

IAIS ComFrame Concept Paper - AAA Comments - General Questions and Comments

Question #	Question	Academy Response
1	Are the criteria and process for identifying IAIGs appropriate?	
2	Are the qualitative requirements for IAIGs set out in Module 2 Elements 1 to 7 reflective of actual practices within large, internationally active insurance groups?	There is significant variation in the organization and management of IAIGs. Not all of the elements described are coordinated at the group level (for example, underwriting practices, claim processing) for some IAIGs. There are different levels of autonomy allowed within an IAIG. ComFrame should not specify how companies are organized.
3	Are the Group Governance requirements sufficiently flexible to accommodate different ways of structuring IAIGs and different governance models in use? Are there any areas relating to governance of IAIGs which are not adequately covered, and if so how should they be covered?	
4	Does the approach to ERM in Module 2 Element 2 provide an adequate and comprehensive platform for the supervision of ERM processes in IAIGs?	
5	Is the Group Structure and Strategy section sufficiently comprehensive to address the risks from the highly complex structures and business combinations evident in many internationally active insurance groups?	

6	The IAIS envisages creating a partly harmonised approach to capital requirements for IAIGs (see Appendix 2). The current draft of Module 2 Element 8 is not yet fully reflective of that strategic direction as it is a work-in-progress. Please comment on the progress made so far and provide input on the steps that should be taken in achieving the strategic direction.	The use of ERM will be better than prescribed calculations. Understanding the risks an IAIG faces often takes a multiplicity of approaches to understand. It is not feasible to quantify those risks to the 99.5th percentile as opposed to the 99th and often even the 95th percentile.
7	Does Module 3 provide a sufficient basis for more effective and more coordinated supervision of IAIGs? Where could improvements be made? Where is there a need for greater specificity?	
8	Do the Base Prerequisites or Group-Wide Supervisor Prerequisites capture the important attributes of supervisors to ensure a successful implementation of ComFrame?	
9	General Comments on ComFrame	Timely and frequent communication should take place between the IAIG and the lead Supervisor, especially when significant changes in the IAIG have taken place.
		The document uses consistent styling and syntax in many places, but module 2 could use more coordination.
		When ComFrame was incubated, it seemed the whole world would be adopting IFRS. Now that is not so likely; the document should be redrafted considering this new fact.
		Module 2 should be more principles-based rather than using prescriptions.
		ComFrame should not duplicate what is already in the Insurance Core Principles (ICPs). ComFrame should be limited to only those provisions that are different for IAIGs when compared to other companies.

IAIS ComFrame Concept Paper - AAA Comments - Module 1

Question #	Question	Academy Response
10	General comment to Module 1 (Scope of ComFrame)	p23,M1E1-1-1-5: 'Definition of a group – The paper as drafted does not sufficiently define or contemplate the different types of groups that exist. Specifically, it doesn't allow for a situation where two or more "insurance groups" can exist under one holding company. Some IAIGs have insurance entities that are not managed as a single group. It would be a challenge for them to be treated as a single group under ComFrame, which is silent on this issue. An IAIG like this has several insurance groups that operate independently from each other under the holding company.
11	Specific comment to Module 1, Element 1 (M1E1) (Identification of IAIGs)	p22,M1E1-1-2: The criteria for identifying IAIGs in Module 1 is focused on size. The criteria could focus more on the materiality of the risk. The criteria could look at the significance of the IAIG in multiple jurisdictions, rather than whether it operates in more than one country with more than 10% of total gross premium outside a single country.

		<p>p.22,M1E-1-12: Size should be above some threshold, such as by the amount which could disrupt global economic activity in the event of distress. Global activity should be based on significant market presence in a diversity of jurisdictions. For example, the threshold might be expressed as a company of more than \$X billion in assets with a top [5] market share in more than [3] jurisdictions. Alternative expressions are possible, such as a company that is a local SIFI in more than [3] jurisdictions. Jurisdictions might consider only the G-20 economies.</p>
12	Specific comment to M1E2 (process of identifying IAIGs)	<p>p.28,M1E2-1-1: "supervisory college" While discussed on page 19, this term should be defined within the ComFrame document.</p>
		<p>p 28, M1E2-1: This section suggests that a group-wide supervisor exists before an IAIG is identified. Should IAIGs be identified by each group-wide supervisor or should they be identified in a centralized process to ensure consistency?</p>
13	Specific comment to M1E3 (Scope of ComFrame supervision)	<p>p33,M1E3-1-2: The guidance with regard to joint ventures is unclear. Do the premium amounts for such items get included or not in the metrics for determining an IAIG? If so, at the full value or at the pro-rated value (i.e., joint venture premium multiplied by the ownership percentage). Last bullet, page 34 Commentary seems to indicate requirements for the Governing Body for the IAIG or provide guidance for choosing the governing body for ComFrame purposes. Please clarify.</p>

		p 33, M1E3-2-1: "The group-wide supervisor does not narrow the identified scope of ComFrame supervision due to lack of legal authority and/or supervisory power. In some countries, an insurance supervisor may not have the legal authority to supervise certain entities within the identified IAIG." It isn't clear then how this works if the group supervisor doesn't have legal authority.
		p.33,M1E3-2-3: "in determining the scope of ComFrame supervision..." Will the supervisors be empowered to capture information from non-insurance affiliates?
14	Specific comment to M1E4 (Identification of the group-wide supervisor and involved supervisors)	<p>p 35: Is there any concern if the logical group-wide supervisor is not considered to have appropriate expertise by the other involved supervisors? Requirements for supervisors are addressed in Module 4, but it isn't clear what happens if they are not met.</p> <p>p36,M1E4-1-2-6: "For banking dominated financial conglomerates, the banking activities are supervised by banking supervisors. Here, cooperation between insurance and banking supervisors is necessary." How will insurance supervisors accomplish such cooperation?</p>

IAIS ComFrame Concept Paper - AAA Comments - Module 2

Question #	Question	Academy Response
15	General comment to Module 2 (The IAIG)	General reaction: this section is quite prescriptive on all the elements that need to be included. A more principles-based approach was expected.
16	Specific comment to M2E1 (Governance)	p40,M2E1-1: "... protecting the interests of policyholders and other stakeholders..." Can other stakeholders be defined? Other stakeholders could include creditors, shareholders, agents, employees and suppliers. On p83, M2E6a-2-4 they are called "creditors." On p124, M2E9-6 they are called "market participants." This reference should be consistent throughout the document. Does ComFrame and supervision need to go beyond the needs of policyholders and claimants? Supervision should not create any new rights for stakeholders.
		p43,M2E1-4-1: "a sufficient number of the members of the governing body are independent of the entities within the iaig...". Can this be expanded to say that governing body members should also be independent of other key governing members (eg, relatives)? There should be no conflicts of interest.
		p48,M2E1-8-4-2: "Given the nature, scale and complexity of the IAIG, an IAIG should not combine Control Functions except under very exceptional circumstances, such as on a temporary basis while a replacement is being arranged. The Governing Body approves and periodically reviews the effectiveness of any arrangement for combining Control Functions." It sounds like there can be a centralized Control Function, but then it says the IAIG can't combine Control Functions. Please clarify.
		p52,M2E1-8-9: Pricing needs to be done at the local level, not at the Group level especially for an international entity. What does evaluation and providing advice mean in this context?
17	Specific comment to M2E2 (Enterprise Risk Management)	p56,M2E2-1-1: Economic capital is referred to many times but not defined. ICP 16 is referred to, but it also does not define economic capital.

		<p>p56,M2E2-1-2: The documentation requirements (“comprehensively documents its group-wide ERM Framework”) could easily make a worthwhile exercise into a compliance, checkbox exercise that focuses on the process more than the substance. The guidance provided here should not be overly prescriptive and costly. A similar problem exists with the annual independent review required by M2E2-1-4, which should be more risk-focused than checkbox focused, and hence should not be required to be a “comprehensive” review if facts & circumstances do not warrant such a review.</p>
		<p>p59,M2E2-2-2: This section instructs an IAIG that any outsourcing decisions must be centralized. It is difficult to see how a competent Governing Body would have the same people making the decisions on outsourcing the operations in different countries with their different cultures, products, language and legal structure that exist. This is overly prescriptive.</p>
		<p>p63,M2E2-3-3: the IAIG is to build an "economic capital model" to demonstrate sound risk management. However, it is seldom referenced after this point as all emphasis shifts to a defined solvency reporting system.</p>
		<p>p64,M2E2-3-3: "the economic capital model... enables deeper attention to owners' capital." What is meant by "owner's" capital? And the attention should be deeper than what?</p>
18	Specific comment to M2E3 (IAIG's legal and management structures from an ERM perspective)	<p>p62, M2E3-1-1: There are many reasons why a Group's structure becomes complex over time. The IAIG should have to communicate the structure so that the supervisor can understand it (M2E3-2-1 seems to make this requirement). However, supervisory intervention to mandate a change in structure on grounds of transparency should only occur, if at all, in exceptional circumstances</p>
		<p>p 68, M2E2-6-1: "The IAIG’s culture supports the open communication of emerging risks that may be significant to the IAIG and its members." How will supervisors assess "culture"?</p>
19	Specific comment to M2E4 (IAIG's strategy from an ERM perspective)	<p>p77, M2E4-3: "The IAIG notifies the group-wide supervisor of material changes to its strategy, business model and activities, and those of its material entities." This is an expansion of what has been normal regulatory oversight. Do supervisors have the resources to manage this?</p>

21	Specific comment to M2E6 (Liabilities/technical provisions and assets/investments)	<p>p91,M2E6b-4: "the IAIG maintains a ... policy which is consistent with the requirements of Element 7." This statement seems paradoxical here, since it precedes element 7. Can this be moved into element 7 and elaborated there?</p> <p>p91,M2E6b-4-1 second bullet: "MOCE". If ComFrame will employ IFRS as an accounting basis. This term is not used in IFRS.</p> <p>p92,M2E6b-5 "the IAIG maintains a group-wide asset liability management policy." This was addressed in an earlier element (M2E6a-1) and should not be repeated here or anywhere.</p> <p>p93M2E6b-6-3, second bullet: "calculation of reinsurance recoverable assets..." Shouldn't other counterparty obligations (eg, cds) be quantified also?</p> <p>p94,M2E6b-6-4 first bullet: "the reliability ... of the technical reserves". If "reliability" refers to re-establishing the accuracy of local statutory accounting liabilities, this would not be a worthy use of actuarial talent at the IAIG level. As an example: Can a London-based actuary expected to be fluent with the requirements of Korean provisions? The IAIG actuarial function should stay focused on sufficiency.</p>
22	Specific comment to M2E7 (Valuation)	<p>p97,M2E7-1: While we understand the desire for a consistent accounting standard, we don't believe that specifying one standard is in the spirit of principles-based supervision. If the IAIG practices in countries where another accounting basis predominates, the supervisors should have the option to utilize this other accounting basis.</p>
		<p>p97,m2e7-1-1 third bullet: the IFRS valuation is "an economic valuation that reflects the risk-adjusted present value of cash flows." If IFRS does not require economic valuations, the actuary could not be expected to do so within the confines of IFRS.</p>
		<p>p98,M2E7-1-4: "own credit standing... apply adjustments or filters to remove the effects..." The IAIS should consider accepting IFRS intact then promulgate a series of alterations to reflect solvency supervisory needs, rather than created a modified IFRS financial statement.</p>

		p98,M2E-7-1-4: "own credit standing"... an adjustment like this would impact all insurers, whether or not they are in groups or not, whether or not they are international. This type of adjustment should appear in an ICP so it covers all insurers.
		p 98, M2E7-1-6: "The IAIG applies criteria prescribed by the group-wide supervisor for the determination of appropriate rates to be used in the discounting of technical provisions." It seems odd that any of the group supervisors can establish or determine the discount rates to be used for valuation.
		p99,M2E8-1-7: "makes appropriate allowance for embedded options and guarantees in the valuation..." Again, this is for any insurer, not just those subject to ComFrame .
		p99,M2E7-2: "the IAIG applies appropriate adjustments to IFRS to ensure an economic basis for valuation." Again, this is for any insurer, not just those subject to ComFrame
23	Specific comment to M2E8 (Capital Adequacy)	p112,M2E8c-1-1,second bullet: "the determination of capital resources is... an assessment of the ...quality and suitability of the financial instruments comprising the total amount of capital resources identified..." Does this means specific assets must be allocated and dedicated to capital?
24	Specific comment to M2E9 (Reporting and Disclosure)	

IAIS ComFrame Concept Paper - AAA Comments - Module 3

Question #	Question	Academy Response
25	General comment to Module 3 (The Supervisors)	
26	Specific comment to M3E1 (Supervisory Process)	p130,M3E1-1: "group-wide supervisory process" ComFrame contains an articulation of a significant amount of work, both for IAIG's and regulators, that is not currently being done.
		p134,M3E1-4-2-1: "the supervisory plan establishes the frequency...of activities." Can ComFrame encourage more frequent, on-site visits?
		p135, M3E1-5-1-1: "Off-site monitoring occurs in a timely and comprehensive manner." Should "timely" be defined? Feedback should also occur in a timely manner.
		p139,M3E1-7: "horizontal review". Though defined in the introductory text, can its definition be replicated here?
27	Specific comment to M3E2 (Cooperation and Coordination)	p147,M3E2-3: There is much discussion of sharing of information. Care needs to be taken with confidentiality issues, assuring that proprietary IAIG information is protected across all these various jurisdictions. Are the terms of confidentiality in the IAIS Multilateral Memorandum Of Understanding sufficient?
28	Specific comment to M3E3 (Roles of group-wide supervisor and involved supervisors)	p 151, M3E3-1: Does ComFrame preempt the statutory responsibilities of the local supervisor?
29	Specific comment to M3E4 (Use of Supervisory Colleges)	
30	Specific comment to M3E5 (Crisis management among supervisors)	

31	Specific comment to M3E6 (IAIGs and resolution)	
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IAIS ComFrame Concept Paper - AAA Comments - Module 4

Question #	Question	Academy Response
32	Specific comment to M4E1 (Applicability of ComFrame to all IAIS jurisdictions)	p171-172,M4E1-2-1: "Legislation should be ... sufficiently extended to allow involved supervisors to carry out their mandate..." This might be a challenging hurdle in certain jurisdictions.To assist supervisors in enlisting support in their jurisdictions for needed legislative changes, a framing of recommended arguments would be useful here?
		p178, M4E1-3-4: "Group-wide supervisor prerequisites require supervisors to have appropriate and adequate resources to fulfill their leadership role... particularly in terms of personnel skilled to perform..." Can this be amended so that the supervisors have access to such skilled professionals? It is possible that the supervisor may not always have on staff experienced resources to deal with every emerging situation. The supervisors should be able to contract with parties with the expertise/services necessary when needed. The use of Supervisory Colleges and their interaction will be important carrying out ComFrame. The College will need to have the right amount and type of resources available.