

IAIS revisions to the IAIS Glossary, Introduction to ICPs and ICP 7 and ComFrame Assessment Methodology - NAIC Approved Comments

Aug. 13, 2019

Section/Paragraph	Comment
Stress Testing	As new material related to the holistic framework includes using stress testing as a way to assess liquidity, the current draft definition of stress testing may be read to cover only solvency rather than liquidity as well, so that there is no real definition for liquidity testing purposes. Suggest ensuring the definition is broad enough to encompass both by deleting “solvency”: “A method of solvency assessment that measures the financial impact of stressing one or more factors which could severely affect the insurer.”
Para 57, CF Assessment Methodology	For consistency, suggest changing the last sentence to read: “...observance of ComFrame <u>Standards requirements</u> .”
Para 61, CF Assessment Methodology	For clarity, suggest adding: “...to share results <u>of an assessment</u> within the supervisory college...”
Para 62, CF Assessment Methodology	For better readability, suggest adding a comma after “information”: “While legislation provides the authority to coordinate and exchange information, the supervisor...”
7.1.3	Standards and guidance in other ICPs and ComFrame that address conflicts of interest use wording like address, manage, mitigate, avoid, etc., in recognition that in some cases it may not be possible to have <i>no</i> conflicts of interest. Suggest revising the new text to be consistent with other material on conflicts of interest: “...the group should have in place appropriate measures so that there is no <u>conflicts</u> of interest between the different roles to be performed by such individuals <u>are avoided or mitigated</u> .”

IAIS draft revised ICP 22 (Anti-Money Laundering and Combating the Financing of Terrorism) - NAIC Approved Comments

Section/Paragraph	Comment
General	In changing terminology from FT to TF, we assume this is for the purpose of being consistent with FATF terminology but is not intended to change the scope of the concept itself. Suggest doing a review to ensure commas and other punctuation are consistent (e.g., use of oxford comma in a series).
22.0.1	Insert missing period at the end of the first sentence.
22.0.5	It’s not clear whether the first sentence is intended to reflect action that has been taken at the FATF or reflect the nature of the relationship between the IAIS and the FATF. If it is the former, this wording seems appropriate. However, if it is the latter, as the IAIS is also an observer member of other international organizations, the wording used should either 1) reflect established policies for external relationships as “has endorsed” suggests that the IAIS as an organization has taken some type of (formal) action on the FATF Recommendations; or 2) use more general wording that reflects support for other standard setters work. Suggest revising the first and second sentences to read: “As the IAIS is a FATF Observer

	Organization and is supportive of FATF’s work, this ICP is intended to be consistent with FATF Recommendations. However, compliance with the FATF Recommendations does not necessarily imply observance of ICP 22 nor does observance of ICP 22 necessarily imply compliance with the FATF Recommendations.”
22.0.11	Given the wording of the third bullet of Standard 22.1, suggest revising first sentence to read: “Part A describes how the RBA is applied by supervisors, insurers and intermediaries consistent with the FATF Recommendations.”
22.1.5	As the rest of the first sentence is singular, suggest using “its design.” For better readability, suggest moving the second sentence to 22.1.6 (see comment on 22.1.6) For consistency, change period after second bullet to a semi-colon.
22.1.6	Assuming the second sentence of 22.1.5 is moved down, suggest revising first and second sentences to read: “ <u>Product risk also encompasses</u> service and transaction risk, <u>which</u> refers to the vulnerability of a product to <u>third party</u> use by a third party or unintended use based on the methods of transactions available. The following are examples of service and transaction attributes which may tend to increase the <u>ML/TF</u> risk profile:”
22.1.8	For consistency, suggest revising first sentence to read: “The following are examples of geographic attributes which may tend to increase the <u>ML/TF</u> risk profile:”
22.1.13	As both of these should be seen as equally important, suggest revising last sentence to read: “The supervisor should participate in such an assessment to <u>both help</u> inform the assessment and also to improve its understanding of the risks.”
22.3.1	For wording consistency with other ICPs, suggest revising sentence to read: “The supervisor should take <u>into</u> account of the risk of ML/TF at each stage of the supervisory process, where relevant, including the licensing stage.”
22.5.2	As the supervisor may need to cooperate and coordinate with other supervisors beyond relevant MAL/CFT competent authorities to effectively address policy issues, suggest broadening the second bullet to read: “policy cooperation and, where appropriate, coordination across all relevant AML/CFT competent <u>other relevant</u> authorities.”
22.5.5	As the supervisor may need to exchange of information on AML/CFT issues with other authorities than just competent authorities, suggest broadening this read: “The supervisor should consider appointing within its office a contact for AML/CFT issues and to liaise with other <u>relevant</u> AML/CFT competent authorities to promote an efficient exchange of information.”
22.6.3	To help with readability, suggest revising second sentence to read: “Such information may be relevant to the risk profile of, or to the effectiveness of risk management by, an insurer or intermediary.”

IAIS draft supervisory material related to the Holistic Framework for Systemic Risk - NAIC Approved Comments

Section/Paragraph	Comment
General	While we agree that the scope of risk identification and analysis of risk interdependencies in an ORSA process should typically cover liquidity and concentration risks, U.S. state insurance regulators support a non-prescriptive ORSA process that encourages insurers to identify and assess their own material and relevant risks. This encourages insurers to develop their own methodology for determining which risk exposures require assessment and reporting through the ORSA process. We believe this provides the supervisor more opportunities to evaluate the effectiveness of an insurer’s ERM process and

	avoids confusion between the roles of senior management, the Board of Directors and insurance supervisors. While setting out what risks should be covered “at a minimum” may provide consistency across insurers, it is important that this does not lead to more prescription or turn the ORSA into a tick-the-box exercise which in turn diminishes the purpose and effectiveness of the ORSA process itself.
CF 9.2.b.8	Second sentence, remove the extra “s” in “ass” (should be “as”). Given that this idea is already addressed in the second sentence, suggest deleting in the last sentence “or where its distress, disorderly failure, or its contribution to collective activities or exposures, could adversely impact financial stability” as it is superfluous.
CF 16.9a	CF 16.9a states: “The group-wide supervisor requires the Head of the IAIG to assess the IAIG’s resilience against severe but plausible liquidity stresses to determine whether current exposures are within the IAIG’s liquidity risk appetite.” However, most of the guidance provided under this standard focuses on stress testing. In order to help show that there are other tools available to perform the assessment, suggest adding to the guidance under CF 16.9a: “The liquidity assessment should consider results of additional tools such as various liquidity metrics, analysis of cash flow statements, cash flow projections as well as the level of readily available liquid assets.”
16.7.5	The new text in Standard 16.7 addresses “material relationship with macroeconomic conditions”; however, the idea of materiality is not carried through in the related guidance in 16.7.5. Suggest adding: “The underwriting policy should address the potential <u>material</u> impact on the insurer’s financial position from correlations between macroeconomic conditions and the insurance portfolio...”
16.9.2	The “more detailed liquidity risk management processes” in Standard 16.9 is in relation to Standard 16.8 which “requires the insurer’s ERM framework to address liquidity risk and to contain strategies, policies and processes to maintain adequate liquidity”. However, a reader who has not been involved in drafting this work may not easily make the association, so it may be helpful to add something more explicit to make it clear what the “more” is referring to. Suggest adding the following as a new first sentence to Guidance 16.9.2: “Some insurers require more detailed liquidity risk management processes as compared to those processes set out in Standard 16.8.”
20.11.1	Suggest adding some additional text on what qualitative information disclosures should include: “qualitative information on the insurer’s liquidity risk issues and concerns and management strategies, policies, and processes to address those.”
24.0.4	In the last sentence it is not clear what “these” refers to. Based on the previous sentence it seems “these” refers to exposures but then exposures is mentioned in the last sentence which would read in a circular manner. Suggest clarifying.
24.2.4	Given that the first sentence addresses “horizontal reviews to reveal the range of practices among insurers”, it would make more sense for the example to use insurers (plural): “appropriateness of insurers’ assumptions”.
24.2.10	The first sentence is quite long and seems to combine two ideas that could be separated: 1) monitoring liquidity of insurers in general; and 2) analyzing potential asset sales focusing on large insurers. Suggest: “The supervisor should monitor the liquidity of an insurer’s invested assets relative to its insurance liabilities based on their characteristics. <u>Additionally, the supervisor should</u> analyse the potential that a large insurer’s operations could require it, or a sufficiently large number of insurers, to engage in asset sales of a significant size.”