

Date: 03/23/21

*Conference Call*

**INTERNATIONAL INSURANCE RELATIONS (G) COMMITTEE**  
**Thursday, March 25, 2021**  
**3:00 p.m. Eastern**

**ROLL CALL**

Gary Anderson, Chair	Massachusetts	Kathleen A. Birrane	Maryland
Bruce R. Range, Vice Chair	Nebraska	Anita G. Fox	Michigan
Evan G. Daniels	Arizona	Chlora Lindley-Myers	Missouri
Andrew N. Mais	Connecticut	Marlene Caride	New Jersey
Karima M. Woods	District of Columbia	Andrew R. Stolfi	Oregon
David Altmaier	Florida	Jessica K. Altman	Pennsylvania
Doug Ommen	Iowa	Raymond G. Farmer	South Carolina
James J. Donelon	Louisiana		

NAIC Support Staff: Ryan Workman/Nikhail Nigam

**AGENDA**

1. Discuss NAIC Comments on the IAIS Draft Application Paper on Supervision of Control Functions—*Commissioner Anderson (MA)* Attachment A
2. Adjournment

**IAIS Draft Application Paper on the Supervision of Control Functions – NAIC Draft Comments**

Section/Paragraph	Comment
1	Typo: The work performed by controls functions...
10	At the end of the paragraph, it is not clear what “need” is being referred to – to add to the checks and balances and provide assurances to the Board or to have the control functions covered in ICP 8? Suggest clarifying.
11	For clarification and consistency: Regardless of the <u>organisational</u> model adopted...
13	Should use a comma rather than semicolon: There was a consistent view among survey participants that actuaries developing products and setting prices; and actuaries assessing the adequacy of technical provisions for those products, should be independent from each other.
21	This paragraph does not really address independence and could provide a better introduction to points covered by the rest of the section (similar to what para 35 does); suggest: The central role of control functions <u>and their level of independence</u> may be adversely impacted depending how these functions are considered, established, and positioned in the reporting structure within the insurer. <u>Additionally, remuneration practices and processes for dealing with conflicts of interest may affect the independence of control functions.</u> In this regard, the supervisor should assess how well an insurer’s <u>control</u> functions align with good practices and are compliant with governance requirements.
25	Suggest revising the start of the paragraph to better reflect that the bullets are examples and not the only indicators: <u>There may be a variety of signs that the independence of an insurer’s control functions may be compromised, such as include the following indicators:</u> Last bullet, it may not be clear what “weak status” refers to – lacking independence or weak stature or both? Suggest using terminology used elsewhere in the paper may make this clearer.
28	It is not clear what or whose “independence criteria” is being referred to; suggest: Another challenging situation for <del>meeting the</del> <u>with</u> independence <del>criteria</del> could be created
41	Typo: most supervisors responded that they use a combination <u>of</u> methods
42	Second bullet, should “control function” be plural? Or both: “Periodic review of the control function(s)...”
58	Suggest revising the start of the paragraph to better reflect that the bullets are examples and not the only indicators: <u>There may be a variety of</u> <del>The following could be</del> indicators of problems related to effectiveness of the internal audit function, <u>such as:</u>

61	As paragraph 62 describes what the supervisor should consider and what the insurer should demonstrate, it is not really describing what would be exceptional circumstances, so suggest deleting “as described below”. Plus, as the text of the two paragraphs logically flow together, there is not a need to direct the reader.
62	Typo: ...assessing whether combination of the internal <u>audit</u> function with second line of defence control function...
67	Suggest revising the start of the paragraph to better reflect that the bullets are examples and not the only methods: Supervisors that use the work of the internal audit function use <u>a variety of the following</u> methods to assess the effectiveness of the internal audit function overall and specifically its ability to provide appropriate assurance on the work performed by other control functions, <u>such as:</u>
68	Typo: A decision about a-combining control functions... If the last sentence is illustrating proportionality, should it read: whereas in the case of smaller and less complex insurers, it may be appropriate for <u>more than</u> one function to be carried out by a single person or organisational unit.
78	Last bullet, it seems this is referring to things the insurer would put in place, not the supervisor. If so, using “regulations” may not be the correct wording, but rather something like “policies and processes”.
82	Second bullet, the rest of the paper does not refer to prudential and conduct supervision, plus some supervisors supervise both. This seems more of an offhand comment and could be deleted: The assessment of the effectiveness of the outsourced control functions, <del>which is one of the main challenges for both prudential and conduct of business supervisors;</del> and Third bullet, suggest clarifying whether this is intended to mean outsourced to third parties in other jurisdictions or outsourced to another legal entity within a group in another jurisdiction. Or both?
86	Typo: Supervisors address these challenges in various ways, including by
88	Suggest revising the last sentence to better reflect that the bullets are examples and not the only ways: Group-wide supervisors may address these challenges in <del>the following ways</del> <u>various ways, including by:</u>
89	Typo: ...or the insurance legal entity’s <del>level</del> control functions...
91	Suggest revising the last sentence to better reflect that the bullets are examples and not the only ways: These challenges can be addressed in <del>the following ways</del> <u>various ways, including by:</u>
93	Suggest revising the start of the paragraph to better reflect that the bullets are examples and not the only actions: Supervisors may take <del>the following</del> <u>various</u> actions to address challenges created by outsourcing of control functions within the group, <u>such as:</u> The first bullet is a bit confusing; suggest considering more straightforward wording. Third bullet, suggest “a combination” rather than “accumulation”. Fourth bullet, it is not clear which Key Person and which legal entity “this” is referring to; suggest clarifying.

	Fifth bullet, for clarification: In case of outsourcing of a group-wide control function to an insurance legal entity, assess whether the team assigned <del>to the</del> <u>within that</u> insurance legal entity is performing adequately the coordination tasks belonging to a <u>that</u> group-wide control function;
--	---

DRAFT