



AMERICAN ACADEMY *of* ACTUARIES

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October 19, 2018

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

Re: Public consultation on the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame)

Dear Secretary General Dixon,

On behalf of the Solvency Committee of the American Academy of Actuaries,<sup>1</sup> I appreciate the opportunity to provide comments on the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame), dated July 31, 2018.

Below are our comments and suggested changes to the ComFrame document, outlined by section:

### ***General Comment***

International insurance markets are diverse; they have unique customers, products, organizational structures, legal frameworks, regulatory oversight, and risk profiles. These characteristics differ not only across various markets but also among groups operating within the same market. In addition, there is sometimes significant overlap between the risk management and actuarial functions within a group. While it is appropriate to distinguish between the actuarial and risk management functions, we believe a degree of overlap is entirely appropriate in the insurance space, particularly in the context of topics related to financial risk. For these reasons, we believe that mandating specific activities that should be performed by the risk management vs. actuarial functions within a group is overly prescriptive and inappropriate in a common framework. We suggest that the IAIS consider taking a more principle-based approach and outline general activities that a group should be conducting and allow the group to determine

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<sup>1</sup> The American Academy of Actuaries is a 19,500-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.

how best to organize itself to carry out those activities. In later sections of these comments, we outline sections where this might be applicable in the framework.

#### ***CF 5.2.a—Professional Qualifications***

We believe the IAIS should consider including additional guidance regarding the competency of those persons in actuarial roles, whether they are credentialed actuaries or other professionals. While we understand that the example provided is intended to apply to a broad range of senior executives and directors, we believe that individuals in Key Control Functions, including actuarial functions, may require additional competencies. In particular, we suggest that individuals in actuarial Key Control Functions be credentialed professionals subject to a code of conduct and professional standards. While more detail would improve the guidance provided by the ComFrame, we reiterate our previous comment that any guidance be principle-based to allow reasonable flexibility in implementation.

#### ***CF 7.2.b.1—Business Strategy***

Insurance groups are managed to multiple time horizons. They have short-term plans that span anywhere from one to three years and incorporate such measurements as sales, investment returns, expenses, earnings, and dividends paid. On the other end are longer-term plans that might include such outlooks as the solvency of the group and projected return on capital. We believe that the IAIS should consider this broad scope of business planning to make sure there is appropriate wording for what a group-wide supervisor would want to see in the strategic plans he or she reviews.

#### ***CF 8.6.a—Actuarial Responsibilities***

While it is appropriate to distinguish between the actuarial and risk management functions in a group, an overly prescriptive approach in delineating the functions is likely inappropriate. Insurance groups have diverse products and risk profiles, and the risk management practices at each firm has varied focuses and emphases. Whereas one group might be concerned with financial market risk, another might be more concerned with underwriting or claims risk. Therefore, certain tasks such as the determination of solvency positions, capital requirements, or adequacy assessments of reinsurance arrangements might be done by actuaries, risk-management professionals, or other professionals. We suggest discretion be given to the group to enable them to best decide which group of professionals is best equipped to carry out those functions depending on its risk profile, reporting structure, and available employee resources.

#### ***CF 16.1.a—Group-wide ERM framework’s consistency across its legal entities***

Consider adding clarification or qualification to this requirement, such that consistency is only required where the entity’s risk is material to the entity’s and group’s overall risk profile and the risk profile is sufficiently similar to the rest of the group to warrant a consistent framework. While application of a consistent ERM framework is an important goal, the framework should allow the flexibility to adjust for differences in regulatory requirements, risk profile, materiality,

etc. Where an entity's contribution to the group's risk is not material or the entity has a risk profile very different from the rest of the group, a different approach to ERM might be more effective and efficient. Prescribing consistency in these instances may require actions that bring a cost or a negative benefit.

***CF 16.1.b—Risks covered by ERM framework***

Consider adding “Regulatory (Jurisdictional) Risk” to the list of risks required to be covered in group-wide ERM framework.

***CF 16.7.d and 16.7.e—Group-wide actuarial policy***

It is not exactly clear from reading the document whether the term “ERM” encompasses just stand-alone risk management or actuarial functions as well. The inclusion of actuarial policy in 16.7.d would seem to suggest the latter. Returning to our comments regarding CF 8.6.a, we believe the IAIS should consider taking a principle-based approach with regard to the separation of risk management and actuarial functions, enabling the group to determine how to assign those functions.

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Thank you for this opportunity to provide our views on the ComFrame public consultation. 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 +1 202-223-8196 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: Steven J. Dreyer, Director, Federal Insurance Office, U.S. Department of Treasury  
Commissioner Katherine L. Wade, Chair, International Insurance Relations (G) Committee,  
National Association of Insurance Commissioners  
David K. Sandberg, Chair, Insurance Regulation Committee, International Actuarial Association  
Tom Sullivan, Associate Director, Board of Governors of the Federal Reserve System