INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

6.14 Operational risk

Q205

Q205 Section 6.14.3 Should the IAIS use exposures that are reported before the impact of ceded reinsurance for determining the Operational risk charge? Please explain.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
China Insurance Regulatory Commission	China	IAIS Member	No	Yes	
EIOPA	EIOPA	IAIS Member	No	Yes	Potential sources of operational risk are underwriting and claims settlement. These sources do not disappear if risks are transferred to a reinsurer. In contrast, the process of reinsurance gives rise to additional operational risks (e.g. legal risks).
BaFin	Germany	IAIS Member	No	Yes	The process of reinsurance might lead to additional sources of risk (e.g legal risk relating to claims settlement).
Financial Supervisory Service	Korea	IAIS Member	No	Yes	

KNF - Polish Financial Supervision Authority	Poland	IAIS Member	No	Yes	Operational risk is even though if all insurance/underwriting risk is transferred. Operational risk concerning policies management is the same for insurers with high and with low outward reinsurance.
National Association of Insurance Commissioners	USA	IAIS Member	No	Yes	Yes, using exposures before the impact of ceded reinsurance is appropriate.
Ageas	Belgium	Other	No	Yes	Doing net reinsurance would not allow for an adequate indication of the size of business where there is a high proportion of reinsurance.
Canadian Institute of Actuaries	Canada	Other	No	Yes	Most forms of reinsurance reduce the ceding company's exposure to specified insurance risks and/or market risks. Reinsurance generally does not by design reduce operational risk for the ceding company, except perhaps indirectly via the reinsurer sharing industry best practices with the ceding company. Furthermore, the existence of reinsurance arrangements adds a new source of operational risk in that the reinsurance arrangements themselves may be mismanaged.
Insurance Bureau of Canada	Canada	Other	No	Yes	We believe that using exposures reported after the impact of ceded insurance would be more appropriate.
Ping An Insurance (Group) Company of China Ltd.	China	Other	No	Yes	We agree to measure the operational risk on the gross of reinsurance basis. It is reasonable to adopt the gross of reinsurance basis because it is to evaluate the operation risks faced by the insurance companies by underwriting direct insurance business.
Insurance Europe	Europe	Other	No	No	Unit-linked business indicators (current estimate or premiums) should not be considered for operational risk calculation.

Actuarial Association of Europe	European Union	Other	No	No	The IAIS should use exposures after reinsurance in order not to undermine incentives for good risk management. I changed the answer to NO for the following reasons: Reinsurance would not normally cover operational risk. (This statement is formally correct, but it may well be that some impact of an Operational Risk event is implicitly covered by reinsurance for example in case of fraud resulting in a financial loss.)
Institut des Actuaires	France	Other	No	Yes	
Allianz	Germany	Other	No	Yes	Given that premiums and TP are supposed to express the size and complexity of a firm, using net exposures would result in underestimating them.
GDV - Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Other	No	Yes	Operational risk considers the risk of loss due to inadequate or failed internal processes, personnel or systems, or from external events. The risk exposures considered thus should be gross amounts.
German Association of Actuaries (DAV)	Germany	Other	No	No	The IAIS should use exposures after reinsurance in order not to undermine incentives for good risk management.
AIA Group	Hong Kong	Other	No	Yes	Ceded reinsurance does not relieve the IAIG of operational risk. Therefore we favour an approach based on exposures before ceded reinsurance. Having said that we disagree with the entire approach of basing the operational risk charge on volumes exposures as this is not related to actual risk.
International Actuarial Association	International	Other	No	Yes	Exposures before reinsurance would be more appropriate because ceded reinsurance may not reduce the risk of loss resulting from inadequate or failed internal processes, people and system. The gross exposure better reflects the volume of activity of a company and also reinsurance would typically not cover operational risks.

					Exposure before reinsurance is simpler than after reinsurance to be used in standard method.
Dai-ichi Life Holdings, Inc.	Japan	Other	No	Yes	・Operational risk is not so significant, so a simplified way for measurement this risk is desired.
General Insurance Association of Japan	Japan	Other	No	Yes	As Operational risk is not expected to be affected by the fluctuation in the volume of ceded reinsurance in practice, the IAIS should use exposures that are reported before the impact of ceded reinsurance.
The Life Insurance Association of Japan	Japan	Other	No	Yes	・As the Operational risk is not considered to be that relevant, we prefer to use a simplified method in measuring Operational risk.
Great Eastern Holdings Ltd	Singapore	Other	No	No	NA
Swiss Re	Switzerland	Other	No	Yes	This seems reasonable for a standard approach. A more sophisticated approach would be to allow for the use of regulatory approved internal models.
Institute and Faculty of Actuaries	UK	Other	No	Yes	Gross exposure better reflects the volume of activity of a company and also reinsurance would not typically cover operational risks.
National Association of Mutual Insurance Companies	United States	Other	No	No	No. Operational risk should be based on exposures net of reinsurance. Net values are the most appropriate data as they will properly align the charge where the cash flows, assets, and capital are allocated to support the net retained business. Using a net basis will eliminate system-wide double counting. The use of net values is appropriate as premiums/loss reserves ceded to non-affiliates and non-U.S. affiliates are subject to a credit risk charge in the ICS formula, which includes a substantial operational risk element, related to ceded reinsurance risk. Direct and gross premiums/reserves are problematic proxies to use for this charge. Direct values do

					not capture any risk for assumed reinsurance. For insurance groups, to the extent of intercompany reinsurance agreements, gross values double count the same volume (direct and assumed) within a system-wide capital framework.
Prudential Financial, Inc.	United States of America	Other	No	Yes	In general, exposures should be reported before ceded insurance as the ceding company retains operational risk liability for the reinsured policies.
MassMutual Financial Group	USA	Other	No	Yes	From an operational risk perspective, we believe that all business, regardless if it is reinsured or not, is the appropriate ‘base’ on which to assess the operational risk charge.

Q206

Q206	Section 6.14.3	Are the proposed Operational risk exposures appropriate for the ICS standard method? Please explain.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
China Insurance Regulatory Commission	China	IAIS Member	No	No	The premium growth component of the operational risk currently has the same threshold for all countries. But as the growth rate is often significantly higher for developing countries than that for developed countries, the current design will mostly charge insurers in the developing markets, even under a normal growth rate. We suggest refine the premium growth rate threshold as a rate that in excess of the average growth rate of each market, so that the risks are only charged to insurers with a high growth rate in its own market.
EIOPA	EIOPA	IAIS Member	No	Yes	
BaFin	Germany	IAIS Member	No	Yes	
Financial Supervisory Service	Korea	IAIS Member	No	Yes	
National Association of Insurance Commissioners	USA	IAIS Member	No	Yes	Yes, they are appropriate though it is worth continuing to investigate alternatives.

Ageas	Belgium	Other	No	No	Compared with exposures considered in the SII framework, they bring unnecessary complication with questionable added value in terms of risk management.
Ping An Insurance (Group) Company of China Ltd.	China	Other	No	No	We think that the operational risk measurement should not consider the factor of premium growth rate, because: 1. The whole ICS valuation system does not consider the future new business, and so the valuation system should be internally consistent; 2, China is at the stage of rapid business growth and China government is encouraging the development of insurance industry. So the rapid growth of the business does not necessarily lead to dramatic increase in operational risks, as the business growth comes from a variety of external factors such as government policies, broadened product types and consumer group changes. Therefore, we believe that the premium growth rate should not be considered as one factor of operational risk assessment. Moreover, different risk factors should be set separately for insurance markets at different development stages, even if the factor of premium growth rate has to be taken into consideration.
Insurance Europe	Europe	Other	No	Yes	Unit-linked business indicators (current estimate or premiums) should not be considered for operational risk calculation.
Actuarial Association of Europe	European Union	Other	No	Yes	For life business gross liabilities or expenses could be used depending on the type of business. For non-life business premiums and claims need both be used depending on the type of risk.
Institut des Actuaires	France	Other	No	Yes	
Allianz	Germany	Other	No	Yes	Yes: they are most likely best easy-to-obtained and standardize indicators of size and complexity. No: they do not reflect at all the internal set up which is the main driver of OpRisk exposure.

					Therefor we prefer operational risk scenario based capital calculation to better reflect the internal and external environment factors of the company for operational risk exposure.
GDV - Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Other	No	Yes	For the EEA area, the risk factors are currently appropriate. The specifications are silent about the factors in other geographical segments. Nevertheless, they do not reflect at all the internal set up which is the main driver of OpRisk exposure. An operational risk scenario based capital calculation to better reflect the internal and external environment factors of the company for operational risk exposure would be preferred.
Global Federation of Insurance Associations	Global	Other	No	No	The overall calibration is too high, particularly on single premium business. Premiums not directly related to insurance risks should be excluded from the operational risk premium charge calculation, but still be captured under the current estimate charge.
AIA Group	Hong Kong	Other	No	No	We do not think that business volume and indeed growth rates are necessarily correlated with the level of operational risk. Therefore an approach to quantify operational risk purely based on these factors is not appropriate.
International Actuarial Association	International	Other	No	Yes	One of the challenges in quantification of operational risk is that the risk is closely linked to the risk culture of an undertaking. If we try to set the exposure measure for operational risk, we agree that it needs to reflect the business of the undertaking. Combination of premium and liabilities (claim reserve) for non-life and health business is appropriate. Both premium and claims need to be used as depending on the line of business. One may be a better carrier than the other - eg for cat cover claims would not be a good indicator, and premiums do not reflect the risk which may exist around handling/managing long-tail claims. For life business gross liabilities could be used as an exposure measure. But premium is not appropriate measure for life business because life business focuses on long duration contracts. It needs also to be noted that definition of premium is

					different between accounting standards. Another suggestion would be expenses as more complex business would typically have greater expenses associated with them and often expenses will be incurred in advance of liabilities growing in a growth phase - clearly this wouldn´t capture the increased risk associated with expense cutting initiatives but one cannot expect to capture all the different types of operational risk in a simplistic factor-based approach. One can of course argue that the subjective nature of operational risk quantitative measures also means that more complex methods are spuriously accurate anyway. Growth written premium is not appropriate for exposure measure. Operational risk increases significantly when an organization experiences rapid growth. Growth typically involves new markets and/or products and new people in the organization. That usually puts significant pressure on the systems in place and on the control system. It makes sense to try to capture the extent of rapid growth and to reflect this in the assessment of the operational risk. But the speed of growth would be controlled by strategic decision making of the company. It may be more appropriate to capture rapid growth risk in other risk category.
Dai-ichi Life Holdings, Inc.	Japan	Other	No	Yes	・Measurement of operational risk is an issue with continuously examine about banking regulation, which is currently with no conclusion. At present, a simplified way for measurement this risk is desired in a view of feasibility.
General Insurance Association of Japan	Japan	Other	No	Yes	Under the current approach, "recognition of the increased risk associated with excessive growth" (explained in Paragraph 567) is subject to additional risk charges due to changes such as movements of currency exchange rates and premium rate revisions. This does not reflect the actual risk conditions. Considering these factors are practically difficult to eliminate, it is necessary to abolish these additional risk charges or make adjustments such as increasing the threshold.

The Life Insurance Association of Japan	Japan	Other	No	Yes	・Within the preceding deliberation related to regulation on banking, the measurement of Operational risk is also an on-going issue to be considered. Therefore, for the time being, we prefer to use a simplified method in measuring Operational risk from the feasibility perspective as there seems to be no appropriate option at present applicable for the measurement of Operational risk.
Great Eastern Holdings Ltd	Singapore	Other	No	Yes	NA
Swiss Re	Switzerland	Other	No	Yes	This seems reasonable for a standard approach. A more sophisticated approach would be to allow for the use of regulatory approved internal models.
Institute and Faculty of Actuaries	UK	Other	No	Yes	We agree that in relation to exposures for non-life, both premiums and claims need to be used as depending on the line of business one may be the better carrier than the other. For example, with catastrophe cover, claims would not be a good indicator and premiums do not reflect the risk which may exist around handling and managing long-tail claims. For life, gross liabilities could be used, but an alternative is expenses, as more complex business would typically have greater expenses associated with it (often expenses will be incurred in advance of liabilities in a growth phase). This would not capture the increased risk associated with expense-cutting initiatives, but it is not possible to capture all the different types of operational risk in a simplistic factor based approach.
Association of British Insurers	United Kingdom	Other	No	No	The overall calibration is too high, particularly on single premium business. Premiums not directly related to insurance risks should be excluded from the operational risk premium charge calculation, but still be captured under the current estimate charge. For example, annuity premiums, investment-related premiums, premiums on whole of life contracts. For these products, premiums are a poor proxy for the level of operational risk. For example, under the current operational risk calibration, single premiums (e.g. on single premium annuities) will attract a capital charge of 4%-8%,

					which is well in excess of a 1-in-200 level. In subsequent time periods, the charge on business will fall to 0.4% of that premium. It is not appropriate for the operational risk capital charge in the first year of single premium products to be 10-20 times that of existing business.
National Association of Mutual Insurance Companies	United States	Other	No	No	No. As noted above the use of "gross" premiums and "gross" current estimate of liabilities does not serve as the best basis for assessing operational risk. Operational risk should be based on exposures net of reinsurance. Net values are the most appropriate data as they will properly align the charge where the cash flows, assets, and capital are allocated to support the net retained business. Using a net basis will eliminate the system-wide double counting. The use of net values is appropriate as premiums/loss reserves ceded to non-affiliates and non-US affiliates are subject to a credit risk charge in the ICS formula, which includes a substantial operational risk element, related to ceded reinsurance risk. Direct and gross premiums/reserves are problematic proxies to use for this charge. Direct values do not capture any risk for assumed reinsurance. For insurance groups, to the extent of intercompany reinsurance agreements, gross values double count the same volume (direct and assumed) within a system-wide capital framework.
Prudential Financial, Inc.	United States of America	Other	No	No	Of the two approaches considered, the Current Estimate approach (factor applied to Current Estimates) is reasonable, provided that the factor is calibrated to a reasonable level and the yield curve used to determine Current Estimate is appropriate. Prudential believes that the 40 bps charge on Current Estimates is reasonable. A Premium approach (factor applied to Premiums) is not appropriate as this approach will be unduly punitive and volatile for single premium businesses.
MassMutual Financial Group	USA	Other	No	Yes	We believe taking in to consideration exposures that encompass the amount of new business and the amount of existing business in force, is appropriate. Additionally, the current approach of applying an incremental charge for premium growth beyond a certain threshold has merit.

Q207

Q207 Section 6.14.3 Are the proposed Operational risk factors appropriate for the ICS standard method, both in terms of size and relativity? Please explain.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
China Insurance Regulatory Commission	China	IAIS Member	No	No	The premium growth component of the operational risk currently has the same threshold for all countries. But as the growth rate is often significantly higher for developing countries than that for developed countries, the current design will mostly charge insurers in the developing markets, even under a normal growth rate. We suggest refine the premium growth rate threshold as a rate that in excess of the average growth rate of each market, so that the risks are only charged to insurers with a high growth rate in its own market.
BaFin	Germany	IAIS Member	No	Yes	
Financial Supervisory Service	Korea	IAIS Member	No	Yes	
National Association of Insurance Commissioners	USA	IAIS Member	No	Yes	Yes, these appear appropriate but we are open to arguments, supported by evidence, that different factors should be used.
Ageas	Belgium	Other	No	No	For the same reasons as the ones laid out under question 206.

Insurance Bureau of Canada	Canada	Other	No	No	We believe that the risk factors provided for 2016 Field Testing purposes appear to be higher than would be expected under the ICS target criteria. As per our response to question 151, we recommend that the IAIS provide a reconciliation explaining the difference between the final ICS factors and those in currently used to calculate capital requirements in IAIS member jurisdictions.
Ping An Insurance (Group) Company of China Ltd.	China	Other	No	No	We believe that any factor-based measurement approach is relatively subjective, and currently there is no appropriate standard to implement this kind of approach. The approach cannot reasonably reflect the differences of operational risks between different companies and so cannot be used as the basis of operational risk management. Therefore, we recommend that the operational risk is not included in the standard formula method but managed through qualitative assessment or risk management tools of local regulations. For example, CIRC has a series of strict management standards on operational risk. According to the requirements of C-ROSS's qualitative requirements, CIRC will evaluate the company's scores for its system construction and implementation effectiveness of each major type of risk. The capital requirements in Pillar I should be adjusted in the range of -10% to +40% based on the scores. Meanwhile, under the C-ROSS Integrated Risk Rating (IRR), which is a rating process conducted by the regulator, the insurance companies will be classified into different ratings by assessing their operational risk and solvency level. If the operation risk has to be quantified, we recommend considering different risk factors for countries at different development stages separately, especially for developing countries with low insurance density and penetration. They are still at the development stage of strengthening insurance coverage and providing citizens more commercial insurance, which results in rapid insurance business growth. The current method in field testing is based on premium volume and business growth rate, which leads to higher capital penalties for developing countries. Therefore, we recommend calibrating the operational risk parameters such as premium volume and premium growth rate separately for countries at different development stages.
Allianz	Germany	Other	No	Yes	It remains difficult to judge appropriateness of the factor size per se. While comparing the outcome of ICS standard method (MAV) vs economic models may result to be quite close,

					changes in the size of risk exposures are a strong driver of the ICS method which may not really reflect the risk factors of an insurance company.
International Actuarial Association	International	Other	No	No	We think it is difficult to judge the relativity of the calibrations as a % of gross premiums as the underlying shape of the operational risks relating to the different lines of business are varied – as noted above we think other metrics might be better suited to longer tail business (both life and non-life) – for example a lot of life investments products are single premium and liabilities or expenses might better reflect ongoing operational risks in relation to managing/investing these products over their lifetime. Another challenge in quantification of operational risk is that reliable data for insurance companies is currently scarce. It is more difficult to calibrate the factor for high severity low frequency operational risk events. Setting of quantitative risk factor for operational risk needs to rely on expert judgment.
Great Eastern Holdings Ltd	Singapore	Other	No	Yes	NA
Swiss Re	Switzerland	Other	No	Yes	This seems reasonable for a standard approach. A more sophisticated approach would be to allow for the use of regulatory approved internal models.
Institute and Faculty of Actuaries	UK	Other	No	No	It is difficult to judge the calibration relativity as a percentage of gross premiums, as the underlying shape of the operational risks relating to the different lines of business are varied. As noted above, other metrics might be better suited to longer tail business (both life and non-life), for example many investment products are single premium and liabilities or expenses might better reflect ongoing operational risk in relation to managing and investing these products over their lifetime.
MetLife	United States	Other	No	No	We believe the factors applied to gross written premium/gross current estimates of insurance liabilities to arrive at the operational risk charge produce a charge that is in excess of the

					targeted calibration of 99.5% confidence. The OpRisk charge produced by the current template and model also does not afford any diversification between regions – viewing OpRisk events across regions as completely correlated. We do not agree with this position and strongly feel diversification should be afforded between regions. In addition, we do not feel that the application of an additional growth charge is fully appropriate. Well established lines of business that have strong internal controls in place within their processes are not more likely to have higher operational risk just driven by increased growth. This methodology applies an additional capital charge due to any growth above the specified threshold on a blanket basis.
American Insurance Association	United States of America	Other	No	No	The current ICS methodology calls for data mappings that are not established for most groups. As such, the mapping of exposures to what are granular factors creates significant potential for measurement error. The alternatives for implementation would appear to be either a move to more simplified buckets and lower calibrations or to a more bespoke basis of exposure measurement as reflective of a company's own mappings and rating factors.
Prudential Financial, Inc.	United States of America	Other	No	No	See our response to question 206.
MassMutual Financial Group	USA	Other	No	Yes	Our general sense is that the factors are appropriately calibrated. Internally, we have done some work to develop a 'bottoms up' assessment of operational risk, and we found the result of the IAIS factors to be in line with the results of this work.

Q208

Q208 Section 6.14.4 Are there any further comments on Operational risk that the IAIS should consider in the development of ICS Version 1.0? If "yes", please explain with sufficient detail and rationale.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
Bermuda Monetary Authority (BMA)	Bermuda	IAIS Member	No	Yes	The BMA does not support the approach purposed for operational risk. The factor based method captures size and activity, but does not capture complexity of the business of the IAIG. It does not directly address operational risks and the associated risk management and control framework and thus does not provide any incentive for the IAIG to improve its performance in these areas. We would rather advocate a scoring approach that results in an up-lift to ICS capital requirement excluding operational risk. A scoring approach that takes into account objective criteria (such as risk identification, risk measurement, risk management, risk response, risk monitoring & reporting, and corporate governance and control environment) captures the operational risks and associated risk management and control framework which combined with the overall capital charge (excluding operational risk) which is already a function of size and complexity, provides a much more risk sensitive approach than a factor based approach. Alternatively, a factor based approach to come with a gross operational risk charge combined with a scoring approach to take into consideration operational risk management could also be considered.
China Insurance Regulatory Commission	China	IAIS Member	No	No	
EIOPA	EIOPA	IAIS Member	No	Yes	An indirect approach, targeting operational risk through the other risk charges which compose the ICS could fail to be as risk sensitive and would be influenced by elements that drive the other risk charges but which may not be good indicators for operational risk (e.g. an intensive

					use of derivatives could lower overall market and credit risk capital charges, but it would constitute an increase in the risk for operational losses by the insurer).
BaFin	Germany	IAIS Member	No	Yes	For operational risk, a simple factor approach based on easy to interpret volume measures is appropriate for a standard model.
Financial Supervisory Service	Korea	IAIS Member	No	No	
Ageas	Belgium	Other	No	No	
Ping An Insurance (Group) Company of China Ltd.	China	Other	No	No	
Insurance Europe	Europe	Other	No	Yes	A cap should be considered on operational risk charges as a proportion of the other risk modules, as the overall calibration of the shocks are too high. In fact, premiums are often not a good proxy for the level of operational risk, especially in the case of annuity / investment-related / whole-life products. Premiums not directly related to insurance risks should be excluded from the operational risk premium charge calculation, but still be captured under the current estimate charge. For example, annuity premiums, investment-related premiums, premiums on whole of life contracts. For these products, premiums are a poor proxy for the level of operational risk. For example, under the current operational risk calibration, single premiums (e.g. on single premium annuities) will attract a capital charge of 4%-8%, which is well in excess of a 1-in-200 level. In subsequent time periods, the charge on business will fall to 0.4% of that premium. It is not appropriate for the operational risk capital charge in the first year of single premium products to be 10-20 times that of existing business.

Actuarial Association of Europe	European Union	Other	No	Yes	ComFrame includes strict requirements for the risk management system, so that operational risk should not show significant correlation with the level of risk in other risk categories.
Allianz	Germany	Other	No	Yes	The ICS method for OpRisk should as much as possible leverage on the currently in force Solvency II Standard Formula method and internal model methods as these produce meaningful results. Therefore other methods provide no additional value and are costly to implement or reduce quality if designed too simple.
GDV - Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Other	No	Yes	The ICS method for OpRisk should as much as possible leverage on the local regimes like the Solvency II Standard Formula method and internal model methods as these produce meaningful results. Other methods provide no additional value and are costly to implement or reduce quality if designed too simple.
AIA Group	Hong Kong	Other	No	Yes	We favour not including a charge for operational risk in the quantitative requirements given that there is no accepted approach for quantifying it. Operational risk should be catered for under ERM requirements.
International Actuarial Association	International	Other	No	Yes	We would recommend the IAA Risk Book chapter on Operational Risk (http://www.actuaries.org/index.cfm?lang=EN&DSP=PUBLICATIONS&ACT=RISKBOOK) for future consideration. One of the emerging best practices we identify there is to asses Operational Risk charges after a qualitative ranking of a variety of Operational Risk Exposures into high, medium and low buckets.
Dai-ichi Life Holdings, Inc.	Japan	Other	No	Yes	・Ideally, we may think the actual condition of IAIG´s internal management should be reflected to the amount of risk. But we also understand the difficulty of developing such indices. If an appearance´s criterion is utilized for evaluating the amount of risk, it should not be set at an excessive level, and the influence upon IAIG´s financial health should be insignificant.

General Insurance Association of Japan	Japan	Other	No	No	
The Life Insurance Association of Japan	Japan	Other	No	Yes	・Primarily, the IAIG´s operational management practice should reflect the risk amount. However, we understand the difficulties in developing such indicators. If Operational risk is measured by observable factors, the amount of Operational risk should not be excessive and IAIG's soundness should not be significantly affected by the amount of Operational risk.
Great Eastern Holdings Ltd	Singapore	Other	No	No	
Swiss Re	Switzerland	Other	No	No	
Bupa	UK	Other	No	Yes	We are supportive of the simplicity of the approach used in the 2016 Field Testing.
MetLife	United States	Other	No	Yes	The proposed methodology introduces a double counting between Insurance risk and Operational risk: The Insurance risk methodology applies a charge for expense risk. The operational risk charge calculates a portion of the charge by applying factors to the MAV insurance liabilities. MAV insurance liabilities include expense outflows, so we do feel there is double count with respect to Insurance Risk and the portion of OpRisk derived thru applying factors to MAV insurance liabilities. OpRisk Aggregation & Correlation across regions: We do not agree with the fact that the IAIS OpRisk model considers the oprisk across regions as fully correlated.
National Association of Mutual Insurance Companies	United States	Other	No	Yes	Increased capital is not the best or most effective approach for addressing a qualitative risk, such as operational risk. The subjective nature of the risk and the on-going need to update and evaluate the projections would indicate it is better evaluated as part of an enterprise risk management system and not as part of a formula for required capital. Operational risk in an organization is far more individualized than any other factor in this capital formula and any

					measurement of such risk would require an individualized company assessment. No capital formula including a proxy for operational risk serves any purpose except the overall increase of the capital requirement and the potential duplication of risk already incorporated in a premium and claims factors Enhanced regulatory oversight of targeted companies, resulting from financial examinations, financial analysis, and review of ORSA and Enterprise Risk reports, would provide the best means of encouraging operational excellence. Using ORSA assessments, regulatory analysis and supervisory college discussions provides a much better means to assess the strength of the insurer's internal controls, audit and compliance functions, and the company's risk culture. Including an operational risk proxy in a capital formula also assumes that all companies would experience this risk in the same or similar ways. In fact, no two situations will be the same and there will be cases where no amount of capital could address the risk and others where the risk might be so small that the capital held was way out of proportion. Operational risk is truly not a one-size-fits-all risk. In addition, the proposed formula does not take into account embedded operational risk in current premium and claim risk factors. All potential operational risks would produce losses that are at least already partially reflected in the data used as the basis for developing other ICS risk factors. If an amount for operational risk is to be included in the formula, then the premium and claim risk should be reduced to eliminate the embedded risk already incorporated therein. Until embedded amounts are removed from the premium and claims base we would recommend a very small operational risk charge of 1.0% or less.
Prudential Financial, Inc.	United States of America	Other	No	Yes	We support an approach to developing an operational risk charge that is simple, transparent and reflects the relative exposure to operational risk. The standard should be calibrated to reflect the true underlying operational risk profile for insurers– a business model which has an absence of short term market (trading book) activity and is geared toward a diverse pool of policyholders. The design of an operational risk charge should be factor-based, such as one of the simpler approaches prescribed in the Basel II framework, and should include the following key elements:

					+ Factor(s) are rooted in loss data that is specific to life insurers + Factor(s) are applied to activity measures which are reasonable proxies for operational risk such as earnings + Incorporates forward-looking elements such as stress testing + Integrates sensitivity to the relative control environment. In our view, The Standardized Approach in Basel II Framework is a reasonable approach, provided it is adjusted for the inherent risk profile for insurers (i.e., definition of gross income and beta determination).
Liberty Mutual Insurance Group	USA	Other	No	Yes	Requiring increased capital is not the most prudent means to supervise how insurers manage qualitative business issues such as operational risk. Operational risk is subjective and clearly not homogeneous across all insurers engaged in similar business segments and geographies. There is a baseline level of risk related to an insurer's operating environment, but the magnitude of operational risk is highly dependent upon the strength of the insurer's internal controls, audit and compliance functions, and the company's risk culture (how much emphasis does management place on proper conduct of employees, and minimizing risk in general). No operational risk factor is appropriate, because any attempt to do so inappropriately attempts to impose a "one-size-fits-all" analysis on an issue that is inherently variable among insurers, given the wide variety of operational structures and management systems. Attempting to evaluate operational risk effectively treats similar sized companies in similar businesses the same, and fails to reward companies for strong controls that reduce the level of operational risk or to penalize companies with weak controls that increase operational risk. Enhanced regulatory oversight of targeted companies, resulting from financial examinations, financial analysis, and review of ORSA and Enterprise Risk reports, would provide the best means of encouraging operational excellence. The IAIS should either: (a) recognize that the ICS cannot accurately account for varying levels of operational risk across companies, or (b) dispense with the false sense of precision implied

					in the proposed operational risk methodologies and simply add a gross up factor of a few percentage points on top of the total risk charge.
MassMutual Financial Group	USA	Other	No	Yes	Inherently there will likely be supervisory judgement in the approach for Operational Risk, but we believe this is appropriate given the nature of the risk. We would encourage the IAIS to remain aware of the pending Operational Risk changes currently underway related to RBC in the United States. Mechanically we support the 'factor' based approach – a 'bottoms up' calculation is arguably more accurate, but it yields a result that is less comparable across firms.

End of Section 6.14