AMERICAN ACADEMY of ACTUARIES

December 31, 2010

Maarten Hage
Chair, Governance and Compliance Subcommittee
International Association of Insurance Supervisors
Via email to: m.hage@dnb.nl
CC: Secretariat : mala.nag@bis.org

To Governance and Compliance Subcommittee,

Re: American Academy of Actuaries comments on the IAIS draft ICP 7 on Corporate Governance

On behalf of the American Academy of Actuaries'[1] ERM Committee, I am pleased to provide comments on the IAIS draft of ICP7: *Corporate Governance*.

Thank you for this opportunity to comment. If you have any questions, please contact Tina Getachew, Senior Policy Analyst, Risk Management and Financial Reporting Council, via email (getachew@actuary.org) or phone (202.223.8196).

Sincerely,

Maryellen Coggins
Chairperson, ERM Committee
Risk Management and Financial Reporting Council
American Academy of Actuaries

[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.

Member Comments on IAIS Draft paper:
ICP7/standards/guidance on *Corporate Governance*

Comments due by 31 December 2010

Name	Section or paragraph reference	Comment	Resolution (for use of the Secretariat only)
American Academy of Actuaries (AAA)	General	We agree that supervisors and regulators could benefit by a greater understanding of corporate governance and risk management practices. We also agree that both supervisors and regulators need to ensure that an insurer has taken appropriate steps to establish and implement a prudent framework for corporate governance.	
AAA	7.1	We agree that it is appropriate for the supervisor to "require the insurer's Board to set, and oversee the implementation of, the insurer's business objectives and strategies for achieving those objectives…" However, we are concerned that this requirement extends to "…risk strategy, risk appetite and risk tolerance levels." While Enterprise Risk Management terminology continues to evolve, we believe the first two of these terms tends to refer to board level actions – the determination of strategy in the context of the risks a company is willing to accept. The last term, however – risk tolerance – tends to involve more detailed work that is typically performed at a senior management level.	
AAA	7.1.2	We also believe it is important that a company's board have the responsibility for "setting the tone at the top." We are concerned, however, that the guidance provided within the current draft promotes risk management practices that appear to encourage an excess of day-to-day management activities reside at the board level. A distinction between the actions for which the board is responsible versus those for which the board delegates would add clarity.	

AAA	7.3	We agree with the concept in Section 7.3, that a board should be comprised of people with a wide range of skills. However, it may be quite difficult for a supervisor to verify the skill sets covered by any company's board and further ensure that those skills are the appropriate ones for any given insurer. Further, we believe that this assessment would be more difficult at the legal entity level. Given the number of legal entities within many insurance enterprises, this assessment could quickly devolve into a rules-based checklist. The requirements in subparts b) and c) could be verified by supervisors; subpart a) would present greater challenges.	
AAA	7.6	We recognize the importance of aligning compensation strategies with business goals, as Section 7.6 attempts to do. However, the long-tailed nature of most insurance products/lines of business makes it difficult to perfectly align a company's goals with its compensation plans. For example, it may be a decade or more before it is known with reasonable certainty whether a particular business segment has been profitable. With a potential for a significant delay between performance and reward, it is likely that very few high-performing employees would be willing to accept such a reward system. This section should include language that acknowledges that compensation plans need to realistically balance the risk of inappropriate incentives with the risk of losing or failing to attract high-quality employees.	