

Paragraph	Comments
Introduction	<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>
3	<p>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 many jurisdictions participated in the survey, and over what period of time the survey was conducted).</p>
5	<p>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.</p>
9	<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>
13	<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 13.)</p> <p>There was a consistent view among survey participants that actuaries developing products and setting prices; and actuaries <u>assessing the adequacy of technical provisions</u> for those products, should be independent from each other.</p>

	<p>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>
15	<p>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 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, <u>as appropriate</u>, whether this internal person has the necessary qualifications and seniority for this task.”</p>
20	<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 following revisions to unify usage of the term ‘internal controls’ within the AP as follows (please also refer to our comments on paragraph 26):</p> <p>As noted in ICP 8.3, as part of an effective system of <u>risk management and</u> internal controls, “the supervisor requires the insurer to have effective control functions with the necessary [...] independence...”</p>
21	<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 align with good practices and are compliant with governance requirements.</p>
22	<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>
22	<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 (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:</p>

	<p>"For example, are there having time-limited restrictions for when a person responsible for an operational function (which may involve risk-taking), is able to <u>take</u> 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>
25	<p>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 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 <u>or to take alternative ways</u> with the Board or the relevant Board committees and committee Chairs to discuss their work and identify concerns, if any;</p>
26	<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 20):</p> <p>This can happen when the business line focuses on the performance of the business and places it above the importance of effective risk management <u>and</u> internal controls within the insurer.</p>
27	<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, <u>depending on the separation of responsibilities between departments or within a department,</u> the responsibilities of the risk management function and the actuarial function could conflict as regards quantitative risk assessments, such as model risk.</p>
33	<p>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.</p>
34	<p>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.</p>
50	<p>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.</p>
68	<p>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:</p> <p>For example, in case of a large insurer with a complex business model, the supervisor may not allow any combination of control functions, whereas in the case of smaller and less complex insurers, it may be <u>appropriate</u> <u>acceptable</u> for one function to be carried out by a single person or organizational unit.</p>
73	<p>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:</p> <p>Insurance legal entity’s recovery and resolution plans <u>if any</u>.</p>

84	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 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.
84	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.