



Institute  
and Faculty  
of Actuaries

# Revision ICPs 15 and 16

IFoA response to International Association of  
Insurance Supervisors

31 January 2018

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# IAIS Consultations

Print view of your comments on "i. ICPs 15 and 16 and ComFrame material integrated with ICPs 15 and 16 ii. Proposed definitions of ERM-related terms iii. Additional questions related to ICP 16 and ComFrame material integrated with ICP 16" - Date: 31.01.2018, Time: 17:20

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Question	
	Q1 General comment on ICP 15
<b>Answer</b>	<p>Liquidity considerations should potentially be given more emphasis in this ICP, alongside solvency considerations. Liquidity could be more important than solvency in certain situations, despite the usual business model for an insurer that expects a surplus of cash from insurance portfolios.</p> <p>We note in several places below that investment risk should be reduced through regulation. It is important to clarify that this does not refer to an outright reduction in investment in perceived risky assets, but instead to a reduction in inappropriate investment in risky assets (e.g. mismatching of asset and liability positions), which leads to excessive risk for the insurer given its available resources.</p>
	Q2 General comment on ComFrame material in ICP 15
<b>Answer</b>	
	Q3 Comment on Principle ICP 15
<b>Answer</b>	<p>'The supervisor establishes investment requirements for solvency purposes in order for insurers to make...'</p> <p>This phrase would benefit from greater clarity and could be interpreted in a number of ways, and it would be better to word as follows:</p> <p>'The supervisor establishes regulatory requirements on investment activities in order for insurers to make ...'</p> <p>This implies investment implications on solvency as well as other activities involved in the risk management of the insurer.</p>
	Q4 Comment on Standard ICP 15.1
<b>Answer</b>	<p>'The supervisor established regulatory investment requirements on the investment activities of the insurer'</p> <p>The sentence would read better if 'regulatory investment requirements' were amended to 'regulatory requirements'.</p>

Q5 Comment on Guidance ICP 15.1.1

**Answer**

Q6 Comment on Guidance ICP 15.1.2

**Answer**

'Financial requirements alone are not sufficient to ensure solvency, and should be complemented with appropriate quantitative and/or qualitative requirements limiting/regulating investment risk.'

It is not clear how 'financial' differs from the reference to qualitative / quantitative criteria. We therefore suggest re-wording as follows:

'Quantitative financial requirements governing solvency are not sufficient, and should be complemented by appropriate additional quantitative and/or qualitative requirements limiting/regulating investment risk.'

Using the phrase 'limiting investment risk' is also problematic as regulation should support the successful implementation of an insurance business model which could involve taking on significant investment risk to optimise returns, if this were within an appropriate asset-liability management framework and there were sufficient resources to do so.

Q7 Comment on Guidance ICP 15.1.3

**Answer**

'Factors to consider [...] may include: the overall quality of risk management practices and corporate governance frameworks of insurers'

It would be useful to relate this point directly to the investment expertise of insurers rather than risk management and corporate governance in general, i.e. the management of investment activities and investment risk within an insurer.

Q8 Comment on Guidance ICP 15.1.4

**Answer**

'It is important that requirements across financial sections are as consistent as possible in order to prevent groups from transferring assets between entities to take advantage of regulatory arbitrage.'

We would remove the following words from the sentence 'groups from transferring assets between entities to take advantage of'; this singles out a possible method of regulatory arbitrage, but there are others, e.g. the origination of assets in an insurance vs. non-insurance entity. It is not clear why the transfer of assets between entities is being singled out.

Q9 Comment on Guidance ICP 15.1.5

**Answer**

Q10 Comment on Guidance ICP 15.1.6

**Answer**

Q11 Comment on Guidance ICP 15.1.7

**Answer**

Q12 Comment on Guidance ICP 15.1.8

**Answer**

'Such rules or restrictions may either be applied directly to investments or lead to charges to or deductions from available capital which act as ...'

This sentence would benefit from greater clarity. We suggest replacing 'or lead to charges to' with 'or lead to capital charges'.

Q13 Comment on Guidance ICP 15.1.9

**Answer**

Q14 Comment on Guidance ICP 15.1.10

**Answer**

'[Under a principles based approach] the insurer will be able to select and follow an investment strategy to best manage its investment risks.'

This sentence implies that a rules based approach prohibits an insurer from following an investment strategy that best manages its investment risks; we do not agree with this. We therefore think it would be better to say that the insurer will 'have more flexibility to' select and follow a better suited strategy.

Q15 Comment on Guidance ICP 15.1.11

**Answer**

'For insurance groups, regulatory investment requirements should specify how investments are to be aggregated.'

This sentence is not clear to us, as aggregating all investments held would not give an accurate understanding of exposure to true investment risk at a group level, including the relationship between assets and liabilities at a legal entity level.

We suggest the sentence is replaced with the following: 'For insurance groups, regulatory investment requirements should specify how asset exposures should be aggregated for the purposes of determining investment risk at a group level'

In relation to the following text:

'The regulatory investment regime may therefore require contractual evidence ...'

It would be unusual for there to be contracts in place specifying the accessibility of assets, and accessibility could instead be evidenced through entity legal documentation or other legal precedent. Therefore we suggest replacing 'contractual evidence' with 'relevant entity legal documentation'.

Q16 Comment on Guidance ICP 15.1.12

**Answer**

Liquidity requirements are not necessarily specific to groups and are just as important at a legal entity level. Therefore we suggest referring to 'group-specific liquidity requirements' instead of just referring to liquidity more generally.

Q17 Comment on Guidance ICP 15.1.13

**Answer**

This paragraph is a good entry point to this entire section. We therefore suggest re-ordering so that 15.1.13 appears first.

Q18 Comment on Guidance ICP 15.1.14

**Answer**

Q19 Comment on Standard ICP 15.2

**Answer**

'... assets are sufficiently secure and are held in the appropriate location for their availability;'

It is not clear what is meant by 'appropriate location for their availability'. Does this refer to holding assets in jurisdictions where they are treated as available capital, or some other feature?

Q20 Comment on Guidance ICP 15.2.1

**Answer**

Q21 Comment on Guidance ICP 15.2.2

**Answer**

'The insurer's investments should be sufficiently secure for the portfolio as a whole.'

This sentence has been shortened from the previous version of the ICP and is unclear to us in this context. It would be better to refer to investments held being sufficiently secure when considered at the level of individual securities and aggregate portfolio exposure.

We suggest changing the last sentence to the following (we are concerned with the aggregations of specific types of exposures rather than asset exposures in general):

'...to recognise and mitigate aggregations of such exposures across the insurer's portfolio...'

Q22 Comment on Guidance ICP 15.2.3

**Answer**

It is difficult to understand what 'appropriate location for availability' is referring to here (as per para 15.2 – Q19).

Q23 Comment on Guidance ICP 15.2.4

**Answer**

This paragraph appears to suggest that there is a requirement for an insurer to assess independently the credit risk of all securities held, which is impractical, particularly for smaller insurers or those who do not have a core credit investment/ analysis function. Reference could instead be made to material/ complex exposures, where it is perhaps more practical to perform an independent assessment of risk, i.e. aligned with para. CF 15.2b and CF 15.2b.1.

Q24 Comment on Guidance ICP 15.2.5

**Answer**

Q25 Comment on Guidance ICP 15.2.6

**Answer**

A better example to give would be additional payment obligations/ liquidity risks as a result of a complex structure that are not fully understood.

Q26 Comment on Guidance ICP 15.2.7

**Answer**

'The insurer should evaluate the security of derivative products by taking into account the underlying assets or liabilities...'

We thought this sentence could be clarified in relation to derivatives and underlying assets: it may be better instead to refer to 'underlying exposure', unless the sentence was attempting to refer to a derivative whose balance sheet value could represent an asset or liability position, in which case this should be made clearer in the paragraph.

Q27 Comment on Guidance ICP 15.2.8

**Answer**

Q28 Comment on Guidance ICP 15.2.9

<b>Answer</b>	<p>'The supervisor should limit a group investing in assets that are not secure, and which otherwise could be distributed around the group to avoid investment restrictions'</p> <p>This sentence is difficult to follow. We suggest instead referring to the need to ensure that there is a limit on consolidated group exposures, in addition to assessments at a legal entity level.</p> <p>This paragraph references restrictions to assets held on their own without considering the net asset-liability position of the insurer. For example, clients could request investments in perceived low rated debt instruments with high investment yields in unit linked funds where the investment risk is understood and entirely borne by the policyholder, and therefore should not necessarily be considered as part of this risk assessment.</p>
Q29 Comment on ComFrame Standard CF 15.2a	
<b>Answer</b>	
Q30 Comment on ComFrame Guidance CF 15.2a.1	
<b>Answer</b>	
Q31 Comment on ComFrame Standard CF 15.2b	
<b>Answer</b>	
Q32 Comment on ComFrame Guidance CF 15.2b.1	
<b>Answer</b>	
Q33 Comment on Guidance ICP 15.2.10	
<b>Answer</b>	<p>Cash flows are required to pay creditors as well as policyholders.</p> <p>This paragraph should also refer to assessments of liquidity risk according to the quality of assets held from a liquidity perspective, compared to an entity's cash flow payment obligations or liquidity requirements.</p>
Q34 Comment on Guidance ICP 15.2.11	
<b>Answer</b>	
Q35 Comment on Guidance ICP 15.2.12	
<b>Answer</b>	<p>'For example, where an investment is made in a closed fund, a resale is usually not possible.'</p> <p>It is not clear what type of fund is being referred to and the specific situation that would prevent a liquidation of interests in the fund.</p> <p>We believe this paragraph is also missing the fundamental point that the assessment of liquidity is about a) ability to convert quickly asset ownership into cash, and b) the ability to do so at a reasonable price, that is not impeded by a 'forced' sale.</p>
Q36 Comment on Guidance ICP 15.2.13	
<b>Answer</b>	<p>'...particularly in a resolution.'</p> <p>It is not clear what is being referred to here – is this the resolution of an insolvent entity or one that is undergoing rehabilitation proceedings?</p> <p>It would be useful to add a reference to 'fungibility and transferability' at the end of this paragraph which then defines these terms that are then used later on in this section.</p>

Q37 Comment on Guidance ICP 15.2.14

**Answer**

Q38 Comment on Guidance ICP 15.2.15

**Answer**

'...engage in intra-group transactions [...] in order to offset risks that exist in different parts of the group...'

These transactions would take place in order to transfer risks to where they can be more appropriately managed rather than to offset risks in the group.

Q39 Comment on Guidance ICP 15.2.16

**Answer**

It is unclear what point this paragraph is trying to convey; it introduces new concepts which have not been properly defined (see response to Q36 above). The fungibility points are better covered in CF 15.2c, and it is debatable whether diversification effects are the most common issue when it comes to fungibility.

This paragraph could perhaps refer to the situation where the legal entity solvency position is being propped up by capital held in other entities in the group, and the need to assess whether the capital will actually be available to transfer as liquid resources, when needed.

Q40 Comment on ComFrame Standard CF 15.2c

**Answer**

Q41 Comment on ComFrame Guidance CF 15.2c.1

**Answer**

As per the comment in Q36, it is not clear what resolution specifically refers to – is this the resolution of an insolvent entity or one that is undergoing rehabilitation proceedings?

Q42 Comment on ComFrame Standard CF 15.2d

**Answer**

Q43 Comment on Guidance ICP 15.2.17

**Answer**

This paragraph (and ICP 15.2.18/ ICP 15.2.19) is trying to relate the concept of an insurer pooling insurance risks with the construction of a diversified asset portfolio. These two processes are fundamentally different; it does not make sense to draw parallels at a conceptual level, for example the reference made to different asset classes as being different 'asset risks'.

It is however important to relay the point that diversification relates to types of assets as well as individual securities within an asset class, and that firms should consider the asset and liability positions.

Q44 Comment on Guidance ICP 15.2.18

**Answer**

See response to Q43.

Q45 Comment on Guidance ICP 15.2.19

**Answer**

See response to Q43.



Q46 Comment on Guidance ICP 15.2.20

**Answer**

Q47 Comment on Guidance ICP 15.2.21

**Answer**

Q48 Comment on ComFrame Standard CF 15.2e

**Answer**

Q49 Comment on ComFrame Guidance CF 15.2e.1

**Answer**

Q50 Comment on ComFrame Standard CF 15.2f

**Answer**

Q51 Comment on ComFrame Guidance CF 15.2f.1

**Answer**

Q52 Comment on Standard ICP 15.3

**Answer**

Q53 Comment on Guidance ICP 15.3.1

**Answer**

This should also mention the situation where illiquid bond assets may be purchased for holding to maturity and can be used to meet the requirements for relatively predictable liability cash flows for a portfolio of insurance contracts.

Q54 Comment on Guidance ICP 15.3.2

**Answer**

Q55 Comment on Guidance ICP 15.3.3

**Answer**

Q56 Comment on Guidance ICP 15.3.4

**Answer**

The case for holding the underlying assets of unit-linked and universal life policies is not only because the benefits are linked to underlying assets; for example, linked assets could more effectively be matched using derivatives rather than a linked asset portfolio depending on the benefit structure. The main reason is the need to manage potential substantial mismatches created from a mismatched position and the potential difficulties in doing so.

We therefore suggest replacing 'where there is a direct link between policyholder benefits and investment funds or indices' with 'where not holding the underlying assets results in significant mismatching risk that would need to be carefully incorporated into risk management processes'.

Q57 Comment on Guidance ICP 15.3.5

**Answer**

Q58 Comment on Guidance ICP 15.3.6

**Answer**

Q59 Comment on Standard ICP 15.4

**Answer**

Q60 Comment on Guidance ICP 15.4.1

**Answer**

Q61 Comment on Guidance ICP 15.4.2

**Answer**

Q62 Comment on Guidance ICP 15.4.3

**Answer**

It is also necessary for supervisors to include regulations related to look-through requirements of insurance investments, including collective investment funds. We suggest this is added to the start of this paragraph.

Q63 Comment on Guidance ICP 15.4.4

**Answer**

'Investments that are not traded on a regulated financial market should be kept to prudent levels, as the assessment of their risks may be subjective.'

It would be more useful to phrase the latter part of the sentence as '...it is likely to be difficult and costly to ensure an objective assessment of their risks.'

Q64 Comment on Guidance ICP 15.4.5

**Answer**

Q65 Comment on Guidance ICP 15.4.6

**Answer**

An additional consideration is having regard for the needs of policyholders, given agreed product investment approaches or mandates.

Q66 Comment on ComFrame Standard CF 15.4a

**Answer**

As this is not strictly related to the ability to assess investments and instead covers a range of topics covered in this section, it would perhaps be useful to move CF 15.4a and CF15.4a.1 to directly after ICP 15.2.1.

Q67 Comment on ComFrame Guidance CF 15.4a.1

**Answer**

As per the comment in Q66 above.

In addition, there is the suggestion that intra-group investments always have issues related to liquidity and valuation uncertainty; this is not necessarily the case with 'vanilla' forms of investment banking transactions, performed via an entity in the group that is itself a regulated banking institution.

We would therefore propose the words 'lack of' and 'uncertainty' be removed from the bullet point list. Perhaps a sentence could then be added below which mentions that a lack of liquidity and valuation uncertainty can be a feature of certain intra-group transactions depending on their nature.

Q68 Comment on Standard ICP 15.5

**Answer**

Q69 Comment on Guidance ICP 15.5.1

**Answer**

‘...(such as a professional securities market)...’

The wording suggests that professional securities markets are examples of where there is less regulation, which we do not think is the intention. We therefore suggest changing the wording to:

‘...(compared to the standards governing a professional securities market)...’.

Q70 Comment on Guidance ICP 15.5.2

**Answer**

It makes more sense to refer to the establishment of additional quantitative and qualitative requirements.

Q71 Comment on Guidance ICP 15.5.3

**Answer**

As per the comment in Q70 above, it may be better to refer to additional quantitative and qualitative requirements.

Q72 Comment on Guidance ICP 15.5.4

**Answer**

It is not clear what ‘more restrictive than the strategy for the insurer’ means in this paragraph as this depends on many different aspects of the entity and special purpose vehicle’s structure and purpose. It may be clearer to mention that special purpose vehicle investment regulations may require special attention, particularly where the entity falls outside of the usual regulatory requirements for licensed financial entities conducting the same business.

Q73 Comment on Guidance ICP 15.5.5

**Answer**

Q74 Comment on Guidance ICP 15.5.6

**Answer**

Q75 Comment on Guidance ICP 15.5.7

**Answer**

As per the comment in Q70 above, it may be better to refer to additional quantitative and qualitative requirements.

Q76 Comment on Guidance ICP 15.5.8

**Answer**

Q77 Comment on Guidance ICP 15.5.9

**Answer**

Q78 Comment on Guidance ICP 15.5.10

**Answer**

Q79 Comment on Guidance ICP 15.5.11

**Answer**

Q80 Comment on Guidance ICP 15.5.12

**Answer**

Q81 General comment on ICP 16

**Answer**

Comments below relate mainly to areas where clarifications are required to improve readability or more clearly describe what is intended by the guidance provided.

There are places where ICP paragraphs could be aligned to the CF paragraphs as items apply equally to IAIGs and the management of risk in an insurance entity (further comments in specific sections below).

There is reference in some places to long-term projections only being required where appropriate – this contradicts the requirements in ORSA continuity assessments and it is not clear when long-term projections would not be appropriate.

The definition of internal models used by insurers for assessing risk exposure could be made more precise to prevent confusion. ‘Economic capital models’ usually refer to internal models used to determine capital requirements, and ‘risk exposure models’ usually refer to internal models used more generally for risk quantification. The term ‘internal model’ could well imply an economic capital model that has been approved by the regulator or used in determining the insurer’s regulatory capital position, which is not the intended interpretation in many cases when this term is used in ICP 16.

Q82 General comment on ComFrame material in ICP 16

**Answer**

Q83 Comment on Principle ICP 16

**Answer**

Q84 Comment on Introductory Guidance ICP 16.0.1

**Answer**

We suggest changing the wording in the last sentence to:  
‘These aspects of ERM should therefore be encouraged from a prudential standpoint.’

Q85 Comment on Introductory Guidance ICP 16.0.2

**Answer**

Q86 Comment on Introductory Guidance ICP 16.0.3

**Answer**

‘Risk appetite statement’ is not a separate component of an ERM framework on its own.  
We suggest the bullet ‘Risk appetite statement’ be amended to ‘Risk appetite and the establishment of risk appetite statements’, and also moving this bullet above ‘Inter-relationship of risk appetite, risk limits and capital adequacy’.

Q87 Comment on Introductory Guidance ICP 16.0.4

**Answer**

Q88 Comment on Introductory Guidance ICP 16.0.5

<b>Answer</b>	<p>‘...holistic view of risk at enterprise level’</p> <p>The word ‘enterprise’ could be replaced with ‘insurance entity and group’ to be more specific in terms of what is being referred to here, and linking to the other sections in the guidance note.</p>
Q89 Comment on Introductory Guidance ICP 16.0.6	
<b>Answer</b>	<p>‘... and circumstances and, where appropriate, should take into account the projected outcomes of scenarios run using a range of plausible future business assumptions ...’</p> <p>It is always appropriate to take account of future plausible projected outcomes; we therefore suggest deleting ‘where appropriate’ in the above sentence.</p>
Q90 Comment on Introductory Guidance ICP 16.0.7	
<b>Answer</b>	<p>The reference to ‘internal models’ used in this context needs to be defined; this could be misinterpreted as an internal capital model where approval is given from the regulator to use the model for regulatory capital calculation purposes. Here the text is referring to internal risk modelling much more generally.</p> <p>There are different potential definitions related to a ‘total balance sheet approach’ which could lead to confusion if interpreted differently to the definition set out here.</p> <p>It is perhaps better to remove the reference to defining a ‘total balance sheet approach’ and instead refer to the methods used to quantify assets and liabilities (etc.) on the balance sheet. Alternatively, ‘total balance sheet approach’ should be clearly defined for the purposes of ICP 16 to ensure that a single interpretation is used for the remainder of the document.</p> <p>Given developments in Solvency II and other regimes, we suggest that the reference to an ‘economic basis’ be supplemented by adding in a reference to using a market consistent approach to valuing assets and liabilities.</p>
Q91 Comment on Introductory Guidance ICP 16.0.8	
<b>Answer</b>	
Q92 Comment on Standard ICP 16.1	
<b>Answer</b>	
Q93 Comment on Guidance ICP 16.1.1	
<b>Answer</b>	<p>It would make sense to align the risk types defined here with the list given in CF 16.1b, even though CF16.1b specifically refers to an IAIG context.</p>
Q94 Comment on Guidance ICP 16.1.2	
<b>Answer</b>	
Q95 Comment on Guidance ICP 16.1.3	
<b>Answer</b>	
Q96 Comment on Guidance ICP 16.1.4	
<b>Answer</b>	<p>‘Trigger events’ could be more clearly defined as risk events which lead to the emergence of other organisational risk events, as opposed to an isolated risk event occurring independently of other risk factors.</p>

Q97 Comment on Guidance ICP 16.1.5

**Answer**

Q98 Comment on Guidance ICP 16.1.6

**Answer**

Q99 Comment on Guidance ICP 16.1.7

**Answer**

This is reiterating many of the aspects mentioned in ICP 16.1.6. To acknowledge this it would be useful to refer to ICP 16.1.6 in this paragraph.

Q100 Comment on Guidance ICP 16.1.8

**Answer**

It is not clear why 'fungibility and transferability' considerations are being related to the reduction in diversification benefits in the first instance.

Fungibility and transferability restrictions do reduce the benefits of diversification; however they also imply there is less capital available at a group level to absorb the impacts of risk events occurring at either a group level or in another legal entity.

Q101 Comment on ComFrame Standard CF 16.1a

**Answer**

Q102 Comment on ComFrame Standard CF 16.1b

**Answer**

As per Q93, it would make sense to align the risk types defined in ICP 16.1.1 with the list given here even though CF16.1b specifically refers to an IAIG context.

Q103 Comment on ComFrame Standard CF 16.1c

**Answer**

Q104 Comment on ComFrame Guidance CF 16.1c.1

**Answer**

Q105 Comment on ComFrame Guidance CF 16.1c.2

**Answer**

Q106 Comment on ComFrame Guidance CF 16.1c.3

**Answer**

Q107 Comment on ComFrame Guidance CF 16.1c.4

**Answer**

Q108 Comment on Standard ICP 16.2

**Answer**

Q109 Comment on Guidance ICP 16.2.1

<b>Answer</b>	<p>'Risk measurement techniques should also be used in developing long-term business and contingency plans, where it is appropriate for the insurer to do so.'</p> <p>It is difficult to see situations where it is not important to develop projections of capital and risk measures in the determinations of business plans etc. We therefore suggest removing the last part of the sentence 'where it is appropriate to do so.'</p>
<b>Answer</b>	<p>Q110 Comment on Guidance ICP 16.2.2</p> <p>We suggest amending the wording slightly to: '...whereas relatively simple calculations may be appropriate ...'</p>
<b>Answer</b>	<p>Q111 Comment on Guidance ICP 16.2.3</p> <p>As per response to Q90, there are different potential definitions of the total balance sheet approach. This will need to be clearly defined up front if used throughout the document.</p>
<b>Answer</b>	<p>Q112 Comment on Guidance ICP 16.2.4</p> <p>It is difficult to understand why this paragraph is necessary – typical approaches to quantifying risk would look at all risks currently present on the balance sheet and ensure that capital / exposure metrics are consistently measured at the present time.</p>
<b>Answer</b>	<p>Q113 Comment on Guidance ICP 16.2.5</p> <p></p>
<b>Answer</b>	<p>Q114 Comment on Guidance ICP 16.2.6</p> <p></p>
<b>Answer</b>	<p>Q115 Comment on Guidance ICP 16.2.7</p> <p></p>
<b>Answer</b>	<p>Q116 Comment on Guidance ICP 16.2.8</p> <p>As in the response to Q90, a distinction should be made between: - internal models used generally for risk exposure and economic capital modelling; compared to: - internal capital models that need to be approved by a regulator so that the insurer can use them as the basis for determining regulatory capital.</p>
<b>Answer</b>	<p>Q117 Comment on Guidance ICP 16.2.9</p> <p>It is not clear whether this paragraph (as with ICP 16.2.10 through to ICP 16.2.12 and ICP 16.2.16) is referring to internal models used to calculate economic capital, or to those used to calculate risk exposure metrics more generally. We suspect it is referring to internal capital models or economic capital models.</p> <p>It would perhaps be more appropriate to refer to both economic capital models (internal capital models) and risk exposure models (more general internal models of risk exposure including capital). This would also align with the wording in CF 16.2a (and sub-paragraphs).</p> <p>Note also the point on definitions in Q116 above.</p>
	<p>Q118 Comment on Guidance ICP 16.2.10</p>

<b>Answer</b>	
	Q119 Comment on Guidance ICP 16.2.11
<b>Answer</b>	
	Q120 Comment on Guidance ICP 16.2.12
<b>Answer</b>	<p>As per comments on Q117</p> <p>It is not clear why liability inputs from past business written (i.e. business that is no longer in-force) will be required for an analysis of current risk exposure or economic capital requirements.</p> <p>'...continuing to operate on a going concern basis (unless the insurer is in financial difficulty).'</p> <p>There are other reasons for a going concern basis not to be appropriate (e.g. a planned winding up). We therefore suggest using the wording 'unless there are specific circumstances that would invalidate this assumption'.</p>
	Q121 Comment on Guidance ICP 16.2.13
<b>Answer</b>	
	Q122 Comment on Guidance ICP 16.2.14
<b>Answer</b>	<p>'The insurer should also calibrate the model according to its own modelling criteria'</p> <p>It is difficult to understand why this reference is needed as the insurer would, as part of the usual model calibration process, use its own modelling criteria. The one situation where this may be applicable is where the regulator has imposed a specific calibration approach for determining regulatory capital that is not shared by the insurer, although this is not implied by the context of this paragraph.</p>
	Q123 Comment on Guidance ICP 16.2.15
<b>Answer</b>	
	Q124 Comment on Guidance ICP 16.2.16
<b>Answer</b>	
	Q125 Comment on Guidance ICP 16.2.17
<b>Answer</b>	
	Q126 Comment on ComFrame Standard CF 16.2a
<b>Answer</b>	
	Q127 Comment on ComFrame Guidance CF 16.2a.1
<b>Answer</b>	
	Q128 Comment on ComFrame Guidance CF 16.2a.2
<b>Answer</b>	
	Q129 Comment on ComFrame Guidance CF 16.2a.3
<b>Answer</b>	



Q130 Comment on ComFrame Standard CF 16.2b

**Answer**

Q131 Comment on ComFrame Guidance CF 16.2b.1

**Answer**

Q132 Comment on Guidance ICP 16.2.18

**Answer**

We suggest amending the wording in the first sentence:  
'Stress testing measures the financial impact of stressing one or more risk factors affecting the insurer, although this is usually limited to relatively few factors.'  
Scenario analysis is not limited to an analysis of extreme historic scenarios, but would also involve the analysis of potential future scenarios that could occur where there is no reliable historic precedent.

Q133 Comment on Guidance ICP 16.2.19

**Answer**

Stress and scenario testing can be used to test the limitations of models using extreme movements in a single risk factor, or a combination of factors, to model balance sheet impacts and capital.  
It is more difficult however to conclude that this process assists where there are risks that are either hard to model, or where the insurer is testing the impact of management actions. This is because stress and scenario testing will need a specification of all risk types being modelled and management actions to produce results that reflect these factors.

Q134 Comment on Guidance ICP 16.2.20

**Answer**

Q135 Comment on Guidance ICP 16.2.21

**Answer**

Reverse stress testing can be defined in many ways and does not necessarily focus on the point at which an insurer will fail. It could be used to identify the most likely scenarios that would lead to a specified trigger event, such as a ratings downgrade or a reduction in capital coverage below a certain level.

Q136 Comment on ComFrame Standard CF 16.2c

**Answer**

Q137 Comment on ComFrame Guidance CF 16.2c.1

**Answer**

Q138 Comment on Standard ICP 16.3

**Answer**

Q139 Comment on Guidance ICP 16.3.1

**Answer**

Q140 Comment on Guidance ICP 16.3.2

**Answer**

Q141 Comment on Guidance ICP 16.3.3

**Answer**

Q142 Comment on Guidance ICP 16.3.4

**Answer**

Q143 Comment on Guidance ICP 16.3.5

**Answer**

Q144 Comment on Guidance ICP 16.3.6

**Answer**

Q145 Comment on Standard ICP 16.4

**Answer**

We suggest a minor wording change:  
'... material categories of risk and their interdependencies within the insurer's current and target risk profiles...'

Q146 Comment on Guidance ICP 16.4.1

**Answer**

Q147 Comment on Guidance ICP 16.4.2

**Answer**

Q148 Comment on Guidance ICP 16.4.3

**Answer**

Q149 Comment on Guidance ICP 16.4.4

**Answer**

Q150 Comment on Guidance ICP 16.4.5

**Answer**

Q151 Comment on Guidance ICP 16.4.6

**Answer**

Q152 Comment on Guidance ICP 16.4.7

**Answer**

Q153 Comment on Guidance ICP 16.4.8

**Answer**

Q154 Comment on ComFrame Standard CF 16.4a

**Answer**

Q155 Comment on Standard ICP 16.5

<b>Answer</b>	It may not be necessary to have a separate ALM policy where this is only a small part of the business. We suggest it would be better to say that ALM should be addressed explicitly with risk management policies as appropriate.
Q156 Comment on Guidance ICP 16.5.1	
<b>Answer</b>	<p>Note comment on Q155 above.</p> <p>An ALM risk policy is unlikely to incorporate changes in the valuation of assets and liabilities under a range of different scenarios, as this assessment would change at each valuation date and therefore quickly become outdated within the policy wording. It will however make sense to comment on the valuation of assets and liabilities for the tracking / optimisation of ALM activities, which would be aligned to the economic capital calculation framework.</p>
Q157 Comment on Guidance ICP 16.5.2	
<b>Answer</b>	This paragraph describes the way in which the total balance sheet is to be determined, as well as capital in the economic capital framework, and is not necessary to incorporate directly in an ALM policy. The ALM policy could well reference the economic capital calculation framework.
Q158 Comment on Guidance ICP 16.5.3	
<b>Answer</b>	
Q159 Comment on Guidance ICP 16.5.4	
<b>Answer</b>	
Q160 Comment on Guidance ICP 16.5.5	
<b>Answer</b>	
Q161 Comment on Guidance ICP 16.5.6	
<b>Answer</b>	
Q162 Comment on Guidance ICP 16.5.7	
<b>Answer</b>	
Q163 Comment on Standard ICP 16.6	
<b>Answer</b>	Even though it is set out in ICP 16.6.1, given the significant potential overlap between investment and ALM risk management, it would be useful to state here that the investment policy should address the management of investment risk and the relationship with the management of ALM risk, through the ALM risk policy.
Q164 Comment on Guidance ICP 16.6.1	
<b>Answer</b>	
Q165 Comment on Guidance ICP 16.6.2	
<b>Answer</b>	
Q166 Comment on Guidance ICP 16.6.3	

<b>Answer</b>	
	Q167 Comment on Guidance ICP 16.6.4
<b>Answer</b>	
	Q168 Comment on Guidance ICP 16.6.5
<b>Answer</b>	
	Q169 Comment on Guidance ICP 16.6.6
<b>Answer</b>	
	Q170 Comment on Guidance ICP 16.6.7
<b>Answer</b>	
	Q171 Comment on Guidance ICP 16.6.8
<b>Answer</b>	<p>'Trial operation of procedures for sufficiently long periods may also be appropriate in advance of 'live' operation.'</p> <p>It is difficult to understand what the sentence relates to and it should be made clearer; it appears as if it relates to the situation where there is no market liquidity for certain trades that are relied upon for risk management.</p>
	Q172 Comment on Guidance ICP 16.6.9
<b>Answer</b>	It would be useful for the policy to provide guidance on acceptable terms for ISDA agreements used for OTC transactions.
	Q173 Comment on Standard ICP 16.7
<b>Answer</b>	The following items are missing from this section and sub-paragraphs and should be incorporated: - Relationship between underwriting and reserving (as per CF 16.7a) - Provision of appropriate data for pricing / reserving and reinsurance processes (as per CF 16.7a) - Monitoring for potential anti-selection as part of the underwriting policy which would then feed back into changes in pricing etc.
	Q174 Comment on Guidance ICP 16.7.1
<b>Answer</b>	
	Q175 Comment on Guidance ICP 16.7.2
<b>Answer</b>	
	Q176 Comment on Guidance ICP 16.7.3
<b>Answer</b>	
	Q177 Comment on Guidance ICP 16.7.4
<b>Answer</b>	
	Q178 Comment on Guidance ICP 16.7.5

<b>Answer</b>	
	Q179 Comment on Guidance ICP 16.7.6
<b>Answer</b>	The wording should also reference the underwriting policy, including specified credit risk that the insurer is prepared to take on reinsurance agreements (as per CF 16.7c).
	Q180 Comment on ComFrame Standard CF 16.7a
<b>Answer</b>	
	Q181 Comment on ComFrame Guidance CF 16.7a.1
<b>Answer</b>	
	Q182 Comment on ComFrame Standard CF 16.7b
<b>Answer</b>	
	Q183 Comment on ComFrame Guidance CF 16.7b.1
<b>Answer</b>	
	Q184 Comment on ComFrame Standard CF 16.7c
<b>Answer</b>	
	Q185 Comment on ComFrame Standard CF 16.7d
<b>Answer</b>	The role of the actuarial function and the need to implement a group-wide actuarial policy should be the subject of a separate section in this document, instead of being incorporated into the underwriting risk section.
	Q186 Comment on ComFrame Guidance CF 16.7d.1
<b>Answer</b>	
	Q187 Comment on ComFrame Guidance CF 16.7d.2
<b>Answer</b>	
	Q188 Comment on ComFrame Guidance CF 16.7d.3
<b>Answer</b>	
	Q189 Comment on ComFrame Standard CF 16.7e
<b>Answer</b>	
	Q190 Comment on ComFrame Guidance CF 16.7e.1
<b>Answer</b>	
	Q191 Comment on ComFrame Guidance CF 16.7e.2
<b>Answer</b>	
	Q192 Comment on Standard ICP 16.8

<b>Answer</b>	
	Q193 Comment on Guidance ICP 16.8.1
<b>Answer</b>	
	Q194 Comment on Guidance ICP 16.8.2
<b>Answer</b>	
	Q195 Comment on Standard ICP 16.9
<b>Answer</b>	
	Q196 Comment on Guidance ICP 16.9.1
<b>Answer</b>	
	Q197 Comment on Standard ICP 16.10
<b>Answer</b>	It is not clear why certain risks need to be considered in the ORSA at a minimum, as the pertinent risks would depend on the nature of operations. It may make sense to align the list of risks considered to the list provided in CF16.1b.
	Q198 Comment on Guidance ICP 16.10.1
<b>Answer</b>	
	Q199 Comment on Guidance ICP 16.10.2
<b>Answer</b>	
	Q200 Comment on Guidance ICP 16.10.3
<b>Answer</b>	
	Q201 Comment on Guidance ICP 16.10.4
<b>Answer</b>	
	Q202 Comment on Guidance ICP 16.10.5
<b>Answer</b>	
	Q203 Comment on Guidance ICP 16.10.6
<b>Answer</b>	
	Q204 Comment on Guidance ICP 16.10.7
<b>Answer</b>	
	Q205 Comment on ComFrame Standard CF 16.10a
<b>Answer</b>	
	Q206 Comment on ComFrame Guidance CF 16.10a.1
<b>Answer</b>	

Q207 Comment on Standard ICP 16.11

**Answer**

Q208 Comment on Guidance ICP 16.11.1

**Answer**

Q209 Comment on Guidance ICP 16.11.2

**Answer**

Q210 Comment on Guidance ICP 16.11.3

**Answer**

Q211 Comment on Guidance ICP 16.11.4

**Answer**

Q212 Comment on Guidance ICP 16.11.5

**Answer**

Q213 Comment on Guidance ICP 16.11.6

**Answer**

Q214 Comment on Guidance ICP 16.11.7

**Answer**

Q215 Comment on Guidance ICP 16.11.8

**Answer**

Q216 Comment on Standard ICP 16.12

**Answer**

Q217 Comment on Guidance ICP 16.12.1

**Answer**

Q218 Comment on Guidance ICP 16.12.2

**Answer**

Q219 Comment on Guidance ICP 16.12.3

**Answer**

Q220 Comment on Guidance ICP 16.12.4

**Answer**

Q221 Comment on Guidance ICP 16.12.5

**Answer**

Q222 Comment on Guidance ICP 16.12.6

<b>Answer</b>	<input type="text"/>
	Q223 Comment on Guidance ICP 16.12.7
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	Q225 Comment on Guidance ICP 16.12.9
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	Q231 Comment on ComFrame Standard CF 16.12a
<b>Answer</b>	<input type="text"/>
	Q232 Comment on ComFrame Guidance CF 16.12a.1
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	Q233 Comment on Standard ICP 16.13
<b>Answer</b>	<input type="text"/>
	Q234 Comment on Guidance ICP 16.13.1
<b>Answer</b>	<input type="text"/>
	Q235 Comment on Guidance ICP 16.13.2
<b>Answer</b>	<input type="text"/>
	Q236 Comment on Guidance ICP 16.13.3
<b>Answer</b>	<input type="text"/>
	Q237 Comment on Guidance ICP 16.13.4



<b>Answer</b>	
	Q238 Comment on Guidance ICP 16.13.5
<b>Answer</b>	
	Q239 Comment on Guidance ICP 16.13.6
<b>Answer</b>	
	Q240 Comment on Guidance ICP 16.13.7
<b>Answer</b>	
	Q241 Comment on Guidance ICP 16.13.8
<b>Answer</b>	<p>'Where the supervisor considers the calculations conducted by an insurer should be supplemented by additional calculations, it should require the supervisor to carry out those additional calculations.'</p> <p>This sentence is unclear. Perhaps it should refer to the supervisor being able to request the resolution of any deficiencies in the SST and/ or risk modelling calculations that it has identified?</p>
	Q242 Comment on Guidance ICP 16.13.9
<b>Answer</b>	
	Q243 Comment on Guidance ICP 16.13.10
<b>Answer</b>	
	Q244 Comment on Guidance ICP 16.13.11
<b>Answer</b>	
	Q245 Comment on Guidance ICP 16.13.12
<b>Answer</b>	
	Q246 Comment on Guidance ICP 16.13.13
<b>Answer</b>	
	Q247 Comment on Guidance ICP 16.13.14
<b>Answer</b>	<p>This paragraph is the start of a 'Group perspectives' section and should be reflected as such in the document for consistency with the format used elsewhere.</p>
	Q248 Comment on Guidance ICP 16.13.15
<b>Answer</b>	
	Q249 Comment on Guidance ICP 16.13.16
<b>Answer</b>	
	Q250 Comment on Guidance ICP 16.13.17
<b>Answer</b>	

	Q251 Comment on Guidance ICP 16.13.18
<b>Answer</b>	
	Q252 Comment on Guidance ICP 16.13.19
<b>Answer</b>	
	Q253 General comment on proposed definition of ERM-related terms to be added to the IAIS Glossary
<b>Answer</b>	
	Q254 Comment on proposed definition of “ERM for Solvency Purposes”
<b>Answer</b>	
	Q255 Comment on proposed definition of “ERM framework”
<b>Answer</b>	
	Q256 Comment on proposed definition of “Risk Capacity”
<b>Answer</b>	The definition should account for an insurer’s own assessment of risk exposure and/ or economic capital in the determination of risk capacity as well as regulatory capital requirements.
	Q257 Comment on proposed definition of “Risk Limit”
<b>Answer</b>	
	Q258 Comment on proposed definition of “Risk Limits Structure”
<b>Answer</b>	
	Q259 Comment on proposed definition of “Risk Profile”
<b>Answer</b>	<p>The document’s definition of risk profile does not require the use of ‘forward looking assumptions’. However, the point-in-time assessment of risk profile will need to be based on an appropriate determination of risk exposure which will be based on forward looking assumptions if it uses ‘economic’ principles.</p> <p>The definition should refer to the use of an appropriate risk exposure basis for deriving the risk profile, e.g. the use of economic capital results at a risk factor level.</p>
	Q260 Actuarial policy – In addition to existing ICP material, should ICP material on actuarial policy for the purpose of ERM for solvency purposes be developed?
<b>Answer</b>	No
<b>Answer Comment</b>	There is sufficient guidance included in CF 16.7d and subsequent paragraphs
	Q261 ORSA – Should the interaction between ICS and ORSA be made clearer in ComFrame? If yes, what are the areas that are currently lacking in clarity?
<b>Answer</b>	
	Q262 ORSA – Should the interaction between ICS and ORSA be made clearer by clarifying the assessment of the less readily quantifiable risks such as strategic risk and reputational risk?

<b>Answer</b>	
	Q263 ORSA – Fungibility of capital: To what extent should the ORSA play a role as part of a holistic approach to the fungibility of capital within the ICS? In addition to the consideration of criteria within the capital resources framework of the ICS, would it be useful for ComFrame to provide some specificity on how supervisors should assess fungibility of capital and take that into account in assessing the overall capital adequacy of the IAIG?
<b>Answer</b>	
	Q264 ORSA – Would it be useful for ComFrame to provide explanation on how supervisors should review the output of an IAIG’s economic capital model against regulatory requirements, including the determination of follow-up regulatory actions?
<b>Answer</b>	No
<b>Answer Comment</b>	This would be difficult to articulate given differences in regulatory and economic capital approaches and the implications of different bases on an insurer’s risk management process.
	Q265 Stress testing – Should the complementarity between ICS and stress testing be made clearer in ComFrame? If yes, what are the areas that are currently lacking in clarity?
<b>Answer</b>	
	Q266 Stress testing – Should this ComFrame material be further developed to complement supervisor’s assessment of an IAIG’s capital adequacy?
<b>Answer</b>	
	Q267 Economic capital model – Should the interaction between the requirement to maintain a comprehensive economic capital model and any future possible use of internal models be clarified? If yes, what are the aspects that need to be clarified?
<b>Answer</b>	Yes
<b>Answer Comment</b>	It is helpful to clarify the role of economic capital versus an internal model used for regulatory capital reporting, which could reflect different methods and assumptions to be used for regulatory reporting.
	Q268 Actuarial governance and reporting – Given what is already provided in Standards 8.3 and 8.6 and the accompanying guidance on the control function and the actuarial function, should ComFrame further elaborate on governance arrangements and controls relating specifically to group-wide actuarial policy and reporting? If yes, please specify the aspects that should be further described.
<b>Answer</b>	No
	Q269 Others – The ICS allows for the assessment of materiality by IAIGs. For example, a specific factor or rule in the valuation calculation could be simplified if the IAIG deems that the impact of simplification would be immaterial. Should the ComFrame provide clarification on materiality criteria or should this be supervisors’ discretion?
<b>Answer</b>	No
<b>Answer Comment</b>	This should be left up to the supervisor’s discretion given the importance of a specific valuation element to the risk management process as a whole as well as for the purposes of specific capital calculations

Q270 Others – Should the ComFrame provide clarification on differences (if any) between the model governance for internal models used to meet regulatory requirements (ICP 17 (Capital Adequacy)) and economic capital models used for strategic planning purposes/ORSA (ICP 16)?

**Answer**

Q271 Others – With regard to ERM for Solvency Purposes/ORSA, are there other items that should be taken into account or further clarified in ComFrame given the ongoing development of the ICS? Please elaborate.

**Answer**