

**Members and Observers Comments on IAIS Draft Paper
Draft Standard on enterprise risk management for solvency purposes
(Comments due by 25 May 2007)**

Name	Paragraph reference	Comment ¹	Resolution
GNAIE	General	This paper contains both descriptive and educational material and prescriptive material regarding what insurers and regulators “should” do. We recommend that these two functions be separated, as the current paper allows almost any “descriptive” sentence to be read as a “prescriptive” requirement. In addition, ERM is a rapidly evolving management science, so segregation of “descriptive” material into an appendix will make the remaining discussion of regulatory issues less subject to rapid obsolescence.	
GNAIE	Section 2: Introduction	The focus of the document is stated to be the risk management framework around the determination of technical provisions and capital for insurers and reinsurers (paragraph 2.2) . ERM is about establishing and monitoring processes and internal control systems to identify and manage risk. ERM is not done simply for the purpose of calculating solvency capital. In our view, the document should take a broader perspective to risk management that covers all three elements of the proposed solvency regime, not just the calculation of the financial or solvency requirements.	
GNAIE	2.2	We recommend elimination of all discussion of determination of technical provisions, as this paper does not actually discuss such determinations and determination of technical provisions relates primarily to accounting standards, not ERM.	
GNAIE	2.8	We note that omission of discussion of the issues relating to diversification benefit and group risk means that this paper is an incomplete discussion of ERM. Such issues must be dealt with in any complete discussion of ERM and solvency.	
GNAIE	Section 3: Framework	A number of ERM frameworks have been published and are being adapted by many firms to their organizations. These include the COSO Enterprise Risk Management Framework (2004) and the Australian/New Zealand Standard on Risk Management, AS/NZ4360. We think that the IAIS standard is too prescriptive in defining its own key requirements for an acceptable ERM framework. The IAIS should focus on the objectives of an ERM framework for an insurer but without specifying the detailed requirements. It may refer to the published frameworks and standards that can serve as a guide to insurers in developing their own ERM programs tailored to the risk profile, strategy and structure of their particular business.	

¹ Please provide comments of a more critical nature on scope and content, together with alternate drafting suggestions

GNAIE	Key Requirement 1	In Key Requirement 1, the terms “all reasonably foreseeable and relevant material risks” and an “adequate ... sufficiently wide range of outcomes” are too vaguely defined to be complied with. As noted above, we recommend that the IAIS recognize the frameworks that have been or will be developed in order to avoid having to spend resource on re-discussing this sort of issue.	
GNAIE	3.14	We recommend adding discussion that the ERM process should also be responsive to unexpected external events, not simply management and regulatory decisions.	
GNAIE	Section 4: Risk and Capital	We agree with the suggestion that all insurers systematically assess their significant risks, and integrate their assessment of their capital needs. However, we believe that this guidance belongs more properly in the standard on capital requirements in the context of understanding and assessing the risks assumed in the business as a foundation to measuring the actual capital needed by the firm to cover its risks.	
GNAIE	4.4	We disagree that the insurer’s ERM must ‘consider how best to reflect risks in technical provisions and capital recognising the risk mitigants currently in place.’ ERM is a total enterprise approach to identifying and managing risk. It does not parse and allocate risk, then segregate pieces of them between technical provisions and capital. We recommend that this paragraph be deleted.	
GNAIE	4.6	We recommend that this paragraph be deleted. It belongs in a paper on how to calculate technical provisions, not in this paper on ‘best practices’ processes.	
GNAIE	Section 5: Governance	We recommend that the section on risk governance should be integrated into section 3 as these are fundamental aspects to a comprehensive framework for managing risk.	
GNAIE	6.1	We recommend that there be explicit discussion of the role of competitive capital and insurance markets in order to better delimit the role of supervisory authorities. Without discussion of these competitive marketplaces and the role of innovation, it is not possible to adequately understand the importance of protection of trade secret and proprietary information	
GNAIE	6.2	It is not feasible for all information of interest to a regulator to be publicly disclosed. We recommend that more realistic discussion of these issues be reflected in the next draft and that these been coordinated with the work of IAIS Accounting and Disclosure Subcommittee.	