



AMERICAN ACADEMY of ACTUARIES

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May 12, 2015

International Association of Insurance Supervisors  
CH-4002 Basel  
Switzerland  
Via email to [nina.moss@bis.org](mailto:nina.moss@bis.org)

Re: Pre-consultation comments on draft ICP revisions 4, 5, 7 and 8

To Whom It May Concern:

On behalf of the American Academy of Actuaries' <sup>1</sup> Risk Management and Financial Reporting Council, I am pleased to respond to your request for pre-consultation feedback on the International Association of Insurance Supervisors' (IAIS) Governance Working Group's revisions to the following insurance core principles (ICP) dated Apr. 2015: ICP 4 *Licensing*; ICP 5 *Suitability of Persons*; ICP 7 *Corporate Governance*; and ICP 8 *Risk Management and Internal Controls*. Please find our comments on ICP 8 attached in the format requested by the IAIS.

Overall, we feel that the proposed revisions to ICP 8 will make it a more useful tool for supervisors, regulators, and insurers in seeking to understand the complexities of implementing effective risk management strategies and internal controls. However, we do have recommendations for consideration that could strengthen the ICP, particularly for ICP 8.6 on the Actuarial Function.

Thank you for the opportunity to comment on the revisions to ICP 8. If you have any questions or would like to discuss our comments in more detail, please contact Lauren Sarper, the Academy's senior policy analyst for risk management and financial reporting, at 1-202.223.8196 or [sarper@actuary.org](mailto:sarper@actuary.org).

Sincerely,

William Hines, MAAA, FSA  
Vice President  
Risk Management and Financial Reporting Council  
American Academy of Actuaries

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<sup>1</sup> The American Academy of Actuaries is an 18,500+ member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers 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.



# IAIS

INTERNATIONAL ASSOCIATION OF  
INSURANCE SUPERVISORS

## Template for pre-consultation comments on draft ICP revisions ICPs 4, 5, 7 and 8

April 2015

This ICP material is presented to Interested Stakeholders for pre-consultation comments. The deadline for sending comments or questions to be addressed in the Stakeholder Dialogue is **cob Monday 4 May 2015**.

Comments and questions should be sent to [nina.moss@bis.org](mailto:nina.moss@bis.org)

**Stakeholder Name:** William Hines, MAAA, FSA, Vice President, Risk Management and Financial Reporting Council, American Academy of Actuaries

**E-mail/contact details:** [sarper@actuary.org](mailto:sarper@actuary.org), Lauren Sarper, Senior Policy Analyst, Risk Management and Financial Reporting, American Academy of Actuaries

### Questions for the dialogue:

1

In regards to ICP 8.3, can the individual control functions be occupied by the same person? Why or why not?

Comments:	
Reference (e.g. ICP standard #):	
8.0.2	“Insurers business strategy” would be more appropriate than “insurer’s strategy” for ICP 8.0.2. The use of the term of strategy in ICP 8.0.3 is narrow, whereas the systems and functions under ICP 8.0.2 may be much broader. The use of the term “business” would help clarify this.
8.0.3	We are concerned by the use of “measures” in the last bullet of ICP 8.0.3, as it gives the impression of a quantitative item. While measures can provide information concerning the performance relative to a set of benchmarks, they cannot ensure these benchmarks are achieved. An alternative word, such as “methods” or “approaches,” may be more appropriate.
8.0.6	<p>The revised language of the new ICP 8.0.6 suggests that supervisors might be viewed as essentially running the insurance company if they set the requirements for establishing governance. We would suggest clarifying that each legal-entity or group is responsible for determining its own internal controls and risk management, subject to the requirements set by the supervisor, as well as supervisory review.</p> <p>We suggest revising the last sentence of ICP 8.0.6 to read: “Appropriate supervisory cooperation and coordination is supportive of both a group-wide view and enhancing the assessment of the applicable legal entities.” We do not believe the existing term “required” fits the intention of the sentence.</p>
8.1.1	We suggest adding “of occurrences” after “probability” in the last sentence of this section to enhance its clarity.
8.1.2	The fourth bullet of ICP 8.1.2 is confusing. It mixes risk policies with the risk register. The bullet also does not refer to marketing, distribution, and pricing risks. Furthermore, in the last sentence of bullet four, these policies describe but do not actually “define” the risk standards and the specific obligations. We would suggest rewording this section for additional clarification.

8.1.3	The risk management system should take into account all risks to which the insurer is exposed at the insurer, individual business unit, and the group-wide level. Currently, the group-wide level is not included in the document, but does contain risks that need to be taken into account.
8.1.4	In addition to new activities and products, revisions to existing activities and products should be included in the risk review.
8.1.8	We question the use of “threats” in ICP 8.1.8. “Risks” would be a more appropriate term.
8.1.9	ICP 8.1.9 uses “indicators,” while ICP 8.0.3 refers to “measures.” We believe the terms should be consistent if they are referring to similar things. We suggest using “methods” or “approaches.”
8.2	We did not note any reference to the interactions between the risk management and control functions listed in the ICP 8 revisions. We believe a supervisor might find it useful to be able to review company policies and documents related to such interactions.
8.2.4	For the second bullet of ICP 8.2.4, we recommend adding “or its equivalent” after “signatures” in the first sentence. Today, signatures or secure approvals can be incorporated electronically and we believe the language should be updated to reflect that reality.
8.3.5	For ICP 8.3.5, <i>Appointment and dismissal of heads of control functions</i> , we suggest elaborating on the definition of “head of each control function” in the first sentence, or consider using “head” or “heads.” Different companies have different organizational structures and the tasks of a single control function could be spread over multiple positions.
8.3.6	We suggest rewording ICP 8.3.6 to: “The insurer should notify the supervisor of any reason for dismissal of the heads of control functions.” This will enhance its clarity.
8.3.9	We are concerned that the wording of ICP 8.3.9 indicates those in control functions should not have direct business line responsibilities. While this may be feasible and appropriate for large insurers, it may not be realistic for smaller insurers. Therefore, we recommend changing the language so that the size of the insurer is taken into account for this section.

8.3.10	The last sentence of this section is repetitive of ICP 8.3.9 and should be removed.
8.3.16	We recommend the addition of “basic education” between “integrity” and “experience” in the first sentence and “and continuing education” after “training” in the third sentence to emphasise the importance of keeping up to date the skills and knowledge required for a control function position at an insurer.
8.4.4	In the third bullet of ICP 8.4.4, we recommend changing “duration” to “time horizon” to enhance document consistency.
8.5.5	We are concerned that, for some insurers, the Chair of the Board may also be the CEO. We would suggest that the entire Board should be informed and responsible for taking corrective action.
8.6	<p>We suggest adding “product design” or “product management” to the list of items on which the actuarial function may provide advice to the insurer.</p> <p>The IAIS should provide additional guidance on the qualification of the individual(s) heading the actuarial function. We suggest the addition of language within one of the subsections of ICP 8.6 which indicates that the head of the actuarial function providing actuarial services or oversight within a given jurisdiction should meet the qualification standards and follow the standards of practice of the actuarial organization or association that set such standards within that jurisdiction. If no such organization or association exists within a given jurisdiction, the supervisor may identify appropriate qualifications standards or standards of practice to which the head of the actuarial function should adhere.</p>
8.6.4	ICP 8.6.4 specifically refers to “written reports” for the actuarial function, whereas other control functions only refer to “reports.” As the actuarial function may provide reports, either in person or via video or telephone that can be useful to the Board and senior management, we recommend striking the word “written.”

<p>8.6.5</p>	<p>The introduction to 8.6.5 is duplicative of the introductory language of 8.6 on the Actuarial Function. We suggest replacing the first two sentences with: “With respect to the actuarial function, it evaluates and provides recommendations on matters such as...”</p> <p>Regarding the third bullet, the actuarial function of property and casualty (P&amp;C) insurance companies generally does not opine on investment policies and invested asset valuation, except when they relate to asset liability management, which is covered by the second bullet point. We recommend adding “as appropriate” to the end of the bullet point.</p> <p>We recommend removing “and liability and loss provisions” at the end of the fourth bullet point, as this is already covered in the first bullet point.</p> <p>The sixth bullet refers to a “strategic solvency level.” However, it is unclear what the IAIS means by this term. We strongly encourage clarifying the IAIS’ intent with respect to this bullet.</p>
<p>8.6.9</p>	<p>We are unsure what “at a minimum” refers to in ICP 8.6.9. We ask the IAIS to clarify this language or delete it.</p>
<p>8.6.10</p>	<p>In the second sentence of ICP 8.6.10, we recommend adding the following underscored text: “If the Appointed Actuary is not an employee of the insurer, the Board should determine whether the external actuary has any potential conflicts of interest, such as, if his or her firm also provides auditing <u>or other</u> services to the insurer.”</p>
<p>8.6.11</p>	<p>In the second sentence of ICP 8.6.11, we recommend adding the following underscored text and making the following edits: “In some jurisdictions, such a notification includes <u>a-statement</u>s from <u>both</u> the insurer <u>and the former Appointed Actuary</u> <u>as to</u> <del>of</del> whether there were any disagreements with the former Appointed Actuary over the content of the actuary’s opinion on matters of risk management, required disclosures, scopes, procedures, or data quality, and whether or not <u>any</u> such disagreements were resolved to the former Appointed Actuary’s satisfaction.”</p>

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8.8.7	ICP 8.8.7 is duplicative of language contained within ICP 8.8.4. The Council recommends removing it.
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