1-3	The IAIG takes account of the policyholder protection schemes (PPS) that apply to its insurance entities, and how these schemes affect each of the entities in the IAIG.	The committee is 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).
Parameter M2E2-1-1	The IAIG's group-wide governance framework is well documented and contains adequate measures to: <u>address risks arising from or affecting the IAIG</u>	This would be better placed in the Element 3 (ERM) rather than Element 2 (Governance).
Guideline M2E2-2-3-1	The Governing Body should undertake, at least annually, an assessment of how the IAIG, the Governing Body and the Senior Management meet the performance goals and measures adopted.	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.
ComFrame Standard M2E2-4	"The supervisor requires the insurer's Board to have, on an on-going basis: an appropriate number and mix of individuals ..., appropriate internal governance practices and procedures ..., adequate powers and resources	The parameters and guidelines that accompany this standard seem to be rather general and not unique to IAIGs. Therefore, the committee does not see the need for this section in ComFrame.
Guideline M2E2-5-1-1	The group-wide remuneration policy may have a structure which contains elements of group-wide and entity based remuneration policies and practices. ...	There is no mention in this guideline about conflicts between group-wide versus individual entity incentives, but suggest there probably should be.
Guideline M2E2-11-1-1	The IAIG's group-wide actuarial function <u>should aggregate and review actuarial information at the group level</u> . The form and implementation of a group-wide actuarial function may vary but the outcome is to have an overview of the actuarial activities, functions and risks of the insurers within the IAIG as a whole.	Suggest modifying: "The IAIG's group-wide actuarial function <u>should include aggregation and review of</u> actuarial information at the group level..."

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Guideline M2E2-11-1-2	Further examples of activities that could be carried out by the IAIG's actuarial function include providing advice and opinion on...	It is clear that these are examples, but would be better if "advice and opinion" were replaced by "advice, opinion, or report." In the U.S., an "opinion" may imply a legal attestation to compliance with legal provisions.
Parameter M2E2-13-1	The IAIG has a consistent group-wide policy for the outsourcing of activities or functions, and <u>retains appropriate documentation for all such outsourcing</u> . It should be accountable at a group level for its outsourcing activities in order to provide control over the process and effectively aggregate the impact they may have on group-wide ERM policy.	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. The committee recommends 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.
Standard M2E3-1	The IAIG has a group-wide ERM Framework that addresses all relevant and material risks at both the insurance entity and IAIG level and enables the IAIG to assess its solvency requirements.	This document should address how non-insurance entity risk is to be addressed.
Parameter M2E3-1-2	The IAIG comprehensively documents its ERM Framework, emphasizing any differences that may apply to different entities within the IAIG, due to the nature, scale and complexity of the business conducted locally.	It seems that this would be more appropriate for an ICP itself, as long as an ICP would include a requirement to emphasize the differences between the risks as they apply to entities within an IAIG. 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.
Parameter M2E3-2-1	Through its group-wide ERM policy, the IAIG defines the basis for how it determines the relationship between the IAIG's risk tolerance limits, regulatory capital requirements, economic capital and the processes and methods for monitoring risk.	This sentence is confusing and we suggest it should 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."
Standard M2E3-3-1	The framework covers at least the following risks: insurance, etc.	Since this seems to be a comprehensive list, consider adding "counterparty risk". Counterparties are cited in the guideline, M2E3-3-1-2, that follows.
Parameter M2E5-5-2	The IAIG's financial instruments that qualify as core capital do not have a fixed maturity.	Surplus notes should be a component of core capital even though they have a fixed maturity.
Parameter M2E5-7-4	The IAIG includes in its additional capital ... the DTA's... in a winding-up	We believe this would be an acceptable resource in a going concern test.