

**The LIAJ comments on the IAIS Draft Application Paper on the Supervision of Control Functions**

Paragraph	Comment
Paragraph 5	<ul style="list-style-type: none"> <li>• 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.</li> <li>• LIAJ welcomes the references to the proportionality principle stated in the ICP Introduction.</li> <li>• 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.</li> </ul>
Paragraph 13, 60, 61	<ul style="list-style-type: none"> <li>• 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.</li> <li>• 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 statements that require the strict separation of functions are in line with the proportionality principle and a uniform response is not required.</li> </ul>
Paragraph 44	<ul style="list-style-type: none"> <li>• Paragraph 44 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</li> </ul>

	<p>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> <ul style="list-style-type: none"> <li>• 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.</li> </ul>
Paragraph 65, 67	<ul style="list-style-type: none"> <li>• Paragraph 65 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.</li> <li>• In addition, Paragraph 67 highlights seven methods that supervisors may use when assessing the effectiveness of internal audit function.</li> <li>• 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.</li> </ul>
Paragraph 84	<ul style="list-style-type: none"> <li>• Paragraph 84 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.</li> </ul>