CREDIT RISK GUIDELINE – MATRIX OF INDUSTRY RESPONSES

No.	Name of Section	Clause #	Comments	Response
	Introduction			
1		**1.3**	• It is being recommended to add a footnote to mention the "Guideline for the Treatment of ECLs for Capital Adequacy Requirement", which supplements the requirements outlined in the Impaired Assets Guideline and given that reference was made to IFRS 9 in section 6.36.4	• Agreed. The Guideline has been amended accordingly.
2		**1.4**	• Remove "__" in the last line.	• Amended
	Definitions			
3		**3.0**	• The same definition of credit risk should be used throughout all guidelines. At this point the draft stress testing framework, which uses definitions from the IAIS, contains a different, clearer definition of credit risk, than the one contained in this guideline.	• The definition has been amended to capture borrowers and counterparties who fail to meet their obligations.
4		**3.0**	• The definition appears to limit country risk to exposures of ***state owned*** or ***private owned*** borrowing companies. We suggest that the definition should be revised to cover all foreign borrowers.	• All foreign borrowers will be covered under the rubric of *state or privately owned*.
	Establishment of a Credit Risk Strategy and Policy			
	Credit Risk Strategy			
5	**Exposure types and limits**	**4.2.1**	• We require clarification on what exposure types are being contemplated in this tenet.	• This refers to the components of the loan or investment portfolio with limits applied to each segment (concentration limits). For example, Borrower or Investor: Consumer, Private Sector, Public Sector; Currency: Local currency,

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				foreign currency; Business activity: Construction, manufacturing, leisure, etc., Geographic and proximity. The Guideline has been amended to include this footnote.
	Credit Risk Policy			
6		**4.7**	• These minimum requirements for the credit policy seem more geared towards banks and do not seems to cater for insurers who generally do not extend credit as a product or as a general part of doing business. This means that not all of the listed minimum items would apply to such insurers e.g. 4.7.7., 4.7.8., 4.7.10., 4.7.11. and 4.7.13. Consideration should be given to including a separate list of minimum requirements for licensees with non-bank credit exposures.	• Credit exposures refer to both loans and investments. Insurers are engaged in credit activities even though not to the same extent as banks and such activities may be taking place in the investment portfolio of the insurer. As noted in 5.11 and 5.13 the size and complexity of the credit activities of the financial institutions must be considered in setting strategy. The sections of the Guideline referred to may be relevant to an insurer's investment activity and it will be the determination of each insurer to include all relevant provisions in their credit policy.
7		**4.7**	• We are of the view it may be administratively cumbersome to include some of the minimum elements outlined within the Financial Institution's (FI) Policy document. We therefore recommend that the guideline be amended that the FI's Credit Risk Policy makes reference to the FIs other	• Reference can be made to additional documented processes in the policy. However it would be most useful to the FI and to the Central Bank if the policy comprehensively details all the criteria contained in 4.7.

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			documented processes which satisfy the minimum requirements.	
	RESPONSIBILITIES OF THE BOARD AND SENIOR MANAGEMENT			
	Responsibilities of the Boards of Directors			
8		**5.1.1**	• It is the responsibility of Senior Management and not the Board to develop a documented credit risk management strategy. We believe the Board's responsibility should be limited to the approval and periodic review of the credit risk strategy. Consistent with the BCBS Principles for Management of Credit Risk, we recommend that this section be amended to reflect that the Board will approve and periodically review the credit risk management strategy.	• Agreed amended accordingly.
9		**5.1.2**	• We suggest the following amendment given that depending on the institution involved, appointment of said senior management may fall under the remit of the Human Resource department and thus only require the Board's advisement and not necessarily its approval: *"Appointment of senior managers with responsibility for the credit risk management function should be in line with the relevant institution's Human Resource recruitment policies"*	• Agreed. The Guideline has been amended.

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10		**5.1.2**	• We respectfully suggest that the appointment of individual senior officers is often delegated to the CEO with the Board approving the framework where relevant, and maintaining oversight. Such delegation also falls within good corporate governance principles and maintains the Board's oversight role in risk mitigation. This should in our view be factored into the guideline.	• Agreed. The Guideline has been amended.
11		**5.1.3**	• Does this requirement refer specifically to the Board's responsibility with respect to credit risk management policies and procedures or risk management policies and procedures in general? If the former, then the section should be amended for clarity. If the former, then this section should be omitted since this is already covered in the corporate governance guideline.	• Amended to specifically refer to credit risk given the context of the Guideline.
12		**5.1.5**	• This section is unclear. Is it that the requirement is for licensees to establish timeframes for the review of credit risk management policies and procedures and the board's responsibility is therefore to ensure that these review timeframes are met?	• The requirement for review has been revised to be the responsibility of Senior Management who will review within established timeframes and seek the approval of the Board where required.
13		**5.1.5**	• Our position is that the Board of Directors should only be responsible for the review of policies. In our view, procedures are operational in nature and	• Please see response above. The requirement has been amended.

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			as such should be reviewed and updated by management.	
14		**5.1.5**	• It is being recommended that it be stated specifically whose established timeframes in order to be clear.	• The timeframe for review is that established in the credit policy that would have been approved by the Board and this has been clarified in the Guideline.
15		**5.1.6**	• We suggest that the following wording may be more appropriate given that institutions would have established delegated credit approval authority protocols for said credits: *"The Board should be responsible for reviewing and approving transactions which are above the delegated credit approval authority of management"*	• Amended to address the issue of approval of transactions outside the delegated authority of management.
16		**5.1.9**	• Similar to the suggestion in 5.1.6 and utilizing the same rationale, we recommend amending the section with the following: *"The Board should be responsible for reviewing and approving significant problem credits which are above the delegated credit approval authority of management"*	• The context in which this review is stated is different from that contained in section 5.1.6 (now 5.1.5). All significant problem credits should be reviewed by the Board. In accordance with clause 4.7.12 the credit risk policy is expected to contain criteria around what is considered significant problem credits.
17		**5.1.10**	• We request clarification on what is meant by 'conflict' with written credit policy. Does this exclude authorized exceptions, but rather refer to material credits outside of risk appetite (for example, that may have reputational risk?)	• It includes all departures from the established policy including exceptions that are significant. The clause has been amended for clarity.

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	Responsibilities of the Senior Management			
18		**5.2**	• These minimum requirements for senior management seem geared towards licensees with traditional credit products as opposed to insurers with credit exposures. Therefore some of the requirements do not appear to be applicable or may be excessive for such insurers, namely 5.2.4, 5.2.5, 5.2.8, 5.2.9	• Credit exposures refer to both loans and investments. Insurers are engaged in credit activities even though not to the same extent as banks and such activities may be taking place in the investment portfolio of the insurer. As noted in 5.11 and 5.13 the size and complexity of the credit activities of the financial institutions must be considered in setting strategy. The sections of the Guideline referred to may be relevant to an insurer's investment activity and it will be the determination of each insurer to include all relevant provisions in their credit policy. An insurer's Senior Managers must consider these issues in treating with credit risk management.
19		**5.2**	• In light of the recommended change in 5.1.5, we recommend that this section be amended accordingly.	• Section 5.2.2 has been amended to place responsibility on the senior management for reviewing and updating policies and procedures.
20		**5.2.6**	• This guideline is one in a series of guidelines, with the corporate governance guideline as an overarching guideline. It therefore seems unnecessary to include the basic	• In order to ensure that the credit risk guideline is a comprehensive document the Central Bank included audit requirements in the Guidelines. It is understood that all guidelines related to

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			requirements relating to the internal audit function in this document when the corporate governance guideline already speaks to this function in sufficient detail. Also, the internal audit function is not being implemented specifically/only for the review of the credit risk management, as is suggested in this section, but to provide assurance across all company operations on a risk basis. Therefore, this section should just speak to how frequently internal audit is expected to review the credit risk management activities and list, what should be covered at a minimum. • "Audit Committee" should be included in section 5.2.6 (vi). The clause should read: "the Board or Audit Committee receives regular reports on the audits conducted".	risk must be read in conjunction with the corporate governance guideline. With respect to the scope of the internal audit function section 5.2.6 states that the function is to "review and assess *inter alia* the credit risk management activities." Therefore, the statement does not suggest that the function's implementation is solely related to credit risk analysis. • Amended
21		**5.2.8**	• This section is unclear. Is this meant to be part of the internal audit review? If not, who should be assessing same and what are the objectives of the assessment? • What is meant by "periodic"? This should be clearly defined as different companies will implement different timeframes. • Should the independent assessor be qualified? The clause was silent but	• While this review can be conducted by the internal audit it can also be conducted by the compliance function or via an independent credit review function. A footnote has been added to indicate this. Additionally, the intention of the review is to ascertain if the overall process and systems related to the credit function are working adequately as well as the effectiveness of the policy. Issues identified can be translated into policy

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			should the assessor be qualified similar to real estate and liabilities valuations?	changes when the credit policy is being reviewed. • The determination of what is periodic will be dependent on the size and complexity of the business of the financial institution as well as whether there have been changes in, for example, legislative or regulatory requirements or the economic environment. Indicating a standardized timeframe therefore would not be appropriate. • Specific qualifications for the assessor will not be included however the Central Bank expects that suitably qualified individuals, as determined by the financial institution, execute this assessment.
	CREDIT RISK MANAGEMENT PROCESS			
22		**6.0**	• This entire section seems to be focused on traditional credit products, and as such appears to not be applicable to insurers who do not offer mortgages but who just have basic credit exposures such as investments and intermediary receivables. If insurers are to be governed by section, then there should be some clear demarcation as to what would be applicable for traditional life and general life insurers with the understanding that insurers with mortgage portfolios will have to treat	• Noted. The section has also been amended to capture all credit related activities. The requirements of this section should be adopted as relevant based on the nature of the credit activities undertaken.

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			those like traditional credit products and so the rest of the guideline will apply. In the case of General Insurance, the Insurance Act does not allow/consider, for solvency/ regulatory calculations, premiums receivables over 45 days. Such companies should therefore already have policies, which support this requirement.	
	Credit Approval			
23		**6.16.8**	• Spelling error "arty". It should be "party".	• Amended
24		**6.16.8**	• "Arty" should be changed to "party".	• Amended
	Managing Problem Credits			
25		**6.44**	• Please provide definition for "a systemic financial institution".	• Amended to include definition
	ROLE OF THE CENTRAL BANK			
26		**7.1**	• Remove "of" before "off-site" in the second line. Create a space between ',' and 'onsite' in the third line and remove the apostrophe in the word "institution's".	• Amended
27		**7.2**	• The sentence does not read well. A few words appear to be missing, specifically the word "exist" after "credit risk management" and the word "the" before "law".	• Amended
	General Comments			
28		**General**	• Overall a robust guideline that will require time for implementation. Consideration should be given to the	• The guideline will be effective from the date of issuance. Financial institutions

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			industry to allow for proper documentation, review and approval before setting a date of implementation. • The guideline seems to be particularly skewed towards traditional credit products and credit risk as opposed to credit exposure, thereby rendering much of the guideline not applicable to the average insurer without a mortgage portfolio. Given that the intention seems to be to cover all licensees under these guidelines then perhaps the credit risk management guideline needs to specifically speak to what is applicable to insurers with mainly credit exposure from investments and intermediary receivables as opposed to licensees with a significant amount of traditional credit products in their portfolio.	are expected to review the Guideline, identify gaps in their credit risk management framework, develop an action plan and institute the appropriate measures to ensure compliance with its contents as soon as possible after issuance. • The complexity of some of the requirements will vary for insurers, however since insurers are also vulnerable to investments the Central Bank expects insurers to apply the Guidelines with the attendant proportionality.
29		**General**	• We seek clarification on whether we can take a group approach to Credit Risk Management while the individual subsidiary companies ensure adherence to any restrictions in the FIA and IA respectively.	• While group policies may be prepared in accordance with the draft Credit Risk Guideline, the Boards of individual licensed/ registered institutions are expected to approve such policies. As part of that approval process risks

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				peculiar to the subsidiary and its jurisdiction, must be addressed and the policies and procedures tailored accordingly. The Central Bank will therefore check whether the Group policy has been approved and/or adapted by the relevant subsidiary board.