AMERICAN ACADEMY *of* ACTUARIES

August 15, 2011

Commissioner Kevin M. McCarty
International Insurance Relations (G) Committee
National Association of Insurance Commissioners

Director Christina Urias
Solvency Modernization Initiative (EX) Task Force
National Association of Insurance Commissioners

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

The American Academy of Actuaries[1] Solvency Committee is pleased to submit comments on the NAIC's ComFrame Concept Paper Draft US Responses. While the attached document identifies some areas where our viewpoints differ from the NAIC's, overall we are very supportive of the positions you have taken.

We support your position that the modules should be outcome-oriented rather than prescriptive. In general, where the paper is specific about report content, company structure, or a prescribed approach, the content should be reworded.

We also note that many Insurance Core Principles (ICPs) cover the same subjects that are addressed here. Where at all possible, reference should be made to the specific ICP rather than writing another principle. A prime example is valuation of assets and liabilities; there is no need to restate principles if they are covered in ICP 14.

Finally, we believe that ComFrame should focus strictly on areas where there needs to be group coordination rather than on the structure and business activities of entities within the group.

If you have any questions regarding these comments, please contact Tina Getachew, senior policy analyst for Risk Management and Financial Reporting (getachew@actuary.org).

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[1] The American Academy of Actuaries is a 17,000-member professional association whose mission is to serve the public and 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.

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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CC: Ryan Workman and Kris DeFrain (NAIC)

Module		IAIS question	NAIC response	Academy Solvency Committee comment on NAIC response
3	13	What are the objectives of an IAIG's group-wide governance framework (both with respect to insurance and non-insurance entities)?	The objectives of a group-wide governance framework are to ensure that systems, policies and procedures are in place to effectively and efficiently provide for sound management and oversight of a group's business. Although the systems, policies and procedures will undoubtedly be tailored based on the type of entity involved, the objectives of an IAIG's governance framework should not vary significantly with respect to insurance and non-insurance entities.	The last sentence could be bolstered with recognition of the need for research to identify how non-insurance enterprise risks interact with those of insurers.
3	20	What requirements should apply with regard to independence of Directors in the context of an IAIG, including conflict of interest?	Code of Ethics and Conflict of Interest Policies should be in place for all Board Members of IAIGs. All IAIG Boards - but especially the ultimate controlling entity - should include some representation by independent members, the requirements of which should be outlined in the charter and/or bylaws of the organization, not by ComFrame. Independent members should be defined as individuals who do not receive direct compensation from the IAIG other than for their service as Board members.	Independent Board members should not have strong financial ties to the company nor should they be recently-retired employees. Independent Board members should also be independent of each other, thus precluding family connections.
3	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?	No, it is neither necessary nor appropriate to require a centralized approach to ERM. IAIGs are free to adopt the ERM framework that is best suited for their operations. If an IAIG adopts a de-centralized approach to ERM, it is necessary that the de-centralized units communicate with each other to ensure compliance with the broader ERM policy of the IAIG.	We believe that there needs to be a unit within the IAIG that assembles and reviews the ERM results. Results should be reviewed and evaluated by a unit that is responsible for the entire IAIG. Aggregation, correlation and coordination will need to be performed by a unit outside any individual company. This is especially important should a decentralized operation have the ability, in any way, to impact any other part of the business.
3	39	Should the IAIG be allowed to account for diversification in the group ORSA?	This depends on the entity (consideration of many factors), and the philosophy of the IAIG. There should not be any hard/fast rules at this stage of development.	We believe that one hard/fast rule can be considered. Diversification could be allowed only if it can be clearly demonstrated that the risk is clearly offsetting in adverse situations and that capital can be moved freely between entities without the approval of the host regulator.
3	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?	If these capital resources are to be credited toward meeting regulatory capital requirements, the jurisdiction should have established standards governing the kinds of assets that can be utilized for regulatory capital purposes. In general, these capital resources should be available for the payment of claims and not be subject to other creditor claims.	We believe that ComFrame should not re-write what already exists in the ICPs.
3	M3E1a-11-1-1 & M3E1a-11-2-1	What should be the requirements for actuaries of an IAIG? What should be the responsibilities of the Group Actuary? What should the actuarial function provide advice and opinion on?	An opinion should be provided by a credentialed actuary on all significant technical liabilities. Advice should be provided by an actuary on other solvency related matters including the ORSA and target capital calculations, but an opinion should not be required due to the lack of standardized practices in this area. The Group Actuary should be responsible for reviewing and aggregating actuarial information at the group level and reporting overall results to the group's Board of Directors.	Solvency-related practices are maturing; standards of practice can be developed. Solvency or ORSA opinions could be introduced once appropriate standards are developed.
4	53	Are there situations in which it would be conceivable that there are two group-wide supervisors?	Yes. One must remember that the key function of a group-wide supervisor is coordinating and there is nothing that prevents two jurisdictions from facilitating that role. U.S. supervisors have several group situations that warrant the need for multiple group-wide supervisors. For example, if the insurance group is equally split and managed separately between its property & casualty entities versus life entities, then two jurisdictions might feel the need to lead these different arms of the group. The decision to have multiple group-wide supervisors will depend on the structure, scale of international activity and complexity of the IAIG.	We think that there will be more control, management, coordination and responsibility if there is a single leader. It is likely that any supervisor will not be an expert in some of the businesses or environments in which an IAIG writes. The supervisor will have to rely on the knowledge of other supervisors.
General Questions	2	Are all the potential material sources of risk for IAIGs addressed?	Risks related to market conduct issues are not addressed. Additionally contagion risk -- supervisors needing to look at risks coming from non-insurance legal entities and/or non-core activities.	We agree with the comments, but it is likely impossible to address all potential sources of risk that could be material. What should be addressed is the process for identifying and managing risk and not a list of potential risks.