



IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

Public

Resolution of Public Consultation Comments on Draft Application Paper on Supervision of Control Functions

25 January – 26 March 2021

Organisation	Jurisdiction	Confidential	Answer	Resolution of comments
Q1 General comment on the draft Application Paper				
1. Association of Bermuda Insurers and Reinsurers (ABIR)	Bermuda	No	<p>I. Generally, the proposal set out in the draft Application Paper in certain areas, seems to insert the supervisor into roles that would overreach what would be expected in this capacity. In many sections of the Paper, the IAIS appears to suggest the supervisor should take on activities that would typically be the role of the company versus one who oversees/ supervises the company. This is apparent in, for example, the following sections:</p> <ul style="list-style-type: none"> - 4.4.55 - a supervisor may attend Board and Committee meetings in order to assess how Key Persons communicate with and report to the Board; - 5.2.66 - a supervisor may request the internal audit function to perform specific ad-hoc or bespoke reviews with the scope set by the supervisor; - 5.2.68 - a supervisor may (i) assess the suitability of Key Persons in Internal Audit and in some instances the Chair of the Audit Committee, and (ii) conduct on-site assessments of the internal audit function, including regular meetings with internal audit - 6.2.77 - a supervisor may (i) require establishment of a formal reporting process to the Board in event of a conflict of interest following a combination of control and operational functions, and (ii) engage in regular contact with the control function to assess the operating effectiveness of the controls - 7.2.85 - a supervisor may (i) be involved in the selection of 3rd-party service providers, and (ii) have the same access to the provider as the insurer. <p>II. We encourage the IAIS to acknowledge the robust set of laws and regulations that govern IAIGs and companies that are traded on public stock market exchanges. We believe that supervisors have the valuable option of leveraging from the securities exchange filing processes, requirements, and filings. A number of ABIR members are subject to U.S. Securities and Exchange Commission (including Sarbanes Oxley) requirements, which implies the existence of robust internal control systems requirements. In addition, it is critical that the group supervisory mechanisms are relied upon. Insurance groups, which fall into scope for group wide supervision, are already subjected to an additional supervisory layer where the group-wide supervisor is empowered to review the robustness of the holding company's risk management, governance and controls systems.</p> <p>For example, a company that is registered on a U.S. exchange is required to abide</p>	<p>See responses to comments on particular sections of the paper.</p> <p>Noted. The objective of the Application Paper is to support observance with relevant ICPs. If a supervisor decides to implement suggested supervisory practices, it should be done in consideration of, among others, the applicable corporate governance model and in accordance with the laws and regulations of their jurisdiction.</p>

			<p>by laws/regulations imposed by the U.S. Securities and Exchange Commission, including, but not limited to:</p> <ul style="list-style-type: none"> - The requirement for an independent Board of Directors - The requirement for an Audit Committee led by an independent director - The requirement for an Internal Auditor that reports to the Audit Committee - The establishment of a control framework - Retention of an independent auditor to audit and report on the company's financial results and operations, which includes the effectiveness of the company's internal controls. <p>Separately, U.S. affiliate and subsidiary insurance operating companies are subject to a host of jurisdiction-specific regulations that include (but are not limited to):</p> <ul style="list-style-type: none"> - Establishment of an Enterprise Risk Framework - Preparation and submission of an Annual Holding Company Registration Statement - Preparation and submission of an ORSA - Preparation of an Enterprise Risk (Form F) Report and - Preparation of a Corporate Governance Annual Disclosure Statement. <p>It is submitted that there exist a substantive number of laws/regulations and requirements which serve to address much of what the IAIS seeks to authorize a supervisor to do in this Paper.</p>	
2. CRO Forum	Europe	No	<p>The CRO Forum strongly supports a principle-based approach to setting up organisational structures of risk management systems, including control functions, with a clear allocation of responsibilities. Control functions should be set up in a manner that is appropriate and adequate to accomplish the tasks assigned to them. A risk-based focus and proportionality are key, with a clear focus on outcomes, rather than on individual elements only, such as an overly strong and siloed emphasis and on concepts, such as independence, the precise positioning of control functions in organisational structures and a rigid application of models, such as 3-lines model.</p> <p>Some of the guidance in this application paper may raise ambiguity as some wordings could be misinterpreted as to impose stronger constraints. The concrete organizational structure should be determined and be subject to the discretion of the insurer, in particular, with respect to a possible integration and combination of functions.</p>	<p>The content of the paper is based on, and drafted in line with, the relevant ICPs and ComFrame.</p> <p>For example, as stated in ICP 8.2.6, "the Board should ensure there is clear allocation of responsibilities within the insurer, with appropriate segregation, including in respect of the design, documentation, operation, monitoring and testing of internal controls."</p>

			<p>In this sense, collaboration between control functions and of control functions with the business are key factors for effective risk management frameworks and key functions and support the robustness and effectiveness of the Insurance Core Principles and the COM-Frame. The draft Application Paper could be read as advocating for siloed functions and isolation from the business. The CRO Forum believes such a siloed approach may weaken the effectiveness of control functions and risk management systems, rather than reinforcing these. We believe the focus should be primarily on the allocation of responsibilities than on the separation of responsibilities.</p> <p>The draft Application Paper focuses very much on the separation of responsibilities and does not recognise what is an essential element of the 3-lines model, namely that first and second line roles may be blended or separated. Some second line roles may be assigned to specialists to provide complementary expertise, support, monitoring, and act as a challenging counterpoint to those with first line roles. Second line roles may focus on specific objectives of risk management, such as: compliance with laws, regulations, and promoting/assuring acceptable ethical behaviour; internal controls assurance and testing; information and technology security bolstering; sustainability; and quality assurance undertakings, etc.. Alternatively, second line roles may span a broader responsibility for risk management, such as enterprise risk management (ERM). However, responsibility for managing risk remains a part of first line roles and within the scope of management (see https://global.theiia.org/about/about-internal-auditing/Public%20Documents/Three-Lines-Model-Updated.pdf, principle 3).</p> <p>The governing body, management, and internal audit have their distinct responsibilities, but all activities need to be aligned with the objectives of the organization. The basis for successful coherence includes regular and effective coordination, collaboration, and communication.</p> <p>We believe the Application Paper should explicitly embrace the evolved 3-Lines Model, as updated recently by the IIA and focusing more specifically on the contribution risk management makes to achieving objectives and creating value, as well as to matters of "defense" and protecting value, rather than on defense alone, potentially leading to siloed and ineffective and inefficient internal control system.</p>	<p>The need for cooperation and communication has been highlighted in paragraph 13. It is also mentioned in para. 31 and has been added to para. 29.</p> <p>In the IAIS view, a clear allocation and appropriate segregation of control functions' responsibilities also supports effective collaboration between control functions and of control functions with the business.</p> <p>The proportionality principle, referred to in paragraph 5, applies to the content of the Application Paper. Additional language has been added on page 2 and in paragraph 5 to further emphasise the application of the proportionality principle.</p> <p>It is also worth to mention that the Three Lines Model also recognises the importance of independence of control functions, including in financial institutions: "Functions, teams, and even individuals may have responsibilities that include both first and second line roles. However, direction and oversight of second line roles may be designed to <u>secure a degree of independence from those with first line roles</u> — and even from the most senior levels of management — by establishing primary accountability and reporting lines to the governing body. The Three Lines Model allows for as many reporting lines between</p>
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				<p>management and the governing body as required. In some organizations, most notably regulated financial institutions, there is a statutory requirement for such <u>arrangements to ensure sufficient independence.</u>"</p> <p>In order to align the content of the paper with the updated model, the references to "defence" have been removed. In addition, new paragraph 12 has been added to explain clearer the internal control system as described in ICPs.</p> <p>See also response to comment 3.</p>
3. Insurance Europe	Europe	No	<p>Insurance Europe supports a principle-based approach to the organisational structures of control functions, with a clear allocation of responsibilities. It is key that:</p> <ul style="list-style-type: none"> - Control functions are set up in a way that is appropriate and adequate to accomplish the tasks assigned to them. - Supervisors' focus is risk-based and proportionate to the characteristics of each insurer. And their primary focus are on outcomes, rather than individual elements. <p>Furthermore, the paper puts an overly strong and siloed emphasis on concepts, such as independence, the precise positioning of control functions in organisational structures and a rigid application of models, such as the three lines model.</p>	<p>See response to comment 2 and responses to comments on particular sections of the paper.</p> <p>The paper provides a supervisory toolkit aimed at facilitating proactive supervision of corporate governance. Supervisors are encouraged to apply described supervisory practices as needed and relevant.</p> <p>The application of these supervisory practices, it should be done in consideration of the individual situation and characteristics of an insurer as well as specificities of the applicable corporate governance model</p>

			<p>The paper can be improved by focussing clearly on the role of control functions in managing risks. It puts too strong an emphasis on how the design of a corporate governance framework can help insurers to avoid risks, even though it states in the first sentence that "effective control functions [...] help insurers identify and manage risks".</p> <p>The paper focuses very much on the separation of responsibilities and does not recognise an essential element of the three lines model; namely that first and second line roles may be blended or separated (As stated in principle 3 of the updated three lines model (https://global.theiia.org/about/about-internal-auditing/Public%20Documents/Three-Lines-Model-Updated.pdf). Specifically,</p> <ul style="list-style-type: none"> - Some second line roles may be assigned to specialists to provide complementary expertise, support, monitoring and challenge to those with first line roles. - Second line roles can focus on specific objectives of risk management, such as: compliance with laws, regulations and acceptable ethical behaviour; internal control; information and technology security; sustainability; and quality assurance. - Second line roles may span a broader responsibility for risk management, such as enterprise risk management (ERM). <p>Insurance Europe recognises that the governing body, management and internal audit have their distinct responsibilities, but it highlights that all activities need to be aligned with the objectives of the organisation. And to this end, regular and effective coordination, collaboration and communication are essential.</p> <p>The paper should explicitly refer to the evolved three lines model, as updated recently by the Institute of Internal Auditors. As such, and the paper should put clearer focus on the contribution that risk management makes to achieving objectives and creating value. Instead of solely focusing on "defence", potentially leading to siloed and ineffective and inefficient internal control systems, the paper should give attention to both matters of defence and protecting value</p>	<p>and in accordance with the laws and regulations of their jurisdiction.</p> <p>The paper mentions identifying, mitigating and managing risks, but not avoiding them.</p> <p>While there are similarities between the ICP Standards on supervision of internal control system, including control functions, and the Three Lines Model is not required in ICPs. This model is designed to potentially fit different types of organisations, whereas IAIS supervisory material is focused on establishing standards focused on achieving objectives of insurance supervision. This has been clarified in new paragraph 12.</p> <p>See also responses to comments on Section 2, in particular on paragraph 13.</p>
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6. International Actuarial Association	International	No	<p>The IAA believes this AP provides useful insights for supervisors as they assess the work of insurer control functions (e.g., risk management, compliance, actuarial, internal audit) etc.. The AP usefully addresses many of the practical supervisory issues that span the control functions. The IAA understands why the internal audit control function was singled out for emphasis in the AP however, the other control functions received little specific reference. For example, the actuarial function is mentioned briefly 8 times in the paper but 3 of those are simply within a list of the other control functions. The IAA believes that supervisors with little or no actuarial expertise are in need of practical guidance on how to assess the effectiveness of this control function. In our comments to this AP the IAA suggests some specific practices that may be useful. Additional IAA publicly available resources include an IAA Risk Book chapter on the « Actuarial Function ».</p> <p>In general, the IAA notes that it supports a principle-based approach leaving it up to the insurer to set up a risk management system that is appropriate and adequate to accomplish the tasks assigned to the control functions. The IAA observes that some of the guidance in this application paper could be misinterpreted to impose stronger constraints. For example, the IAA believes that the organizational structure of the control functions and the positioning of the Key Persons in Control Functions should generally be at the discretion of the insurer.</p>	See responses to comments 2 and 3 as well as responses to comments on particular sections of the paper.
7. The Geneva Association	International	No	<p>Some jurisdictions, for example those under Solvency II, already have extensive governance requirements over control functions - both at the entity and group levels to avoid undue regulatory burden, the requirements from this application paper should not put an extra layer on these already very substantial governance requirements.</p>	Noted.

			<p>While we agree with the overall intention of the AP (ensuring that control functions are robust), in many instances the paper is not very clear on how supervisory authorities are supposed to translate the principles laid out into actual assessments of an insurance company's control functions. In addition, the application paper might benefit from focusing more on outcomes than on how things should be organized.</p>	<p>See response to comment 3.</p> <p>The outcomes to be achieved are stipulated in IAIS supervisory material (Principle Statements and Standards). It has been clarified in paragraph 2 that the paper supports supervisors in achieving the outcomes stipulated in those ICPs.</p>
8. Institute of International Finance	United States	No	<p>Dear Dr. Saporta and Mr. Dixon:</p> <p>The Institute of International Finance (IIF) and its insurance members are pleased to respond to the IAIS's public consultation on the Draft Application Paper on Supervision of Control Functions (Draft Application Paper). We appreciate the IAIS's work on developing a supervisory framework for control functions and the important role that supervisors play in assessing the effectiveness of an insurer's control functions. We further agree that control functions are a crucial element of risk management and internal control systems that require appropriate levels of independence, stature, and resources.</p> <p>Overarching Comments</p> <p>In light of the different business models and organizational structures among insurers, we appreciate the focus on proportionality and flexibility in the Introduction to the Draft Application Paper. Differences in jurisdictional approaches call for a degree of flexibility in the supervisory framework for effective control functions. In this response, we would like to draw attention to the following considerations:</p> <ul style="list-style-type: none"> - We note statements in the Draft Application Paper where proportionality and flexibility could be better reflected, particularly in the discussion of outsourcing. - In general, we encourage the IAIS to take a more risk-focused approach to the supervision of control functions. A risk-focused approach tailors supervision in a manner that is appropriate to the nature, scale, and complexity of the insurer's operations and risks without undue reliance on size as a proxy for riskiness. 	<p>See responses to comments 2 and 3 as well as responses to comments on particular sections of the paper.</p> <p>The proportionality principle is described in the Introduction and it applies to content of the Application Paper, and has been further highlighted on page 2 of the paper and in paragraph 5.</p> <p>As indicated in the Introduction of the Application Paper, some practical examples of applying proportionality in supervision of control functions are described in this Application Paper, for example in Section 6 (Combination of control functions) and Section 7 (Outsourcing of control functions). See also considerations in subsection 2.2 (Mapping of control functions to the Three Lines Model).</p>

		<p>- We encourage the IAIS to incorporate a more outcomes-based approach throughout the Draft Application Paper. An outcomes-based approach is consistent with the Insurance Core Principles; as noted in Paragraph 5 of the Draft Application Paper, supervisors have the flexibility to tailor their implementation of supervisory requirements and their application of insurance supervision to achieve the outcomes stipulated in the Principle Statements and Standards.</p> <p>- For instance, an outcomes-based approach should be reflected in the discussion on where in the organizational structure the control functions reside (e.g. Paragraph 24 and the first bullet of Paragraph 26). Similarly, an outcomes-based approach should be reflected in the discussion of how supervisors ascertain whether an insurer's control functions are independent or have the appropriate stature (e.g. Paragraphs 19 and 20). We encourage the IAIS to guide supervisors to focus on the outcomes of control function activities, rather than on subjective perceptions of the control function personnel. Focusing on the assertiveness or "strength" of the control function personnel could imply that an adversarial relationship is needed between Key Persons in Control Functions and first line management in order to be effective (see e.g. Paragraphs 26 and 27). In reality, the true test of the effectiveness of the control function is whether the organization is governed and managed in a prudent, sustainable manner that does not give rise to conduct or reputational issues that can undermine organizational integrity. In a well-managed and well-governed organization, the control functions can better support these positive outcomes if they adopt a collaborative and constructive approach in their dealings with first line management.</p> <p>Paragraph 27 also contains statements that could imply that supervisors should assume that first line management will be overly focused on profitability and production without due regard to risks. As the IAIS makes reference to in the Draft Application Paper, the Institute of Internal Auditors (IIA) has updated the Three Lines of Defense, which are now referred to as the Three Lines Model (Three Lines Model). According to the updated Three Lines Model, the first line has the responsibility for managing risk. The second line provides assistance with managing risk, and second line roles can focus on specific objectives of risk management. The third line provides independent and objective assurance and advice on the adequacy and effectiveness of governance and risk management. We would encourage the IAIS to restate and clarify Paragraph 27 using the language of the IIA Model, which reflects the need for the three lines to be properly balanced as part of the prudent governance and management of the organization.</p>	
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			<p>part of management's responsibilities and are never fully independent from management, compared to the IIA's emphasis on independence in the third line internal audit role.</p> <p>We recommend a rephrasing of the description of the third line of defense in Paragraph 12, consistent with the IIA Model, as follows: The third line is the internal audit function, which is responsible for providing independent and objective assurance and advice on the adequacy and effectiveness of governance and risk management.</p> <p>Paragraph 13 provides a good description of the first and second line roles of the actuarial function. It may be useful to cross reference or further elaborate this discussion in Section 6.2, which addresses in more detail the combination of control and operational functions. We would recommend replacing the final sentence of Paragraph 13 with the following: Similarly, as regards pricing, the role of the actuarial function as part of the second line of defense should be limited to reviewing and providing recommendations regarding pricing. There is independence between the underwriting and reserving functions, with individuals on different teams reaching their conclusions independently.</p> <p>Independence of Control Functions</p> <p>We have provided in our Overarching Comments our view that an outcomes-focused approach to observations regarding the independence of control functions is optimal to an approach that focuses on subjective observations regarding the 'strength' of Key Persons in Control Functions or on the placement of control functions in the organizational structure. We note the benefits of providing Key Persons in Control Functions with a 'seat at the table' in the strategic business discussions of first line management. As currently drafted, Paragraph 25 would require supervisors to make highly subjective determinations that would be inconsistent with an outcomes-focused approach. We would propose deleting the third bullet of Paragraph 25 or replacing it with the following:</p> <ul style="list-style-type: none"> - The roles and responsibilities of Key Persons in Control Functions are not clearly defined or potential conflicts of interests involving those persons are not properly identified or managed; 	
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			<p>Similarly, we would propose deleting the last bullet of Paragraph 25, which would also require supervisors to make highly subjective determinations that would be inconsistent with an outcomes-focused approach.</p> <p>In Paragraph 27, an example is given that the responsibilities of the risk management and actuarial functions could overlap as they relate to quantitative risk assessments. We believe that both functions play an important role in these assessments. As such, the focus of this paragraph should be on the need to clearly document and communicate the respective roles and responsibilities of each function when those functions overlap, consistent with Paragraph 62.</p> <p>We propose restating the second sentence of Paragraph 30 to read as follows: Control functions should harmonize their activities to form a coherent system, ensuring that an effective flow of information is in place. Control functions generally are risk-based and, therefore, certain lower-risk aspects of an insurer's operations may not need the explicit and direct attention of the control functions.</p> <p>We question why the independence of control functions can be jeopardized in case of a combination of a control function with Senior Management functions (see Paragraph 31). We would assume that Key Persons in Control Functions are members of Senior Management. The term "operational functions" and "operational business lines" would benefit from a clear definition in the Draft Application Paper and the Glossary.</p> <p>Paragraph 36 and Section 4.3 emphasize the important role of Key Persons in Control Functions in challenging senior management and raising concerns to relevant persons within the organization. This is consistent with the IIA Model's focus on communication, cooperation, and collaboration among the various first, second, and third line roles. As noted in the IIA Model, independence does not imply isolation. We also encourage the IAIS to revise Section 6.2 and, in particular, Paragraphs 74 and 76, to reflect that Key Persons in Control Functions can have an important role in questioning or challenging executive decision making.</p> <p>In Paragraph 33, the IAIS states that it could be good practice to suggest to insurers that the predominant proportion of the remuneration of Key Persons in Control Functions be fixed. However, we would note that an excessive focus on fixed compensation could actually have an adverse impact on the insurer's ability to attract and retain staff with the requisite skills, competencies, knowledge and expertise to discharge control functions effectively. Further, remuneration tied to a</p>	
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			<p>company's performance, particularly remuneration with a deferred or long-term component, can incentivize Key Persons in Control Functions to implement a strong control framework. A strong control function, in turn, maximizes the likelihood of success of the franchise over the long term. More broadly, designing an effective and appropriate remuneration structure involves the consideration of a broad range of institution-specific factors. We encourage the IAIS to emphasize the primary role of the insurer's governing body in determining the appropriate structure (e.g. fixed versus variable) and level of remuneration for various roles in the organization.</p> <p>Stature of Control Functions</p> <p>Paragraph 39 states that, "[g]iven limited resources, some insurers choose to allocate staff with specialized skills first to business operations. This can leave a shortfall of necessary skills and expertise for the control function." We do not believe these statements accurately reflect the control functions in the vast majority of insurers and we propose the deletion of these statements, which may lead to an inaccurate perception of the industry.</p> <p>In Paragraph 42, the fourth bullet refers to suitability assessments. We propose rephrasing the first sub-bullet under that fourth bullet to read, "Supervisors may have a role in reviewing the suitability assessments that are conducted by the insurer or may have further powers for pre-approval of individuals and/or assessments;"</p> <p>While we appreciate the need for sufficient staff in all areas of an insurer's operations, we believe that the emphasis on the size of staff in Paragraph 44 is misplaced. Indeed, too large a staff could lead to a lack of clarity as to roles and responsibilities and a corresponding lack of accountability. A large staff could also lead to a false sense of security as to the quality of the control functions for both the insurer and its supervisor(s). The comments in Paragraph 46 regarding resources being stretched thin when insurers combine responsibilities should be balanced with a reference to the potential efficiencies that can be achieved when responsibilities are combined in an appropriate manner that reflects the nature, scale and complexity of the activities and risks of the organization.</p> <p>We encourage the IAIS to guide supervisors to objective criteria instead of subjective characteristics when assessing the stature of control functions as part of the overall evaluation of control function effectiveness. Objective criteria could</p>	
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			<p>include the resolution of control function concerns and exception reports, as noted in Section 4.3, as well as consideration of the outcomes of the control function activities - that is, do they promote an environment of prudent risk management.</p> <p>With respect to Paragraph 54, we note that the regular attendance of supervisors at board or committee meetings may impede candid discussion. We recommend the revision of this paragraph to refer to occasional supervisory attendance or attendance as needed in those jurisdictions where supervisory attendance at board meetings is an established practice.</p> <p>Internal Audit Function</p> <p>Reporting lines can vary, depending upon the organizational and management structure of the insurer. A principles-based supervisory approach that focuses on the desired outcome (i.e. independence) allows the governing body of the insurer to implement the best structure for the organization consistent with supervisory goals.</p> <p>Internal audit should not be precluded from relying on the work of other control functions. Collaboration among the control functions can facilitate a holistic view of the effectiveness of the overall risk management and compliance posture of the organization and may allow for the better identification of any gaps in risk management or compliance.</p> <p>Paragraph 66 could point out the efficiencies and cost savings that can be realized when supervisors rely on the work of an effective internal audit function.</p> <p>Combination of Control Functions</p> <p>We encourage the IAIS to revise Section 6.2 and, in particular, Paragraphs 74 and 76, to reflect that Key Persons in Control Functions can have an important challenge role in executive decision making, consistent with our comments above. We believe that the IAIS overstates the risks of combining control functions and involving the control functions in executive decision making. We encourage the IAIS to recognize the benefits, synergies and efficiencies, especially at group level, of a more collaborative approach among the three lines, which can lead to a more holistic view of, and approach to, risks across the group and within individual legal entities.</p>	
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			<p>Outsourcing of Control Functions</p> <p>In our view, a key area for greater flexibility and proportionality in the Draft Application Paper is in the discussion of outsourcing and intra-group outsourcing.</p> <p>We recognize that any material outsourcing should be effectively managed by the insurer and, as appropriate, by its control functions. Supervisors should take a principles- and risk-based and proportionate approach when reviewing any material outsourced activity irrespective of the size of the insurer or insurance group. We agree with the statement in Paragraph 14 that the responsibilities of senior management and control functions are not eliminated or diminished when business activities are outsourced. With respect to Paragraphs 14, 15, and 16, we encourage the IAIS to refer specifically to the role that the first line plays in the oversight of outsourced activities, including contracting with and managing vendors and receiving vendor reports. We propose to amend the last two sentences of Paragraph 16 as follows:</p> <p>The insurer is responsible for all of its activities, including those that are outsourced, and its control functions should understand and monitor risks created by outsourcing business activities. Depending on the materiality of outsourced business activities, increased supervisory attention may be warranted for the control functions with responsibilities related to those activities.</p> <p>Moreover, the possible challenges created by outsourcing of control functions described in Paragraph 83 should be characterized as illustrative to avoid an impression that these challenges are commonly encountered in supervision. Outsourcing should not be equated with a loss of control or oversight; if managed properly, outsourcing can be an effective and efficient method of managing and coordinating control functions across a large group with operations across a number of markets and jurisdictions.</p> <p>We encourage the IAIS to advise supervisors to concentrate their supervision of outsourcing of control functions on a review and challenge of management's decisions. Paragraph 84 could be interpreted as suggesting a broader and more direct supervisory role in selecting the outsourcing firm, which generally would not be an appropriate supervisory role.</p> <p>We caution against taking an overly restrictive approach to outsourcing, as it may</p>	
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			<p>present an undue burden to those insurers most in need of third-party outsourcing, namely small insurers with more limited resources. A restrictive approach to outsourcing could, in fact, result in less effective control functions at those organizations.</p> <p>We also point to IOSCO's Principles for Outsourcing, issued for consultation in May 2020. We believe that incorporation of these or similar principles may be a way to call attention to the need for proper control and oversight of outsourcing arrangements in a flexible, risk-focused and proportionate manner. We believe that a broadly similar approach to the supervision of material outsourcing arrangements across the financial services sector is a laudable goal.</p> <p>In particular, Principle 5 of IOSCO's Principles for Outsourcing references material or critical outsourced tasks and reflects a risk-focused and proportional approach that applies heightened oversight in a proportional manner. Similarly, Principle 2 calls for the nature and detail of outsourcing contracts to reflect the materiality or criticality of the outsourced task to the business of the regulated entity. The IAIS may wish to consider greater alignment to the IOSCO approach through a greater emphasis on proportionality in the Application Paper.</p> <p>Group-wide Control Functions</p> <p>We encourage a more proportionate, risk-based, and outcomes-focused approach to the supervision of group-wide control functions in general, and to the supervision of intra-group outsourcing in particular. Overly prescriptive rules can complicate outsourcing arrangements without a commensurate benefit to effective supervision. Intra-group outsourcing can be efficient and effective in implementing control functions across a group and we encourage the IAIS to point out in the Application Paper the positive aspects such as synergies at group level and a holistic approach to risk management and control functions across jurisdictions and business lines.</p> <p>With respect to the discussion of a detailed exit plan in Paragraph 84, having a full exit strategy for intra-group outsourcing may not be proportionate to the risks, or necessary based on the business conducted or the nature of the outsourcing. We propose amending the second sub-bullet under the first full bullet as follows:</p> <p>Before entering into an outsourcing arrangement, request the insurer to provide an appropriate exit plan for an end to the outsourcing. The exit plan should provide for</p>	
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			<p>regular review.</p> <p>We note that a reference to an appropriate exit plan would also align with Principle 7 of IOSCO's Principles for Outsourcing.</p> <p>With respect to proportionality, not all insurance lines of business warrant the same level of control function oversight, and a proper prioritization of the time and attention of the control functions is appropriate. We recommend that the IAIS reflect the need for senior management to prioritize control function resources in its wording of Paragraph 89 as follows:</p> <p>90. Group-wide control functions of international groups often are required to understand businesses in a range of jurisdictions as well as the legal and regulatory frameworks in which these businesses operate. The senior management of the group should allocate control function resources and efforts in a manner that reflects the nature, scale and complexity of the activities of the various businesses and the risks across the group.</p> <p>Relatedly, the first bullet under Paragraph 86 should reflect the need to vary policies among entities within a group in order to reflect different activities as well as jurisdictional differences. While we appreciate the importance of high-level alignment of policy within an insurance group, this bullet could be read as suggesting that policies should be identical notwithstanding significant differences in activities and jurisdictional frameworks.</p> <p>As reflected in ICP 7, the ways in which an insurer chooses to organize and structure itself can vary depending upon a number of factors. The governing body of the insurer is responsible for determining the appropriate structure, including whether a centralized or a decentralized structure is optimal and how management roles should be defined. We find the statements regarding the flaws of both a centralized and a decentralized structure in Paragraph 91 of the Draft Application Paper to be overly prescriptive and an inappropriate reflection of the control functions in most insurers. Again, the level of attention given by the control functions to each entity within the group should be consistent with the nature, scale and complexity of that entity's activities and its risk profile (i.e. principles-based supervision, with appropriate consideration of group and local requirements).</p> <p>In the final bullet of Paragraph 93, further clarity as to whom this notification would be provided would be helpful.</p>	
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			<p>We appreciate the opportunity to comment on the Draft Application Paper. We are available at your convenience to further discuss our response and elaborate any of the points raised herein.</p> <p>Respectfully submitted,</p> <p>Mary Frances Monroe</p>	
9. American Council of Life Insurers	USA	No	<p>The American Council of Life Insurers (ACLI) appreciates this opportunity to comment. The ACLI is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 280 member companies represent 95 percent of industry assets in the United States.</p> <p>It should first be noted that throughout the U.S., there are numerous, comprehensive, effective and longstanding laws and regulations in the area of corporate governance. While we agree with the Paper's focus on the overall role of control functions in managing risks, at times it can be overly prescriptive and contains excessive and unnecessary detail on the internal design of an insurer's corporate governance system and how supervisors should intervene in its internal operations. Instead, supervisors should focus on whether the outcomes of an insurer's corporate governance system and its insurance operations are consistent with the laws in its jurisdiction(s).</p> <p>We also support the comments that have been submitted by the Global Federal of Insurance Associations (GFIA), of which ACLI is a member.</p>	Noted.
10. Liberty Mutual Insurance Group	USA	No	<p>Liberty Mutual Group has a number of concerns about certain parts of the draft Application Paper. As discussed in our specific responses, we believe that the Application Paper too often provides guidance that is overly specific, overly detailed, and unnecessarily prescriptive. In so doing the Application Paper interferes with the flexibility insurers need to develop internal controls that are right for their particular corporate structure and business operations. This pattern in the</p>	See responses to comments 2 and 3 as well as responses to comments on particular sections of the paper.

			<p>current draft is inconsistent with the Application Paper's own expressed intent to be outcomes focused.</p> <p>Central to our concerns is the treatment of outsourcing, particularly when that includes intra-group or inter-affiliate outsourcing, which we believe contributes significantly to more efficient, consistent and thus effective internal controls across a larger group with a number of insurance entities in a number of diverse jurisdictions. We are concerned also by the rather prescriptive provisions regarding the role and activities of an insurer's board, and an over-emphasis on the topic of remuneration.</p> <p>Liberty Mutual is a member of the Institute of International Finance (IIF). In addition to the specific points we make in our responses, we join with and endorse the more comprehensive comments submitted by the IIF. In particular, we agree the Application Paper should provide flexibility in terms of jurisdictional approaches and in recognition of differences among insurers' corporate structures. We also strongly agree that the independence of control functions should not mean the complete separation of control functions from business operations, but rather that control functions within an organization should have a collaborative and constructive approach in tandem with management of the insurer's businesses.</p> <p>In each of these and related areas, the IIF observes correctly that the Application Paper should be more principles-based and outcomes-focused.</p> <p>We provide additional responses that serve to emphasize those aspects of the Application Paper that are of particular importance and interest to Liberty Mutual.</p>	
Q2 General comments on Section 1: Introduction				
11. CRO Forum	Europe	No	See our comments to Q1.	Noted.
12. International Actuarial Association	International	No	<p>The IAA notes that the word 'effective' features prominently in ICP 8 (i.e., "The supervisor requires an insurer to have, as part of its overall corporate governance framework, effective systems of risk management and internal controls, including effective functions for risk management, compliance, actuarial matters and internal audit." - emphasis added). The IAA suggests that the AP could usefully include a section of practical techniques supervisors can use in making this assessment. It is also important that the supervisor takes the work already performed by the</p>	<p>In the IAIS view, there is no need to develop an additional section of this paper.</p> <p>We confirm that the references to "insurers" include "reinsurers". According to the IAIS Glossary, a</p>

			<p>insurer on this aspect into consideration, so as to prevent unnecessary double-checking. It is also the task of the insurer itself and more specifically the control functions themselves to evaluate their effectiveness. The paragraphs 37 and 59 contain some high-level questions and indicators for this exercise.</p> <p>The IAA notes that much of the language in this AP makes reference to insurers. In our comments the IAA has assumed that the AP equally (or appropriately) applies to reinsurers as well. Perhaps this point could be made clear in the introduction to the AP.</p>	<p>reinsurer is an insurer that assumes the risks of a ceding insurer in exchange for a premium.</p>
13. General Insurance Association of Japan	Japan	No	<p>(General comment)</p> <p>In order to clarify the position of this AP, we propose adding the following to "1 Introduction":</p> <p>Application Papers do not set new standards or expectations. This Paper aims to provide guidance to supervisors.</p>	<p>The relevant language has been added to the description of Application Papers on page 2.</p>
14. Institute of International Finance	United States	No	<p>Overarching Comments</p> <p>In light of the different business models and organizational structures among insurers, we appreciate the focus on proportionality and flexibility in the Introduction to the Draft Application Paper. Differences in jurisdictional approaches call for a degree of flexibility in the supervisory framework for effective control functions. In this response, we would like to draw attention to the following considerations:</p> <ul style="list-style-type: none"> - We note statements in the Draft Application Paper where proportionality and flexibility could be better reflected, particularly in the discussion of outsourcing. - In general, we encourage the IAIS to take a more risk-focused approach to the supervision of control functions. A risk-focused approach tailors supervision in a manner that is appropriate to the nature, scale, and complexity of the insurer's operations and risks without undue reliance on size as a proxy for riskiness. <p>- We encourage the IAIS to incorporate a more outcomes-based approach</p>	<p>The proportionality principle is described in the Introduction and it applies to content of the Application Paper. It has also been highlighted in the description of the Application Paper on page 2 of the paper. As indicated in the Introduction of the Application Paper, some practical examples of applying proportionality in supervision of control functions are described in this Application Paper, for example in Section 6 (Combination of control functions) and Section 7 (Outsourcing of control functions). See also considerations in subsection 2.2 (Mapping of control functions to the Three Lines Model).</p> <p>See also responses to comments 2 and 3 as well as responses to</p>

		<p>throughout the Draft Application Paper. An outcomes-based approach is consistent with the Insurance Core Principles; as noted in Paragraph 5 of the Draft Application Paper, supervisors have the flexibility to tailor their implementation of supervisory requirements and their application of insurance supervision to achieve the outcomes stipulated in the Principle Statements and Standards.</p> <p>- For instance, an outcomes-based approach should be reflected in the discussion on where in the organizational structure the control functions reside (e.g. Paragraph 24 and the first bullet of Paragraph 26). Similarly, an outcomes-based approach should be reflected in the discussion of how supervisors ascertain whether an insurer's control functions are independent or have the appropriate stature (e.g. Paragraphs 19 and 20). We encourage the IAIS to guide supervisors to focus on the outcomes of control function activities, rather than on subjective perceptions of the control function personnel. Focusing on the assertiveness or "strength" of the control function personnel could imply that an adversarial relationship is needed between Key Persons in Control Functions and first line management in order to be effective (see e.g. Paragraphs 26 and 27). In reality, the true test of the effectiveness of the control function is whether the organization is governed and managed in a prudent, sustainable manner that does not give rise to conduct or reputational issues that can undermine organizational integrity. In a well-managed and well-governed organization, the control functions can better support these positive outcomes if they adopt a collaborative and constructive approach in their dealings with first line management.</p> <p>Paragraph 27 also contains statements that could imply that supervisors should assume that first line management will be overly focused on profitability and production without due regard to risks. As the IAIS makes reference to in the Draft Application Paper, the Institute of Internal Auditors (IIA) has updated the Three Lines of Defense, which are now referred to as the Three Lines Model (Three Lines Model). According to the updated Three Lines Model, the first line has the responsibility for managing risk. The second line provides assistance with managing risk, and second line roles can focus on specific objectives of risk management. The third line provides independent and objective assurance and advice on the adequacy and effectiveness of governance and risk management. We would encourage the IAIS to restate and clarify Paragraph 27 using the language of the IIA Model, which reflects the need for the three lines to be properly balanced as part of the prudent governance and management of the organization.</p>	<p>particular paragraphs referred to in the comment.</p>
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			<p>As elaborated below in our comments regarding independence of control functions, we encourage the IAIS to consider the benefits of a more active control function role in executive decision making. Allowing the control functions to have a "seat at the table" in first line management discussions allows Key Persons in Control Functions to provide valuable input at an early stage of the deliberation of a proposed course of action. Early discussion among first line management and the control functions can prevent a situation in which the control functions call for substantial changes in an initiative after significant planning and implementation efforts have already been underway. A more collaborative environment can prevent unnecessary conflicts between first line management and the control functions. Collaboration should not be equated with a lack of ability to challenge first line management.</p> <p>The Draft Application Paper should include definitions for some additional terms, or an elaboration of the scope of some of the terms already included in the IAIS Glossary. For instance, the term "Senior Management" is defined in the Glossary, but greater specificity as to the scope of the functions conducted by senior management in each of the three lines would add clarity to the Draft Application Paper.</p>	<p>This paper focuses on supervision of control functions. For further details about the Senior Management, see relevant supervisory material, in particular ICP 7.10 (See also a new footnote to paragraph 79).</p>
15. National Association of Insurance Commissioners	United States	No	Typo, should be read as: The work performed by control functions...	This has been corrected.
Q3 Comment on paragraph 1				
16. CRO Forum	Europe	No	<p>See our comments to Q1.</p> <p>In addition, we suggest deleting the reference to the suggested role of internal audit. All control functions can help supervisors to identify areas of concern or patterns, informing the supervisory plan and tailoring its supervisory approach. Internal audit findings will generally and hopefully lead to action within the organisation itself, which is presumably late to inform the supervisory plan and supervisory approach and might result in supervisory action after the fact. Furthermore, while control functions can assist supervisors in their role, it should be clear that the control functions do not serve as an extension of the supervisor and should not receive instructions from supervisors in the execution of their function (e.g. give instructions to focus on certain specific areas). Control functions have</p>	<p>Paragraph 1 reflects the view of the IAIS that the work performed by different control functions can assist supervisors, but the outcome of the work of the internal audit function is of particular use. The use of the work of the control functions by the supervisor is not in any way aimed at undermining their independence.</p>

			their independence within the corporate governance framework but are independent as well from supervisors.	
17. Global Federation of Insurance Association	Global	No	<p>The Global Federation of Insurance Associations (GFIA) represents through its 41 member associations and 1 observer association the interests of insurers and reinsurers in 64 countries. These companies account for 89% of total insurance premiums worldwide, amounting to more than \$4 trillion. GFIA is incorporated in Switzerland and its secretariat is based in Brussels. GFIA would first note that during the financial crisis and the COVID-19 pandemic, the corporate governance of insurers has demonstrated resilience and sustainability and that more prescriptive supervisory mandates have not been shown to be necessary.</p> <p>The purpose of the application paper is not to add supervisory mandates, yet there are many provisions that go beyond current standards. The paper should state more prominently the importance of supervisory authorities recognising the fact that every insurer is different in terms of its business profile (eg, size, risk profile, business model) and resources/capacity.</p> <p>While the paper appropriately focuses on the role of control functions in managing risks, it puts too strong an emphasis on the internal design of the corporate governance systems. Instead, supervisors should ensure that outcomes of governance and other insurance operations are consistent with law. However, the paper, in its detail, introduces excessive supervisory intervention into the internal operations of (re)insurers. GFIA also notes that there are already many laws and regulations concerning governance and it wants to ensure the prevention of duplicate supervisory mandates.</p>	See responses to comments 2 and 3.
18. APCIA	United States	No	<p>The American Property Casualty Insurance Association (APCIA) represents 1,200 member companies. Our members include insurers and reinsurers of many sizes and business models that provide critically important property and casualty coverage and risk mitigation support around the globe. In addition to our own comments, we support the comments of the Global Federation of Insurance Associations and the American Council of Life Insurers.</p> <p>The financial crisis, as well as the on-going pandemic, have demonstrated the resilience of (re)insurers corporate governance and current corporate governance regulation. Thus, it does not appear that extensive new, prescriptive or intrusive regulatory mandates are warranted by actual experience.</p> <p>We note that the purpose of the application paper is not to add supervisory</p>	<p>Noted. Please refer to the description of the nature and purpose of Application Papers on page 2 of the paper, as well as to the description of the proportionality principle in the Introduction.</p> <p>See response to comments 2 and 3.</p>

			mandates, yet there are provisions that appear to go beyond current standards. So, an even stronger reiteration of the purpose of the paper should be included. The paper should also state more prominently the importance of supervisory authorities recognizing the fact that every insurer is different both in terms of the business profile (e.g., size, risk profile, business models) and the resource/capacity it has. Supervisors should assure outcomes of governance and other insurance operations are consistent with law. However, the paper, in its detail, introduces excessive supervisory intervention into the internal operations of (re)insurers. Instead, there should be a clear line between the company and its supervisors. We also note that there are already many laws and regulations concerning governance and we want to assure the prevention of duplicate supervisory mandates.	
Q4 Comment on paragraph 2				
19. CRO Forum	Europe	No	No comment.	Noted.
20. Global Federation of Insurance Association	Global	No	Corporate governance depends on a company's profile, structure and size. GFIA is therefore against any overly detailed and prescriptive approaches by supervisors that would result in an undue burden for insurers and that would be difficult to implement. GFIA believes that the IAIS should limit itself to recommending voluntary guidance by supervisors in this regard and establish a clear line between the supervisors and the supervised entities.	See responses to comments 2 and 3.
21. APCIA	United States	No	Corporate governance depends greatly on a company's profile, structure and size. APCIA is therefore against any overly detailed and prescriptive approach by supervisors that would result in an undue burden for insurers and that would be difficult to implement. APCIA believes that the IAIS should only recommend voluntary guidance by supervisors and establish a clear line between the supervisors and the supervised entities.	See responses to comments 2 and 3.
Q5 Comment on paragraph 3				
22. CRO Forum	Europe	No	No comment.	Noted.
23. General Insurance	Japan	No	While it is stated that "this Application Paper is largely based on the results of a survey among IAIS Members of their supervisory practices.", from the perspective of transparency, we suggest adding an outline of the survey (e.g., which and how	Information on time of the survey and the number of participants has

Association of Japan			many jurisdictions participated in the survey, and over what period of time the survey was conducted).	been added in a footnote to paragraph 3.
Q6 Comment on paragraph 4				
24. Association of Bermuda Insurers and Reinsurers (ABIR)	Bermuda	No		
25. CRO Forum	Europe	No	No comment.	Noted.
Q7 Comment on paragraph 5				
26. CRO Forum	Europe	No	The paragraph presumes a good understanding of the concept of proportionality and the distinction between proportionality and risk-based supervision in paragraph 6, which makes the statements in this paragraph difficult to understand and weigh. This paragraph and the next do not provide practical clarification of the application of proportionality and risk-based supervision, which should be the goal of the application paper. Furthermore, it should be clarified that proportionality is important to regulators/supervisors in the jurisdiction in which the insurer is domiciled (in the implementation and application of the ICPs, but to what extent is the proportionality discussed in this paragraph (and how) also directly relevant to an insurer who operates only in a local market, is a monoline insurer, etc.?) Another aspect in the application of the proportionality principle can be the type of clients of the insurer, e.g. reinsurers that only serve other insurers or insurers that only serve corporate clients.	The description of the proportionality principle is based on the relevant content of the Introduction to ICPs. As indicated in paragraph 5, some practical examples of applying proportionality in supervision of control functions are described in this Application Paper.
27. Insurance Europe	Europe	No	Insurance Europe welcomes the fact that the paper has a number of references to the principle of proportionality, which enables the ICPs to be implemented and applied in a reasonable manner, taking account of the specific characteristics of individual insurers' business. The paper would benefit from further analysis of how proportionality could be applied effectively in practice.	See response to comments 8 and 14.
28. Global Federation of	Global	No	GFIA welcomes all proportionality considerations that allow the supervisory authorities to adapt ICPs to the specific characteristics of the business of supervised entities. Proportionality should not just be a general international	Noted. This is in line with the IAIS understanding of the proportionality principle.

Insurance Association			principle but should rather be effectively applied at jurisdictional level by supervisors.	
29. The Geneva Association	International	No	We appreciate the reference to the proportionality principle in the ICP introduction. On the other hand, the proposed application paper includes some prescriptive requirements regarding qualification and remuneration of Key Persons in Control Functions, organizational structure of the control function and outsourcing. We believe that supervision should be flexible in accordance with the legal structure and customary practice of each jurisdiction and the risk characteristics of insurance companies, and the proportionality principle should be fully considered.	See responses to comments 2 and 3.
30. General Insurance Association of Japan	Japan	No	While it is stated that "the ICPs establish the minimum requirements for effective insurance supervision" and "to achieve the outcomes stipulated in the Principle Statements and Standards", there are also many parts that refer to ICP Guidance in this AP. For clarification, we propose stating that the minimum requirements for ICPs are only the Principle Statements and Standards, and that Guidances are not requirements.	This is explained in the Introduction to the ICPs (paragraph 3).
31. The Life Insurance Association of Japan	Japan	No	<p>- The Life Insurance Association of Japan (hereafter "LIAJ") appreciates the opportunity to submit public comments to the International Association of Insurance Supervisors (or the "IAIS") regarding the Application Paper on the Supervision of Control Functions.</p> <p>- LIAJ welcomes the references to the proportionality principle stated in the ICP Introduction.</p> <p>- However, the proposed Application Paper includes several strict requirements regarding the qualification and independence of control functions, internal audit functions and outsourcing. We would like to respectfully request the IAIS to carefully consider the proportionality principle, which states supervision should be flexible according to the legal structure and market conditions of each jurisdiction, and the risk characteristics of insurance companies when applying the Application Paper.</p>	<p>As indicated in the Introduction, the proportionality principle applies to the content of the Application Paper</p> <p>The proportionality principle is referred to in paragraph 5 and additional changes have been made on page 2 and in paragraph 5 to further emphasise the application of the proportionality principle. The paper provides a supervisory toolkit aimed at facilitating supervision of control functions. Supervisors are encouraged to apply suggested supervisory practices as needed and relevant. See also response to comment 3.</p>

32. APCA	United States	No	APCIA supports proportionality considerations allowing the supervisory authorities to adapt ICPs to the specificities of the business of supervised entities. Proportionality should not just be a general principle but should rather it should be effectively applied by all supervisors in every specific aspect of supervision.	Noted.
Q8 Comment on paragraph 6				
33. CRO Forum	Europe	No	See comment to paragraph 5.	Noted.
34. Insurance Europe	Europe	No	Insurance Europe agrees that risk-based supervision is an important concept. The paper would benefit from further analysis of how this could be applied.	See response to comment 3.
Q9 Comment on paragraph 7				
35. CRO Forum	Europe	No	Not clear on why Internal Audit is being isolated and not referred to as a control function in the bulleted list.	Internal audit function is referred to in the fourth bullet. Other sections refer to control functions in general, including the internal audit function, as relevant.
36. International Actuarial Association	International	No	The IAA notes that while assessing the effectiveness of control functions is mentioned several times in the AP as an important supervisory objective, it appears not to be identified as a key topic in the list provided in this paragraph. The IAA believes there is considerable valuable guidance that can be provided to supervisors to assist them in assessing the effectiveness of the actuarial function. Recently the IAA in conjunction with the IAIS and A2ii conducted a webinar for supervisors on « Using Actuarial Reports - Getting the Added Value ».	Paragraph 7 includes a list of specific aspects of supervising control functions of insurers, as covered by the paper which apply to all control functions. In addition, there is a section focused specifically on the internal audit function.
Q10 General comments on Section 2: Role of control functions				
37. CRO Forum	Europe	No	We refer to our general comments under Q1.	Noted.
38. Insurance Europe	Europe	No	Insurance Europe suggests introducing examples of proportionality for small businesses, especially in relation to the combination of key functions.	Such examples are provided in Section 6 of the paper.

<p>39. Institute of International Finance</p>	<p>United States</p>	<p>No</p>	<p>We encourage the IAIS to more fully reflect the updated IIA Model in its supervisory guidance in order to better acknowledge some of the significant revisions relating to structure and independence, including:</p> <ul style="list-style-type: none"> - The adoption of a principles-based (versus rules-based) approach allowing organizations to adapt the Three Lines Model to their objectives and circumstances. For example, the IIA states that how an organization is structured and how roles are assigned are matters for management and the governing body to determine. - A shift from describing first and second lines based on functions to describing these lines based on roles. For example, the IIA states that functions, teams and even individuals may have responsibilities that include both first and second line roles. - The IIA's focus on monitoring, advice, guidance, testing, support, and challenge in the second line risk management roles and the statement that second line roles are part of management's responsibilities and are never fully independent from management, compared to the IIA's emphasis on independence in the third line internal audit role. <p>We recommend a rephrasing of the description of the third line of defense in Paragraph 13, consistent with the IIA Model, as follows: The third line is the internal audit function, which is responsible for providing independent and objective assurance and advice on the adequacy and effectiveness of governance and risk management.</p> <p>Paragraph 14 provides a good description of the first and second line roles of the actuarial function. It may be useful to cross reference or further elaborate this discussion in Section 6.2, which addresses in more detail the combination of control and operational functions.</p>	<p>See response to comment 2.</p> <p>The wording in paragraph 13 has been revised (see comments on paragraph 13 and responses to those comments).</p> <p>Section 1 serves as a background for different parts of the paper. Therefore, it might be misleading to refer to certain part of this section only in one place of the paper. Please also note that the combination of the internal audit function with second line functions is covered by subsection 5.2.</p>
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			We would recommend replacing the final sentence of Paragraph 14 with the following: Similarly, as regards pricing, the role of the actuarial function as part of the second line of defense should be limited to reviewing and providing recommendations regarding pricing. There is independence between the underwriting and reserving functions, with individuals on different teams reaching their conclusions independently.	The additional element in the proposed text is already covered in the 6 th sentence of paragraph 14.
Q11 Comment on paragraph 8				
40. CRO Forum	Europe	No	No comment.	Noted.
Q12 Comment on paragraph 9				
41. CRO Forum	Europe	No	See our comment to Q7 and the question as to why Internal Audit is being singled out in the sub-bullets while it is clearly included as a control function in the definition on this section.	This bullet refers to specific challenges related to supervision of the internal audit function, while other parts of the paper also apply to supervision of this control function. The wording of paragraph 7 has been clarified. See also paragraph 10.
42. General Insurance Association of Japan	Japan	No	<p>It is stated that "A control function is considered an independent unit of the insurer with at least one natural person as head of the unit". Although this can be construed to assume that each division of the control function is independent, our understanding is that governance practices vary depending by jurisdiction.</p> <p>For example, it is common in Japan that an insurer's actuarial function is fulfilled collectively across several divisions (*), and we are aware of no particular problems with this practice. Therefore, we would like to confirm that such practices are clearly allowed.</p> <p>(*) In Japan, it is a general practice that control functions are dispersed across multiple divisions. Taking the valuation of insurance liabilities as an example, the product divisions are involved for setting the base rate and reinsurance issues, the accounting division for accounting related issues, and risk management division for regulatory issues.</p>	<p>The wording has been clarified.</p> <p>As regards the staff, employees supporting control functions can work in different units or departments, but one person should not be responsible for supporting two or more control functions, in</p>

				order to avoid undermining independence of those control functions.
43. Liberty Mutual Insurance Group	USA	No	The focus on control functions being an "independent unit" is so specific and detailed that it risks reducing management's flexibility to execute the function effectively in practical terms. Different companies have different ways of addressing this issue. Therefore, the focus should be outcomes-oriented as to whether the function provides "objective assessment, reporting and/or assurance" as cited in this paragraph, not on specifying the structure of the control function.	See response to comment 42.
Q13 Comment on paragraph 10				
44. CRO Forum	Europe	No	<p>In this paragraph, an important statement is made about the fact that what matters are the outcomes and effectiveness of the IC system as a whole. This principle is not respected elsewhere in the draft Application Paper, by providing some very detailed 'requirements' or 'expectations' on independence and stature.</p> <p>Furthermore, there is no mention of the role of the Board and senior management in the risk & control culture and tone at the top.</p> <p>Reference is made to where a control function is situated. Not clear on this: reporting line, functional home, what is meant by the word 'situated'?</p>	<p>The paper should be read in the context of overarching statements provided in the Introduction.</p> <p>This paper focuses on supervision of control functions. It refers to the Board and Senior Management if needed and relevant. This paper does not introduce any new requirements, but provides examples of challenges faced by supervisors and examples of various tools that supervisors may use to address those challenges.</p> <p>It has been clarified as follows: "...is situated within the organisational structure of the insurer".</p>
45. International Actuarial Association	International	No	The IAA believes that effective communication and cooperation between the first and second lines of defence is important to the proper functioning of the control functions. For example, the actuarial function should ensure that pricing and valuation of liabilities work have equal access to relevant experience data and make consistent use of that data in making business decisions.	Noted.

46. National Association of Insurance Commissioners	United States	No	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.	"This need" has been replaced with "its objectives".
Q14 Comment on paragraph 11				
47. CRO Forum	Europe	No	Not sure what is meant here by "different models". While not a prescribed model in the ICPs, the paper only addresses the 3-lines model. We are not sure how documenting roles & responsibilities can help identify control gaps in the organization	It has been specified that the "organisational structure" is referred to in the first sentence (see comment 48). In the IAIS view, documenting roles and responsibilities can, among other benefits, help serve this purpose.
48. National Association of Insurance Commissioners	United States	No	For clarification and consistency adding the following: Regardless of the organisational model adopted...	The wording has been changed to "organisational structure".
49. Liberty Mutual Insurance Group	USA	No	The paper is overly prescriptive when it says the Board should approve the authority and functions of each control function. The role of the Board varies among different organizations and jurisdictions. The paper should focus on outcomes here. If the control function has the appropriate authority within the organization, the source of that authority should not be an issue of consideration for supervisors.	Noted. The paragraph refers in this regard to ICP guidance.
Q15 Comment on paragraph 13 (new paragraph 12 has been added)				
50. CRO Forum	Europe	No	The 2nd line also defines the frameworks to be followed or assured by the 1st line. Risk management frameworks, compliance frameworks, etc. ultimately need to be ratified/approved by the Board. We would like to suggest making clear that, while the 3-Lines model is widely used, it is not a prescribed model in the ICPs. The emphasis on the model in the draft Application Paper may suggest otherwise. The model is suitable to emphasize the independence of the different roles but the general used allocation of the risk management function, the actuarial function and the compliance function to the	While there are similarities between the ICP Standards on supervision of internal control system, including control functions, and the Three Lines Model is not prescribed in ICPs. This model is designed to potentially fit different types of organisations, whereas IAIS supervisory material is focused on

			<p>second line should not be made so explicit on beforehand as in this draft application paper thereby allowing deviations depending on the specific business model of the insurer. We can imagine that in specific cases a two lines model can be proportional, if the allocation of responsibilities is in line with regulations.</p> <p>While the Application Paper, in footnote 9, mentions the updated approach to the three lines model of the IIA, we believe it would be useful if the IAIS would embrace the update as well, by referring to the Three Lines Model, rather than to "Three Lines of Defense' and elaborate on and emphasise the basis for successful coherence in the Three Lines Model, which is regular and effective coordination, collaboration, and communication.</p> <p>The overly strong focus on the "defense' element of the model in the draft Application Paper, undervalues the "collaborative' elements in the Three Lines Model and could lead to a rigid and ineffective application of the model.</p>	<p>establishing standards focused on achieving objectives of insurance supervision. This has been clarified in new paragraph 12.</p> <p>The references to "defence" have been deleted.</p>
51. Global Federation of Insurance Association	Global	No	<p>The application paper has an entire section devoted to the three-lines model, but it is not part of the ICPs and therefore the paper should not view this model in the same way as an IAIS standard. The model was recently updated by the Institute of Internal Auditors, with the update emphasising the need for coordination, collaboration and cooperation. These themes are not reflected in the paper. GFIA suggests introducing measures of proportionality for small businesses, especially in relation to the combination of key functions.</p>	<p>See response to comment 50. The need for efficient cooperation and communication has been highlighted at the end of paragraph 14 and in paragraph 29. It is also recognised in paragraph 31.</p>
53. The Geneva Association	International	No	<p>In general, paragraph 13 seems too prescriptive. We would appreciate wording allowing for more flexibility of approaches due to varying nature of firms.</p> <p>-2nd line focus is not necessarily on effectiveness of controls used, but rather on control design (appropriateness).</p> <ul style="list-style-type: none"> o Suggestion: Risk management, actuarial and compliance functions are considered the second line of defence and are responsible for assessing the appropriateness [delete following text: and effectiveness [end text suggested for deletion]] of the controls used by the first line. <p>-3rd line provides assurance on the effectiveness of 2nd line, not on their responsibilities.</p> <ul style="list-style-type: none"> o Suggestion: The third line of defence is the internal audit function, which is responsible for "providing the Board with independent assurance in respect of the quality and effectiveness of the insurer's internal controls framework." This includes 	<p>The reference to "effectiveness" has been deleted.</p> <p>The change has been made.</p>

			providing assurances on the effectiveness of both first and second lines of defence and the controls within the first line.	
54. American Council of Life Insurers	USA	No	<p>The Paper has an entire section devoted to the three-lines model, but it is not part of the ICPs, therefore the Paper should not view this model in the same way as an IAIS standard. The model has recently been updated by the Institute of Internal Auditors, with the update emphasizing the need for coordination, collaboration, and cooperation. These themes are not reflected in the paper.</p> <p>We also suggest introducing measures of proportionality that are based on the risk profile and size of a business, especially with regard to the combination of key functions.</p>	See response to other comments on paragraph 13 and changes made in this paragraph.
Q16 Comment on paragraph 14				
55. CRO Forum	Europe	No	<p>We are not sure if fair and honest reporting are the only goals. Maybe comprehensive and complete are other goals. Maybe the aim is: independent, objective and accurate?</p> <p>We do not agree that we should refer to "separation' of responsibilities. Instead, we propose to refer to It should be made to a clear "allocation' of responsibilities.</p> <p>We believe it is useful to add that in some cases, second line roles may be assigned to specialists to provide complementary expertise, support, monitoring, and challenge to those with first line roles. Second line roles can focus on specific objectives of risk management, such as: compliance with laws, regulations, and acceptable ethical behavior; internal control; information and technology security; sustainability; and quality assurance. Alternatively, second line roles may span a broader responsibility for risk management, such as enterprise risk management (ERM).</p> <p>We believe that the example on the actuarial function is not correct as actuarial competence should not be (mis-)interpreted as a synonym to "actuarial function". The latter refers to the roles and responsibilities as described in the ICP8 and the first applies to the actuarial profession where many actuaries work in the actuarial</p>	<p>"Fair and Honest" has been replaced with "independent, objective and accurate".</p> <p>The wording has been revised to refer to clear allocation of executive and control responsibilities.</p> <p>Issues related to skills and experience are covered in Section 4.1.</p> <p>The reference to "actuarial function" in the fourth sentence has been replaced with a reference to "actuarial activities".</p>

			function, but also in the first line business processes such as pricing and product development and the other control functions such as the risk management function.	
56. Insurance Europe	Europe	No	The second sentence gives the false impression that unseparated lines of defence will not be able to fulfil their function, which goes beyond what ICP 8 and standard 8.3 provide. Indeed, ICP guidance 8.3.10 explicitly mentions the possibility of insurers combining certain control functions. Insurance Europe suggests adding "better" immediately after "helps" to read: "the clear separation of responsibility helps better avoid or mitigate bias, conflicts of interest or undue influence of one function on professional or business judgments of another function."	"Separation" has been replaced with "allocation", which is more appropriate term in the context of this paragraph. See also responses to comments on Section 6.
58. International Actuarial Association	International	No	<p>The IAA believes that the reference made in this paragraph to the actuarial function may cause confusion regarding the issues raised. The IAA recommends the IAA Risk Book Chapter on the « Actuarial Function » as it provides relevant and useful guidance for supervisors. In discussing the actuarial function, paragraph 14 comments that actuarial function responsibilities may straddle the first and second lines of defence and further suggests that pricing lies within the first line and valuation of liabilities lies in the second.</p> <p>The IAA suggests this characterization is incorrect. The IAA would be pleased to assist the IAIS in improving the wording of this paragraph. A more accurate series of statements may include the following:</p> <ul style="list-style-type: none"> - Actuaries are involved in many aspects of work within an insurer (e.g. pricing, underwriting, marketing, investment, claims, valuation of liabilities, risk and capital management etc.) - Actuaries may be involved in each of the lines of defence within an insurer. - The actuarial control function as defined by the IAIS refers to work in the second line of defence. - Actuarial work related to pricing, valuation may be frequently carried out within the operational business units (first line of defence) of the insurer but should be subject to overall control by the actuarial control function (second line of defence). - In their review of the actuarial control function, supervisors seek the person(s) responsible for the second line of defence task of controlling actuarial work/processes (e.g., pricing, valuation of liabilities etc.) - The person(s) responsible for the actuarial control function should not have significant operational duties (first line of defence) which will conflict with their second line of defence role. 	The fourth sentence has been revised to refer to "actuarial activities" rather than "actuarial function".

59. The Geneva Association	International	No	<p>We agree with the following text "While well-defined on paper, the distinction between each of the three lines of defence is not always clear in practice, particularly regarding certain first and second line of defence functions". While we are not questioning the three lines of defence as such, we would like to emphasize that it is important to consider jurisdictional specificities with regard to legal structure as well as the complexity and size of the insurer's business. In other words, the application of the three lines of defence should be proportional.</p> <p>Concerning the statements on the actuarial function we suggest replacing: "similarly, as regards pricing, the role of the actuarial function as part of the second line of defence should be limited to evaluating and providing advice regarding pricing" by "similarly, as regards pricing, the role of the actuarial function as part of the second line of defence should be limited to reviewing and providing recommendations regarding pricing".</p>	The wording used in paragraph 14 is in line with ICP 8.6, which refers to "evaluating and providing advice".
60. General Insurance Association of Japan	Japan	No	<p>Regarding "the adequacy of technical provisions", two different expressions, "assessing" and "reviewing", are used in the following sentences. We would like to confirm that they carry the same meaning (the same as "evaluating the adequacy"). If not, the difference should be clarified.</p> <p>(For reference, the following is an excerpt from paragraph 14.) 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. There was also agreement among the survey respondents on the need for independence between those calculating technical provisions and those reviewing the adequacy of technical provisions.</p>	"Reviewing" has been replaced with "evaluating".
61. The Life Insurance Association of Japan	Japan	No	<p>- We agree with the statement that states "While well-defined on paper, the distinction between each of the three lines of defense is not always clear in practice, particularly regarding certain first and second line of defense functions." We would like to highlight that depending on the legal structure of each jurisdiction, and the complexity and size of each insurance company's business, it may be difficult to clearly separate the first line, the second line and the third line.</p> <p>- In addition, Paragraphs 60 and 61 state "the internal audit function is independent from management and other control functions and is not involved operationally in the business" and "the internal audit function should only be combined with other control function in exceptional circumstances". We would like to confirm these</p>	<p>Noted.</p> <p>The proportionality principle applies to the content of the Application Paper, as stated in paragraph 5. However, when applying the</p>

			statements that require the strict separation of functions are in line with the proportionality principle and a uniform response is not required.	principle of proportionality, the nature of the internal audit function should be considered. Paragraph 61 refers to the ICP guidance and paragraph 62 is based on the outcome of the survey.
62. APCIA	United States	No	APCIA suggests emphasizing the principle of proportionality, in particular regarding the combination of key functions for small actors. The second sentence gives a wrong impression that not-separated lines of defence will not be able to fulfil their function, which goes beyond what the ICP 8 and standard 8.3 provides. ICP guidance 8.3.10 rather explicitly refers to the possibility of insurers combining control functions.	See response to comment 56.
63. National Association of Insurance Commissioners	United States	No	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.	Changed.
64. American Council of Life Insurers	USA	No	This paragraph, as well as others, stress the separation of responsibilities within the three-lines model, with a defensive mindset. The focus should be on the allocation of responsibilities, with a collaborative mindset.	See response to comment 56 and additional text added at the end of paragraph 14.
Q17 Comment on paragraph 15				
65. CRO Forum	Europe	No	Would this also be applicable for non-regulated entities owned by an insurer? The paragraph refers to the control of outsourced business activities as well as to the outsourcing of control functions. This might be confusing.	It is applicable to any type of outsourcing (ie to any type of entity). The wording has been clarified (business actuarial activities, which are subject to evaluation by the actuarial function).
66. Global Federation of Insurance Association	Global	No	GFIA suggests further elaborating on the definition of outsourcing and limiting requirements on outsourcing to essential/critical outsourced functions. The definition of outsourcing should not be too broad and include any "use" of third-party services.	The definition of outsourcing has been added in a footnote to paragraph 15.

67. International Actuarial Association	International	No	<p>This paragraph accurately indicates that smaller insurers tend to outsource one or more control functions (e.g., actuarial function). However, the closing sentence indicates this may create supervisory challenges. The IAA suggests this presents a one-sided view of the business decision to outsource and the sentence should be amended.</p> <p>A decision to outsource (e.g., actuarial function) results from a balancing of the advantages and disadvantages of doing (not doing) so. For example, outsourcing provides access to specialized expertise for certain required tasks on a contract basis that the insurer might not be able to secure or afford from a full time employee. A possible related disadvantage is that a contractor may not have sufficient proximity to or knowledge of the insurer's circumstances. As a result, communications between the insurer (or supervisor) and the contractor may be less effective. The IAA has provided further comment on this issue of outsourcing under the relevant section later in this response.</p>	This part of the paper focuses on challenges related to outsourcing, while the IAIS does not question the existence of advantages of outsourcing.
68. APCA	United States	No	APCIA suggests further elaborating on the definition of outsourcing and limiting requirements on outsourcing to essential/critical outsourced functions. The definition of outsourcing should not be too broad and should not include any "use" of third-party services.	See response to comment 66.
Q18 Comment on paragraph 16				
69. CRO Forum	Europe	No	<p>We believe this is quite a narrow example and the paragraph lacks a focus on outcomes. The wording is overly prescriptive. SAS 70 also requires testing of controls and attestation as to effectiveness thereof.</p> <p>In addition, we believe it is important that the responsible person for the control function verifies whether an internal person is involved in assessing if the external provider is suitable for its task.</p>	<p>Noted. The outcomes to be achieved are provided in Principle Statements and Standards of the IAIS supervisory material.</p> <p>Noted. Adding this example could make the paragraph (which mentions in general application of internal quality control mechanisms to outsourced activities) overly prescriptive.</p>
70. General Insurance Association of Japan	Japan	No	It is stated that "If an activity is outsourced, the control functions - within the scope of their responsibilities - have the additional tasks to check whether and how internal quality control mechanisms are applied to the outsourced activity", and "This includes verifying... whether this internal person has the necessary	It is not needed to add "as appropriate", since the text already refers to "necessary qualifications and seniority for this task".

			<p>qualifications and seniority for this task". Since it is not considered appropriate to make uniform judgments regarding qualifications and seniority, depending on the size of the insurance company and the types and activities of business that are outsourced, we propose adding "as appropriate", as follows:</p> <p>"This includes verifying whether an internal person is involved in assessing if the external provider is carrying out the task properly and, as appropriate, whether this internal person has the necessary qualifications and seniority for this task."</p>	Therefore, it is recognised that specific characteristics of the outsourced activities should be taken into consideration.
Q19 Comment on paragraph 17				
71. CRO Forum	Europe	No	Are controls functions typically tasked with overseeing outsourced activities? This is primarily a first line activity. Controls functions often oversee that the 1st line is effectively managing the outsourced activity by way of retained organizations who oversee both risks and controls objectives are achieved/ensured.	The first sentence has been revised to focus its content of control functions' responsibilities, rather the responsibilities of the insurer as such.
72. Insurance Europe	Europe	No	Insurance Europe suggests that the paragraph clarifies that supervisors should focus on the outsourcing of essential or critical activity or functions.	Noted. The paragraph refers to materiality of outsourced activities.
73. Global Federation of Insurance Association	Global	No	GFIA suggests focusing on activities or essential/critical functions.	See response to comment 72.
74. The Geneva Association	International	No	We struggle with paragraphs 16 and 17, in particular the IAIS' statement that 'Control Functions should be tailored to outsourcing'. We think Control Functions should ensure any material outsourcings are adequately risk managed/covered by the relevant entity and, as appropriate, by the relevant Control Function(s).	"Should be tailored to reflect" has been replaced by "should understand and monitor".
Q20 Comment on paragraph 18				
75. CRO Forum	Europe	No	No comment.	Noted.
Q21 Comment on paragraph 19				

76. CRO Forum	Europe	No	Independence is well understood. What does stature entail: hierarchical power, placement, organizational power, capabilities, talents, etc.? We believe the paragraph is not clear.	As indicated in paragraph 20, stature is covered by Section 4. This section also explains the meaning of stature.
77. Global Federation of Insurance Association	Global	No	There is an overemphasis on independence and stature, which should not be ends in themselves and are highly subjective. There seems to be a presumption that control functions enter into the picture after initiatives have been completed by the first line, which is not how insurers operate. The emphasis should be on outcomes created by an effective control function, not the independence and stature of the function.	Independence is one of the most important features of control functions (see Standard ICP 8.3, referred to in paragraph 21). Those two were also commonly mentioned in responses to the survey. For this reason, the paper aims at addressing related challenges.
78. International Actuarial Association	International	No	The IAA suggests that in the first line of this paragraph that the words « effective internal controls system » be replaced with the words used in ICP 8 (i.e., effective systems of risk management and internal controls). The IAA also suggests that the wording of this paragraph can lead the reader to the conclusion that assessing the effectiveness of a control function lies principally in observing two fundamental qualities - independence and stature. While the IAA agrees these are important, supervisors should also seek to validate their assessment in other ways (e.g. communications/decisions between operational areas and the control function, review of key work, role of control function during key risk discussions, engagement in insurer risk management and governance, supervisory comparison of peer control functions at other insurers etc.).	Change has been made. “Among others” added to indicate that those are not the only characteristics to be assessed.
79. American Council of Life Insurers	USA	No	There is an overemphasis on independence and stature, which should not be an ends in themselves, and they are highly subjective. There seems to be a presumption that control functions enter into the picture only after initiatives have been completed by the first line, which is not how insurers operate. The emphasis should be on outcomes created by an effective control function, not the independence and stature of the function itself.	See response to comments 77.
Q22 Comment on paragraph 20				
80. CRO Forum	Europe	No	We believe this paragraph does not add any real substance and, to the contrary, introduces a view that control functions are set 'against' senior management not partnering. Being a countervailing power to senior management does not exclude	Not agreed. The independence and stature are considered important characteristics of control functions.

			<p>partnering and collaborating with senior management. In fact, we believe this is the only viable and effective way to structure control functions and avoid siloed ineffective and inefficient approaches.</p> <p>IAIS should focus on actual outcomes rather than on the characteristics of independence and stature which could be subjective.</p>	<p>Recommending necessary changes does not put control functions “against” Senior Management but instead is one of the ways in which Senior Management benefits from control functions. The need for (and importance of) cooperation has also been highlighted in the paper.</p>
81. American Council of Life Insurers	USA	No	<p>There is an overemphasis on independence and stature, which should not be an ends in themselves, and they are highly subjective. There seems to be a presumption that control functions enter into the picture only after initiatives have been completed by the first line, which is not how insurers operate. The emphasis should be on outcomes created by an effective control function, not the independence and stature of the function itself.</p>	<p>See response to comments 77. The need to engage control functions early in the relevant discussions and initiatives has been recognised in a new text at the end of para. 14.</p>
Q23 General comments on Section 3: Independence of control functions				
82. CRO Forum	Europe	No	<p>Refer to the response given in Q27 below.</p>	<p>Noted.</p>
83. Insurance Europe	Europe	No	<p>Independence is, indeed, an important element and is in fact recognised in ICP 8.3. However, the strong focus on independence in this section is not helpful. Independence is not a goal in itself, but should contribute to a well-functioning, outcome-based control function. Well-structured and positioned control functions, with a clear allocation of responsibilities, authority and transparent reporting lines, contribute to their proper functioning, with a sufficient level of independence.</p>	<p>Noted. See response to comment 77.</p>
84. Global Federation of Insurance Association	Global	No	<p>There is an overemphasis on independence and stature, which should not be ends in themselves and are highly subjective. There seems to be a presumption that control functions enter into the picture after initiatives have been completed by the first line, which is not how insurers operate. The emphasis should be on outcomes created by an effective control function, not the independence and stature of the function.</p>	<p>See response to comment 83.</p>
85. Institute of International Finance	United States	No	<p>We have provided in our Overarching Comments our view that an outcomes-focused approach to observations regarding the independence of control functions is optimal to an approach that focuses on subjective observations regarding the 'strength' of Key Persons in Control Functions or on the placement of control</p>	<p>See responses below as well as responses to other comments on relevant paragraphs.</p>

		<p>functions in the organizational structure. We note the benefits of providing Key Persons in Control Functions with a "seat at the table" in the strategic business discussions of first line management. As currently drafted, Paragraph 26 would require supervisors to make highly subjective determinations that would be inconsistent with an outcomes-focused approach. We would propose deleting the third bullet of Paragraph 26 or replacing it with the following:</p> <p>- The roles and responsibilities of Key Persons in Control Functions are not clearly defined or potential conflicts of interests involving those persons are not properly identified or managed;</p> <p>Similarly, we would propose deleting the last bullet of Paragraph 26, which would also require supervisors to make highly subjective determinations that would be inconsistent with an outcomes-focused approach.</p> <p>In Paragraph 28, an example is given that the responsibilities of the risk management and actuarial functions could overlap as they relate to quantitative risk assessments. We believe that both functions play an important role in these assessments. As such, the focus of this paragraph should be on the need to clearly document and communicate the respective roles and responsibilities of each function when those functions overlap, consistent with Paragraph 63.</p> <p>We propose restating the second sentence of Paragraph 31 to read as follows: Control functions should harmonize their activities to form a coherent system, ensuring that an effective flow of information is in place. Control functions generally are risk-based and, therefore, certain lower-risk aspects of an insurer's operations may not need the explicit and direct attention of the control functions.</p> <p>We question why the independence of control functions can be jeopardized in case of a combination of a control function with Senior Management functions (see Paragraph 32). We would assume that Key Persons in Control Functions are members of Senior Management. The term "operational functions" and "operational business lines" would benefit from a clear definition in the Draft Application Paper and the Glossary.</p> <p>Paragraph 37 and Section 4.3 emphasize the important role of Key Persons in Control Functions in challenging senior management and raising concerns to relevant persons within the organization. This is consistent with the IIA Model's</p>	<p>The third bullet has been kept. However, an additional bullet, as proposed in the comment, has been added in para. 26.</p> <p>The bullet has been kept, but its wording has been slightly revised.</p> <p>Paragraph 31 has been revised: "Ensuring that there are no uncontrolled areas" has been changed to "ensuring appropriate control coverage."</p> <p>These aspects are covered in Subsection 4.3 (Ability to challenge and raise concerns by control</p>
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			<p>focus on communication, cooperation, and collaboration among the various first, second, and third line roles. As noted in the IIA Model, independence does not imply isolation. We also encourage the IAIS to revise Section 6.2 and, in particular, Paragraphs 75 and 77, to reflect that Key Persons in Control Functions can have an important role in questioning or challenging executive decision making.</p> <p>In Paragraph 34, the IAIS states that it could be good practice to suggest to insurers that the predominant proportion of the remuneration of Key Persons in Control Functions be fixed. However, we would note that an excessive focus on fixed compensation could actually have an adverse impact on the insurer's ability to attract and retain staff with the requisite skills, competencies, knowledge and expertise to discharge control functions effectively. Further, remuneration tied to a company's performance, particularly remuneration with a deferred or long-term component, can incentivize Key Persons in Control Functions to implement a strong control framework. A strong control function, in turn, maximizes the likelihood of success of the franchise over the long term. More broadly, designing an effective and appropriate remuneration structure involves the consideration of a broad range of institution-specific factors. We encourage the IAIS to emphasize the primary role of the insurer's governing body in determining the appropriate structure (e.g. fixed versus variable) and level of remuneration for various roles in the organization.</p>	<p>functions), as pointed out in the comment, and also in Subsection 4.4. Subsection 6.2 is focused on combination of control function and business responsibilities.</p>
86. American Council of Life Insurers	USA	No	<p>There is an overemphasis on independence and stature, which should not be an ends in themselves, and they are highly subjective. There seems to be a presumption that control functions enter into the picture only after initiatives have been completed by the first line, which is not how insurers operate. The emphasis should be on outcomes created by an effective control function, not the independence and stature of the function itself.</p>	<p>See response to comment 83.</p>
Q24 Comment on paragraph 21				
87. CRO Forum	Europe	No	<p>No comment, however the paragraph appears incomplete.</p>	<p>We confirm that the paragraph is complete (three dots have been removed to avoid confusion).</p>
88. General Insurance Association of Japan	Japan	No	<p>In paragraph 8, an internal controls system is defined as a system for ensuring adequate control of risks. Also, in paragraph 10, control functions are defined as part of the internal controls system. However, in this paragraph, since risk management and internal controls are dealt with in parallel, we propose the</p>	<p>The current wording is in line with ICPs. Please refer to ICP 8.3.1: "As part of the effective systems of risk management and internal controls,</p>

			<p>following revisions to unify usage of the term "internal controls' within the AP as follows (please also refer to our comments on paragraph 27):</p> <p>As noted in ICP 8.3, as part of an effective system of internal controls, "the supervisor requires the insurer to have effective control functions with the necessary [...] independence..."</p>	<p>insurers have control functions, including for risk management, compliance, actuarial matters and internal audit."</p>
Q25 Comment on paragraph 22				
89. CRO Forum	Europe	No	No view on what appropriate could/would mean.	This should be determined on a case-by-case basis.
90. General Insurance Association of Japan	Japan	No	<p>While it is stated that "the supervisor should assess how well an insurer's functions align with good practices", "good practices" are not clearly defined. Therefore, we suggest deleting "align with good practices" as below, or adding a definition:</p> <p>the supervisor should assess how well an insurer's functions are compliant with governance requirements.</p>	<p>The reference to good practices has been kept, as these considerations might be useful for supervisors in assessing the independence of control functions. It has also been specified that "good practices applied across the insurance sector" are referred to.</p>
91. National Association of Insurance Commissioners	United States	No	<p>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 36 does); suggest:</p> <p>The central role of control functions and their level of independence may be adversely impacted depending how these functions are considered, established, and positioned in the reporting structure within the insurer. Additionally, remuneration practices and processes for dealing with conflicts of interest may affect the independence of control functions. In this regard, the supervisor should assess how well an insurer's control functions align with good practices and are compliant with governance requirements.</p>	Change made.
Q26 Comment on paragraph 23				
92. CRO Forum	Europe	No	<p>Missing fitness and propriety here: integrity and ethical values of persons appointed; controls and business functions experience of the business, industry, etc.</p> <p>In this paragraph, as well as in other paragraphs, the focus is on the "avoidance' of</p>	The reference to suitability has been added.

			conflicts of interests'. We do not see the avoidance of conflicts of interest as a goal in itself. Conflicts of interest are not inherently wrong. Instead, we suggest rephrasing to the "proper identification and management of conflicts of interest.'	Conflicts of interests should be avoided in the first instance. If a conflict of interest cannot be avoided, it should be managed and its negative impact should be mitigated.
93. Insurance Europe	Europe	No	<p>On the third bullet point on remuneration, Insurance Europe suggests specifying that staff refers to "senior" staff.</p> <p>On the fourth bullet point on internal staff moves, the reference to time-limit restrictions should be deleted. While the identification and mitigation of potential conflicts of interest is important, a time restriction is not always an effective measure. Time restrictions have the downside of blocking the position shift, completely compromising the proper functioning of the control function at issue, while a conflict of interest might be mitigated by a more tailored solution (eg, phase-in of the control in the unit in which the person was previously engaged, etc.)</p>	<p>No change made. Remuneration of the control functions' staff other than senior may also be relevant when considering the independence of control functions.</p> <p>The reference to time-limit restrictions has been kept, as this is presented as an example to be considered. See also response to comment 97.</p>
94. Global Federation of Insurance Association	Global	No	<p>On the third bullet point, GFIA suggests specifying that the term "staff" refers to "senior" staff.</p> <p>On the fourth bullet point on internal staff moves, the reference to time-limit restrictions should be deleted. While the identification and mitigation of potential conflicts of interest is important, a time restriction is not always an effective measure. Time restrictions have the downside of actually blocking changes in position that could compromise the proper functioning of the control function at issue, while a conflict of interest might be mitigated by a more tailored solution.</p>	See response to comment 93.
95. International Actuarial Association	International	No	The IAA notes that independence may be achieved by outsourcing a control function but this independence can be compromised if the outsourcer is too dependent on retaining the firm as a client such that it is wary of being too critical or unsupportive of management. The outsourcing of a control function such as the actuarial function can be chosen to secure cost effective access to technical skills and expertise that may not exist or be affordable to an insurer. In this situation it is also important that the outsourced function be able to demonstrate its knowledge and control of relevant actuarial processes within the insurer.	Relevant consideration has been added in a new bullet in para. 23.

			The IAA suggests that the third bullet may need to be expanded to clarify some of the types of performance related remuneration. For example, does it include stock ownership?	For details about remuneration please refer to ICP 7.6.
96. The Geneva Association	International	No	<p>Examples given in this paragraph are too prescriptive and restrictive. For example, performance, remuneration and dismissal of Key Persons in Control Functions should not require prior approval by the Board. Additionally, remuneration that is "heavily dependent on the financial performance of insurer" alone should not be a red flag as this is common practice for senior management of insurers, including those in Control Functions, across the industry. In fact, remunerations tied to a company's performance, particularly with a deferred/ long-term component, can incentivise Key Persons in Control functions to implement a strong control framework as prudent and sound business practices maximizes the likelihood of long-term success of the business.</p> <p>Maintaining independence of Control Functions, minimizing conflicts, and mitigating excessive risk raking is a valid concern. However, clear reporting lines, documented roles and responsibilities and the assessment and management of internal conflicts of interests should sufficiently secure independence of Control Functions.</p> <p>In addition, while the identification and mitigation of potential conflicts of interest is important, a time restriction when a person can move from an operational function into a position as key person in a control function should not be required. Time restrictions may hinder a seamless transition of the roles, potentially creating a control gap when not done right. Conflicts of interest can be mitigated by a more tailored solution (e.g. phase-in with respect of the control vis-à-vis unit in which the person was previously engaged, etc.).</p>	<p>No new requirements are prescribed in this section, these are questions for supervisors to consider. The first bullet is in line with ICP 8.3.4. The third bullet is in line with ICP 7.6 and supporting guidance, according to which there should be an appropriate mix of fixed and variable components.</p> <p>Not agreed. Additional measures may be needed to secure independence of control functions.</p> <p>The reference to time-limit restrictions has been kept (but merged with another bullet), as this is presented as an example to be considered. See also response to comment 97.</p>
97. General Insurance Association of Japan	Japan	No	<p>With regard to the question, "Are the appointment, performance assessment, remuneration and dismissal of Key Persons in Control Functions subject to the approval of, or the consultation with, the Board or relevant Board Committees?", individuals whose approvals are required by the Board etc. are determined in consideration with the practical situation of each company. We would like to confirm that Board approval is not warranted for the appointment, performance assessment, remuneration and dismissal of positions including and below heads of department.</p> <p>The meaning of the following phrase is not entirely clear. "For example, having time-limited restrictions for when a person responsible for an operational function</p>	The bullet refers to the Key person of Control Functions and therefore does not intend to cover all employees supporting control functions.

			<p>(which may involve risk-taking), is able to take over as a Key Person in Control Function?" We would construe the phrase to mean as follows: "For example, are there time-limited restrictions when a person responsible for an operational function (which may involve risk-taking), takes over as a Key Person in Control Function?"</p> <p>Based on the above interpretation, it is a common practice in Japanese companies for employees to transfer from the first line to the second or third line. Furthermore, instead of time-limited restrictions, it is expected that audits and monitoring of the immediately preceding department may be addressed by modifying how the task is carried out, such as forming audit and monitoring teams of multiple people. Therefore, we suggest deleting the sentence "For example, having time-limited restrictions for when a person responsible for an operational function (which may involve risk-taking), is able to take over as a Key Person in Control Function?"</p>	The bullet has been merged with another bullet to place it as an example in a more relevant context.
98. APCA	United States	No	<p>On the third bullet point, APCA suggests specifying that the term "staff" is referring to "senior" staff.</p> <p>On the fourth bullet point on internal staff moves, the reference to time-limit restrictions should be deleted. While the identification and mitigation of potential conflicts of interest is important, a time restriction is not always an effective measure. Time restrictions have the potential negative downside of blocking a shift in positions, thus compromising the proper functioning of the control function at issue. A conflict of interest might be able to be mitigated by a more tailored solution.</p>	<p>See response to comment 93.</p> <p>The reference to time-limit restrictions has been kept, as this is presented as an example to be considered. See also response to comment 97.</p>
99. American Council of Life Insurers	USA	No	<p>We believe these bullets are too prescriptive. With regard to remuneration, we believe these decisions should be left to the discretion of company management. Conflict of interest is a critical issue in times of internal personnel transfers, the sound implementation of governance, and clarified roles and responsibilities, and its oversight should sufficiently mitigate the conflict. Time-limited restrictions are not practical. There are also benefits of transferring personnel from the first line to the second or third line functions - it allows for a deeper understanding of an insurer's business practices and culture and the identification of control enhancement opportunities.</p>	See responses to comments 96 and 98.
Q27 Comment on paragraph 24				
100. CRO Forum	Europe	No	<p>This paragraph presents an example on the responsibilities of the risk management and actuarial functions, as potentially overlapping as they relate to quantitative risk assessments. We believe that both functions play an important role in these</p>	The comment seems to refer to paragraph 28.

			assessments. Furthermore, due to jurisdictional differences, size of firm, etc., there may be other functions with overlapping responsibilities (depending where the responsibility also lies, e.g. Finance function). We believe that a focus on clear communication or roles and responsibilities may be a better outcome-based approach with regards to these quantitative assessments.	We confirm that cooperation amongst control functions is important. The need for cooperation is mentioned in paragraph 31. It has also been highlighted in paragraph 14 and 29.
Q28 Comment on paragraph 25				
101. CRO Forum	Europe	No	No comment.	Noted.
Q29 Comment on paragraph 26				
102. CRO Forum	Europe	No	<p>1st bullet: Mixing reporting lines with unobstructed access to information. Not the same.</p> <p>3rd bullet: It should be clear though that this paragraph is primarily aimed at the involvement in executive decision making, not in the involvement in 'other' tasks and 'projects' per se. In fact, the timely and appropriate involvement of control functions in projects and tasks is crucial for effective and efficient is management. The overly strong focus on "independence" in this bullet is misguided. It presumes a subsequent, isolated and siloed role of control functions, after projects have been finalized by the 1st line/the business or fully independent from the 1st line. This is a theoretical approach that does not correspond with efficiently running an insurer nor with effective risk management.</p> <p>Last bullet: the topic of a 1st line having a dominant personality is a strange statement. We suggest deleting this bullet.</p>	<p>The reference to access to information has been removed.</p> <p>The wording is aimed at covering in general potential activities that could introduce bias in their professional judgment to carry out their roles with independence, with inclusion of a relevant example. This example refers to participation in decision-making, whereas it does not cover advising decision-makers as well as reviewing and assessing the decisions made. As stated in ICP 8.3.8: "The head of the control function should not have operational business line responsibilities." The wording has been changed to "active participation", to make it clearer.</p> <p>See response to comment 103.</p>

<p>103. Insurance Europe</p>	<p>Europe</p>	<p>No</p>	<p>With regard to the last bullet point, the dominant personality is a subjective concept on which to base a governance framework or supervisory practice. It can be perceived differently by different people, etc. What matters is the fitness and propriety of the Key Function Holders, not the personality of their counterparts.</p>	<p>Those signs should not be treated as a list of findings that lead in every case to a conclusion that the independence is compromised, but as examples of signs that an insurer's control functions may be lacking independence. The paragraph has been reworded to clarify this aspect.</p> <p>In this context, a dominant personality of a person in charge of the first line of defence might need to be considered as a possible sign of compromised independence of the control function. The wording has been changed to "person ... exercises an overly dominant personality", to refer to behaviour, which is less subjective.</p> <p>In general, the relevance of behavioural aspects in supervision of corporate governance has already been recognised by the IAIS, for example in the Application Paper on the Composition and the Role of the Board.</p> <p>In the IAIS view, in addition to the supervision of formal corporate governance arrangements, supervisors should be aware of potential challenges that may be posed by relevant behavioural aspects. The supervisor may find it difficult to assess those aspects of functioning of the insurer and to determine when and what measures</p>
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				should be taken. Such developments are often intangible and may be subject to supervisory judgement.
104. Global Federation of Insurance Association	Global	No	With regard to the last bullet point, the dominant personality is too subjective a concept on which to base a governance framework or supervisory practice. What matters is the fitness and propriety of the Key Function holders, not the personality of their counterparts.	See response to comment 103.
105. International Actuarial Association	International	No	In the second bullet, delete the "s' at the end of "Controls'.	The change has been made.
106. The Geneva Association	International	No	<p>Third bullet - We do not agree that the example given in this bullet ("participation in operational business lines' executive decision making") is an indication of risk. On the contrary, control function personnel having "a seat at the table" is a good control practice as it facilitates their review and assessment of risks related to business decisions and can prevent decisions from being made without sufficient risk consideration or risk mitigation. This allows control functions to independently and proactively advise on risks and effectively challenge the first line throughout the process. Furthermore, involvement in the decision making process enables the control function to timely escalate (whether to senior management and/ or Board) if there is excessive risk taking/ exposure beyond set tolerances - which is a manifestation of the independence, stature, governance and effective risk management.</p> <p>As to the last bullet - supervisors should not use personality as a factor to assess insurer's control environment. The dominant personality is a subjective perception, and supervisors should not rely on such a subjective observation when assessing effectiveness or appropriateness of control functions. Instead, supervisors should focus on the outcome of the control practices and environment.</p>	See responses to comments 102 - 103.
107. General Insurance Association of Japan	Japan	No	As an example of "Signs that the independence of an insurer's control functions may be compromised", it is stated that "The Key Persons in Control Functions are not given the opportunity to meet directly with the Board or the relevant Board committees and committee Chairs to discuss their work and identify concerns, if	As indicated in the Application Paper, its content is subject to the proportionality principle. The bullet is also phrased in a general way, as

			<p>any;". However, regarding communication between the Key Persons in Control Functions and the Board, various appropriate means should be recognized according to the size and location of respective insurance companies and their governance. Therefore, we propose adding "or to take alternative ways", as follows:</p> <p>The Key Persons in Controls Functions are not given the opportunity to meet directly or to take alternative ways with the Board or the relevant Board committees and committee Chairs to discuss their work and identify concerns, if any;</p>	<p>it refers not only to the Board, but also Board committees and committee Chairs. No change made.</p>
108. APCA	United States	No	<p>With regard to the last bullet point, the dominant personality is a subjective concept to base a governance framework or supervisory practice on. It can be perceived differently by different people, etc. What matters is the fitness and propriety of the Key Function Holders, not the personality of their counterparts. In general, there is too much focus on "stature".</p>	<p>See response to comment 102.</p>
109. National Association of Insurance Commissioners	United States	No	<p>Suggest revising the start of the paragraph to better reflect that the bullets are examples and not the only indicators: There may be a variety of signs that the independence of an insurer's control functions may be compromised, such as 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.</p>	<p>Change made. Changed for "weak stature".</p>
110. American Council of Life Insurers	USA	No	<p>In the 3rd bullet, we do not agree that the example "participation in operational business lines' executive decision making" is an indication of risk to the independence of an insurer's control function(s). On the contrary, control function personnel having "a seat at the table" is a good control practice as it facilitates their review and assessment of risks related to business decisions and can prevent decisions from being made without sufficient risk consideration or risk mitigation.</p> <p>Similarly, in the 6th bullet, we do not believe that a "dominant personality" for a first line leader should be an indicator that the independence of an insurer's control functions may be compromised. Supervisors should not use personality as a factor to assess an insurer's control environment since it is highly subjective and cannot be a reliable indicator of the effectiveness of a control function(s).</p>	<p>See response to comment 102. See response to comment 103.</p>
<p>Q30 Comment on paragraph 27</p>				

111. CRO Forum	Europe	No	It is not clear what this paragraph is trying to achieve. We suggest rephrasing to: "Overlaps amongst controlled functions may exist as a strict distinction between 1, 2, and 3 lines is often problematic given the diverse organisational structures of firms. We encourage a focus on the clear communication of roles and responsibilities when functions overlap."	The current wording has been kept. The need for cooperation is covered by paragraph 31.
112. The Geneva Association	International	No	<p>Similar to the prior comment, the last sentence of the paragraph also points to a highly subjective indicator (assessing whether the Key Persons in Control Functions feel comfortable to speak out or not).</p> <p>We also disagree with the inclusion of the lone example and feel the section would benefit from being rewritten as follows - "..... To detect and assess the potential pressure from the business line, the supervisor should have a clear understanding of how the plans, strategies and profit targets of the business line, and market circumstances can give rise to such pressures [suggestion to delete following text: affect risk management and internal controls. Additionally, special circumstances could also generate pressure from the production line. For example, in a situation where an insurer is losing market share, the emphasis of the insurer could be on boosting production at the expense of weaker controls. A clear separation between execution and control is of primary importance in this case."[end of section we recommend to be deleted]] We note that the importance of separation is sufficiently addressed elsewhere in the application paper.</p>	<p>The wording has been changed to "exhibit comfort with speaking out".</p> <p>Additional language has been added to para. 28. However, the existing text has been kept. The subjective indicators, even if difficult to assess, should not be ignored by supervisors.</p>
113. General Insurance Association of Japan	Japan	No	<p>In paragraph 8, the internal controls system is defined as a system for ensuring adequate control of risks. Also, in paragraph 10, control functions are defined as part of the internal controls system. However, in this paragraph, since risk management and internal controls are dealt with in parallel, we propose the following revisions to unify usage of the term "internal control" within the AP as follows (please also refer to our comments on paragraph 21):</p> <p>This can happen when the business line focuses on the performance of the business and places it above the importance of effective internal controls within the insurer.</p>	Not agreed. Control functions also play an important role in the risk management system. No change made.
114. American Council of Life Insurers	USA	No	We disagree with the lone example and suggest that the latter part of the paragraph be replaced with the following: "To detect and assess the potential pressure from the business line, the supervisor should have a clear understanding of how the	See response to comment 112.

			plans, strategies and profit targets of the business line, and market circumstances can give rise to such pressures." The importance of separation is sufficiently addressed elsewhere in this Paper. In addition, the last sentence of this paragraph - "Assessing whether the Key Persons in Control Functions feel comfortable to speak out or not..." - is also a highly subjective indicator.	
115. Liberty Mutual Insurance Group	USA	No	This paragraph suggests "he performance of the business » as a metric is separate from « effective risk management and internal controls within the insurer." To the contrary, the latter two topics are inherently part of the first. This is just one of the reasons why complete independence of control functions from management is unsound and can actually be counter-productive by leading to inappropriate or less than effective outcomes.	The text has been kept, but slightly revised to highlight the most relevant aspect.
Q31 Comment on paragraph 28				
116. CRO Forum	Europe	No	No comment.	Noted.
117. International Actuarial Association	International	No	It is stated in this paragraph that the responsibilities of the risk management function and the actuarial function could conflict as regards quantitative risk measurement. The paragraph paints this situation as a concern for supervisors. The IAA believes this is an incorrect view of the vast majority of cases in which CRO's and actuarial functions (i.e., second line of defence) interact constructively to share their perspectives on the risks of the insurer.	The paragraph focuses on possible challenges, while it is recognised that in most of the cases there might be an efficient cooperation between those two control functions. The importance of efficient cooperation and communication among control functions has also been recognised in in paragraphs 14 and 29.
118. General Insurance Association of Japan	Japan	No	<p>While it is stated that "For example, the responsibilities of the risk management function and the actuarial function could conflict as regards quantitative risk assessments, such as model risk.", but whether or not such conflict exists depends on which department is in charge of the business and which department checks the business. Since it could be misleading to present it as a general example, it should be deleted, or the following phrase "depending on the separation of responsibilities between functions or within a function" should be added as follows:</p> <p>For example, depending on the separation of responsibilities between departments or within a department, the responsibilities of the risk management function and the</p>	No need to add the proposed text. As indicated in para. 27, the example refers to situations where "the responsibilities assigned to control functions are not clearly defined and potentially conflict with responsibilities of other functions.

			actuarial function could conflict as regards quantitative risk assessments, such as model risk.	
Q32 Comment on paragraph 29				
119. CRO Forum	Europe	No	A way to address this is to promote the support of more mature control functions to the less mature control functions and share historical learnings for setting up a mature function. This underlines the need and added value of cooperation between function instead of the emphasis on separation of functions and a siloed approach.	Relevant wording has been added to the paragraph.
120. National Association of Insurance Commissioners	United States	No	It is not clear what or whose "independence criteria" is being referred to; suggest: Another challenging situation with independence could be created	The change has been made.
Q33 Comment on paragraph 30				
121. CRO Forum	Europe	No	Following guidance is fine but the living of a strong controls culture by the first line also helps to bolster control function effectiveness.	This aspects seems to be covered in paragraph 29.
Q34 Comment on paragraph 31				
122. CRO Forum	Europe	No	A potential solution is being proposed but the problem is assumed to be well known.	Noted.
Q35 Comment on paragraph 32				
123. CRO Forum	Europe	No	No comment.	Noted.
124. Insurance Europe	Europe	No	This paragraph seems to imply there could be a conflict of interest when certain control functions are combined in senior management functions, which contradicts the good practice in place in insurance undertakings. There are cases where control functions such as the risk control function are part of senior management or even of the board itself (eg, chief risk officer). Control functions should be implemented at a higher hierarchical level to ensure independence, positioning, direct reporting lines to the management board and all the other conditions mentioned in the paper under section 3. This paragraph should recognise that a conflict can only arise when a control function is combined with certain functions (eg, risk-taking function).	See responses to comments on Section 6.

125. Global Federation of Insurance Association	Global	No	GFIA suggests deleting this paragraph: the IAIS should not prohibit the combination of key functions, especially for small companies. There are cases where control functions such as the risk control function are part of senior management or even of the board itself (eg, chief risk officer). Control functions should be implemented at a higher corporate level to ensure independence, positioning, direct reporting lines to the management board and all of the other conditions mentioned in the paper under section 3.	See responses to comments on Section 6.
126. The Geneva Association	International	No	This paragraph seems to imply that holding a Key Function and simultaneously holding a senior management position conflict with each other. In our view, this statement is too broad: a conflict can only arise if the senior management position held in addition to the Key Function is related to an operative / business function. This should be specified.	See responses to comments on Section 6.
127. APCIA	United States	No	APCIA suggests deleting this paragraph. IAIS should not prohibit the combination of key functions, especially for small companies. There are cases where control functions such as the risk control function are part of Senior Management or even of the Board (e.g., Chief Risk Officer). Control functions should also report to a level to ensure the independence, positioning, and direct reporting lines, as appropriate and all the other conditions mentioned in the paper under section 3.	See responses to comments on Section 6.
Q36 Comment on paragraph 33				
128. CRO Forum	Europe	No	No comment.	Noted.
129. Insurance Europe	Europe	No	General comment on section 3.2: Insurance Europe welcomes every reference to help apply proportionality to remuneration.	Noted.
130. Global Federation of Insurance Association	Global	No	Remuneration is a function that should be left to company management. Supervisors should be limited to asking questions in cases where the remuneration system incentivises a pattern of behaviour inconsistent with applicable legal standards.	Noted. The paragraph quotes relevant ICP guidance.
131. APCIA	United States	No	Remuneration is a function that should be left to company management. Supervisors should be limited to asking questions in cases where the remuneration system incentivizes a pattern of behavior inconsistent with applicable legal standards.	See response to comment 130.

Q37 Comment on paragraph 34				
132. CRO Forum	Europe	No	Instead of focusing on the ratio fixed/variable compensation, the CRO Forum believes a full consideration of factors is required. Other levers than links to business performance could be solution, but too much reliance on fixed remuneration has disadvantages as well (Attracting talent/skills, flexibility/resilience) and variable compensation could still be acceptable, if linked to proper incentives.	Paragraph quotes relevant ICP guidance, which states that there should be an appropriate mix of fixed and variable components. In this regard, the second part of this paragraph has been revised to clarify the intention and to suggest that supervisors should gain comfort that the variable remuneration of the Key Persons in Control Functions is not overly tied to shorter-term business performance.
133. Insurance Europe	Europe	No	The proportions of the remuneration should not be given a particular stress when assessing the effectiveness of the remuneration package. This contradicts with ICP guidance 7.6.10 which has another bullet point which explicitly recognises the possibility that the variable component can be a significant part of an effective remuneration package. What needs to be assessed by supervisors is whether there are appropriate checks and balances. It also notes that fixed remuneration can be less of a long-term incentive than variable remuneration, in particular if the latter is subject to deferral and downward adjustments.	See response to comment 133. Additional wording regarding checks and balances has been added at the end of paragraph 33.
135. The Geneva Association	International	No	We believe the mix of fixed and variable remuneration is an item that should be determined by the insurer and based on its assessment of considerations including the objectives the compensation is tied to, the need to attract and retain skilled talent, etc. The final sentence of the paragraph goes beyond the guidance of ICP 7.6.10 by suggesting how this should be interpreted and applied in practice without consideration of the other aspects that influence the mix of fixed and variable remuneration or could guard against excessive risk taking in instances where the allocation of variable remuneration is high. In addition, shares should not be a mandatory remuneration component as proper incentives can also be set by other means. In addition, we disagree with the suggestion that the predominant portion of the remuneration is fixed. Fixed remuneration can even have a less long-term incentive than variable remuneration, in particular if the latter is subject to deferral and downwards adjustments.	See response to comment 133.

136. General Insurance Association of Japan	Japan	No	It is stated that "A good practice could also be to suggest insurers that the predominant proportion of the remuneration of the Key Persons in Control Functions be fixed in order to prevent them from depending too heavily on variable remuneration tied to business performance". Although fixing the remuneration of Key Persons in Control Functions is seen as good practice, the reason does not seem to be expressly stated. Therefore, we propose to either state the reason, or remove the sentence if it cannot be explained. It should also be recognized that it is difficult to adopt a different remuneration policy exclusively for Key Persons in Control Functions for a company that adopts a HR policy in which the division of duties of Key Persons change periodically.	See response to comment 133.
137. Liberty Mutual Insurance Group	USA	No	Supervisors have neither the authority nor the expertise to evaluate how insurers choose to compensate their personnel. Moreover, the paper's discussion about this issue needs to consider compensation from a principles-based or outcomes-oriented approach as to how an insurer implements its control functions. Analysis of the format of remuneration should not be done in isolation and should examine the range of considerations that go into an insurer's compensation system.	See responses to comment 132 and 133.
Q38 Comment on paragraph 35				
138. CRO Forum	Europe	No	We believe this paragraph is more balanced than paragraph 34, that merely seems to advocate more fixed pay.	Noted.
139. Global Federation of Insurance Association	Global	No	This paragraph is highly prescriptive. GFIA disagrees with the notion in the first subparagraph that control functions must be totally independent of achieving financial results and ask that the subparagraph be deleted. The second subparagraph strikes the right balance, while the third subparagraph is highly subjective and involves the regulator/supervisor too much in internal company operations.	Not agreed that this paragraph is prescriptive. It is based on relevant ICP standards and supporting guidance.
140. The Geneva Association	International	No	See the comment on paragraph 23 regarding the role of the Board with respect to remuneration for Control Functions. Further, it is unclear whether the IAIS is suggesting the Board should be engaged in the development of the remuneration policy of the Control Function as a whole or only for Key Persons within it. In addition, the application paper states that remuneration should be "adequate to attract and retain staff with the requisite skills, competencies, knowledge, and expertise to discharge those control functions effectively" A few paragraphs earlier	The first bullet refers to the Board approving criteria for Key Persons in Control Functions. See responses to comments on paragraph 34.

			the paper states that the predominant part of the remuneration of the Key Persons in Control Functions should be fixed. For the role of CRO, Chief Actuary etc. to be attractive to experienced high-level executives, compensation needs to be tied to business performance, similar to the way it is done in the first line. Compensating those on a senior control function role differently will diminish the status of that role within the company.	
141. General Insurance Association of Japan	Japan	No	While it is stated that "the control functions' remuneration should be defined with the approval of, or after consultation with, the Board or a relevant committee of the Board.", individuals requiring approval by the Board etc. are determined in consideration with the practical situation of each company. We would like to confirm that Board approval is not warranted for remuneration of those in positions including and below heads of department.	The language has been revised to clarify that it refers to "the approach to control functions' remuneration".
142. APCA	United States	No	This paragraph is highly prescriptive. We disagree with the notion in the first subparagraph that control functions must be totally independent of achieving financial results and ask that the subparagraph be deleted. We do think that the second subparagraph strikes the right balance. The third subparagraph is too highly subjective and enmeshes the regulator/supervisor too much in internal company operations.	Not agreed that this paragraph is prescriptive. It is based on relevant ICP standards and supporting guidance.
143. American Council of Life Insurers	USA	No	We believe this section on remuneration is overly intrusive.	Noted.
144. Liberty Mutual Insurance Group	USA	No	The IAIS should reconsider this paragraph's discussion of remuneration because it combines the paper's excessive concerns about remuneration with its overly detailed guidance about the role of an insurer's board. The IAIS should not be prescribing compensation methods, nor should it be dictating what level of involvement an insurer's board should have in compensation considerations. This discussion exceeds the role of a supervisor.	There are no compensation methods prescribed in the Application Paper. The paper provides suggestions for how supervisors should assess compensation packages, including whether they are adequate to attract and retain talent. See also responses to other comments on this paragraph as well as responses to comments on paragraph 34.

Q39 General comments on Section 4: Stature of control functions				
145. CRO Forum	Europe	No	No comment.	Noted.
146. Global Federation of Insurance Association	Global	No	<p>GFIA has significant concerns with this section. While, as a general principle, control functions should have the authority they need to remain quasi-independent, this section involves the supervisor too much in the internal workings of the company.</p> <p>Again, there is an overemphasis on independence and stature, which should not be ends in themselves and are highly subjective. There seems to be a presumption that control functions enter into the picture after initiatives have been completed by the first line, which is not how insurers operate. The emphasis should be on outcomes created by an effective control function, not the independence and stature of the function.</p>	<p>Noted. In the IAIS view, the independence and stature of control functions are necessary to achieve the desired outcomes.</p> <p>In the IAIS view, supervisors should be aware of potential challenges that may be posed by subjective aspects of the control functions' functioning. The supervisor may find it difficult to assess them and to determine when and what measures should be taken. Such developments are often intangible and may be subject to supervisory judgement.</p> <p>Regarding involvement of control functions in relevant discussions and initiatives early in the process, see also changes made at the end of para. 14.</p>
147. Institute of International Finance	United States	No	<p>Paragraph 40 states that, "[g]iven limited resources, some insurers choose to allocate staff with specialized skills first to business operations. This can leave a shortfall of necessary skills and expertise for the control function." We do not believe these statements accurately reflect the control functions in the vast majority of insurers and we propose the deletion of these statements, which may lead to an inaccurate perception of the industry.</p> <p>In Paragraph 43, the fourth bullet refers to suitability assessments. We propose rephrasing the first sub-bullet under that fourth bullet to read, "Supervisors may have a role in reviewing the suitability assessments that are conducted by the</p>	<p>This sentence is based on actual observations of supervisors. However, the language has been revised to describe it as a potential challenge.</p> <p>See response to comment 178.</p>

			<p>insurer or may have further powers for pre-approval of individuals and/or assessments;"</p> <p>While we appreciate the need for sufficient staff in all areas of an insurer's operations, we believe that the emphasis on the size of staff in Paragraph 45 is misplaced. Indeed, too large a staff could lead to a lack of clarity as to roles and responsibilities and a corresponding lack of accountability. A large staff could also lead to a false sense of security as to the quality of the control functions for both the insurer and its supervisor(s). The comments in Paragraph 47 regarding resources being stretched thin when insurers combine responsibilities should be balanced with a reference to the potential efficiencies that can be achieved when responsibilities are combined in an appropriate manner that reflects the nature, scale and complexity of the activities and risks of the organization.</p> <p>We encourage the IAIS to guide supervisors to objective criteria instead of subjective characteristics when assessing the stature of control functions as part of the overall evaluation of control function effectiveness. Objective criteria could include the resolution of control function concerns and exception reports, as noted in Section 4.3, as well as consideration of the outcomes of the control function activities - that is, do they promote an environment of prudent risk management.</p> <p>With respect to Paragraph 55, we note that the regular attendance of supervisors at board or committee meetings may impede candid discussion. We recommend the revision of this paragraph to refer to occasional supervisory attendance or attendance as needed in those jurisdictions where supervisory attendance at board meetings is an established practice.</p>	<p>The language in para. 45 has been revised to refer to "appropriate quantity of skilled staff". While survey results included concerns from supervisors regarding insufficient staffing for control functions, there were no examples of supervisors expressing concerns with excessive staffing. Some benefits of combining control functions are recognised in Section 6, referred to in paragraph 47.</p> <p>Noted.</p> <p>See responses to comments on paragraph 55.</p>
148. American Council of Life Insurers	USA	No	<p>There is an overemphasis on independence and stature, which should not be an ends in themselves, and they are highly subjective. There seems to be a presumption that control functions enter into the picture only after initiatives have been completed by the first line, which is not how insurers operate. The emphasis should be on outcomes created by an effective control function, not the independence and stature of the function itself.</p>	<p>As indicated in the Introduction, effective control functions with necessary independence, stature and resources help insurers identify and manage risks. In contrast, ineffective control functions may weaken an insurer. Therefore, the focus is not on independence and stature itself, but with the view of its</p>

				impact on effectiveness of control functions and, more broadly, on an insurer.
Q40 Comment on paragraph 36				
149. CRO Forum	Europe	No	<p>'Stature' is defined only in this paragraph, while it is already used earlier in the document. Suggest moving this paragraph.</p> <p>In addition, the ability to partner with the business, not only to operate independent and in a siloed manner from the business and from other control functions, should be recognised as being part of the stature.</p>	Paragraph 36 opens the relevant section of the paper, and in other places it is usually indicated that this issue is described in Section 4.
150. Insurance Europe	Europe	No	The paper should recognise the ability of control functions to cooperate with the other functions and business units as another element supporting the stature, in addition to the ability to operate independently in a silo.	The paper does not suggest that the control functions should operate in a silo. The importance of cooperation has been reiterated in paras. 14 and 29.
151. Global Federation of Insurance Association	Global	No	As an example of the concern expressed in the comment above, this paragraph puts the supervisor in a position of making subjective judgments about whether the control functions have the "skills, competence, knowledge, experience and level of authority to effect change". Hiring and firing of competent personnel is the role of company management, and management is accountable if the enterprise fails.	The paper is in line with IAIS supervisory material. Please refer to, for example, ICP 8.3 and ICP 5.2.
152. International Actuarial Association	International	No	The IAA agrees with the importance of stature for a control function, that the person(s) involved have the necessary skills, experience and respect for their role. The IAA notes that, on occasion, titling of positions can confuse supervisors (or other outside stakeholders) as to the person(s) who truly are responsible for a control function (e.g. in some jurisdictions the head of the actuarial function need not be formally designated by the Board to the supervisor). An additional challenge is that titling is not consistent across companies.	Noted.
153. APCIA	United States	No	<p>We have significant concerns with this section. While as a general matter, control functions should have the authority they need to remain quasi-independent, this section too closely interjects the supervisor into the internal workings of the company.</p> <p>As an example of the concern expressed in our comment above, this paragraph puts the supervisor in a position of making subjective judgments about whether the</p>	See response to comment 151.

			control functions have the "skills, competence, knowledge, experience and level of authority to affect change". Hiring and firing of competent personnel is the role of company management and that management is accountable if the enterprise fails.	
154. Liberty Mutual Insurance Group	USA	No	Other than at a very high level, supervisors likely are not qualified, nor are they generally authorized to "assess whether persons in control functions have the necessary skills or expertise." Except in the most extraordinary circumstances, supervisors should not have, nor would they want, veto authority over insurer hiring decisions.	Noted. Please refer to ICP 8.3 and ICP 5.2.
Q41 Comment on paragraph 37				
155. CRO Forum	Europe	No	Some guidance on appropriate skills would be helpful. Just controls experience without business experience and vice versa would not necessarily mean appropriate. Some guidance on what is meant by "type of people" would be helpful.	This depends on many factors. Therefore, the meaning of appropriate skills should be determined in a relevant context. The reference to "type of people" replaced with "appropriate quantity of skilled staff".
156. Insurance Europe	Europe	No	The last point should be deleted. Positive findings are not an appropriate indicator of the ability of control functions to ensure a good level of independence.	This is one of examples of possible indicators of problems with the stature, which should be considered in the context of other relevant findings.
157. Global Federation of Insurance Association	Global	No	See the comment above, which is equally applicable to this paragraph.	See response to comment 151.
159. International Actuarial Association	International	No	The bullets in this paragraph are most useful for supervisors and can help them assess the effectiveness of the control function. For example, in assessing the effectiveness of the actuarial function a practical supervisory technique can be (as suggested in the last 2 bullets) to discuss with the actuarial function their concerns, findings and recommendations and how they were handled/resolved within the insurer. The responses will help to reveal the effectiveness of the control function.	Noted.

160. APCIA	United States	No	See our comment above, as equally applicable to this paragraph.	See response to comment 153.
Q42 Comment on paragraph 38				
161. CRO Forum	Europe	No	The CRO Forum does not consider this to be a helpful paragraph. Providing 'evidence' of stature suggests a very theoretical and bureaucratic approach. One would expect that the question if someone will have sufficient 'stature' is addressed when a candidate is hired, during fitness & propriety assessments, in performance reviews, etc. We suggest deleting this paragraph, as it does not add much and is confusing.	"Evidence of" has been replaced with "information on".
162. Insurance Europe	Europe	No	Insurance Europe suggests replacing the word "evidence", which appears to be excessive, with the word "information".	See response to comment 161.
163. Global Federation of Insurance Association	Global	No	GFIA suggests replacing the word "evidence", which appears to be excessive, with the word "information".	See response to comment 161.
164. APCIA	United States	No	APCIA suggests replacing the word "evidence", which appears to be excessive, by the word "information".	See response to comment 161.
Q43 Comment on paragraph 39				
165. CRO Forum	Europe	No	Broad statement. Should highlight skills more concretely.	This paragraph refers to most relevant parts of IAIS supervisory material, which provides further details.
Q44 Comment on paragraph 40				
166. CRO Forum	Europe	No	We suggest deleting this paragraph as it does not have added value. Organisations always have to balance skills and resources. While control functions have to have the skills and resources to challenge, the solution will always be a balance: building up the same level of skills and expertise on various places in the organisation is not likely to be viable option for any organisation. Insurers do not have that luxury. To a certain extent, reliance on skills and expertise between functions and between lines	The paragraph has been maintained, as it provides examples of why there may be staff qualification concerns specifically within control functions.

			is inevitable and not something that should be avoided per se. For this reason, collaboration between functions and lines should be encouraged, as long as responsibilities remain clear.	
Q45 Comment on paragraph 41				
167. CRO Forum	Europe	No	No comment.	Noted.
168. Global Federation of Insurance Association	Global	No	While the paragraph is currently limited to setting priorities for staffing control functions in succession planning, any further intrusion into succession planning should be avoided. This paragraph appropriately encourages supervisors to pay attention to whether an insurer properly prioritises control functions in relation to staffing and does not look into the content of the succession plan. It is GFIA's view that succession planning is the unique responsibility of management, not the supervisor.	Noted.
170. International Actuarial Association	International	No	The IAA suggests that the key point to be made is that supervisors assess whether an appropriate balance is in place between the various control functions (level 2) and the operational (level 1) activities of the insurer. Having either one of them dominate the other may ultimately be harmful to protecting policyholders.	The language has been revised to make it more balanced. It should be noted that the text does not involve the supervisor in actual succession planning, but indicates that supervisors may need to question the insurer on this matter.
171. APCIA	United States	No	While the paragraph is currently limited to setting priorities for staffing control functions in succession planning, any further intrusion into succession planning should be avoided. This paragraph encourages supervisors to pay attention to whether an insurer properly prioritizes control functions in relation to staffing and does not look into the content of the succession plan. It is our view that succession planning is the unique responsibility of management, not the supervisor.	See response to comment 170.
Q46 Comment on paragraph 42				
172. CRO Forum	Europe	No	No comment.	Noted.
173. International	International	No	The IAA supports the IAIS view that assessing the effectiveness of a control function is not straightforward. In reviewing the different approaches used by	The paragraph describes different possible approaches (ie on-site

Actuarial Association			supervisors, the IAA suggests that some (e.g. periodic on-site reviews) are likely to provide much more pertinent information about control function effectiveness than others (e.g. desk reviews of filed documents). It is true the latter can be helpful but without follow-up, they may not provide sufficient evidence by themselves of control function effectiveness. The IAA suggests this be pointed out in the AP.	visits and desk review), but leaving it up to the supervisor to decide which method(s) would be used.
174. National Association of Insurance Commissioners	United States	No	Typo: most supervisors responded that they use a combination of methods	This has been corrected.
Q47 Comment on paragraph 43				
175. CRO Forum	Europe	No	No comment.	Noted.
176. Global Federation of Insurance Association	Global	No	<p>This section, in total and in its individual parts, provides too much opportunity for intervention in a company's internal operations, including the pre-approval of key persons. Accordingly, GFIA believes it should be thoroughly reconsidered.</p> <p>The observation of board meetings is also very intrusive and is over-stepping by regulators, in our view. Such intrusion could stifle discussion and be harmful. Likewise, involving the supervisor in candidate recruitment or interviewing is an inappropriate mixing of the role of the supervisor with that of company management and the board.</p>	The paper provides a supervisory toolkit aimed at facilitating supervision of control functions. Supervisors are encouraged to apply suggested supervisory practices as needed and relevant.
177. International Actuarial Association	International	No	The IAA is supportive of the bullet points made in this paragraph but suggests there is need for an additional bullet identifying how control issues, key risks etc., were handled; evidence of governance and risk management discussions; and evidence of linkages with both senior management and operational units.	This seems to be covered by the list of bullets in paragraph 37.
178. The Geneva Association	International	No	The following reference in the first bullet under "Suitability assessments" is inconsistent with the introduction of the paragraph that notes the bullets points "expand on some of the supervisory methods and focus points adopted for assessing stature". We suggest to rephrase as follows: [delete: "Most] Supervisors may have a role in reviewing the suitability assessments that are conducted by the insurer or have further powers for pre-approval of individuals and/or assessments, including interviewing candidates;"	The statement is supported by the results of the survey conducted to support the development of this paper. However, in order to use more neutral wording, "most" has been replaced with "many".

179. APCA	United States	No	This section in total and in its individual parts provide too much opportunity for intervention into a company's internal operations, including the pre-approval of key persons. Accordingly, we believe it should be revised.	See response to comment 176.
180. National Association of Insurance Commissioners	United States	No	Second bullet, should "control function" be plural? Or both: "Periodic review of the control function(s)..."	Changed to plural.
181. American Council of Life Insurers	USA	No	The observation of board meetings by regulators would be very intrusive and would stifle or chill discussion among board members. We also view a supervisor's involvement in the recruitment and/or interviewing of candidates as an extreme over-stepping of an insurer's management and board.	See response to comment 176.
Q48 Comment on paragraph 44				
182. CRO Forum	Europe	No	<p>We do not understand the message. Is this geared toward supervisors or toward management?</p> <p>It should be noted that hiring expertise, engaging specialists/ training should be kept to proportional levels. Supervisors do not necessarily have to be (or engage) highly specialized experts to assess the expertise and controls in organizations. First and foremost, insurers must be able to explain this well to supervisors.</p>	<p>This paragraph refers to supervisors having relevant skills and knowledge.</p> <p>Noted.</p>
183. International Actuarial Association	International	No	<p>This paragraph indicates it can be difficult for supervisors without their own actuarial expertise to assess the skills and experience of an insurer's actuarial function. The IAA understands that having access to such expertise would be beneficial to supervisors. However, the IAA notes that actuaries commonly have a duty to report on their work and "any communication should be appropriate to the particular circumstances and take the skills, understanding, levels of relevant technical expertise, and needs of the intended user into consideration to allow the intended user to understand the implications of the actuary's communication' (ISAP 1). Supervisors can gain an understanding of the skills and experience of the actuarial function in a variety of ways including,</p> <ul style="list-style-type: none"> - Disclosure by the actuary(ies) involved of their professional qualifications, work experience, - References from current and past employers/clients 	Noted.

			<ul style="list-style-type: none"> - Examples of current reports, findings, recommendations etc. - Comparison of high-level work product against peers in the industry. - Feedback from Board members on their ability to understand the communications from the actuary 	
184. Liberty Mutual Insurance Group	USA	No	The statement that "most supervisors have a role in reviewing the suitability assessments that are conducted by the insurer or have further powers for pre-approval of individuals and/or assessments, including interviewing candidates" is an over-generalization and exaggerates the actual authority most supervisors have or choose to exercise on a practical level. This Application Paper should consider more carefully the differences among jurisdictions before making statements of this nature.	This is a comment on the previous paragraph (43). See response to comment 178.
Q49 Comment on paragraph 45				
185. CRO Forum	Europe	No	While this is an obvious statement, resource stretches will unnecessarily be exacerbated by putting unnecessarily much emphasis on separation of functions, rather than efficient collaboration, while maintaining a clear allocation of responsibilities.	Noted.
186. Insurance Europe	Europe	No	Insurance Europe would highlight that staffing is highly dependent on the size of the undertaking. ICP standard 7.3 recognises that the appropriate number of staff can differ between insurers.	Noted. It is confirmed that "sufficient quantity of staff" may differ from one insurer to another and should be assessed based on an individual situation of a particular insurer.
187. Global Federation of Insurance Association	Global	No	GFIA notes that staffing is highly dependent on the size of the undertaking.	See response to comment 186.
188. International Actuarial Association	International	No	It can also be difficult for small teams to have skills and experience in all aspects of actuarial work that may be needed, and this is where having the facility and budget to get additional support from external consultants can be beneficial, notwithstanding the outsourcing governance challenges which are covered elsewhere in the paper.	Noted.

189. The Geneva Association	International	No	This paragraph states that in addition to assessing whether control functions possess staff with the necessary skills and experience, it is also important to assess whether they have sufficient quantity of staff, and that if necessary, supervisors should emphasise to the Board and Senior Management the importance of appropriate staffing levels. ICP 5, ICP 8 and related ComFrame material do not include any language that suggests that the suitability of staff members would be judged based on the criteria established by the supervisors. Application papers should not go beyond ICPs and Comframe. Such prescriptive rules might have unintended consequences on human resources practices and business customs on jurisdictional level. We ask the IAIS to confirm/ clarify that this statement is not intended to recommend that the supervisory authorities determine the qualifications of individual staff members engaged in control functions, but simply indicate that the organization should have the necessary resources to fulfil the role of the control function.	We confirm that this statement is not intended to recommend supervisors to determine the suitability of individual staff members engaged in control functions, but it is aimed at highlighting that there should be appropriate quantity of skilled staff.
190. The Life Insurance Association of Japan	Japan	No	<p>- Paragraph 45 states "In addition to assessing whether control functions possess staff with the necessary skills and experience, it is also important to assess whether they have sufficient quantity of staff . . . If necessary, supervisors should emphasise to the Board and Senior Management the importance of appropriate staffing levels". ICP 5 and 8 as well as the related ComFrame material do not include any language that suggests that the suitability of staff members would be judged based on the criteria established by the supervisors. It is important to understand that setting a uniform standard for requiring expertise and limiting the scope of work might have unintended consequences on human resource functions and practices in each jurisdiction.</p> <p>- We would like to confirm this statement is not intended to recommend supervisors to determine the suitability of individual staff members engaged in control functions, but a simple recommendation that the organization has the necessary resources to fulfill the role of control functions.</p>	See response to comment 189.
191. APCIA	United States	No	APCIA notes that staffing is highly dependent on the size of the undertaking.	See response to comment 186.
Q50 Comment on paragraph 46				
192. CRO Forum	Europe	No	Statement of the obvious. Can be deleted.	Noted. The paragraph has been kept.

193. Liberty Mutual Insurance Group	USA	No	This paragraph's recommendation that control functions should periodically report to the insurer's Board intrudes into company flexibility. The focus should be on how an insurer obtains and responds to information collected and reported by control functions, not the degree to which the insurer's board is involved in that process.	This is a comment on the previous paragraph (44). The paragraph refers to raising concerns regarding appropriate staffing level to the Board. Reporting lines are considered by ICP 7 as part of the corporate governance framework and are thus subject to supervision of insurer corporate governance (see, for example, ICP 8.3.16-17).
Q51 Comment on paragraph 47				
194. CRO Forum	Europe	No	This paragraph should reflect that the outcome should be balanced. Efficiencies can be achieved when resources are combined in an appropriate manner that reflects the nature, scale, and complexity of the activities and risks of the organization. Sharing resources may well lead to more effective functions (sharing of knowledge, expertise and experiences).	Noted. See responses to comments on Section 6.
Q52 Comment on paragraph 48				
195. CRO Forum	Europe	No	<p>Reviewing minutes is cited first as means for assessing that key function holders have the skills to challenge the business. We disagree that this tool is given such a prominent status.</p> <p>(Board) minutes are not prepared for supervisors but for corporate record keeping purposes and depending on jurisdiction, culture, and corporate law requirements minutes may be elaborate (even verbatim) or more or less concise. The absence of references in board minutes to control functions might not give any indication of the actual involvement. The risk exists that supervisors will have an opinion on the manner in which minutes are prepared and draw inappropriate conclusions from the minutes. It is up to insurer to decide, taking into account corporate law requirements, how to prepare minutes.</p>	<p>While recognising that Board minutes are created for record keeping, minutes may be used by the supervisor as a source of relevant information. For this purpose, the supervisor may need to provide the insurer with feedback on the quality and content of the minutes. This part of para. 48 has been moved to the end of subsection 4.3.</p> <p>In general, as indicated in other places, the paper provides a supervisory toolkit aimed at facilitating supervision of control</p>

			<p>Other indicators are probably more relevant: timeliness of findings closure, repeat findings, etc.?</p> <p>The reference to internal audit findings is inappropriate. Findings of any control functions are relevant, without a specific priority.</p> <p>We don't understand why the following focus points are relevant for assessing the skills and experience of the control function, also because these two elements already have been covered in other paragraphs:</p> <ul style="list-style-type: none"> – Reviewing the clarity of allocation of responsibilities to the senior individuals in control functions and individuals with oversight responsibilities – Reviewing the remuneration policy covering staff in control functions for inappropriate incentives (see also Section 3.2) 	<p>functions. Supervisors are encouraged to apply suggested supervisory practices as needed and relevant</p> <p>These aspects are covered in paragraph 37.</p> <p>Not agreed. Findings of the internal audit function may be of particular relevance, due to specific role of this control function (ie, providing the Board with independent assurance in respect of the quality and effectiveness of the insurer's corporate governance framework.).</p> <p>This comment refers to paragraph 43. In some cases, the same supervisory practices are mentioned in different sections, because the same practice can be used for different purposes.</p>
196. Insurance Europe	Europe	No	<p>Insurance Europe would disagree with the prominent status given to analyses of meeting minutes, which is cited first as a means of assessing the ability of the key persons in control functions to challenge.</p> <p>Meeting minutes, particularly minutes of a board meeting, are not prepared for supervisors but for corporate record-keeping. It is up to insurers to decide how they prepare minutes, taking into account corporate law requirements. Meeting minutes may be elaborate (even verbatim) or more or less concise, depending on jurisdiction, culture, and corporate law requirements. The absence of references in board minutes to control functions might not give any indication of actual</p>	See response to comment 195.

			involvement. The risk exists that supervisors will draw inappropriate conclusions from the manner minutes are prepared, rather from the actual lack of involvement of control functions.	
197. Global Federation of Insurance Association	Global	No	Meeting minutes are not prepared for the benefit of supervisors and their level of detail vary by jurisdiction for legal reasons. Therefore, meeting minutes are not necessarily appropriate for assessing control functions.	See response to comment 195.
198. American Council of Life Insurers	USA	No	Meeting minutes are not prepared for the benefit of supervisors, and practices regarding the level of detail vary by jurisdiction for legal reasons. Therefore, meeting minutes are not necessarily appropriate for assessing control functions.	See response to comment 195.
199. Liberty Mutual Insurance Group	USA	No	Supervisors should not dictate the format of an insurer's meeting minutes as this is well outside the scope of an insurance supervisor's authority or expertise. Supervisors are not experts in corporate governance and lack the jurisdiction to prescribe the format and subject matter of corporate minutes. Moreover, corporate minutes in the United States are customarily relatively sparse, so it would not be appropriate for supervisors to "expect" how a Board and Senior Management discuss internal controls issues.	See response to comment 195.
Q53 Comment on paragraph 49				
200. CRO Forum	Europe	No	See our comment to paragraph 48. In our view minutes are not the best manner to assess position and stature of control functions.	See response to comment 195.
201. Global Federation of Insurance Association	Global	No	Meeting minutes are not prepared for the benefit of supervisors and their level of detail vary by jurisdiction for legal reasons. Therefore, meeting minutes are not necessarily appropriate for assessing control functions.	See response to comment 195.
202. American Council of Life Insurers	USA	No	Meeting minutes are not prepared for the benefit of supervisors, and practices regarding the level of detail vary by jurisdiction for legal reasons. Therefore, meeting minutes are not necessarily appropriate for assessing control functions.	See response to comment 195.
Q54 Comment on paragraph 50				
203. CRO Forum	Europe	No	Par 50: No comment.	Noted.

Q55 Comment on paragraph 51				
204. CRO Forum	Europe	No	Par 51: No comment.	Noted.
205. General Insurance Association of Japan	Japan	No	Citing ICP 8.3.17, it is stated that "the head of each control function should have the opportunity ... to meet periodically ... with the Chair of any relevant Board committee and/or with the Chair of the full Board". However, regarding communication, various appropriate means should be recognized according to the size and location of respective insurance companies and their governance.	Noted.
Q56 Comment on paragraph 52				
206. CRO Forum	Europe	No	Par 52: We agree with these points.	Noted.
Q57 Comment on paragraph 53				
207. CRO Forum	Europe	No	Par 53: We generally agree.	Noted.
208. Liberty Mutual Insurance Group	USA	No	This paragraph, as well as all of section 4.4, contains overly specific and rigid guidance about how a company's Board should go about obtaining information about an insurer's internal controls.	Noted.
Q58 Comment on paragraph 54				
209. CRO Forum	Europe	No	Par 53: We generally agree with this paragraph.	Noted.
Q59 Comment on paragraph 55				
210. Association of Bermuda Insurers and Reinsurers (ABIR)	Bermuda	No	The proposal set out in the Paper in certain areas, seems to insert the supervisor into roles that would overreach what would be expected in this capacity. In many sections of the Paper, the IAIS appears to suggest the supervisor should take on activities that would typically be the role of the company versus one who oversees/supervises the company. This is apparent in, for example, the following section: - 4.4.55 - a supervisor may attend Board and Committee meetings in order to assess how Key Persons communicate with and report to the Board.	The paper provides a supervisory toolkit aimed at facilitating supervision of control functions. Supervisors are encouraged to apply suggested supervisory practices as needed and relevant.

211. CRO Forum	Europe	No	<p>Par 55: The CRO Forum believes that it should be clear that attendance of board meetings, if at all, should refer to occasional supervisory attendance in those jurisdictions where supervisory attendance at board meetings is an established practice.</p> <p>The presence of supervisors in board meeting is likely to affect board dynamics as well, which should be taken into account.</p>	See response to comment 210.
212. Insurance Europe	Europe	No	This paragraph on the supervisor's attendance at board meetings should be deleted. Its benefit is not sufficiently justified.	See response to comment 210.
213. Global Federation of Insurance Association	Global	No	This paragraph on the supervisor's attendance at board meetings should be deleted. Its benefit is not sufficiently justified. GFIA notes that it can be justified only in extreme circumstances, for example when the viability of the company is seriously challenged.	See response to comment 210.
214. APCA	United States	No	This paragraph on the supervisor's attendance at Board meetings should be deleted. Its benefit is not sufficiently justified. APCA notes that such attendance can be justified only in extreme circumstances, for example when the viability of the company is seriously challenged.	See response to comment 210.
215. American Council of Life Insurers	USA	No	The observation of board meetings by regulators would be very intrusive and would stifle or chill discussion among board members.	See response to comment 210.
Q60 General comments on Section 5: Internal audit function				
216. CRO Forum	Europe	No	General comments on section 5: No comment.	Noted.
217. International Actuarial Association	International	No	The IAA recognizes the very important work of the internal audit function and the valuable guidance provided in section 5 but wonders why there is no specific guidance provided for the other control functions. The IAA suggests that the AP provide sufficient practical examples for each of the control functions, not just the actuarial function or internal audit.	The challenges related to supervision of control functions in general are covered by different parts of the paper. However, specific challenges were identified in the results of the survey of supervisors in relation to the internal audit function. Based on that, it was

				decided to cover those challenges in a separate section.
218. Institute of International Finance	United States	No	<p>Reporting lines can vary, depending upon the organizational and management structure of the insurer. A principles-based supervisory approach that focuses on the desired outcome (i.e. independence) allows the governing body of the insurer to implement the best structure for the organization consistent with supervisory goals.</p> <p>Internal audit should not be precluded from relying on the work of other control functions. Collaboration among the control functions can facilitate a holistic view of the effectiveness of the overall risk management and compliance posture of the organization and may allow for the better identification of any gaps in risk management or compliance.</p> <p>Paragraph 67 could point out the efficiencies and cost savings that can be realized when supervisors rely on the work of an effective internal audit function.</p>	<p>Noted. The paper recognises that supervisors often rely on the outcome of the internal audit function, and this is done for different reasons.</p> <p>It is internal audit function's responsibility to objectively assess the work of other control functions, rather than to rely on their work.</p>
Q61 Comment on paragraph 56				
219. CRO Forum	Europe	No	Par 56: No comment.	Noted.
Q62 Comment on paragraph 57				
220. CRO Forum	Europe	No	Par 57: No comment.	Noted.
221. International Actuarial Association	International	No	The IAA suggests that this paragraph (or a neighbouring one) mention the need for internal audit to have access to an appropriate diversity of expertise (e.g. actuarial, accounting etc.) to properly review the insurer's internal controls. While it is unlikely that an internal audit function could employ sufficient staff to directly address this diversity, some internal audit functions effectively make use of individuals with the relevant skill set who are seconded on a project basis from other areas of the insurer.	This issue is addressed in subsection 4.1. Skills and expertise in a more general way, in relation to all control functions.
Q63 Comment on paragraph 58				

222. CRO Forum	Europe	No	Par 58: No comment.	Noted.
Q64 Comment on paragraph 59				
223. CRO Forum	Europe	No	Par 59: The list here and the list in paragraph 37 should be more aligned as they serve the same purpose.	Paragraph 37 applies to all control functions whereas paragraph 59 focuses on internal audit function.
224. International Actuarial Association	International	No	The IAA suggests that another possible bullet relates to whether internal audit reviews demonstrate a lack of technical skills to properly assess the controls (see IAA suggestion for paragraph 57). The list here and the list in paragraph 37 could be more aligned as they appear to serve the same purpose.	The additional bullet has been added.
225. National Association of Insurance Commissioners	United States	No	Suggest revising the start of the paragraph to better reflect that the bullets are examples and not the only indicators: There may be a variety of indicators of problems related to effectiveness of the internal audit function, such as:	The change has been made.
Q65 Comment on paragraph 60				
226. CRO Forum	Europe	No	Par 60: Some IA functions are subject to external assessments by some Boards. This should be mentioned.	This is covered by the reference to independent reviews.
Q66 Comment on paragraph 61				
227. CRO Forum	Europe	No	Par 61: No comment.	Noted.
228. The Geneva Association	International	No	While we do not disagree that the internal audit function is independent from management and other control functions and is not operationally involved in the business, we would like to emphasize that, under exceptional circumstances, there may be justification for combining the two functions, provided that suitable accompanying measures to insure independence are in place. We are aware that there are jurisdictions where combining audit and operational functions is not permitted.	Noted.
Q67 Comment on paragraph 62				

229. CRO Forum	Europe	No	Par 62: Makes sense.	Noted.
230. The Geneva Association	International	No	Paragraph 62 includes that the internal audit function should only be combined with other control functions in exceptional circumstances. We would like to confirm that proportionality is applied here.	As indicated in the Introduction, the content of this paper is subject to the principle of proportionality.
231. National Association of Insurance Commissioners	United States	No	As paragraph 63 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.	The phrase has been deleted.
Q68 Comment on paragraph 63				
232. CRO Forum	Europe	No	Par 63: Not aware of too many jurisdictions that are amenable to a combination of IA with other control functions.	Noted.
233. National Association of Insurance Commissioners	United States	No	Typo: ...assessing whether combination of the internal audit function with second line of defence control function...	This has been corrected.
Q69 Comment on paragraph 64				
234. CRO Forum	Europe	No	Par 64: According to the CRO Forum this does not make sense. Having an independent IA should be considered in the overall calculation of administrative costs. Contradicts the objective of ensuring IA independence.	The example has been deleted.
Q70 Comment on paragraph 65				
235. CRO Forum	Europe	No	Par 65: No comment.	Noted.
Q71 Comment on paragraph 66				

236. Association of Bermuda Insurers and Reinsurers (ABIR)	Bermuda	No	The proposal set out in the Paper in certain areas, seems to insert the supervisor into roles that would overreach what would be expected in this capacity. In many sections of the Paper, the IAIS appears to suggest the supervisor should take on activities that would typically be the role of the company versus one who oversees/ supervises the company. This is apparent in, for example, the following section: - 5.2.66 - a supervisor may request the internal audit function to perform specific ad-hoc or bespoke reviews with the scope set by the supervisor	It is not agreed that the proposed supervisory practice, referred to in comments, goes beyond the role of the supervisor.
237. CRO Forum	Europe	No	Par 66: Statement of the obvious.	Noted.
238. Global Federation of Insurance Association	Global	No	GFIA does not generally agree that supervisors should be able to direct internal auditors and considers that such directions should be made in extreme cases only.	Noted. See also response to comment 236.
239. The Geneva Association	International	No	Paragraph 66 states that in some cases, supervisors request the internal audit function to perform specific ad-hoc or bespoke reviews with the scope set by the supervisor. We would like to confirm that these are meant to be examples, and not intended to be a recommendation for involvement of supervisors in the internal audit of insurers.	We confirm that these are possible examples to be applied by supervisors, where relevant.
240. The Life Insurance Association of Japan	Japan	No	- Paragraph 66 states "In some cases, supervisors request the internal audit function to perform specific ad-hoc or bespoke reviews with the scope set by the supervisor" and asking for temporary reviews in certain jurisdictions. - In addition, Paragraph 68 highlights seven methods that supervisors may use when assessing the effectiveness of internal audit function. - We would like to confirm these points are not intended to recommend uniform intervention of supervisors on the internal audit function, but rather just a list of examples.	We confirm that these are possible examples to be applied by supervisors, where relevant.
241. APCIA	United States	No	While APCIA does not generally agree that supervisors should be able to direct internal auditors, in extreme cases, that direction would be preferable to hiring an outside auditor to perform that function.	Noted. This is an example.
Q72 Comment on paragraph 67				

242. CRO Forum	Europe	No	Par 67: No comment.	Noted.
243. International Actuarial Association	International	No	The IAA notes that the second sentence appears circular and should be dropped or re-worded.	First two sentences of para. 67 have been deleted and the relevant aspect has been captured in a new sentence at the end of para. 66.
Q73 Comment on paragraph 68				
244. Association of Bermuda Insurers and Reinsurers (ABIR)	Bermuda	No	The proposal set out in the Paper in certain areas, seems to insert the supervisor into roles that would overreach what would be expected in this capacity. In many sections of the Paper, the IAIS appears to suggest the supervisor should take on activities that would typically be the role of the company versus one who oversees/supervises the company. This is apparent in, for example, the following section: - 5.2.68 -a supervisor may (i) assess the suitability of Key Persons in Internal Audit and in some instances the Chair of the Audit Committee, and (ii) conduct on-site assessments of the internal audit function, including regular meetings with internal audit.	It is not agreed that the proposed supervisory practice, referred to in the comment, goes beyond the role of the supervisor.
245. CRO Forum	Europe	No	Par 68: Makes sense.	Noted.
246. The Geneva Association	International	No	Paragraph 68 includes that supervisors that use the work of the internal audit function use the following 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. We would like to confirm that these are meant to be examples, and not intended to be recommended for all supervisory authorities in internal audit.	The paragraph has been redrafted. See also response to comment 247. In addition, the wording of the paragraph has been streamlined.
247. National Association of Insurance Commissioners	United States	No	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 a variety of 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, such as:	The change has been made.

Q74 General comments on Section 6: Combination of control functions				
248. CRO Forum	Europe	No	General comments on section 6: No comment.	Noted.
249. The Geneva Association	International	No	General comment about section 6: In our view, the potential risks (e.g. Control Function and Senior Management, LE and Group Control Function) seem 'overemphasized' in the AP. The IAIS should recognize that there might be benefits, especially when leveraging synergies at group level as this can lead to better outcomes, a consistent and more holistic approach across the group and legal entities and be more efficient.	The paper focuses on challenges faced by supervisors, while it does not deny that an insurer might have its reasons to combine control functions (eg limited resources, as indicated in para. 75).
250. Institute of International Finance	United States	No	We encourage the IAIS to revise Section 6.2 and, in particular, Paragraphs 75 and 76, to reflect that Key Persons in Control Functions can have an important challenge role in executive decision making, consistent with our comments above. We believe that the IAIS overstates the risks of combining control functions and involving the control functions in executive decision making. We encourage the IAIS to recognize the benefits, synergies, and efficiencies, especially at group level, of a more collaborative approach among the three lines, which can lead to a more holistic view of, and approach to, risks across the group and within individual legal entities.	See response to comment 249. See also section 4.3 of the paper (Ability to challenge and raise concerns by control functions).
Q75 Comment on paragraph 69				
251. CRO Forum	Europe	No	Par 69: Contrary to ICP8 this application paper is more explicit that control functions of a large insurer with a complex business model, the supervisor may not allow any combination of control functions. We believe that an application paper should not be more stringent than the ICP itself. Moreover, and even more important we believe that under specific preconditions control functions could be combined. If certain preconditions are met there can be many good reasons such as resourcing, a better alignment of roles and responsibilities and operational efficiency that combining these functions in fact lead to a more effective control oversight, also in the case of a large insurer with a complex business model. Additionally, any potential conflicts that arise from an organizational alignment of the second line of defense functions are not evident. For example, the actuarial function and risk management function bears synergies for an effective oversight function. An appropriate combination can	The principle of proportionality applies to ICPs and ComFrame as well as to Application Papers. As indicated in the Introduction to the ICPs, proportionality allows the supervisor to increase or decrease the intensity of supervision according to the risks inherent to insurers, and the risks posed by insurers to policyholders, the insurance sector or the financial system as a whole. A proportionate

			lead to a stronger governance framework as it confirms the three lines model without providing the first line opportunities to lever between the different functions.	<p>application involves using a variety of supervisory techniques and practices which are tailored to the insurer to achieve the outcomes of the ICPs.</p> <p>As highlighted in response to other comments, this paper provides a supervisory toolkit aimed at facilitating supervision of control functions. Supervisors are encouraged to apply suggested supervisory practices as needed and relevant.</p>
252. Insurance Europe	Europe	No	Insurance Europe appreciates the fact that the paper recognises the reality of smaller insurers by taking into account the possibility to combine certain control functions.	Noted.
253. Global Federation of Insurance Association	Global	No	GFIA supports the IAIS's recognition of the need for smaller insurers to combine certain control functions.	Noted.
254. International Actuarial Association	International	No	The IAA notes that this paragraph appears to set the norm that key persons in control functions do so without overlap with other control functions. While this may be desirable and practical for large insurers, it is not always practical for many insurers. In addition, some insurers, even large ones have found useful synergies between some of their control functions (e.g., risk management and actuarial function). Of course, the larger and more complex the insurer, the larger and more complex the work for each control function and the value of separating the control functions.	See response to comment 251.
255. General Insurance Association of Japan	Japan	No	Even for large insurers, combination may be desirable from the perspective of resources and efficiency, and it is important to balance classification and combination based on the characteristics of each company. Therefore, we propose revising the sentence starting with "For example, ..." as follows:	The example has been kept. The size of an insurer is indicated as one of possible factors to be considered. However, the paper provides a number of various factors that are

			For example, in case of less complex insurers, it may be acceptable for one function to be carried out by a single person or organizational unit.	proposed to be considered in different situations. See also response to comment 251.
256. APCA	United States	No	APCIA supports IAIS's recognition that smaller insurers must be able to combine functions due to resource constraints.	Noted.
257. National Association of Insurance Commissioners	United States	No	Typo: A decision about 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 more than one function to be carried out by a single person or organisational unit.	Change made.
Q76 Comment on paragraph 70				
258. CRO Forum	Europe	No	Par 70: No comment.	Noted.
Q77 Comment on paragraph 71				
259. CRO Forum	Europe	No	Par 71: The last sentence would endanger independence and objectivity.	Noted. This is a quotation of ICP guidance.
260. International Actuarial Association	International	No	This paragraph indicates it is important for there to be separation of control functions from senior management. This reference (i.e., from ICP 8.3.10) appears to ban Chief Risk Officers from heading the risk management control function as well as serving on the senior management team. The same could be said for an insurer's chief/appointed actuary if they were also head of the actuarial function. The IAA suggests that this forced separation of duties may not be wise for insurers. The IAA notes that subsequent paragraphs 79 and 80 appear to support the IAA view of the need for flexibility in this regard,	See responses to comments on para. 79.
Q78 Comment on paragraph 72				
261. CRO Forum	Europe	No	Par 72: Not a full paragraph.	This is a full paragraphs (three dots have been removed to avoid confusion).
Q79 Comment on paragraph 73				

262. CRO Forum	Europe	No	Par 73: Makes sense.	Noted.
263. The Geneva Association	International	No	Combination of second line functions should be permissible for IAIGs, particularly for smaller operating entities within an IAIG. The need for proportionality should be considered based on the size and complexity of individual entities as imposing the same group-wide organizational structure and requirements can create disproportionate compliance and other burdens for smaller operating entities.	Noted. Please refer to CF 8.3.c, referred to paragraph 72 of the paper, and guidance supporting this ComFrame standards.
Q80 Comment on paragraph 74				
264. CRO Forum	Europe	No	Par 74: Makes sense.	Noted.
265. Insurance Europe	Europe	No	This paragraph should also recognise the benefit of a vertical combination in facilitating harmonisation throughout a group.	Agreed. The change has made been made.
266. Global Federation of Insurance Association	Global	No	This paragraph should also recognise the benefit of a vertical combination in facilitating harmonisation throughout a group. For example, the election of an audit committee at parent level could serve as the audit committee for the subsidiaries.	See response to comment 265.
267. International Actuarial Association	International	No	The IAA notes that this paragraph allows for the head of the control function (e.g., actuarial function) of an insurer within an insurance group to also serve as head of the control function for the group. The IAA believes this may be a viable and pragmatic choice for the head of the insurance group as its actuarial function duties may not be full time and could indeed be filled by the head of the actuarial function of the largest insurance entity in the group (for example). Of course, the named head of the actuarial function would need to adhere carefully to conflict of interest guidelines.	Noted.
268. General Insurance Association of Japan	Japan	No	Regarding "Insurance legal entity's recovery and resolution plans", recovery plans and resolution plans are stipulated in ICP 16.15, ICP 12.3 and CF 12.3.a, and are produced only when necessary for individual insurance companies. Therefore, we propose adding "if any" as follows: Insurance legal entity's recovery and resolution plans if any.	"If any" has been added.

269. APCI	United States	No	This paragraph should also recognise the benefit of a vertical combination in facilitating harmonisation throughout a group.	See response to comment 265.
270. American Council of Life Insurers	USA	No	The election of an audit committee at the parent level could serve as the audit committee for subsidiaries.	Noted.
Q81 Comment on paragraph 75				
271. CRO Forum	Europe	No	Par 75: The CRO Forum does not support this position. This possibility should be recognized, for larger insurers as well, not only for smaller insurers. The focus should not be on size alone.	This paragraph states that, in general, combining business and control responsibilities should be avoided. At the same time, the paper recognises that for smaller insurers this may not be realistic, due to limited resources. It is agreed that all relevant factors, such as specific characteristics of an insurer and its complexity should be considered by the supervisor.
272. Insurance Europe	Europe	No	Insurance Europe appreciates the fact that the paper recognises the reality of smaller insurers by taking into account the possibility to combine certain control functions. However, it appears that "operational function" is not defined either in the ICPs or the paper. The IAIS should clarify the operational function's boundaries to help avoid any problematic interpretations.	"Operational function" has been replaced with "business responsibilities", to align with wording used in other parts of the paper (for example, paragraph 12).
273. Global Federation of Insurance Association	Global	No	GFIA appreciates the recognition of the need for proportionality in Sections 6.2 and 6.3. However, the term "operational functions" should be defined. It notes that the possibility of combining operational and control functions should not be limited to smaller insurers.	See response to comment 272.
274. The Geneva Association	International	No	This section makes reference to "operational functions", which is not defined in the paper. It would be helpful if the IAIS could provide clarification on the boundaries of operational functions, in order to avoid any problematic interpretations in the future.	See response to comment 272.

275. APCA	United States	No	APCIA appreciates the recognition of the need for proportionality in Sections 6.2 and 6.3. However, the term "operational functions" should be defined.	See response to comment 272.
276. American Council of Life Insurers	USA	No	The possibility of combining operational and control functions should not necessarily be limited to smaller insurers.	See response to comment 271.
Q82 Comment on paragraph 76				
277. CRO Forum	Europe	No	Par 76: No comment.	Noted.
278. International Actuarial Association	International	No	The IAA understands the organizational challenges expressed in this paragraph (and others). Where full segregation of duties between key staff is not possible due to the small size of insurer, it may be helpful and practical if such staff are subject to a matrix of responsibilities and reporting relationships. For example, if the head of the actuarial function reported to a member of the senior management team (e.g., CRO or CFO) for most purposes yet also had a dotted line ability to report to the Board, this would help to ensure that the actuarial function was free to report on relevant matters without undue pressure from senior management.	The issue of reporting lines is addressed in paragraph 78.
Q83 Comment on paragraph 77				
279. CRO Forum	Europe	No	Par 77: We do not agree with what is a very stereotypical presentation of HR and Legal departments/functions. It should be noted that some of the activities of these functions may or may not be considered strictly operational. Legal departments typically have an important role to ensure the organisation abides by the law, which brings it close to the role of control functions. Combinations of legal and compliance functions are common.	The purpose was not to diminish the role of these departments/functions, but to indicate that usually they might be less risk-generating than others.
Q84 Comment on paragraph 78				
280. Association of Bermuda Insurers and Reinsurers (ABIR)	Bermuda	No	The proposal set out in the Paper in certain areas, seems to insert the supervisor into roles that would overreach what would be expected in this capacity. In many sections of the Paper, the IAIS appears to suggest the supervisor should take on activities that would typically be the role of the company versus one who oversees/supervises the company. This is apparent in, for example, the following section: - 6.2.77 - a supervisor may (i) require establishment of a formal reporting process to	It is not agreed that the proposed supervisory practices, referred to in comments, go beyond the role of the supervisor.

			the Board in event of a conflict of interest following a combination of control and operational functions, and (ii) engage in regular contact with the control function to assess the operating effectiveness of the controls	
281. CRO Forum	Europe	No	Par 78: No comment.	Noted.
282. Liberty Mutual Insurance Group	USA	No	We disagree with the bullet in this paragraph that indicates supervisors should "perform a more granular assessment of the out-sourcing agreement." Supervisors should never be able to substitute their judgment for management's with respect to commercial business terms used by an otherwise well run and financially sound company.	This bullet is included in paragraph 85. It is indicated as a practice applied "in some cases, for example, where control functions are outsourced to a significant extent".
Q85 Comment on paragraph 79				
283. CRO Forum	Europe	No	Par 79: We believe this paragraph is too prescriptive. The examples may easily lead to the conclusion that these are minimum conditions that need to be fulfilled. The distinction between this paragraph and the former section is not clear. What is the difference between "responsible for carrying out operational tasks or operational functions" and a "Senior Management function"?	Not agreed. The nature of the Application Papers is well described in the Introduction of the paper. The distinction is based on the fact that business responsibilities go beyond those carried out by Senior Management. Please also see changes made to this wording, based on other comments.
284. Insurance Europe	Europe	No	This paragraph seems to imply that being a key person in a control function while simultaneously holding a senior management position creates a conflict of interest. In Insurance Europe's view, an observed good practice is to implement control functions at a higher hierarchical level to ensure effectiveness. This paragraph should recognise that a conflict can only arise when a person holds the senior management position in addition to certain control functions (eg, the risk-taking function).	It is recognised that, depending on the organisational structure of the insurer, Key Persons in Control Functions may be considered as part of Senior Management. This has been clarified in paragraph 79. Additional changes have been made in paragraphs 79-80 to clarify the language. The term "Senior

				Management” has been explained in a footnote.
285. Global Federation of Insurance Association	Global	No	It is also important to recognise that the operational and control functions must ultimately be merged at the top, either at board or senior management level. In fact, an observed good practice is to implement control functions at a high level to ensure effectiveness. This paragraph should recognise that a conflict can only arise when a person holds the senior management position in addition to certain control functions (eg, the risk-taking function).	See response to comment 284.
286. International Actuarial Association	International	No	The distinction between this paragraph and the former section is not clear. What is the difference between "responsible for carrying out operational tasks or operational functions" and a "Senior Management function"?	See response to comment 283.
287. The Geneva Association	International	No	<p>The term "Senior Management" needs clarification. In many insurers, Key Person in Control Function are part of Senior Management, which is, in fact, ideal to ensure the Control Function has the same level of stature as business functions and has "a seat at the table" in important decision-making processes (see comments on paragraph 26).</p> <p>This paragraph seems to imply that holding a Key Function and simultaneously holding a senior management position conflict with each other. This statement might be too broad: a conflict can only arise if the senior management position held in addition to the Key Function is related to an operative/business function.</p>	See response to comment 284.
288. APCA	United States	No	It is also important to recognize that the operational and control functions must ultimately be merged at the top, either at the Board or Senior Management levels. In fact, a good practice is to implement control functions at a high corporate level to ensure their effectiveness.	See response to comment 284.
289. National Association of Insurance Commissioners	United States	No	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".	The change has been made.

Q86 Comment on paragraph 80				
290. CRO Forum	Europe	No	<p>Par 80: Dual reporting lines do not necessarily increase independence. They often increase complexity. The last bullet doesn't make sense. It presumes performance of controls has a higher priority.</p>	<p>Regarding the dual reporting lines: the bullet has been revised to focus on maintaining relevant reporting lines of the Key Person in Control Function.</p> <p>The proposal included in the last bullet is aimed at preserving the effectiveness of the control function.</p>
Q87 General comments on Section 7: Outsourcing of control functions				
291. CRO Forum	Europe	No	<p>General comments on section 7: No comment.</p>	Noted.
292. Global Federation of Insurance Association	Global	No	<p>GFIA appreciates the recognition that control functions may need to be outsourced.</p>	Noted.
293. Institute of International Finance	United States	No	<p>In our view, a key area for greater flexibility and proportionality in the Draft Application Paper is in the discussion of outsourcing and intra-group outsourcing.</p> <p>We recognize that any material outsourcing should be effectively managed by the insurer and, as appropriate, by its control functions. Supervisors should take a principles- and risk-based and proportionate approach when reviewing any material outsourced activity irrespective of the size of the insurer or insurance group. We agree with the statement in Paragraph 15 that the responsibilities of senior management and control functions are not eliminated or diminished when business activities are outsourced. With respect to Paragraphs 15, 16, and 17, we encourage the IAIS to refer specifically to the role that the first line plays in the oversight of outsourced activities, including contracting with and managing vendors and receiving vendor reports. We propose to amend the last two sentences of Paragraph 17 as follows:</p> <p>The insurer is responsible for all of its activities, including those that are outsourced,</p>	<p>Noted.</p> <p>Paragraph 17 has been revised accordingly.</p>

		<p>and its control functions should understand and monitor risks created by outsourcing business activities. Depending on the materiality of outsourced business activities, increased supervisory attention may be warranted for the control functions with responsibilities related to those activities.</p> <p>Moreover, the possible challenges created by outsourcing of control functions described in Paragraph 84 should be characterized as illustrative to avoid an impression that these challenges are commonly encountered in supervision. Outsourcing should not be equated with a loss of control or oversight; if managed properly, outsourcing can be an effective and efficient method of managing and coordinating control functions across a large group with operations across a number of markets and jurisdictions.</p> <p>We encourage the IAIS to advise supervisors to concentrate their supervision of outsourcing of control functions on a review and challenge of management's decisions. Paragraph 85 could be interpreted as suggesting a broader and more direct supervisory role in selecting the outsourcing firm, which generally would not be an appropriate supervisory role.</p> <p>We caution against taking an overly restrictive approach to outsourcing, as it may present an undue burden to those insurers most in need of third-party outsourcing, namely small insurers with more limited resources. A restrictive approach to outsourcing could, in fact, result in less effective control functions at those organizations.</p> <p>We also point to IOSCO's Principles for Outsourcing, issued for consultation in May 2020. We believe that incorporation of these or similar principles may be a way to call attention to the need for proper control and oversight of outsourcing arrangements in a flexible, risk-focused and proportionate manner. We believe that a broadly similar approach to the supervision of material outsourcing arrangements across the financial services sector is a laudable goal.</p> <p>In particular, Principle 5 of IOSCO's Principles for Outsourcing references material or critical outsourced tasks and reflects a risk-focused and proportional approach that applies heightened oversight in a proportional manner. Similarly, Principle 2 calls for the nature and detail of outsourcing contracts to reflect the materiality or criticality of the outsourced task to the business of the regulated entity. The IAIS</p>	<p>This is reflected by the current language, which refers to challenges that can be created.</p> <p>The paper provides a supervisory toolkit aimed at facilitating supervision of control functions. Supervisors are encouraged to apply suggested supervisory practices as needed and relevant</p>
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			may wish to consider greater alignment to the IOSCO approach through a greater emphasis on proportionality in the Application Paper.	
294. Liberty Mutual Insurance Group	USA	No	<p>For a large organization like Liberty Mutual, with many relatively small insurance company entities within the group, outsourcing among affiliates is a critical way to efficiently manage business control functions consistently throughout the organization. In fact, doing so adheres to several ComFrame points imbedded in the ICPs including:</p> <p>CF 8.2.a which says Head of the IAIG should have control systems that cover the "interconnectedness of legal entities within the IAIG";</p> <p>CF 8.3.b which says the Head of the IAIG should have control functions that "coordinate with control functions at the legal entity level"; and</p> <p>CF 8.4.a which says the Head of the IAIG should coordinate "consistent and effective implementation of risk management activities at the group wide level and at the legal entity level."</p> <p>Placing additional regulatory burdens or strictures on outsourcing, as suggested in the current draft, overlooks these principles and can interfere with effective management of internal controls. Outsourcing allows a company to execute control functions more efficiently within a group, which is a goal the Paper emphasizes in Section 8 ("Group-wide control functions"). The Paper's admonitions in Section 7 about outsourcing are difficult to reconcile with many of the points the Paper makes in Section 8 that properly recognize the value of coordinating internal controls within an organization.</p>	The Application Paper should be read in the context of relevant IAIS supervisory material. The paper provides a supervisory toolkit aimed at facilitating supervision of control functions. Supervisors are encouraged to apply suggested supervisory practices as needed and relevant.
Q88 Comment on paragraph 81				
295. CRO Forum	Europe	No	Par 81: Seems to convey all or none. Sometimes it's some and parts.	Noted.
296. International Actuarial Association	International	No	The IAA suggests that "are' in the first sentence be replaced with "may include some combination of'.	The word "are" has been changed for "may include".

297. APCA	United States	No	APCIA appreciates the recognition that control functions may need to be outsourced.	Noted.
Q89 Comment on paragraph 82				
298. CRO Forum	Europe	No	Par 82: No comment.	Noted.
Q90 Comment on paragraph 83				
299. CRO Forum	Europe	No	Par 83: No comment.	Noted.
300. International Actuarial Association	International	No	The bullets in this paragraph should highlight the continuing ultimate insurer responsibility for any outsourced control function work.	This is addressed by ICP 8.8, quoted at the beginning of this paragraph.
301. National Association of Insurance Commissioners	United States	No	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; 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?	The changes have been made.
Q91 Comment on paragraph 84				
302. CRO Forum	Europe	No	Par 84: It is generally not clear if internal outsourcing in an insurance group is an outsourcing as meant in ICP8 and in this application paper and therefore if in this case the internal outsourcing should also meet all the specific requirements mentioned. It is stated in this paragraph that an insurance legal entity's control function can be outsourced to the group level whereas in paragraph 74 it is stated that a vertical combination of control functions, i.e. the combination of control functions between the head of the group and an insurance legal entity, may be allowed.	Outsourcing within the group is meant when an internal service provider is used (as referred to in ICP 8). Outsourcing of a control function within an insurance group and a combination of a group-wide control function with an insurance legal entity's control function are separate

				issues and are therefore addressed separately in the paper.
303. Global Federation of Insurance Association	Global	No	Subparagraph four raises some questions about how it would be applied and how independence could be assured.	The fourth bullet is aimed at identifying potential challenges, to be addresses by the supervisor depending on the individual situation and characteristics of an insurer.
304. International Actuarial Association	International	No	The IAA notes that, while there may be benefits of outsourcing (as mentioned in paragraph 81) in respect of access to skills, expertise and resources, these benefits may only be delivered if there is an adequate budget for those services. The IAA notes that the last bullet in this paragraph may have general applicability across control functions if the bullet ends after the word "circumstances".	It has been specified that this is an example and another example has been added, ie when a control function is outsourced to an external service provider in another jurisdiction.
305. APCA	United States	No	Subparagraph four raises some questions about how it would be applied and how independence could be assured.	See response to comment 303.
Q92 Comment on paragraph 85				
306. Association of Bermuda Insurers and Reinsurers (ABIR)	Bermuda	No	The proposal set out in the Paper in certain areas, seems to insert the supervisor into roles that would overreach what would be expected in this capacity. In many sections of the Paper, the IAIS appears to suggest the supervisor should take on activities that would typically be the role of the company versus one who oversees/ supervises the company. This is apparent in, for example, the following section: - 7.2.85 - a supervisor may (i) be involved in the selection of 3rd-party service providers, and (ii) have the same access to the provider as the insurer.	The paper provides a supervisory toolkit aimed at facilitating supervision of control functions. Supervisors are encouraged to apply suggested supervisory practices as needed and relevant. As indicated in the Introduction of the paper, the proportionality principle applies to the Application Paper. The two practices mentioned in the comment have been recognised as example of good practices also in the Peer Review of Corporate and Risk-Governance relative to the standards set out in Insurance Core

				Principles 4, 5, 7 and 8, referred to in the report.
307. CRO Forum	Europe	No	<p>Par 85: Same as above.</p> <p>It is not clear what is meant by: "Require that the Key Person in Control Function be employed by the insurer and maintain overall responsibility for the outsourced control function"? Does this mean the any Key Person in Control Function may never be an outsourced individual, which we believe is not in line with common practice and overly prescriptive?</p>	This is one of the possible ways for the insurer to retain at least the same degree of oversight of, and accountability for, an outsourced control function, as applies to non-outsourced functions (see ICP 8.8). See also response to comment 306.
308. Insurance Europe	Europe	No	Regarding outsourcing, Insurance Europe suggests that the paragraph clarifies that supervisors should focus on outsourcing of essential or critical activities or functions.	The relevant changes have been made.
309. Global Federation of Insurance Association	Global	No	Regarding outsourcing, GFIA suggests applying the supervisory requirements only to outsourcing of essential or critical activities or functions. In addition, GFIA finds this paragraph to be too detailed and intrusive; for example, giving the supervisor the authority to interview the outsourced service providers.	See responses to comments 306 – 308.
311. International Actuarial Association	International	No	The IAA notes that it is important that the outsourcing agreement gives unfettered access to internal audit to the relevant activities of the outsourcer.	Noted.
312. The Geneva Association	International	No	We agree that insurer's management should be held accountable for material activities whether such activities are outsourced or performed in-house, and insurers should maintain risk-based third party risk management programs. This principle should be consistent whether such material activities are operational (customer due diligence, underwriting or claim processing) or those of control functions. We would like to make sure however that the requirement for the supervisor to have the same access to the outsourced provider as to the insurer to apply on a case-by-case basis.	See responses to comments 306 – 308.
313. General Insurance	Japan	No	While it is stated to "Require the insurer to report material outsourcing contracts to the supervisor before inception.", imposing a reporting obligation on the supervisor	See responses to comments 306 – 308.

Association of Japan			<p>before concluding an outsourcing contract could disturb the insurer's independent business operations. Therefore, we propose deleting this item from the examples of supervisory good practice.</p> <p>While it is stated that "supervisors compare the risk assessment with the insurer's assessment of relevant aspects of operational risks in the insurer's Own Risk and Solvency Assessment (ORSA)", whether to include the risk assessment associated with outsourcing in the ORSA depends on the business and risks of each insurance company. Therefore, we would take this opportunity to point out that this will not always be stated in the ORSA.</p>	Noted.
314. The Life Insurance Association of Japan	Japan	No	- Paragraph 85 states "Require any outsourcing agreement to give the supervisor the same access to the outsourced provider as to the insurer". We would like to confirm this is not a mandatory requirement applied to all outsourcing contracts, but rather an option that may or may not be applied by the supervisor depending on the materiality of each contract.	See responses to comments 306 – 308.
315. APCIA	United States	No	Regarding outsourcing, APCIA suggests applying the supervisory requirements only to outsourcing of essential or critical activities or functions. Overall, we find this paragraph to be too detailed and intrusive, for example giving the supervisor the authority to interview the outsourced service providers.	See responses to comments 306 – 308.
316. American Council of Life Insurers	USA	No	The bullets in this paragraph are very prescriptive. In general, the oversight and monitoring of outsourced control functions should be done within a company's overall third-party risk management framework.	Noted. These are suggestions to be applied by supervisors as needed and relevant.
Q93 General comments on Section 8: Group-wide control functions				
317. CRO Forum	Europe	No	General comments on section 8: No comments.	Noted.
318. The Geneva Association	International	No	General comment on section 8: It might be beneficial to point out positive aspects of Group-wide Control Functions too (e.g. synergies at Group level, a consistent and holistic approach across Group, efficiency, efficacy, manage risks/accumulation at Group level to achieve diversification).	The paper focuses on relevant challenges and possible ways to address them.

<p>319. Institute of International Finance</p>	<p>United States</p>	<p>No</p>	<p>We encourage a more proportionate, risk-based, and outcomes-focused approach to the supervision of group-wide control functions in general, and to the supervision of intra-group outsourcing in particular. Overly prescriptive rules can complicate outsourcing arrangements without a commensurate benefit to effective supervision. Intra-group outsourcing can be efficient and effective in implementing control functions across a group and we encourage the IAIS to point out in the Application Paper the positive aspects such as synergies at group level and a holistic approach to risk management and control functions across jurisdictions and business lines.</p> <p>With respect to the discussion of a detailed exit plan in Paragraph 85, having a full exit strategy for intra-group outsourcing may not be proportionate to the risks, or necessary based on the business conducted or the nature of the outsourcing. We propose amending the second sub-bullet under the first full bullet as follows:</p> <p>Before entering into an outsourcing arrangement, request the insurer to provide an appropriate exit plan for an end to the outsourcing. The exit plan should provide for regular review.</p> <p>We note that a reference to an appropriate exit plan would also align with Principle 7 of IOSCO's Principles for Outsourcing.</p> <p>With respect to proportionality, not all insurance lines of business warrant the same level of control function oversight, and a proper prioritization of the time and attention of the control functions is appropriate. We recommend that the IAIS reflect the need for senior management to prioritize control function resources in its wording of Paragraph 90 as follows:</p> <p>90. Group-wide control functions of international groups often are required to understand businesses in a range of jurisdictions as well as the legal and regulatory frameworks in which these businesses operate. The senior management of the group should allocate control function resources and efforts in a manner that reflects the nature, scale and complexity of the activities of the various businesses and the risks across the group.</p> <p>Relatedly, the first bullet under Paragraph 87 should reflect the need to vary policies among entities within a group in order to reflect different activities as well as jurisdictional differences. While we appreciate the importance of high-level alignment of policy within an insurance group, this bullet could be read as suggesting that policies should be identical notwithstanding significant differences in</p>	<p>See response to comment 318.</p> <p>The reference to “a detailed exit plan” has been replaced by “appropriate exit plan”.</p> <p>Paragraphs 90 and 91 have been revised in line with the proposals included in the comment.</p> <p>The IAIS does not favour any particular governance model (ie</p>
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			<p>activities and jurisdictional frameworks.</p> <p>As reflected in ICP 7, the ways in which an insurer chooses to organize and structure itself can vary depending upon a number of factors. The governing body of the insurer is responsible for determining the appropriate structure, including whether a centralized or a decentralized structure is optimal and how management roles should be defined. We find the statements regarding the flaws of both a centralized and a decentralized structure in Paragraph 92 of the Draft Application Paper to be overly prescriptive and an inappropriate reflection of the control functions in most insurers. Again, the level of attention given by the control functions to each entity within the group should be consistent with the nature, scale and complexity of that entity's activities and its risk profile (i.e. principles-based supervision, with appropriate consideration of group and local requirements).</p> <p>In the final bullet of Paragraph 94, further clarity as to whom this notification would be provided would be helpful.</p>	<p>more centralised or more decentralised). The paper provides examples of challenges specific to particular governance models, based on relevant experience of supervisors. Paragraph 92 has been revised to clarify this aspect.</p> <p>It has been clarified that it should be notification to the relevant involved supervisor.</p>
Q94 Comment on paragraph 86				
320. CRO Forum	Europe	No	Par 86: No comments.	Noted.
321. Insurance Europe	Europe	No	The paper should appropriately highlight the importance of the group entity's discretion over the design of its own system of governance. The head of the group should not impair the responsibilities of the board of each entity in the group when setting up their own system of governance.	This is sufficiently addressed in IAIS supervisory material (ICPs and ComFrame). See also the IAIS Application Paper on Group Corporate Governance (for example, subsection 3.2.2).
322. Global Federation of Insurance Association	Global	No	The paper should appropriately highlight the importance of the group entity's discretion over the design of its own system of governance. The head of the group should not impair the responsibilities of the board of each entity in the group when setting up their own system of governance. GFIA suggests taking into consideration national company legal standards, especially regarding company (subsidiary) liability to the parent company.	See response to comment 321.
323. APCA	United States	No	The paper should appropriately highlight the importance of the group entity's discretion on the design of its own system of governance. The head of the group	See response to comment 321.

			should not impair the responsibilities of the Board of each entity in the group when setting up its own system of governance. APCIA suggests taking into consideration national company laws, especially regarding company (subsidiary) liability towards the parent company.	
Q95 Comment on paragraph 87				
324. CRO Forum	Europe	No	Par 87: There should be some mention of proportionality here. Also, this is not specific to control functions, but seems to apply to group supervision more generally.	The proportionality principle is mentioned in the Introduction of the Application Paper.
325. Insurance Europe	Europe	No	Insurance Europe suggests modifying the fourth bullet point in this paragraph to acknowledge that there are cases in which group-wide harmonisation is not appropriate. Companies should be able to have the most appropriate policies for the respective levels within the group. Group-wide harmonisation of methods, for example, can jeopardise the independence of the control functions at the individual legal entity level. In addition, the size, risk profile and business model of the individual entities are different, so harmonisation would not be in line with the principle of proportionality. Insurance Europe would suggest making the following changes: "Reviewing the documented roles and responsibilities of the group-wide control functions, including how the group-wide and insurance legal entities' control functions are meant to interact, how the group-wide control functions, in their own fields, ensure the harmonisation of the group's methods, [as far as is possible and permissible taking into account the differences in size, risk profile, business model and legal framework of the individual legal insurance entities,] and assess the proper implementation of policies defined at group level, and compare them with observed practices. If inadequate, requiring more comprehensive policies;"	The reference to relevant part of the IAIS Application Paper on Group Corporate Governance has been added in a footnote.
326. Global Federation of Insurance Association	Global	No	GFIA suggests modifying the fourth bullet point in this paragraph to acknowledge that there are cases in which group-wide harmonisation is not appropriate. Companies should be able to have the most appropriate policies for the respective levels within the group. Group-wide harmonisation of methods, for example, can jeopardise the independence of the control functions at the individual legal entity level. In addition, the size, risk profile and business model of the individual entities are different, so harmonisation would not be in line with the principle of proportionality. GFIA suggests making the following changes:	The reference to relevant part of the IAIS Application Paper on Group Corporate Governance has been added in a footnote.

			"Reviewing the documented roles and responsibilities of the group-wide control functions, including how the group-wide and insurance legal entities' control functions are meant to interact, how the group-wide control functions, in their own fields, ensure the harmonisation of the group's methods, as far as is possible and permissible taking into account the differences in size, risk profile, business model and legal framework of the individual legal insurance entities, and assess the proper implementation of policies defined at group level, and compare them with observed practices. If inadequate, requiring more comprehensive policies;"	
327. International Actuarial Association	International	No	The IAA suggests the need for a bullet referring to the challenges of the group-wide control function (e.g., actuarial function). One of the issues faced by the actuarial function of the group is maintaining group-wide actuarial practices and standards while respecting the corporate culture (i.e., centralized, decentralized etc.) within the group.	This has been addressed in a more general way in a new footnote to paragraph 87.
328. The Geneva Association	International	No	While we agree that group-wide implementation of policies is a key component of successful group-wide control framework, there are instances where an operating entities' size, nature and complexity of business, and jurisdictional considerations (i.e. culture, local laws and regulations) must be considered and accounted for. Supervisors must consider these factors when assessing if there is an appropriate degree of consistency between group and entity level policies.	This has been addressed in a more general way in a new footnote to paragraph 87.
329. APCA	United States	No	APCIA suggests modifying the fourth bullet point in this paragraph to acknowledge that there are cases where group-wide harmonization is not appropriate. Companies should be able to have the most appropriate policies for respective levels within the group. Group-wide harmonization of methods, for example, can jeopardise the independence of the control functions at the individual legal entity level. In addition, the size, risk profile, and business model of the individual entities are different, as such, ensuring harmonisation would not be in line with the principle of proportionality. We suggest making the following changes: "Reviewing the documented roles and responsibilities of the group-wide control functions, including how the group-wide and insurance legal entities' control functions are meant to interact, how the group-wide control functions, in their own fields, ensure the harmonisation of the group's methods as far as possible and permissible taking into account the differences in size, risk profile, business model and legal framework of the individual legal insurance entities and assess the proper implementation of policies defined at group level, and compare them with observed practices. If inadequate, requiring more comprehensive policies;"	This has been addressed by adding references to relevant parts of the IAIS Application Paper on Group Corporate Governance in footnotes to paragraph 87.

330. National Association of Insurance Commissioners	United States	No	Typo: Supervisors address these challenges in various ways, including by	This has been corrected.
331. American Council of Life Insurers	USA	No	While we agree that group-wide implementation of policies is a key component of a successful group-wide control framework, there are instances where an operating entity's size, nature and complexity of business, as well as jurisdictional considerations (i.e., culture, local laws and regulations) must be considered and accounted for. Supervisors should consider these factors when assessing if there is an appropriate degree of consistency between group and entity level policies.	This has been addressed by adding references to relevant parts of the IAIS Application Paper on Group Corporate Governance in a footnote to paragraph 87.
Q96 Comment on paragraph 88				
332. CRO Forum	Europe	No	Par 88: Proportionality and relevance (regulated and non-regulated) are particularly important here.	Noted.
333. Insurance Europe	Europe	No	Paragraph 88 and the following paragraphs should recognise the possibility for, in particular, international groups to apply group-wide policies on a comply-or-explain basis, meaning that a single entity can choose not to comply with the group policies but should explain why.	Noted. See additional explanations added in footnotes to paragraph 87.
334. Global Federation of Insurance Association	Global	No	Paragraph 88 and the following paragraphs should recognise the possibility for international groups to apply group-wide policies on a comply-or-explain basis, meaning that a single entity can choose not to comply with the group policies, but should explain why.	See response to comment 333.
335. APCA	United States	No	Paragraph 88 and the following paragraphs should recognise the possibility of entities within international groups choosing not to comply with group policies in appropriate circumstances.	See response to comment 333.
Q97 Comment on paragraph 89				
336. CRO Forum	Europe	No	Par 89: A very broad and far-reaching position. Not all groups would agree and depend on the structures that groups have adopted, which is a prerogative of the groups themselves. This is depicting specific situations as a global and common concern which is not appropriate.	This paragraph describes a possible challenge, which has been described accordingly ("can be delayed", "It may also happen").

337. The Geneva Association	International	No	Similar to the comments on paragraph 87, for large, complex insurance groups, timing of implementing group-wide policies can vary, and expecting consistent and simultaneous implementation is not feasible. Phased implementation of group-wide policies based on risk-based prioritization should be acceptable and is in fact a good practice.	The paragraph addresses challenges created by unintended delays rather than planned phased implementation. The word “delayed” has been replaced by “hindered” to focus on potential difficulties in general rather than on timing-related aspects.
338. National Association of Insurance Commissioners	United States	No	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 various ways, including by:	Change made.
339. American Council of Life Insurers	USA	No	For large and/or complex insurance groups, the timing of implementing group-wide policies can vary, therefore, expecting consistent and simultaneous implementation is not feasible. The phased implementation of group-wide policies based on risk-based prioritization should be acceptable and is in, fact, good practice.	See response to comment 337.
Q98 Comment on paragraph 90				
340. CRO Forum	Europe	No	Par 90: No comment.	Noted.
341. National Association of Insurance Commissioners	United States	No	Typo: ...or the insurance legal entity's control functions...	This has been corrected.
Q99 Comment on paragraph 91				
342. CRO Forum	Europe	No	Par 91: Not done through conversations and skills but also by bringing together a regulatory combined view through college of supervisors, for example.	The last sentence has been revised to indicate that the purpose of the discussion is to reach a common understanding of existing challenges and potential ways of addressing them.
Q100 Comment on paragraph 92				

343. CRO Forum	Europe	No	<p>Par 92: We do not recognize the connection between certain types of group structures and challenges to communication. This is an inappropriate reflection of the reporting lines of control functions in many insurers. Communication between the group and legal entity control functions should be considered holistically, reflecting the nature, scale, and complexity of that entity's activities and its risk profile. Effective or ineffective communication may exist, regardless of the model is more centralized or decentralized.</p> <p>The bullet points are, in our view, too prescriptive.</p>	The paragraphs has been revised to recognise that relevant challenges may arise for a variety of reasons, but in some cases a corporate governance model applied by an insurer may create additional challenges.
344. The Geneva Association	International	No	Concerning the third bullet - We believe clarification of the following text is needed - "direct access to the Board and Senior Management".	It has been clarified ("of the head of the group" has been added).
345. National Association of Insurance Commissioners	United States	No	<p>Suggest revising the last sentence to better reflect that the bullets are examples and not the only ways:</p> <p>These challenges can be addressed in various ways, including by:</p>	The change has been made.
Q101 Comment on paragraph 93				
346. CRO Forum	Europe	No	<p>Par 93: No comment.</p>	Noted.
347. Insurance Europe	Europe	No	The general statement that a combination of control function at group level and at solo level could create conflicts of interest should be removed. The paper does not specify what conflict of interest may arise in such cases. On the contrary, such a combination can facilitate harmonisation throughout a group, which paragraph 87 advises.	The paragraphs describes a possible challenge and does not imply that it is always the case.
348. Global Federation of Insurance Association	Global	No	The general statement that a combination of a control function at group level and at legal-entity level could create conflicts of interest should be removed. The paper does not specify what conflicts of interest may arise in such cases. On the contrary, such a combination can facilitate harmonisation throughout a group, which paragraph 87 notes. For example, the ability of an audit committee at the parent level to serve as audit committee for subsidiaries, should be permitted.	See response to comment 347.

349. APCA	United States	No	The general statement that a combination of control functions at the group-wide level and entity levels could create conflicts of interest should be removed. The paper does not specify what conflict of interest may arise in such cases. On the contrary, such a combination can facilitate harmonisation throughout a group, which paragraph 87 mentions.	See response to comment 347.
350. Liberty Mutual Insurance Group	USA	No	<p>The paper's concerns about outsourcing within a group appear to require insurance groups to attempt to provide local employment for internal control staff, when both the insurance group and its head of group supervisor might prefer to have the functions performed in a more centralized manner.</p> <p>The current language could be read as opposing outsourcing as a means to preserve local jobs. Of course, concerns about outsourcing should not be used as a pre-text for protectionism. This is particularly inappropriate when it undercuts sound group-wide management.</p>	Noted.
Q102 Comment on paragraph 94				
351. CRO Forum	Europe	No	Par 94: Internal or external outsourcing should be subject to similarly high-level requirements but leaving room from a proportionate approach in case of internal outsourcing.	Noted.
352. National Association of Insurance Commissioners	United States	No	<p>Suggest revising the start of the paragraph to better reflect that the bullets are examples and not the only actions: Supervisors may take various actions to address challenges created by outsourcing of control functions within the group, such as: 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.</p>	The changes have been made.
353. American Council of Life Insurers	USA	No	The election of an audit committee at the parent level could serve as the audit committee for subsidiaries.	Noted.