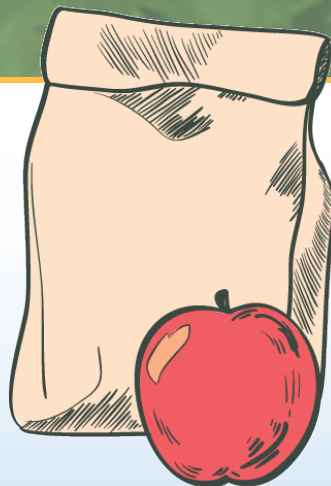


The Academy Capitol Forum: Meet the Experts



International Insurance Regulation 101: International Association of Insurance Supervisors

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American Academy of Actuaries

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IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

Presentation to the American Academy of Actuaries

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Deputy Secretary General

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IAIS HISTORY, MISSION, AND THREE PILLARS OF ACTIVITY

History of the IAIS

- A voluntary membership organization of insurance supervisors and regulators from more than 200 jurisdictions
 - All U.S. states are members
- Established in 1994
- The international standard-setting body for insurance
 - Basel Committee on Banking Supervision (BCBS)
 - International Organization of Securities Commissioners (IOSCO)

History of the IAIS

- Responsible for developing and assisting in the implementation of **global principles**, standards, and other supporting material for the supervision of the insurance sector
- Provides a **forum** for Members to share their experiences and understanding of insurance supervision and insurance markets
- Routinely called upon by the G20 leaders and other international standard setting bodies

History of the IAIS

- Swiss “non-profit” association supported by its Secretariat located in Basel, Switzerland and headed by a Secretary General
 - Hosted by the Bank for International Settlements (BIS)
 - 28 staff members (from 16 countries)
 - Secretariat Structure is available under the [“About Us”](#) section of the IAIS website

Mission

- The IAIS' **mission** is to:
 - Promote **effective** and **globally consistent** supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and **protection of policyholders**; and
 - Contribute to global **financial stability**

Three Pillars of Activity

- Activities undertaken in furtherance of the IAIS' mission can be divided into three categories:
 - Standard Setting
 - Implementation
 - Financial Stability
- 5 Committees under Executive Committee
 - 16 working groups

Three Pillars of Activity

■ **Standard setting**

- Develops **supervisory material** (ICPs - principles, standards and guidance) for effective insurance supervision
- Prepares **supporting papers** (such as Issues Papers) that provide background on specific areas of interest to insurance supervisors

Three Pillars of Activity

■ Implementation

- Promotes the implementation of its supervisory material. Working closely with international organisations, regional groups and supervisors
- Supports training seminars and conferences and addresses financial inclusion
- Conducts assessments and peer reviews of observance of supervisory material, consistent with the Financial Sector Assessment Program (FSAP) conducted by the International Monetary Fund (IMF) and the World Bank

Three Pillars of Activity

▪ **Financial stability**

- Plays a central role in financial stability issues, including developing a methodology for the identification of any global systemically important insurers (G-SIIs)
- Assists its Members in developing enhanced macroprudential surveillance tools
- Coordinates engagement with the Financial Stability Board (FSB) which reports to the G20 Finance Ministers

IAIS STRATEGIC AND HIGH LEVEL GOALS

Strategic Plan & Financial Outlook 2015-19

- The IAIS is a strategy-focused organisation governed by its mission statement and guided by a five-year strategic plan.
 - **High level goals** reflect the aims or goals to be achieved by the end of the term of the new strategic plan
 - **Strategies** provide the ways in which the IAIS plans to achieve the high level goals
 - Two-year **roadmap** adopted each year providing a more detailed level of planning

- High level goal 1: Assessing and responding to insurance sector vulnerabilities
 - As the recognised thought leader in insurance supervision, the IAIS proactively identifies risks and developments in particular in the general economy and the financial sector that may affect the insurance sector, its business, insurance regulation and supervision as a basis for subsequently timely developing appropriate forward-looking policy responses

- High level goal 2: The IAIS as the global standard setter for insurance
 - The IAIS is well established and unequivocally recognised by all relevant stakeholders as the independent global standard setter in insurance through the development of sound principles and standards for globally consistent microprudential, macroprudential and conduct of business supervision of the insurance sector

- High level goal 3: Contributing to financial stability in the insurance sector
 - The IAIS plays a key role in assessing and identifying **G-SIIs** and promotes supervisory measures applying to G-SIIs

- High level goal 4: Enhancing effective supervision
 - IAIS Members apply **best practices** for effective insurance supervision and supervisory cooperation

- High level goal 5: Enhancing implementation and observance of ICPs
 - Based on a robust program for monitoring implementation the IAIS is promoting the **observance** of the ICPs by all Members, and coordinating and facilitating initiatives that meet the capacity-building needs of the Members of, in particular, less-developed jurisdictions

- High Level Goal 6: Effective stakeholder outreach and external interaction
 - Through **transparent** and robust processes the IAIS effectively promotes its interests with its stakeholders and the production of high quality deliverables by collecting input from stakeholders while maintaining its **independence**
 - The IAIS develops and maintains a close partnership with key external partners

- High Level Goal 7: Effective and efficient organisation and operations
 - The IAIS is an **independent** and highly **efficient** Association with sound governance, an effective and efficient operational and working party structure and a Secretariat that provides high quality **support and advice**

MAJOR IAIS INITIATIVES

Major IAIS initiatives

- Internationally active insurance groups (**IAIGs**)
 - The Common Framework for the Supervision of IAIGs – **ComFrame**
 - Assisting in the designation of G-SIIs and designing applicable policy measures
 - Developing the first-ever, risk-based global quantitative insurance capital standard (**ICS**)

Major IAIS initiatives

- G-SIIs

- Basic capital requirement (**BCR**) to act as a basis on which loss absorbency requirement for G-SIIs can be based
- Higher loss absorbency (**HLA**) proposed with the intention that G-SIIs are appropriately capitalised
- Recovery and resolutions plans (**RRP**) to ensure that in the event of a failure a systemic (re)insurer can be adequately resolved
- Crisis management group (**CMG**) to deliver co-ordination in a crisis event

COMFRAME

The IAIS Three-layer Approach

Architecture of IAIS international supervisory requirements

Type of entity	Legal Entity	Group	Internationally Active Insurance Group (IAIG)	Global Systemically Important Insurer (G-SII)
Supervisory requirements and actions				
First tier ICPs	ICPs that apply only to legal entities	ICPs that apply to legal entities and groups		
Second tier ComFrame				ComFrame
Third tier G-SII package				G-SII package

Layer one – the Insurance Core Principles

- Scope
 - Insurance legal entities and insurance groups (unless otherwise specified)
- High-level, principles-based, three level structure
 - Principles, standards, and guidance
- Proportionality
 - Tailored approach taking into account **nature, scale and complexity** of insurers
 - Allows large range of approaches taking account of local specifics

ComFrame - Background

- Objectives
 - Establish a comprehensive framework for group-wide supervision
 - Foster global convergence of regulatory and supervisory requirements
- Scope
 - IAIGs and G-SIIs
- ComFrame hierarchy
 - Supervisory requirements:
 - ComFrame standards
 - Parameters
 - Guidelines

ComFrame - Background

- ComFrame is a comprehensive framework for supervision of IAIGs because it addresses:
 - **Capital** requirements for IAIGs
 - **Qualitative** requirements for IAIGs
 - **Scope** of group-wide supervision
 - Requirements for **supervisors**
 - Crisis management and resolution

Module 1 - Scope of ComFrame

Module 1
Scope of ComFrame

Module 2
The IAIG

Module 3
The Supervisors

- Identification of IAIGs
 - Sets out the **criteria** to apply
 - Size, (U.S. \$50 billion insurance assets and U.S. \$10 billion of gross written premiums); and
 - Internationality (Three or more jurisdictions)
- Process of Identifying
 - Sets out process to be followed

Module 1 - Scope of ComFrame

Module 1
Scope of ComFrame

Module 2
The IAIG

Module 3
The Supervisors

- Scope of supervision
 - Defining the **perimeter** of supervision (ICP 23)
 - Cannot narrow the scope due to lack of legal authority and/or supervisory power
- Group-wide supervisor
 - In principle, **group-wide supervisor** is where:
 - Head of the IAIG is based
 - Insurance operations are actually controlled
 - Largest proportion of balance sheet is located
 - The main business activities are undertaken

Module 2 - The IAIG

Module 1
Scope of ComFrame

Module 2
The IAIG

Module 3
The Supervisors

- **Qualitative requirements**

- Structure: group structure sufficiently transparent to not hinder supervision
 - IAIG provides IAIG profile
 - Identify and manage risks raised by structure
- Governance: have sound and prudent management and oversight of its overall business
 - Roles and responsibility of IAIG's governing body
 - Internal control (from group-wide perspective)

Module 2 - The IAIG

Module 1
Scope of ComFrame

Module 2
The IAIG

Module 3
The Supervisors

- **Qualitative requirements**
 - Enterprise Risk Management (**ERM**): addresses all relevant and material risks
 - Risk management policy and Own-Risk and Solvency Assessments (**ORSA**)
 - Strategy, intra-group transaction

Module 2 - The IAIG

Module 1
Scope of ComFrame

Module 2
The IAIG

Module 3
The Supervisors

- ERM policy
 - Develop policy in regards investment, underwriting, claims management, valuation, asset /liability management (ALM), etc.
- **Capital adequacy** assessment
 - ICS to be developed by the end of 2016
 - ICS reporting to supervisor expected to begin 2017 with full adoption by end 2018

Module 3 - The Supervisors

Module 1
Scope of ComFrame

Module 2
The IAIG

Module 3
The Supervisors

- Supervisory process and cooperation
 - ComFrame: every IAIG must have **supervisory college**
 - Flexibility in the structure of supervisory colleges
 - Defines responsibilities of group-wide supervisor and the roles of other involved supervisors
 - Involved supervisors cooperate, coordinate and participate in group-wide supervisory activities

Module 3 - The Supervisors

Module 1
Scope of ComFrame

Module 2
The IAIG

Module 3
The Supervisors

- Crisis management and resolution measures
 - **Resolution** measures are still under development as we continue to assess the relevance of the Financial Stability Board's (FSB) key attributes beyond their application to global significantly important financial institutions (G-SIFI).

Field Testing - The principles

- **Quantitative** field testing is used to inform the development of the ICS
- **Qualitative** field testing is important and will assess:
 - Costs and benefits of the qualitative aspects
 - The practicality of implementation
 - Identification of gaps between current practices of IAIGs and ComFrame requirements
 - Identification of gaps between current jurisdictional requirements and ComFrame requirements

IAIS CAPITAL STANDARD DEVELOPMENT – THE ICS, BCR AND HLA

What?

- Three global capital standards
 - Basic capital requirements (BCR)
 - Higher loss absorbency (HLA)
 - Risk-based insurance capital standards (ICS)

BASIC CAPITAL REQUIREMENTS (BCR)

Overview

- Simple and basic capital requirements
- $\text{BCR} + \text{HLA} = \text{capital requirements for G-SIIs}$
- BCR will inform development of ICS
- Confidential supervisory reporting from this year
- Factor-based approach

High Level Principles

- Consideration of major risk categories
- Resilience to stress
- Simple design
- Comparability across jurisdictions
- Internal consistency over entities
- Transparency

Balance between simplicity and risk sensitivity is key

Valuation and group consolidation

- Different accounting and regulatory **valuation** approaches apply broadly:
 - Locked-in discount rates (at inception of the contract) and amortised cost assets
 - Current discount rates (with differences in methodology of determining discount rates) and market-value assets
- The capital resources/BCR ratio could lack comparability without comparable valuation approaches

Valuation and group consolidation

- A **market adjusted valuation** (MAV) approach to be initially adopted for the BCR
 - Requires assets to be valued at market value and the liabilities to be discounted at an IAIS specified discount rate
 - Provided yield curves for 31 currencies in field testing – basis used for valuation of insurance liabilities
 - Will be reviewed, as the IAIS develops the valuation approach for ICS purposes
- Consolidated group balance sheet

Level

- The level of BCR is 74 percent of average prescribed capital requirement (PCR)
- Field test participants hold capital on average more than 400 percent higher than BCR
- BCR level is possible to be reviewed during HLA calibration process

HIGHER LOSS ABSORBENCY (HLA)

Overview

- Capital add on for G-SIIs
- Development deadline: late 2015
- BCR is the foundation for HLA
 - When ICS is developed, ICS is intended to replace BCR as the foundation

Ten HLA Principles

- Comparability
- G-SII risks
- Internalise costs
- Resilient
- Going concern
- Quality of capital
- Pragmatic
- Consistent
- Transparent
- Refinement

Principle – Internalise externality

- The **HLA** should internalise some of the costs to the financial system in case of the failure or distress of a G-SII that are otherwise external to the G-SII
 - G-SIIs should be required by their group-wide supervisors to hold higher levels of regulatory capital than would be the case if they were not designated as G-SIIs

GLOBAL RISK BASED INSURANCE CAPITAL STANDARD (ICS)

What? - Ultimate Goal of ICS

- Single **ICS**
- Achieving substantially the same outcomes across jurisdictions
- Improved convergence over time on the key elements (valuation, capital resources and capital requirements...)

Principle

- Consolidated, group-wide standard with globally comparable measure of capital adequacy for IAIGs and G-SIIs
- Amount of capital required to be held and the definition of capital resources are based on the characteristics of risks held by the IAIG irrespective of the location of its headquarters

Overview – ICS consultation

- Minimum standards to be achieved
- Supervisors may adopt additional arrangements that set higher standards or higher levels of minimum capital or put in place supplementary measures of capital adequacy

Components

- Three main components of ICS:
 - Valuation
 - Capital resources
 - Capital requirement

ICS Ratio = qualifying capital resources / ICS capital requirement

Valuation

- The MAV approach will be used as the initial basis to develop an example of a standard method in the ICS
- The generally accepted accounting principles (GAAP) plus approach data will also be collected
- Reconciliation between the MAV and GAAP plus valuation approaches will be requested of the participating insurers
- This will be used to explore and, if possible, develop a GAAP plus valuation approach

Capital Requirements: Methods

- Standard method
- Variation in factors in the standard method
- Internal model

ICS Capital Requirement

Purpose	<ul style="list-style-type: none">• Should it be implemented as a Prescribed Capital Requirement (PCR)?• Should it be complemented by a (less risk-sensitive) backstop?
Risk coverage	Insurance, market, credit and operational risk
Risks not covered explicitly	Group risks, liquidity risk (but addressed in other risks)

ICS Capital Requirement

Risk Measure (target criteria)	<ul style="list-style-type: none">• At least 99.5 percent value at risk (VaR) over one year• At least 90 percent Tail-VaR over one year
Risk mitigation	<ul style="list-style-type: none">• General principles for recognition of risk mitigation• Treatment of profit sharing and adjustable products
Diversification /Concentration	<ul style="list-style-type: none">• How to deal with risk dependencies (and level of diversification)

Timeframe of ICS, BCR & HLA

Date	Activity
Dec 2014	<ul style="list-style-type: none">• First ICS consultation document
Jun 2015	<ul style="list-style-type: none">• HLA consultation document
Nov 2015	<ul style="list-style-type: none">• HLA to be finalised & endorsed by FSB and G20 summit
Dec 2015	<ul style="list-style-type: none">• Second ICS consultation document (with ComFrame)
2015 - 2016	<ul style="list-style-type: none">• Testing & refinement of ICS, BCR & HLA
End 2016	<ul style="list-style-type: none">• Development of ICS completed by IAIS (version 1.0)
2017 - 2018	<ul style="list-style-type: none">• Further testing and refinement of ICS, BCR & HLA
Dec 2017	<ul style="list-style-type: none">• Final ComFrame (including ICS) consultation document
End 2018	<ul style="list-style-type: none">• Adoption of ICS (version 2.0)
From 2019	<ul style="list-style-type: none">• Implementation of ICS, BCR & HLA begins

IMPLEMENTATION OF SUPERVISORY MATERIAL

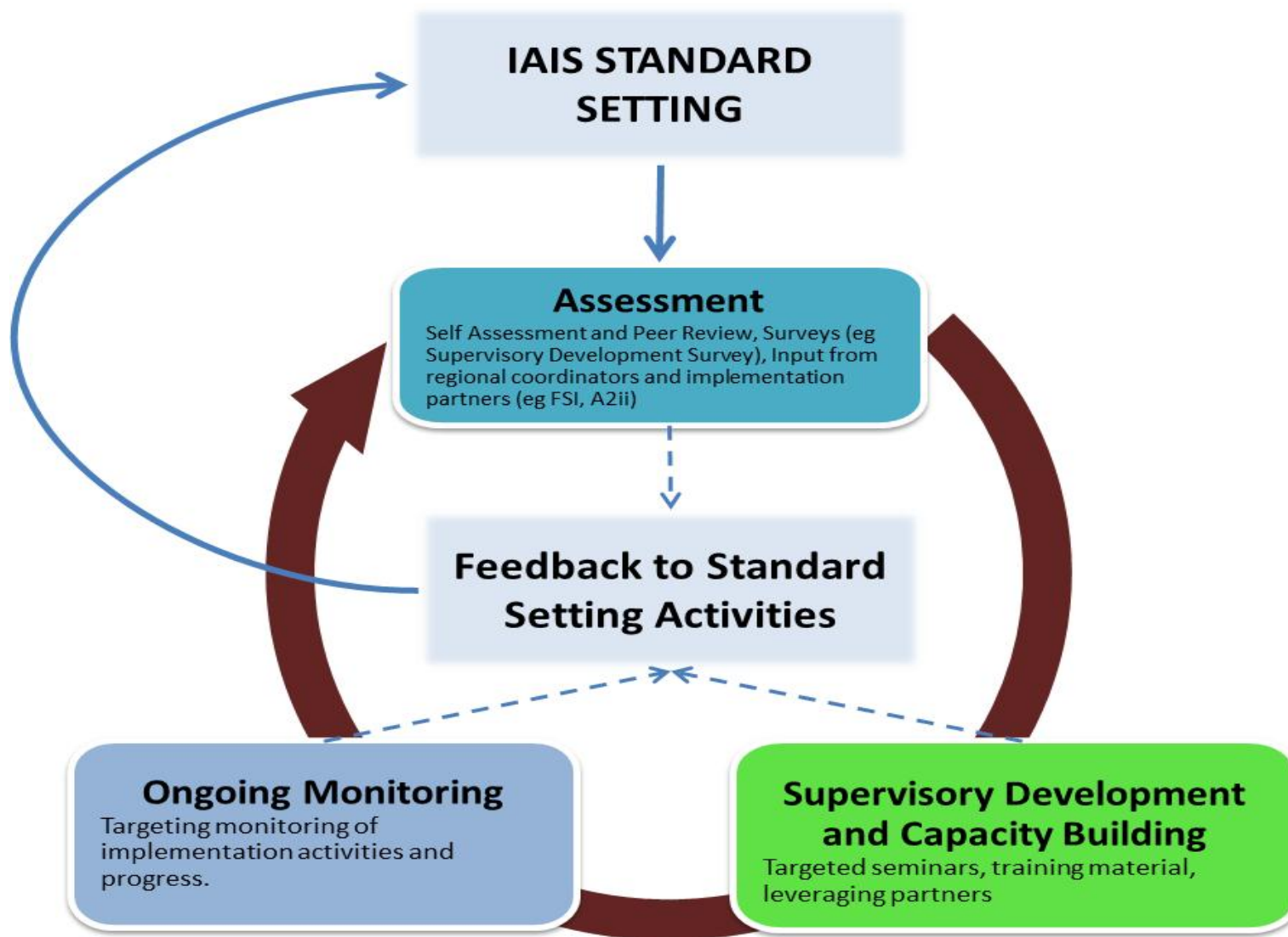
IAIS Implementation Programme

- The 2015-19 SPFO has two goals related to implementation:
 - High Level Goal 4 - Enhancing effective supervision
 - IAIS Members apply best practices for effective insurance supervision and supervisory cooperation
 - High Level Goal 5 - Enhancing implementation and observance of ICPs
 - Based on a monitoring implementation program, the IAIS is promoting the observance of the ICPs by all Members, and coordinating and facilitating initiatives that meet the capacity-building needs of the Members of, in particular, less-developed jurisdictions

IAIS Implementation Programme

- The current strategic action plans for standard implementation:
 - Enhance supervisors' knowledge and understanding of IAIS supervisory principles, standards and guidance
 - Strengthen cooperation and exchange of information among supervisors
 - Address the application of insurance supervisory standards in specific circumstances
 - Enhance observance and assessment of IAIS ICPs and standards

IAIS Implementation Cycle (IC)



Coordinated Implementation Framework (CIF)

- Response to review of IAIS implementation programme
 - Recognition that we provided tools, but little coordination of our activities
- Under the CIF, the IC commits to:
 - Regional engagement
 - Enhance relationships with key implementation partners

Coordinated Implementation Framework (CIF)

- Target IAIS resources on areas and activities in line with the unique perspective and voice the IAIS brings
- Strengthen alignment of IAIS implementation activities and coordinate implementation perspectives into all standard setting activities of the IAIS

IAIS SELF ASSESSMENT AND PEER REVIEW PROGRAMME

SAPR Programme Background

- Established in 2011
- Breaks down ICPs into thematic areas
- Each standard of each ICP is assessed
- Observance levels are determined according to ICP Methodology
 - Fully observed
 - Partially observed
 - Not observed
 - Not applicable
- Results are parallel to those emerging from IMF / World Bank FSAP

High Level Summary

- No supervisors fully observed ICP 2 – Supervisory Powers
 - Biggest challenge was on power of the supervisor and the supervisor being free of undue political / industry interference
- Some jurisdictions have appropriate regulatory frameworks, have policies and procedures in place, but supervision is reactive
- Actuarial functions not always required.
 - Reiterate the importance of an actuarial function

IAIS Assessment Activities

- Underway
 - Supervisory Measures
 - Market Conduct
- Assessments currently in preparatory stage
 - Solvency and Solvency Related Issues (Q2 2015)
 - Macroprudential Surveillance and Reinsurance (Q3 or 4 2015)
- Planned
 - CFT / AML (2016)
 - Supervisory Cooperation and Information Exchange (2016)
 - Resolution anticipated (2017)

THE IAIS AND THE AMERICAN ACADEMY OF ACTUARIES

The IAIS and the Academy

- Actuarial community involvement IAIS activities:
 - Development of relevant International Standards of Actuarial Practice (ISAP), like ISAP 7 on current estimates
 - Development of relevant technical input to IAIS
 - Follow IAIS activities

The IAIS and the Academy

- Respond to IAIS consultations
- Informal discussions between the Academy and IAIS working groups
- Research on ICS related issues
- Participate in stakeholder sessions
- Arrange Academy activities on ICS related themes

Contact Information

Thank you for your attention

Feedback is welcome at any time

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Audience Q&A

Thank you.

