

IAIS Consultations

Print view of your comments on "Consultation on Application Paper on Group Corporate Governance " - Date: 28.04.2017, Time: 17:19

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Treat my comments as confidential	No

Question	
	Q1 General comment on the draft Application Paper
Answer	<p>Insurance Europe appreciates the opportunity to provide comments on the draft Application Paper on Group Corporate Governance and supports the objective of enhancing the development of a common understanding amongst supervisors in relation to governance frameworks of insurance groups. Insurance Europe is further supportive of the IAIS' recognition of the effective operation of a range of centralised and de-centralised governance frameworks within industry, and that no one particular framework is preferable to another.</p> <p>Clear delineation between ICP framework and application paper</p> <p>Several of the good practices and recommendations in the draft application paper include direct or implicit regulatory requirements for insurers/groups. It is Insurance Europe's understanding that it was the intention of the IAIS not to set any new standards (as set out in paragraph 1 of the draft application paper – "it does not set new standards.") yet throughout the text the IAIS sets out overly-granular recommendations which are in fact new standards. Insurance Europe would therefore encourage the IAIS to clearly separate recommendations for supervisors from obligations for insurers/groups (which already exist) and to remove new standards for insurers/groups. The latter should be subject of the regulatory framework for insurers/groups, ie ICPs and ComFrame, and should only be referenced in the application paper where necessary.</p> <p>Flexibility regarding variety of group structures</p> <p>Insurance Europe appreciates the flexibility the application paper offers with regard to centralised-decentralised or hybrid group governance frameworks, as established during the consultation on the respective 2014 Issues Paper. The IAIS is however encouraged to identify ways to further enhance the paper's clarity and structure as to the varying degrees of intensity of supervisory oversight and intervention applicable to the various governance frameworks. In particular, the text frequently moves rapidly between centralised, decentralised and hybrid forms of governance at the risk of losing clarity. Further, the level of granularity may undermine the flexibility of the document.</p> <p>Appropriate acknowledgment of "group interest"</p> <p>The notion of "group interest" should be introduced and feature more prominently across the sections. The application paper in its current form provides hardly any guidance as to the question of how conflicting views and/or interests of the group and its subsidiaries can be resolved or balanced. Accordingly, Insurance Europe proposes to also recognise the notion of "group interest" in the application paper, acknowledging that directors of subsidiaries should be allowed to reasonably take the parent's interest into account without violating their fiduciary duties toward their subsidiary. This would provide enhanced flexibility for management of groups especially on a cross-border basis, and would provide directors with comfort in potential conflicts of interest when taking directions from the parent board.</p>

Q2 Comment on Paragraph 1

Answer

Q3 Comment on Paragraph 2

Answer

Insurance Europe notes that the good practices and recommendations established in the draft application paper are particularly relevant for supervisors of IAIGs. In that context, Insurance Europe would like to stress that under the proposed framework supervisors should be able to maintain sufficient levels of flexibility to apply the principle of proportionality in their supervision of insurance groups. As will be highlighted below, some of the proposed good practices and examples provided seem to suggest a stringent one-size-fits-all approach. As is mentioned several times in the draft and elaborated on in the October 2014 IAIS Issues Paper on Group Corporate Governance, Impact on Control Functions (Issues Paper), group models cannot be strictly defined. Overreliance on certain limited characteristics for the assessments of appropriateness of the governance structure chosen by the group may be inappropriate. The unique structure of a group should always be assessed with a holistic view.

Q4 Comment on Paragraph 3

Answer

Q5 Comment on Paragraph 4

Answer

With reference to ICPs 7, 8 and, 25 Insurance Europe would like to emphasise upfront that all comments provided on the draft application paper may be subject to further refinement in the responses that will be submitted on the ongoing IAIS consultation on revised Insurance Core Principles (ICPs) and ComFrame material integrated with ICPs. Insurance Europe welcomes IAIS' acknowledgement during the public background call on 20 March that changes may need to be made to the application paper following the broader ICPs consultation.

While the IAIS has stated that the objective of the paper is not to set new standards, however and as indicated above (Q1), in Insurance Europe's view overarching supervisory guidance and good practices for application may in practice nevertheless lead to the implicit introduction of new or stricter requirements applicable to insurance groups.

Q6 Comment on Paragraph 5

Answer

Given the aim of this draft application paper is to provide good supervisory practices and examples, Insurance Europe would suggest that it would be more appropriate for this paragraph to set out the areas of challenge for supervisors rather than insurers/groups.

Q7 Comment on Paragraph 6

Answer

Q8 Comment on Paragraph 7

Answer

Q9 Comment on Paragraph 8

Answer

Q10 Comment on Paragraph 9

Answer

Q11 Comment on Paragraph 10

Answer

Q12 Comment on Paragraph 11

Answer

Q13 Comment on Paragraph 12

Answer

Q14 Comment on Paragraph 13

Answer

Q15 General comments on Subsection 3.1 (Supervisory coordination and cooperation)

Answer

Q16 Comment on Paragraph 14

Answer

Q17 Comment on Paragraph 15

Answer

Insurance Europe agrees with the stated necessity for supervisors to understand the risks associated with the interrelationships, interconnections, and interdependencies between the different entities of the group. Insurance Europe strongly supports the objective of supervisory coordination.

Q18 Comment on Paragraph 16

Answer

Insurance Europe recommends amending the third sentence of this paragraph to highlight the need for cooperation and coordination, ie "It is essential that supervisors work together to arrange adequate cooperation and coordination at all levels of the group as appropriate."

Where reference is made to paragraph 62 of the Issues Paper, it should be clarified that the range of appropriate supervisory activities and tools listed in lit. c and d only represent examples for supervisory coordination. The supervisory activities and tools available to the supervisor will be limited by the local regulatory framework that is applicable to the group. Especially relating to the collection of relevant information, on-site and off-site supervision and corrective measures, the group (and its individual entities) should be able to rely on the legal certainty stemming from the clear regulatory framework applicable.

Q19 Comment on Paragraph 17

Answer

Insurance Europe agrees with the importance assigned to the existence of a strict confidentiality regime (as per ICP 3). All supervisors should be bound by a strict confidentiality regime, applicable to all forms of communication.

Further comments on this particular area will be provided by Insurance Europe in the response to the IAIS consultation on revised Insurance Core Principles (ICPs) and ComFrame material integrated with ICPs.

Q20 Comment on Paragraph 18

Answer This paragraph refers to a MoU as a communication mechanism; MoUs are a means to facilitate the communication mechanisms mentioned, ie supervisory colleges and meetings. This paragraph should recognise that a confidentiality agreement should be put in place between supervisors surrounding the use of information that is shared. All supervisors should be bound by a strict confidentiality regime, applicable to all forms of communication.

Q21 Comment on Paragraph 19

Answer Again, Insurance Europe recommends a confidentiality agreement should be put in place between supervisors surrounding the use of information that is shared. All supervisors should be bound by a strict confidentiality regime, applicable to all forms of communication.

With respect to meetings between group entities and relevant supervisors, it should be made clear that the intention of the Paper is not to suggest that this engagement takes place through supervisory participation in Board meetings, as such a suggestion would not be appropriate.

Q22 General comments on Subsection 3.2 (Objectives and strategies)

Answer

Q23 Comment on Paragraph 20

Answer This paragraph should be expanded to reference the need to guarantee strict confidentiality of the information shared between supervisors.

Q24 Comment on Paragraph 21

Answer

Q25 Comment on Paragraph 22

Answer

Q26 Comment on Paragraph 23

Answer

Q27 Comment on Paragraph 24

Answer Insurance Europe notes that the first sentence of this paragraph appears to put an obligation on insurers/groups to have sufficiently documented and transparent structures to enable effective group-wide supervision. The purpose of a group having sufficiently documented and transparent structures should also be applicable to the management of its business, and this should provide clarity to supervisors. Insurance Europe suggests amending this sentence to clarify that the supervisor should sufficiently document the group structure to reduce the likelihood of gaps or duplication, and enable effective supervision.

This observation is based on Insurance Europe's understanding from paragraph 1 of the Application Paper that the Paper aims to provide examples of good practice to supervisors on how supervisory material may be implemented. The third sentence of Paragraph 24 lists a good practice for groups: "It is good practice for groups to document and make publicly available the group structure, updating this information when necessary."

In order to avoid the spread of regulatory requirements over several policies which would significantly decrease legal certainty for all regulated entities, Insurance Europe would recommend deleting reference to such explicit practices and instead making reference to the relevant ICPs. A good example in the draft application paper would be paragraph 39 where direct reference is made to ICP 7.1.

Insurance Europe also notes that it would not be appropriate to make detailed structure information available.

Q28 Comment on Paragraph 25

Answer

As per the comments provided in the beginning (Qs 3 and 5), the requirements for approval or reporting of restructuring or ownership changes within groups should be the subject of clear regulatory requirements, and not take the form of supervisory practices within supervisory colleges. The recommendations to approve actions or change owners do not reflect best practices everywhere. Potential thresholds should not be established in colleges in the form of supervisory practices that may vary from group to group, but should be set within an applicable regulatory framework (in the relevant jurisdiction) that provides sufficient legal certainty for the groups. Certainty of legal requirements is crucial, in order to plan any proposed changes to the group in the light of established regulatory frameworks, rather than less formal discussions between supervisors.

Q29 Comment on Paragraph 26

Answer

Q30 Comment on Paragraph 27

Answer

Insurance Europe does not agree with the broad assertion in this paragraph that the Board should have responsibility for establishing group-level objectives and strategies. It is up to Senior Management to devise specific strategies and objectives which may be reviewed by the Board. The wording of paragraph 27 should therefore allow for more flexibility.

Q31 Comment on Paragraph 28

Answer

Q32 Comment on Paragraph 29

Answer

Q33 Comment on Paragraph 30

Answer

Insurance Europe would respectfully suggest that the recommendation in the draft application paper that supervisors should determine the appropriateness and sustainability of the group's objectives and strategies and risks related may be too ambitious. Insurance Europe would agree that consistency between strategy and business plan (and risk appetite identified) is required (as also clarified in paragraph 32), however, it should remain a commercial decision what objectives a group sets for itself within its overarching business strategy. Whereas it may be appropriate for supervisors to review an insurance group's strategies and objectives as they relate to various risk factors such as liquidity, reserves and capital levels, it should be left to the company to set general business objectives and strategies.

The first sentence of this paragraph should also be reworded to clarify the proposed roles of the group-wider supervisor, the involved supervisor(s), the insurance legal entities, and of the head of the group, in the preparation and review of these statements.

Q34 Comment on Paragraph 31

Answer

Q35 General comments on Subsection 3.3 (Allocation of oversight and management responsibilities)

Answer

Q36 Comment on Paragraph 32

Answer To enhance the application paper's clarity and practical value with regard to the notion of group interest, it would be recommendable to include a provision specifically addressing the notion. Consequently, paragraph 32 could be amended by adding the following sentence:

"[...] The group-wide supervisor should understand processes and controls that the group has in place to identify and address potential intragroup conflicts of interest, such as those arising from intragroup transactions, in appropriate recognition of the interest of the group."

Please refer to comments on para. 33.

Q37 Comment on Paragraph 33

Answer In paragraph 33, "balancing the needs and interests of the group as a whole with those of insurance legal entities within the group" is recognised as one of the two key challenges in setting group objectives and strategies. In practice, directors of subsidiaries can, and should be allowed to, reasonably take the parent's interest into account without violating their fiduciary duties toward their subsidiary. Given this, it would be useful for this paragraph to include more concrete guidance and notion of "group interest". Paragraph 33 could be amended by adding the following sentence:

"[...] The group-wide supervisor should understand a group's corporate governance framework and the extent to which this includes appropriate processes and controls to identify and address potential intragroup conflicts of interest, such as those arising from intragroup transactions. This should be done with appropriate recognition of the interest of the group."

In addition to the enhanced flexibility for group management, especially on a cross-border basis, recognising the importance of group interest in the parent-subsidiary context would support the implementation of group-wide strategic planning, operational efficiency, and corporate decision-making processes. It would help multinational groups to deal with potentially divergent views between the group and its subsidiaries more effectively and enhance the alignment of decisions in order to secure strategic consistency and execution (eg, global capital and liquidity management).

Q38 Comment on Paragraph 34

Answer This paragraph states that the group-wide and other supervisor should review objectives and strategies in place at group and at insurance legal entity level to assess whether these are implemented across the group. It is not clear why this step is necessary or why it would be appropriate for the supervisor to intervene in this way, especially in cases where the local entity complies with its regulatory requirements. This applies particularly for a centralised group where it is clear that strategy and objectives would be set at group level.

Q39 Comment on Paragraph 35

Answer As per previous comments, the suggested good practice for supervisors to require reporting, eg when the group introduces a significant change to its objectives and strategies, should be based on a stronger legal basis than solely supervisory practice. Insurance Europe believes that the requirements in existing regulatory frameworks offer sufficient formalised tools (eg the group solvency and financial condition report in Solvency II) to group supervisors to maintain a clear and timely picture of the group's objectives and strategies. Any sharing of information between supervisors must be subject to confidentiality requirements.

Insurance Europe would further like to reiterate that it is important to avoid increasing and overlapping reporting constraints.

Q40 Comment on Paragraph 36

Answer

Q41 Comment on Paragraph 37

Answer	
	Q42 Comment on Paragraph 38
Answer	This paragraph should recognise that any information sharing must be done in accordance with confidentiality agreements/rules (as acknowledged in paragraph 53).
	Q43 Comment on Paragraph 39
Answer	
	Q44 Comment on Paragraph 40
Answer	
	Q45 Comment on Paragraph 41
Answer	Insurance Europe would like to clarify that the assessment of the appropriateness and effectiveness of delegations of authority should be limited to the extent that there will be no unnecessary interference with the group's chosen structure – for example in the sense of centralisation and decentralisation.
	Q46 Comment on Paragraph 42
Answer	
	Q47 General comments on Subsection 3.4 (Policies and processes)
Answer	
	Q48 Comment on Paragraph 43
Answer	
	Q49 Comment on Paragraph 44
Answer	Whereas Insurance Europe agrees that full sight and understanding of the decision-making process within the group is a good practice for supervisors, information exchange across borders and further outside of the group-wide supervisor's jurisdiction always need to be subject to strict confidentiality agreements.
	Q50 Comment on Paragraph 45
Answer	
	Q51 Comment on Paragraph 46
Answer	<p>Insurance Europe agrees that cross-representation within decision-making bodies of the group can mitigate the risk of conflicts of interest and has a positive effect on the proper functioning of the group, which is beneficial to supervisors. Although it may create additional risks in some cases, independent board representation at the group level should be recognised and given credit as providing a vital link between the two.</p> <p>Cross-representation brings the group perspective into the legal entity Board discussions and the legal entity perspective into the group Board. This is particularly the case where the representative is a non-executive director, to give a broader perspective on group vs legal entity issues than that provided by executive directors.</p> <p>Cross-representation should therefore not trigger supervisory action per se but should be subject to monitoring and potential further evaluation as a good supervisory practice. Sufficient balance at the level of the legal entity Board, combined with the presence of</p>

independent directors, helps to limit conflicts, and insurers have policies and procedures in place to manage any conflicts, which should be taken into account when assessing the composition of the Board.

Q52 Comment on Paragraph 47

Answer

Insurance Europe believes that this paragraph is too granular and onerous in its scope and tone, particularly for the purpose of an application paper. It does not reflect current practice, and is therefore setting a new standard for both the group and legal entity Boards – something which the IAIS explicitly states in paragraph 1 that the application paper does not aim to do.

Insurance Europe considers that the purpose of board minutes is to create a corporate record. If minutes are routinely shared outside the organisation, ie with the group-wide supervisor and other involved superiors, there is a risk that they become less useful to corporate governance than they may otherwise be. Furthermore, for the group-wide supervisor to review board minutes of legal entities would be both onerous and counter-productive. A more efficient option would be for the group-wide supervisor to receive the board agendas – the group-wide supervisor can therefore see what the board is discussing and may prompt it to seek more information.

Furthermore, Insurance Europe would suggest reflecting in paragraph 47 the fact that local requirements relating to the role of independent Board members may vary across jurisdictions.

Additional examples of good practice to those highlighted in paragraph 47 could further be noted, namely insurers keeping registers of conflicts, and directors recusing themselves from discussions.

It should also be noted in relation to paragraphs 46 and 47: • The parent entity in a listed group has ultimate accountability to shareholders and is subject to listing rules and requirements. • Accordingly, policies and strategy are typically set at group level, with subsidiary entities required to comply/follow, in order that the listed parent can maintain that external accountability. • Policy and strategy set at group level do not overrule fiduciary duties that a subsidiary Board has or regulatory duties that a director has. • Group policy and strategy does, however, guide the subsidiary Board as to what the wishes of the subsidiary Board's shareholders (the parent company) are, assisting the subsidiary Board in their duty to act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members/member.

Q53 Comment on Paragraph 48

Answer

Insurance Europe concurs with the expectation that Board members would assess their roles outside of the group. Insurers often hold external position registers for their Board members and monitor time commitments.

Q54 Comment on Paragraph 49

Answer

This paragraph seems to suggest there is an explicit conflict of interest policy. However, the substance of a conflict of interest policy may be covered in other documents such as a code of conduct; the application paper should not be introducing a new requirement for a conflict of interest policy.

Q55 Comment on Paragraph 50

Answer

This paragraph appears to be introducing a new requirement as to specific policies insurers/groups should have. Insurance Europe does not believe that it should be a requirement to have multiple sets of the same policies at the group and entity levels. The language should therefore be amended to allow for greater flexibility. The following revisions are suggested:

"Notably, policies should address the risk appetite framework, asset-liability management, investment, and underwriting risk."

Q56 Comment on Paragraph 51

Answer

In the last sentence of this paragraph, Insurance Europe would appreciate the word “risk” added so that the sentence reads: “create a common risk culture across the group and ...”

Q57 Comment on Paragraph 52

Answer

Please refer to response provided on paragraph 53 (Q58). Overall, Insurance Europe would recommend this paragraph being deleted.

Q58 Comment on Paragraph 53

Answer

Insurance Europe agrees that the onus to coordinate and exchange internal group policies should be between the supervisors involved. This is in line with the overall objective of the application paper to avoid duplication of work for both supervisors and supervised entities. In that sense, the results from the GWG survey may not represent relevant findings for the issue at hand.

Insurance Europe welcomes the acknowledgement given in this paragraph to the need for information sharing to take place within the bounds of the confidentiality rules of the jurisdiction concerned.

Q59 Comment on Paragraph 54

Answer

As mentioned above, there should be a legal basis for the requirement for the head of the group to review policies regularly, and such general obligations should not be introduced in the form of good practices. In that sense, Insurance Europe considers the wording “the group-wide supervisor could also consider requiring...” misleading.

Insurance Europe, hence, suggests the following amendments:

“The group-wide supervisor may also consider reviewing whether there was a sufficient process in place at the group level to regularly review the policies of each insurance legal entity within the group [...] The supervisor would then verify that the review is planned [...] and that Senior Management has had access to the findings of the review...”

Q60 Comment on Paragraph 55

Answer

Not all Boards are required to, or need to, formally approve all policies. Without changes, the wording would impose burdensome requirements on all entity Boards. Insurance Europe would therefore urge the following edits be made to this paragraph:

“It is a good practice for supervisors to understand how group policies are set. [...] To do so, supervisors should look at the process for the adoption of policies. For Board-approved policies, supervisors should look at the minutes of the relevant Board meeting at which policies are discussed or adopted.”

Q61 Comment on Paragraph 56

Answer

Please refer to comment provided on paragraph 54 (Q59).

Q62 Comment on Paragraph 57

Answer

This paragraph indicates that “Policies should set out the triggers that result in an update...” This seems overly prescriptive. Instead, it should be sufficient to say that:

- “supervisors should assess whether the group policies are regularly updated to adapt to the group’s business environment (Paragraph 56); and
- the policies should set out the processes and procedures that govern the updating (as stated further along in Para 57).”

Q63 Comment on Paragraph 58

Answer

In Insurance Europe's view, the recommendation in paragraph 58 is too stringent and not necessary.

While Insurance Europe agrees that local issues, context, and environment should find appropriate reflection in the insurance legal entities' policies, the draft application paper's recommendation to assess that local policies are not a simple repetition of the group policy should be refined further. It should not create supervisory issues for a group to have policies that are as consistent as possible while adapting to local requirements.

Q64 Comment on Paragraph 59

Answer

Please refer to comment provided on paragraph 60 (Q64).

Q65 Comment on Paragraph 60

Answer

In the interest of avoiding duplication of work for the group-wide supervisor and the involved supervisors, the IAIS may consider clarifying how the responsibilities set out in paragraphs 59 and 60 would overlap and could be managed.

Q66 Comment on Paragraph 61

Answer

Q67 Comment on Paragraph 62

Answer

A group-wide supervisor may not have the expertise to understand the operation of such processes in each of the legal entities based on local laws and regulations. Insurance Europe believes that the assessments considered in points 1) and 2) would be better achieved at the Supervisory College level.

Further, in relation to point 2), 'group policies implement effective reporting lines between local entities and the head of the group', it should be recognised that the reporting lines may be detailed in other corporate records, eg governance maps. Therefore, rather than introducing a requirement that insurers/groups produce policies that set out reporting lines, 2) should instead provide that the supervisor considers the group's documented reporting lines.

Q68 Comment on Paragraph 63

Answer

Insurance Europe does not agree with the new requirement introduced in this paragraph that the group-wide supervisor should be involved in the appointment of a director to the Board of a legal entity. Supervisory oversight of this is for the legal entity's supervisor, and it is unclear what value the group-wide supervisor would add.

The statement under the first bullet point should be amended to be gender-neutral, i.e. "nominates one of their Board members".

This paragraph should also refer to processes as well as to policies, for example:

- First bullet – "Group and insurance legal entities' policies or processes should state the group's role..."
- Second bullet – last sentence – "Regardless, supervisors . . . are in compliance with suitability policies or processes."

Q69 Comment on Paragraph 64

Answer Insurance Europe agrees that the described check lists to be established and used by supervisors internally could be useful and efficient tools to ensure supervisory convergence. However, in the interest of transparency and legal certainty, Insurance Europe believes that supervisors should make their expectations on content of the policies known to the group in advance.

Q70 Comment on Paragraph 65

Answer Insurance Europe generally agrees with the recommendations to review conflict of interest policies, specifically on the treatment of intragroup transactions. However, assuming that the IAIS is referring to external auditors, Insurance Europe strongly objects to the introduction of a direct regular reporting requirement for external auditors to supervisors in the form of good practices. Insurance Europe appreciates that supervisors already have access to appropriate tools; for example supervisors often have the ability to enquire information on an ad-hoc basis provided by provisions in local legislations, and can have access to information in the context of on-site inspections.

Additionally, any practice regarding the supervision of intra-group transactions needs to account for adequate proportionality, particularly in light of other reporting mechanisms with respect to intra-group transactions.

Q71 Comment on Paragraph 66

Answer Greater specificity should be attached to the culture that supervisors are trying to assess. As such, Insurance Europe believes the word “risk” should be added wherever “culture” is referenced.

The sentences would therefore read as follows:

“Group-wide supervisors should assess whether the policies and process of the group foster a common risk culture.”

Also, the following sentence:

“For example, a risk management policy at the group level setting the risk appetite limit or a common compensation policy may help to create a group risk culture.”

Q72 Comment on Paragraph 67

Answer The second sentence introduces a new requirement on insurers/groups as to the content of policies. It should be noted that delegated accountabilities may be recorded in another manner, ie not necessarily in group policies, so the point should not be that the group policies include this information, rather that the supervisor should consider the arrangements in place to gain comfort that accountability is clearly documented.

The third sentence introduces a new requirement as to the responsibilities of the compliance function, which Insurance Europe suggests removing. Insurance Europe would like to highlight that internal controls, ensuring that policies are observed, are not necessarily in the scope of the compliance function but could also be overseen by other key functions. How oversight of internal policies is arranged will be a matter determined by the insurer as part of its governance arrangements, and not something that the supervisor need specify. Rather the supervisor should consider the arrangements in place to gain comfort that there are appropriate arrangements for policy oversight in place.

Similarly, the last sentence refers to compliance functions verifying the insurance legal entities’ established policies in accordance with local regulation and the group’s policies. Insurance Europe requires further clarifications on this provision. Specifically, if the policy is one of regulatory nature this is a fair recommendation. However, many policies are business-centric, and are owned by the corresponding business unit, and the compliance function may not have the expertise to determine whether the policy is compliant with local regulation. It is the supervisor’s role to understand the effectiveness of policy compliance, not to specify who within an insurance group should undertake this.

Q73 Comment on Paragraph 68

Answer	<p>As with Q72 above, who oversees compliance with internal policies is a matter for the insurer and not the supervisor.</p> <p>Insurance Europe would suggest deleting the first bullet point, and editing the second as follows: “review the group internal audit plan and internal audit reports to check for issues ...”</p> <p>The third bullet point should be qualified to refer to ‘relevant group internal policies’.</p>
	Q74 Comment on Paragraph 69
Answer	
	Q75 General comments on Subsection 3.5 (Risk management)
Answer	
	Q76 Comment on Paragraph 70
Answer	<p>Insurance Europe has concerns about the broad use of the term “independent” in this paragraph. It should be ensured that insurance groups and firms have the flexibility to utilise a variety of tools to support the independence and authority of Key Persons in Control Functions and not be required to adopt particular structures.</p>
	Q77 Comment on Paragraph 71
Answer	
	Q78 Comment on Paragraph 72
Answer	
	Q79 Comment on Paragraph 73
Answer	<p>Whereas Insurance Europe has no strong objections to the content of the list of examples for “effective communication and information”, these again seem to represent obligations for insurers rather than good practices for supervisors. Insurance Europe would recommend references to the relevant ICPs/ComFrame provisions instead.</p>
	Q80 Comment on Paragraph 74
Answer	
	Q81 Comment on Paragraph 75
Answer	
	Q82 Comment on Paragraph 76
Answer	<p>This paragraph suggests that the supervisor should have a role in determining the appropriateness of a group’s risk appetite limit. While the group’s risk appetite policy and risk appetite level is something that is widely shared with regulators and a company may be questioned and challenged on its risk appetite, Insurance Europe does not believe that it is the role of the supervisor to determine the appropriateness of the group’s risk appetite.</p>
	Q83 Comment on Paragraph 77

Answer	Insurance Europe would urge that an element of materiality be added into this paragraph, particularly as it relates to the last sentence. Further, Insurance Europe recommends reconsidering the good practice set out in the second sentence, as the wording currently suggests an endorsement of dashboards above other communication tools, which in Insurance Europe's view is unwarranted.
	Q84 Comment on Paragraph 78
Answer	
	Q85 Comment on Paragraph 79
Answer	
	Q86 Comment on Paragraph 80
Answer	This paragraph introduces a new onerous requirement, that the insurer/group should provide the group-wide supervisor with access to group and legal entity internal audit reports. Insurance Europe reiterates the point made by the IAIS in paragraph 1 that the application paper should not be introducing new requirements.
	Q87 Comment on Paragraph 81
Answer	
	Q88 Comment on Paragraph 82
Answer	Insurance Europe disagrees that time or resources devoted to risk management decisions are determinative indicators for the assessment of the soundness of the ultimate decisions made or the overall risk management framework of the group. Such assumptions would be too general, emphasising form over substance of the risk management within the group.
	Q89 General comments on Subsection 3.6 (Compliance)
Answer	
	Q90 Comment on Paragraph 83
Answer	This paragraph should recognise that any information sharing must be done in accordance with confidentiality agreements/rules.
	Q91 Comment on Paragraph 84
Answer	
	Q92 Comment on Paragraph 85
Answer	
	Q93 Comment on Paragraph 86
Answer	In relation to risk aggregation and potential horizontal peer reviews on several aspects thereof, Insurance Europe would like to stress that differences in regulatory regimes – both quantitative and qualitative – should be recognised appropriately. Insurance Europe would urge that supervisors not aim to achieve universal comparability in that regard via peer reviews.

Q94 Comment on Paragraph 87

Answer

Insurance Europe proposes amending this paragraph in relation to the example of heatmaps. Heatmaps may be used in a variety of contexts and groups may decide to focus on other efficient tools for their risk aggregation. Going even further in the example, the last half sentence (“failure to do so is a red flag for substandard risk management”) seems to be an arbitrary, highly subjective judgement that may not be correct in all cases. This is a particularly strongly worded clause, and should be deleted or amended.

Q95 Comment on Paragraph 88

Answer

Insurance Europe believes that the general recommendation to assess whether risks are analysed at group level as well as at insurance legal entity level may not account for the diversity of group structures that exist in practice. Insurance Europe would suggest that this formal check per se does not provide sufficient substance for any conclusions on the soundness of the risk analysis and management within the group in general.

Q96 Comment on Paragraph 89

Answer

Q97 Comment on Paragraph 90

Answer

Q98 Comment on Paragraph 91

Answer

Q99 Comment on Paragraph 92

Answer

Q100 Comment on Paragraph 93

Answer

The obligations set out in paragraph 93, in relation to the group compliance function, belong to the governance framework for insurers/groups rather than to an application paper on supervisory good practice.

Additionally, the wording used in the last sentence of this paragraph (“If the involved supervisor is uncomfortable with the group compliance function...”) does not accurately reflect the fact that there must be concrete grounds why a supervisor doubts the ability of the compliance function chosen by the Board. The supervisor should have to show some evidence of the poor understanding, or that there is a lack of processes and procedures to ensure sufficient expertise on the part of the group compliance function.

Q101 Comment on Paragraph 94

Answer

This paragraph introduces a new requirement for insurers/groups, which is not in the spirit of paragraph 1 of the draft application paper.

Furthermore, this new requirement of putting “sufficient emphasis” on compliance is too subjective, and the consequences of non-compliance with it – ie meetings to discuss relevant issues – is also unnecessarily vague.

Q102 General comments on Subsection 3.7 (Control Functions)

Answer

Q103 Comment on Paragraph 95

Answer The third bullet requires group representation on entity based risk committees. Again, it seems the draft application paper is attempting to introduce a new requirement, and is unduly excessive, particularly for a decentralised group. Committee membership is not the only way that assurance can be gained that there is alignment of group wide risk management and compliance. The focus should be on understanding how this can be achieved, rather than specifying an approach.

Q104 Comment on Paragraph 96

Answer

Q105 Comment on Paragraph 97

Answer

Q106 Comment on Paragraph 98

Answer

Q107 Comment on Paragraph 99

Answer

Q108 Comment on Paragraph 100

Answer

Q109 Comment on Paragraph 101

Answer

Similar to the comments provided on paragraph 88 (Q82) regarding risk management, Insurance Europe doubts that resources (especially in the pure sense of numbers, roles, and expertise of personnel) provide any determinative indication – neither on a stand-alone basis, nor when compared via peer reviews – on the effectiveness of the governance control functions. This is also a very intrusive way of assessing the control function.

Q110 Comment on Paragraph 102

Answer

It is unclear whether the intention of the last sentence in paragraph 102 is to recommend that supervisors assess whether external auditors are sufficiently qualified to perform their responsibilities. If that is the case, Insurance Europe would suggest that this be reconsidered as, in the majority of cases, external auditors will be required to comply with the local professional standards and regulatory requirements. Additional responsibilities for the insurance supervisors would therefore neither be efficient nor necessary.

The sentence “an objective external reviewer should conduct such an assessment as to the internal audit function” should further be deleted as, in Insurance Europe’s view, the internal audit function should conduct this assessment.

Q111 Comment on Paragraph 103

Answer

Although the aim of the application paper is to provide examples of good supervisory practice, this paragraph is impliedly setting out very granular requirements for insurers/groups – ie regular periodic meetings between group and entity-level control functions. Insurance Europe would strongly suggest that this be reconsidered.

Q112 Comment on Paragraph 104

Answer

Q113 Comment on Paragraph 105

Answer

Although the aim of the application paper is to provide examples of good supervisory practice, this paragraph is impliedly setting out very granular requirements for insurers/groups, ie requirements for reporting to involved supervisors. Insurance Europe would strongly suggest that this be reconsidered.

Q114 Comment on Paragraph 106

Answer

While there can be merit for decentralised groups having a forum to share best practices on a range of operational, strategic, and emerging topics, this should be a matter for the insurer to determine and the supervisor to gain comfort over the arrangements put in place. Insurance Europe does not agree that such a forum should be at the forefront of the design and development of recovery plans for the group, or assess their effectiveness. Recovery planning is likely to be a centralised group discipline given its forward-looking focus, which will necessarily differ from the sharing of best practices in an operational context. It will be for the insurance group to determine its arrangements not for the supervisor to specify.

Q115 Comment on Paragraph 107

Answer

Q116 Comment on Paragraph 108

Answer

Q117 Comment on Paragraph 109

Answer

Q118 Comment on Paragraph 110

Answer

Q119 Comment on Paragraph 111

Answer

In reference to ICP 8, Insurance Europe suggests reconsidering the recommendation to dedicate more supervisory attention to outsourced control functions than to control functions that do not rely on outsourcing.

Where permitted by local regulations, groups may decide to outsource control functions for a variety of reasons and will still be required to comply with standard regulatory requirements on outsourcing. These generally aim to maintain the ultimate responsibility with the outsourcee. The wording “rely on outsourcing”, however, seems to imply that the group is able and intending to transfer all responsibility and would therefore create risk that required additional supervisory attention. Instead, Insurance Europe would encourage supervisors to assess and rely on the oversight and internal control processes of the insurer in monitoring outsourcing arrangements.

There are existing mechanisms ensuring that regulators are informed of outsourcing arrangements but it should not be stipulated that supervisors have a role in approving outsourcing arrangements. The third sentence of this paragraph – which to Insurance Europe’s understanding exceeds the scope of the related provisions in the ICPs – should therefore be deleted or modified.

Q120 Comment on Paragraph 112

Answer