

IAIS Consultations

Print view of your comments on "ICP 8 and ComFrame material integrated with ICP 8 " - Date: 15.01.2018, Time: 17:11

Organisation	Insurance Europe
Jurisdiction	Europe
Role	Other (not IAIS Member)
Email	mihai@insuranceeurope.eu
Phone	0032490562487
Treat my comments as confidential	No

Question	
Answer	<p>Q1 General Comment on revisions made in ICP 8</p> <p>Insurance Europe would like to note that there are significant overlaps and no clear interfaces between ICPs 16 and ICP 8. As consequence, there are a lot of duplications (eg concerning risk identification and risk measurement, stress testing, risk appetite statement and risk limits) and inconsistencies (eg the actuarial function is part of risk management in ICP 8.6 but the group actuarial function is part of ERM according to CF 16.7e, ORSA should assess the adequacy of risk management but is part of ICP 16.8 while the Head of the IAIG should review the risk management system annually according to CF 8.1c.)</p> <p>To avoid such duplications and contradictions ICP 8 and 16 and relevant ComFrame should be merged. Or the other way around: a risk management system without a comprehensive enterprise risk approach (including ORSA, material risk categories and capital requirements) is not an adequate risk management for insurers. Capital adequacy requirements should be summarised in ICP 17.</p> <p>In addition, a large part of the guidance in ICP 16 is too granular (ie 16.5 ALM, 16.6 Investment policy, 16.7 Underwriting policy, 16.8 ORSA) and prevents the proportional implementation of an adequate risk management system. In addition, the principle-oriented regulation is endangered. Many requirements may be adequate for complex insurers with long-term business and complex asset strategy but not for small or medium-sized insurers without long-term business and with a simple asset structure.</p>
Answer	<p>Q2 Comment on the additional ComFrame material integrated with ICP 8</p> <p></p>
Answer	<p>Q3 Comment on revised Standard ICP 8.1</p> <p>Whilst Insurance Europe would not object to the alleviation of minimum criteria to be fulfilled by an efficient risk management system from (previous) Guidance level to Standard level, the last bullet point seems to be unclear and should be deleted or specified.</p> <p>Under the assumption that the IAIS intended to reflect Guidance ICP 8.1.16-8.1.19 in the third bullet point, Insurance Europe would propose the following clearer wording instead:</p> <p>"reporting procedures and processes which ensure that the effectiveness of the risk management system is actively monitored and analysed and that appropriate modifications to the system are made where necessary."</p> <p>Insurance Europe would furthermore propose to replace "of all risks of the insurer" by "of material risks of the insurer" in ICP 8.1.1.</p>

Q4 Comment on revised Guidance ICP 8.1.2

Answer

Some of the edits proposed to Guidance ICP 8.1.2 seem overly prescriptive and not necessary to achieve an increased convergence in risk management practices across insurers. The listed "risk appetite statement" would be an example – while identifying an insurer's risk appetite should form an integral part of an effective risk management system and would be reflected throughout a company's ERM system/ORSA/ALM/Investment policy, the format in which it is documented should not be mandated (please also refer to comment on Standard ICP 16.4).

Furthermore, an element of materiality should be added throughout the text Insurance Europe would for example suggest re-wording the following bullet point:

"provide a documented process defining the Board approval required for significant deviations from the risk management strategy or the risk appetite and for settling any major interpretation issues that may arise;"

Comment on Guidance ICP 8.1.3

Insurance Europe would suggest that listing conduct of business (separate from operational risk) as a risk to be at least covered by the risk management system has two noteworthy and potentially problematic consequences: (a) Not all insurers are exposed to conduct of business (risk) to a material extent – for some reinsurers or pure commercial insurers for example this may not play a role at all (b) Reflecting conduct of business risk for solvency purposes appears to be problematic and impracticable. Insurance Europe would suggest that instead of listing it as a separate category, conduct of business – which in no doubt is an important business area – should be subsumed by operational risk.

Q5 Comment on new Guidance ICP 8.1.8

Answer

Q6 Comment on new ComFrame Standard CF8.1a

Answer

Insurance Europe would like to note that this additional requirement for groups to document differences in risk management systems across the individual group should not be a purely academic exercise. The granularity of this documentation and resources required should be balanced according to the purpose it has (ie to feed into the overall group risk management system and reveal risk concentrations and other relevant factors).

An element of materiality should therefore be included in CF8.1a.

Q7 Comment on new ComFrame Guidance CF8.1a.1

Answer

Q8 Comment on new ComFrame Guidance CF8.1a.2

Answer

Given that no detailed provisions on methodologies such as stress tests and scenario analysis are included in ICP 8.1 before CF8.1a.2, Insurance Europe would suggest that this Guidance in its granularity may be better placed elsewhere.

Q9 Comment on revised Guidance ICP 8.1.9

Answer

Q10 Comment on new Guidance ICP 8.1.13

Answer Insurance Europe acknowledges that the content and direction of this Guidance have changed significantly. However, the details on product design and investment strategy introduced are too granular and should be deleted as follows:

“The insurer’s risk management policy should outline how all material categories of risk are managed, both in the insurer’s business strategy and its day-to-day activities. An insurer’s risk management policy typically includes a description of the insurer’s approach towards risk retention and strategies for risk management, such as the use of reinsurance and derivatives, and degree of diversification/specialisation. At a minimum, these risk management policies should address the insurer’s risk appetite, asset-liability management, investment, and underwriting risk.”

Insurance Europe believes that a retention of the clarification in the previous version of ICP 8.1.13 that the risk management policies should be established, either as elements of the risk management policy, or as separate sub-policies would be desirable.

Q11 Comment on new Guidance ICP 8.1.14

Answer Risk management policies may not necessarily be relevant for all employees. Therefore, the wording should be changed to

“The insurer’s risk management policies should be written in a way to help relevant employees understand their responsibilities regarding risk management...”

Q12 Comment on new Guidance ICP 8.1.15

Answer Consistency of risk management policies across the group is not a regulatory objective in and of itself. The risk management policies need to be consistent only in a way to enable group-wide risk management. This purpose should be clearly stated. From this perspective, especially “horizontal consistency” is often not necessary. Insurance Europe would suggest deleting the references to “horizontal consistency” and “vertical consistency”.

Q13 Comment on revised ComFrame Standard CF8.1b

Answer Insurance Europe supports the clarification made in the beginning of this Standard.

However, it is not entirely clear what is meant by “sophistication and functionality of information and reporting systems in addressing key group-wide risks”. Insurance Europe believes that – if this refers to internal reporting lines and information exchange within the IAIG – a more general category should be adapted at Standard level. This category could say for example:

- “Complexity of the IAIG structure and related operational risks, such as efficient information exchange.”

Comments on ComFrame Guidance CF8.1b.2:

Insurance Europe agrees with the content of the Guidance in general. However, the requirement to properly assess risks associated with new business lines and products would sit better elsewhere in the framework. For example, the responsibility may be better placed with local entity Boards of operating subsidiaries who manufacture products, rather than the Head of the IAIG which may in fact be a parent/holding company.

Furthermore, it may not be appropriate to require that a full risk assessment is carried out before any new business lines and/or products are introduced at a legal entity level. Insurance Europe suggests amending this as follows:

“...before the IAIG enters into material new business lines and products...”

Q14 Comment on revised Guidance ICP 8.1.16

Answer	<p>This Guidance does not differentiate between changes in the risk management system and changes in risk profile. Changes in the risk profile are part of risk identification and assessment and should be included in ICPs 8.1.5 and/or 8.1.6.</p> <p>Insurance Europe disagrees that the risk management system should be directly “responsive to changing interests and reasonable expectations of policyholders and other stakeholders” and suggests deleting the last sentence of this Guidance. These factors should find appropriate reflection on concrete risk categories and the insurer’s business strategy. Insurance Europe sees no value in adding such undefined terms in the Guidance. Additionally, the Guidance should be limited to material changes in risk profile (like ICP 8.1.17).</p>
Q15 Comment on revised ComFrame Standard CF8.1c	
Answer	<p>The frequency of the review should not be annually but periodically depending on the risk profile and reactive to the changes of the structure/business strategy of the IAIG.</p>
Q16 Comment on new ComFrame Guidance CF8.1c.1	
Answer	<p>This provision should be limited to material changes only.</p> <p>The purpose and addressee (IAIG or group supervisor) of the second sentence in this Guidance is unclear. Insurance Europe therefore suggests deletion.</p>
Q17 Comment on new ComFrame Guidance CF8.1c.2	
Answer	
Q18 Comment on new ComFrame Guidance CF8.1d.2	
Answer	<p>Comment on ComFrame Guidance CF8.1d.1</p> <p>Insurance Europe would like to clarify that risk management training may not necessarily be relevant to all staff.</p> <p>The following slight re-wording is further proposed in relation to the prescribed content for processes and procedures:</p> <p>"Processes and procedures for promoting an appropriate risk culture should include risk management training, address the segregation of duties and create appropriate incentives for relevant staff."</p>
Q19 Comment on new Guidance ICP 8.1.18	
Answer	<p>Insurance Europe believes that the feedback loop and monitoring of the effectiveness of the risk management system are crucial elements of risk management and should potentially be reflected more prominently in ICP 8, including a reference to ICP 16 (if these two ICPs are not merged as suggested above).</p> <p>Whilst it is clear that the content would require updating, Insurance Europe found the figure previously included in ICP 16 (“Figure 16.1 The IAIS standard ERM framework”) helpful to clarify the risk management and ERM structure the IAIS had in mind. Insurance Europe would suggest that a similar updated graph could be provided by the IAIS.</p>
Q20 Comment on new Guidance ICP 8.1.19	
Answer	
Q21 Comment on revised Standard ICP 8.2	
Answer	

Q22 Comment on revised ComFrame Standard CF8.2a

Answer

As per previous comments submitted on ICP 8 and other ICPs related to governance, Insurance Europe would suggest clarification as to who or what is the 'Head of the IAIG' in the context of this proposal.

Q23 Comment on revised ComFrame Standard CF8.6a

Answer

Insurance Europe still considers that Standard CF8.6a as currently drafted does not adequately reflect the actuarial function's role in assessing the appropriateness of methodologies and assumptions used in the calculation of capital requirements and technical provisions. There furthermore appears to be an overlap with proposed Standard CF 16.7e (please refer to comments provided there).

Insurance Europe would recommend changing the bullet points as follows:

- Amendment to the first bullet points to state a more specific focus on the calculations, as follows

"assessment of the appropriateness of methodologies and underlying models and controls relevant to govern the activities of the IAIG's actuarial function or financial condition;"

- The second bullet point as drafted refers to all compliance issues which should in fact fall under the responsibility of the compliance function. The bullet point should be deleted or, alternatively, specified as follows:

"procedures to identify actuarial-related compliance issues at one of the insurance legal entities in the IAIG or the IAIG as a whole, as applicable;"

- The third bullet point should be specified to say:

"the reliability of the calculation of the IAIG's solvency position, including assessing the methodology and assumptions used in the calculation of regulatory capital requirements and technical provisions;"

- The fifth bullet point should be amended to reflect that the actuarial function should express an opinion on pricing and reinsurance but not be responsible for the development of the arrangements. Therefore, recommend that the bullet point is amended as follows:

"an opinion on pricing and assessment of the adequacy of the IAIG's reinsurance arrangements; and"