



AMERICAN ACADEMY *of* ACTUARIES

July 27, 2011

Mr. Toshihiro Kawano, Chair
IAA Insurance Regulation Committee
Via email: Toshihiro_Kawano@aegonsonylife.co.jp

Re: IAIS Concept Paper, *Common Framework for the Supervision of Internationally Active Insurance Groups*

Dear Mr. Kawano:

Attached are comments the American Academy of Actuaries¹ Solvency Committee wishes to make to the IAA with respect to its issuance of a fast-track procedure for comments it intends to submit to the IAIS regarding its *Common Framework for the Supervision of Internationally Active Insurance Groups* concept paper, invitation for comments. Should you have any questions regarding this submission of comments, please contact the Academy through Tina Getachew, Senior Policy Analyst for Risk Management and Financial Reporting (Getachew@actuary.org).

Sincerely,

R. Thomas Herget, FSA, MAAA, CERA
Chair, Solvency Committee
American Academy of Actuaries

Matthew Lantz, FSA, MAAA, CERA
Vice Chair, Solvency Committee
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¹ The American Academy of Actuaries (“Academy”) is a 17,000-member professional association whose mission is to serve the public on behalf of 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 ComFrame Concept Paper - American Academy of Actuaries Comments - Module 1

Question #	Question	Proposed Comments to IAA
1	Are the right criteria and combinations of criteria applied to identify IAIGs?	
2	Are the tentative size thresholds for the criteria to identify IAIGs at the right level, or are there other proposals for the thresholds?	
3	What thresholds for the international activity criteria would be appropriate to identify IAIGs?	
4	Is the application of constrained discretion to allow groups to be included or excluded from ComFrame appropriate? No matt whether you believe this is appropriate, please answer the following questions as if constrained discretion would apply:	
4a	For decisions to exclude from ComFrame groups that meet the ComFrame Criterida, how should the discretion exercised by supervisors be constrained?	
4b	For decisions to include groups within ComFrame that do not meet the ComFrame Criteria, how should the discretion exercised by supervisors be constrained?	
5	Are there justifiable examples of groups which do not meet the ComFrame Criteria that should be included in ComFrame and are there any justifiable examples of groups which meet the ComFrame Criteria that should be excluded from ComFrame?	
6	While awaiting further development of the Join Forum Principles on the Supervision of Financial Conglomerates, does Element 4 adequately set out a framework for dealing with an IAIG that is a financial conglomerat or is part of a financial conglomerate?	
	Please comment on M1E1-1 along with the parameters and specifications (a Priority A Element)	M1E1-1-1-2. Why use local national standards (on a consolidated basis) if international standards exist? Non-host regulators would be at a disadvantage, likely not being expert in other nations' accounting practices.
	Please comment on M1E2-1 along with the parameters and specifications (a Priority A Element)	
	Please comment on M1E2-2 along with the parameters and specifications (a Priority A Element)	
	Please comment on Module 1, Element 3 (a Priority B Element)	
	Please comment on Module 1, Element 4 (a Priority B Element)	
	General Comments	

IAIS ComFrame Concept Paper - American Academy of Actuaries Comments - Module 2

Question #	Question	Proposed Comments to IAA
7	Should Elements 1 to 6 enable involved supervisors to be adequately informed about the risks arising from the structure and businesses of an IAIG? Are there other tools required? Are there additional processes required?	We think that an Own Risk & Solvency Assessment (ORSA)-oriented approach will provide the most value. It will still be a challenge to get each business unit to recognize what constitutes tail risk, especially for new products and in new economic environments.
8	From an insurance group perspective, protection of policyholders is the key in a resolution scenario. What actions should be taken by IAIGs in good times in order to safeguard such policyholder protection in times of non-viability?	
9	Should the standard include requirements for supervisors with respect to policyholder protection schemes and tied assets?	
10	By whom should disclosures be made?	
11	Under what timing and in what format should disclosures be made?	
	Please comment on Module 2, Element 1 (a Priority B Element)	M2E1-1-1: It would be helpful to give the board members' qualifications in insurance or finance and to disclose any personal relationships with other board members or senior management.
	Please comment on Module 2, Element 1 (a Priority B Element)	M2E1-3: The supervisors should plan to meet face-to-face every year.
	Please comment on Module 2, Element 2 (a Priority B Element)	
	Please comment on Module 2, Element 3 (a Priority B Element)	
	Please comment on Module 2, Element 4 (a Priority B Element)	M2E4-3: Does this mean that the company-provided report needs to be audited? If so, do the supervisors have the resources to perform such an audit?
	Please comment on Module 2, Element 5 (a Priority B Element)	
	Please comment on Module 2, Element 6 (a Priority B Element)	
	General Comments	

IAIS ComFrame Concept Paper - American Academy of Actuaries Comments - Module 3

Question #	Question	Proposed Comments to IAA
12	Are all governance matters that should be considered relevant or pertinent for IAIGs covered in this first draft? What elements are missing?	
13	What are the objectives of an IAIG's group-wide governance framework (both with respect to insurance and non-insurance entities)?	
14	How should ComFrame address the possibility of different approaches to legal entity and group-wide risk-management functions, compliance functions, actuarial functions, internal audit and external audit functions and financial reporting processes? What governance and compliance matters should be covered at the group-wide level or legal entity level only?	
15	If the IAIG does not combine or centralise the governance functions within the group, what requirements for governance should apply at the parent and group-wide level?	The IAIG should ensure that material risks in the organization are reviewed through the governance function, especially those not covered under the governance functions of the individual legal entities and/or operating units.
16	For which particular standards and parameters is it important to develop specifications?	
17	What are examples of appropriate controls over intra-group transactions and related party transactions?	One such control should be that the risk does not disappear from the balance sheet as a result of intra-group transactions; any intra-group transactions should be disclosed.
18	Should IAIGs be mandated to have particular types of committees at Board or management level? (Are there specific considerations for IAIGs in this respect?)	Yes - An audit committee; a committee with responsibility for the risk management function.
19	Are the minimum requirements related to suitability and competence of the Board, management and key persons in IAIGs adequate?	Independence should be addressed in M3E1a-3
20	What requirements should apply with regard to independence of Directors in the context of an IAIG, including conflict of interest?	All directors should have business experience. Other than the few directors that are members of management, there should be no business or family connections or dependencies between directors. Interests of all IAIG stakeholders should be ensured by directors.
21	Is it appropriate to address the governance aspects related to ERM in Element 1 or should they be covered together with the technical/substantive requirements of ERM in Element 2?	
22	Is it appropriate to address the qualitative requirements related to the actuarial function in Element 1 or would it be more pertinent to address them in Module 3 Element 3 in the new material to be developed relating to Liabilities?	It is appropriate to address the actuarial function in Element 1 as it is essential to the risk management of the IAIG.
23	What outsourcing policy would be appropriate for an IAIG? What arrangements need to be in place respectively, if the IAIG outsources externally, or internally? Where group-wide functions are centralised and outsourcing occurs internally, what requirements should apply?	

24	Should requirements be specified regarding internal reporting to the Board and Management of the parent of the IAIG?	
25	Is it appropriate to address basic standards on supervisory review and reporting in this Module, or in Module 4 on Supervisory review and reporting?	
26	What should be included in ComFrame regarding external audit?	ORSA reports need to be verified, perhaps audited.
27	Which (parts of the) Elements require specification? Provide reasonably detailed indications, if desirable for greater clarity or necessary to ensure consistency in treatment of the IAIG?	
28	Is there any terminology used that you feel could benefit from a further explanation (e.g. in the glossary)?	
29	Do you believe that the methodologies identified in these Elements of Module 3 are sufficiently comprehensive to enable an IAIG to satisfy the qualitative and quantitative requirements (for solvency purposes) in ComFrame?	
30	Do you believe that the balance between qualitative and quantitative aspects in this Module have been covered adequately and appropriately in this Module? If not, why not?	
31	Is it appropriate to require a centralised approach to ERM? Are there areas that could/need to be delegated to decentralised entities or units?	Generally, local conditions and local products are best modeled by those in the units. There needs to be a central location where results are reported, assembled and reviewed.
32	Do you think that there are any parts of "Enterprise Risk Management" missing in Element 2 of Module 3? If so, what?	
33	Do you believe that Module 3 Element 2 should list (describe) the minimum risks that the ERM should cover? If so, what should they be?	It will be a challenge to create a full list, then keep it current. Perhaps it would be sufficient to state that the ERM framework should fit the nature, scale and complexity of the IAIG.
34	Should all IAIGs be required to use an economic capital model (own model)?	All risks must be covered by the economic capital model. Some type of actuarial model will be needed to address all risks.
35	How should the role of the Group-wide Risks Management Function operate in relation to the ERM of individual legal entities within the IAIG?	It should only take into account constraints imposed by individual legal entities
36	How should a supervisor ensure that the parent of the IAIG has implemented the IAIG ERM Framework throughout the group? Should different approaches to centralised and decentralised functions be tolerated? Is there a need to specify them accordingly?	
37	Do you believe that an IAIG's ERM Framework should be subject to independent review? If so, would you consider independent to mean external to the function or the parent company of the group overall? Do you think that it should be specified in Module 3 Element 2 the nature of the review, who should perform it and how often?	

38	Do you believe that an ORSA should be conducted at a group-wide level as well as at each individual, legal entity? If not, why not?	Yes
39	Should the IAIG be allowed to account for diversification in the group ORSA?	Yes, within the constraints of fungibility and transferability of capital.
40	Do you think that it would be helpful for a supervisor to prescribe a "template" for an ORSA? Should this be within a jurisdiction or on a group-wide basis?	No
41	What requirements do you believe should be prescribed in advance in this Element (e.g. under "parameters"), which would benefit from guidance under "specifications" and which should be left to supervisory discretion?	
42	What aspects of liabilities do you think should be covered?	Both guaranteed and non-guaranteed aspects of liabilities should be considered.
43	Are there any aspects of "Assets/Investments" that you believe are not adequately covered here? If so which ones?	
44	What issues should the IAIS address with regard to the liabilities/technical provisions of an IAIG that are not covered under ERM or valuation?	
45	Does Element 4 provide an appropriate basis for valuation of assets and liabilities in an IAIG context?	
46	In ICP 17.1, a total balance sheet approach is required to assess the solvency of an insurer. For an insurance group, the capital adequacy assessment falls into two broad sets of approaches, a group level focus (consolidated group or aggregated group), a legal entity focus or a combination of the two (granular approach). Should there be any limitations of approaches for IAIGs, and if so what?	There should be no limitation of approaches.
47	Should ComFrame allow for different risk measurements (TAILVaR, VaR) and different confidence levels for determining the Capital Required, to be called a corridor approach?	Yes, since there will be differences within the same risk measurement as formulated by different IAIGs in their internal models. Supervisors will need to evaluate the results of the capital model and valuation approach used.
48	In ICP 17.6, regulatory capital requirements may be determined using a range of approaches, such as standard formulae, or other approaches more tailored to the individual insurers such as partial or full internal models. In determining the Capital Required for an IAIG, should ComFrame allow both a standardised and internal model approach? If a standardised approach is allowed what should be the nature of the standardised approach, and should there be an allowance for variations/optionality at the discretion of group wide supervisors. Under what circumstances an internal model should be allowed to be used to determine the Required Capital? Under what circumstances should a partial internal model be allowed?	Both standardized and internal model approaches can be considered. One issue to consider in allowing a standard approach would be consistency between jurisdictions and reconciling resulting differences.

49	ICP 17.10 outlines a number of approaches a supervisor could use for the determination of capital resources. To what extent should the individual jurisdictions be in a position to allow additional capital resources to be recognised?	This needs to be consistent throughout the IAIG and also available to all IAIG's.
50	In ICP 17.4 solvency control levels of the PCR and MCR are established. Do you see merits in establishing a PCR and/or MCR for an IAIG? If you see merit in establishing a PCR and/or an MCR, on what basis should a PCR and/or an MCR for an IAIG be established?	We believe using PCR as a ladder of intervention makes sense.
51	ICP 16.1.14 to 16.1.17 describe stress testing and scenario analysis. To what extent should an IAIG be performing stress testing and scenario analysis and to what extent, if any, should it impact an IAIGs capital adequacy requirement?	Whether a standardized or Internal Model (IM) approach is used, capital will be determined by stressing the business. Additional stress testing/scenario analysis would provide valuable information in the ORSA. Additional capital may be required if stress testing/scenario analysis shows an inability to respond adequately.
	Please comment on Module 3 Element 1a (a Priority B Element)	M3E1a-8 and M3E1a-7-2: Will a non-host regulator be able to request and receive information?
	Please comment on Module 3 Element 1a (a Priority B Element)	M3E1a-11-2-1 specifies a list of items on which the actuarial function should provide advice. While these may be items on which actuaries should opine, it can be done within another function, such as the risk management function.
	Please comment on Module 3 Element 1b (a Priority B Element)	M3E1b-1-1: documentation of the governance framework should include the risk management decision making framework, regular reporting that supports the risk management decision making framework and decisions taken.
	Please comment on Module 3 Element 2 (a Priority B Element)	M3E2-3-1: We believe currency (foreign exchange rate) risk needs to be included.
	Please comment on Module 3 Element 3 (a Priority B Element)	
	Please comment on Module 3 Element 4 (a Priority B Element)	M3E4-1: What if an IAIG doesn't use IFRS? For example, say it and its subsidiaries use US GAAP. Must it then calculate IFRS books anyway?
	Please comment on Module 3 Element 4 (a Priority B Element)	M3E4-1: Is "risk-adjusted present value" uniquely defined and well understood? What if IFRS doesn't have this feature? This seems to be too prescriptive.
	Please comment on Module 3 Element 4 (a Priority B Element)	M3E4-1-9: All references to defining what is IFRS is or is not should be removed. Once IFRS is specified as the accounting basis, there should be no need to further specify.
	Please comment on Module 3 Element 5a (a Priority B Element)	
	Please comment on Module 3 Element 5b (a Priority B Element)	
	Please comment on Module 3 Element 5c (a Priority B Element)	
	General Comments	

IAIS ComFrame Concept Paper - American Academy of Actuaries Comments - Module 4

Question #	Question	Proposed Comments to IAA
52	Should the possibility of setting up core colleges be further discussed in ComFrame?	
53	Are there situations in which it would be conceivable that there are two group-wide supervisors?	
54	M4E8-3-3 indicates that the resolution plan of an IAIG should be developed by the IAIG concerned. Is this to be of general nature or to be related to particular areas of concern such as intra-group transactions and their interrelation with policyholder funds?	
55	Should the IAIG Annual Supervisory Reporting Package be based on the calendar year-end or the reporting year-end that the IAIG uses for its general purpose financial reports? Should the quarterly reporting align with this reporting year-end (i.e. if an October year end the quarters would end on 31 January, 30 April and 31 July)?	Since the insurer should be solvent each and every day of the year, it should make no difference as to what the "as of" date is as long as the report is filed annually. The "as of" date can be selected by each IAIG so that it capitalizes on work already being done... or correlates with the best time of year that resources are available.
56	What would be a reasonable period of time, from the relevant reporting year end, in which an IAIG could prepare the IAIG Annual Supervisory Reporting Package?	Five to six months to allow for proper calculation, aggregation and review of the required results and assembly of the report.
57	Should M4E9-2 (IAIG Quarterly Supervisory Reporting Package) allow for a default to the quarterly general purpose financial reporting without prudential adjustments if that quarterly public financial reporting is required of an IAIG in its jurisdiction?	
58	How much detail is it reasonable to have in the IAIG Quarterly Supervisory Reporting Package compared to the IAIG Annual Supervisory Reporting Package?	
59	Where the head of an IAIG is not listed, should the public disclosures required be the same as for those IAIGs where the head is a listed company and must comply with securities law with regard to disclosure of a public company?	
60	ICP 20 covers insurance legal entities and groups of all sizes and complexity based on their nature, scale and complexity. Should the specifications begin with the guidance in ICP 20 effectively made compulsory for IAIGs to follow? What additional disclosure obligations should be applied to IAIGs?	

	Please comment on Module 4, Element 1 (a Priority B Element)	
	Please comment on Module 4, Element 2 (a Priority B Element)	
	Please comment on Module 4, Element 3 (a Priority B Element)	
	Please comment on Module 4, Element 4 (a Priority B Element)	
	Please comment on Module 4, Element 5 (a Priority B Element)	
	Please comment on Module 4, Element 6 (a Priority B Element)	
	Please comment on Module 4, Element 7 (a Priority B Element)	
	Please comment on Module 4, Element 8 (a Priority B Element)	
	Please comment on Module 4, Element 9 (a Priority B Element)	
	Please comment on Module 4, Element 10 (a Priority B Element)	
	General Comments	This is a massive commitment by the regulator. Any regulator will know its own country's companies and issues; it takes some time to get on top of situations in other jurisdictions. Experienced regulators will be needed. Continuity will be important. Being the lead regulator could be an intensive, multi-month commitment. Face-to-Face meeting with all the IAIG's regulators would be very valuable.

IAIS ComFrame Concept Paper - American Academy of Actuaries Comments - Module 5

Question #	Question	Proposed Comments to IAA
61	Are the ComFrame Prerequisites comprehensive enough for all IAIS Members to be prepared to apply ComFrame?	No comments
62	Are the Increased ComFrame Prerequisites comprehensive enough for the IAIS Members acting as group-wide supervisors to assume their rold adequately?	
	Please comment on M5E1-1 along with parameters and specifications (a Priority A Element)	
	Please comment on M5E1-2 along with parameters and specifications (a Priority A Element)	
	Please comment on M5E1-3 along with parameters and specifications (a Priority A Element)	
	General Comments	