



AMERICAN ACADEMY of ACTUARIES

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May 8, 2017

Mr. Yoshihiro Kawai  
Secretary General  
International Association of Insurance Supervisors  
c/o Bank for International Settlements  
CH-4002 Basel  
Switzerland

Re: Revised Insurance Core Principles (ICPs) and ComFrame material integrated with ICPs  
Public Consultation Package (March 3, 2017)

Dear Secretary General Kawai,

On behalf of the Solvency Committee of the American Academy of Actuaries<sup>1</sup>, I appreciate the opportunity to provide comments on the International Association of Insurance Supervisors' (IAIS) recent public consultation package on the Insurance Core Principles (ICPs), Standards, Guidance and Assessment Methodology, dated March 3.

Our comments are limited to *ICP 8 Risk Management and Internal Controls*, focusing on the definitions of the risk management and actuarial functions. These definitions should be explicitly permissive rather than prescriptive in nature, given the substantial overlap in expertise and experience between these two functions. Such an approach would allow for better alignment with the currently defined roles of the appointed actuary and the risk management function under U.S. insurance law and regulation. Moreover, for groups of lesser complexity, proportionality should be considered.

As an initial matter, the core responsibilities of the actuarial and risk management functions are better described in the respective standards (Sections 8.4 and 8.6) rather than the principle statements (Sections CF8.4a and CF8.6a). In general, the actuarial function should be responsible for items such as the statement of actuarial opinion and providing actuarial advice on pricing and reserving. The risk management function should be responsible for the risk management process including identifying, assessing, monitoring, and mitigating risks (including the ORSA process and report).

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<sup>1</sup> The American Academy of Actuaries is a 19,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted 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.

Principle statement CF8.3c states that the Internationally Active Insurance Group (IAIG) control functions (including the risk management and actuarial functions) should not be combined. However, the division of duties between these functions does not seem well defined, particularly at the level of the principle statements CF8.4a and CF8.6a. The principle statements, standards, and guidance for each of these functions are inconsistent. For example, principle statement CF8.6a requires an actuarial function overview including “conducting capital adequacy assessments and stress tests under various scenarios.” The guidance for the risk management function includes “conducting regular stress testing and scenario analyses” in Section 8.4.4. Given that the functions are not to be combined, it is unclear how the interaction between the functions should occur regarding such responsibilities.

Fundamentally, we believe permissive guidance would be preferable to prescriptive requirements with respect to the actuarial and risk management functions. The ICPs should not prescribe specific roles for the actuarial versus risk management functions. There is substantial overlap in expertise and experience and the appropriate allocation of responsibilities may depend on a variety of factors, including the nature of a group’s business, the size and complexity of the group, the group’s organizational and governance structure, and the group’s risk exposures. For example, actuarial skills may be helpful for certain aspects of risk management, and relevant responsibilities can be allocated to either the actuarial function or the risk management function, based on the group’s environment.

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Thank you for this opportunity to provide our views on the revised Insurance Core Principles (ICPs) and ComFrame material integrated with ICPs’ public consultation package. If you have any questions or would like to discuss this letter in more detail, please contact Nikhail Nigam, the Academy’s policy analyst for risk management and financial reporting issues, at 202-223-8196 or [nigam@actuary.org](mailto:nigam@actuary.org).

Sincerely,

Elizabeth K. Brill, MAAA, FSA  
Chairperson, Solvency Committee  
Risk Management and Financial Reporting Council  
American Academy of Actuaries

cc: Commissioner David Altmaier, Chair, ComFrame Development and Analysis Working Group, National Association of Insurance Commissioners  
David Sandberg, Chair, Insurance Regulation Committee, International Actuarial Association