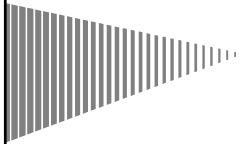


Casualty Loss Reserve Seminar 2013

IAIS update
David Payne

September 2013



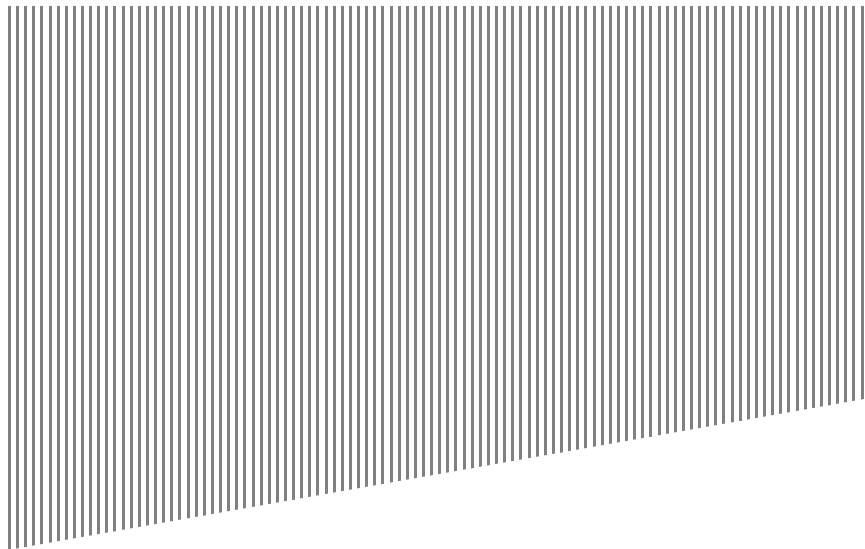
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IAIS background

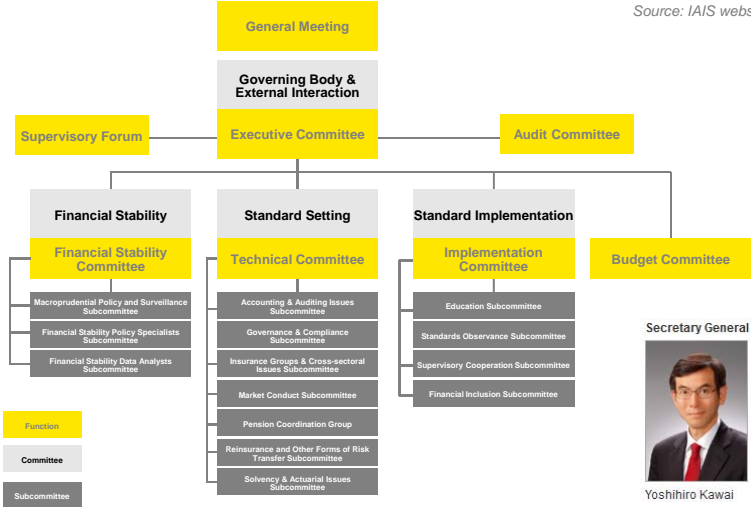


What is the IAIS?

- ▶ The International Association of Insurance Supervisors (IAIS) was established in 1994 to promote cooperation among insurance supervisors around the globe and with supervisors in other financial sectors.
- ▶ It is a voluntary membership organization including regulators from more than 200 jurisdictions in nearly than 140 countries – constituting 97% of the world's insurance premiums – and more than 130 Observers (professional associations, insurance companies, consultants and other professionals). All US states and territories, the NAIC and the FIO are represented in the IAIS.
- ▶ Its objectives are 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 to
 - ▶ Contribute to **global financial stability**.
- ▶ Member of the Financial Stability Board (FSB), established by the G-20 at the height of the financial crisis to focus on financial stability issues.

IAIS Organizational structure

Source: IAIS website

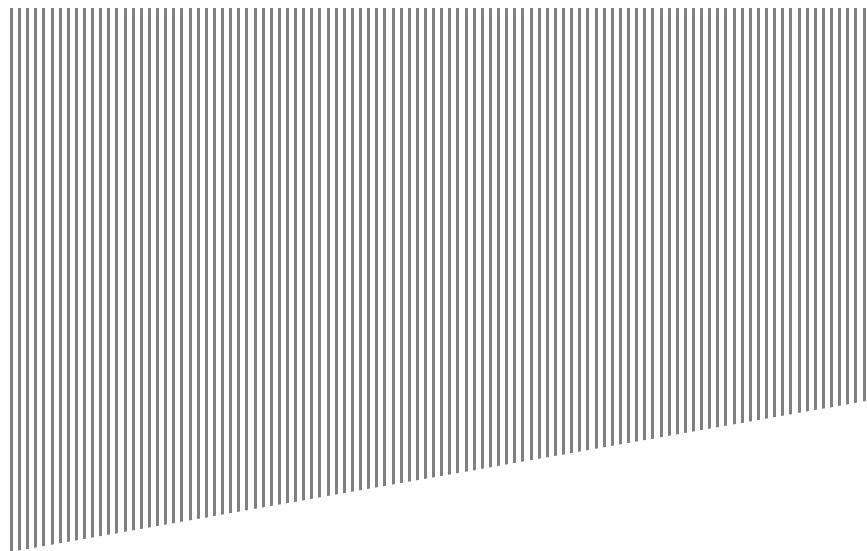


IAIS Core initiatives

The three key initiatives being undertaken by IAIS are:

- ▶ **Tier 1:** Insurance Core Principles (ICPs)
- ▶ **Tier 2:** Common Framework for the group-wide supervision of Internationally Active Insurance Groups (IAIGs) (ComFrame)
- ▶ **Tier 3:** Global Systemically Important Insurers (G-SII)

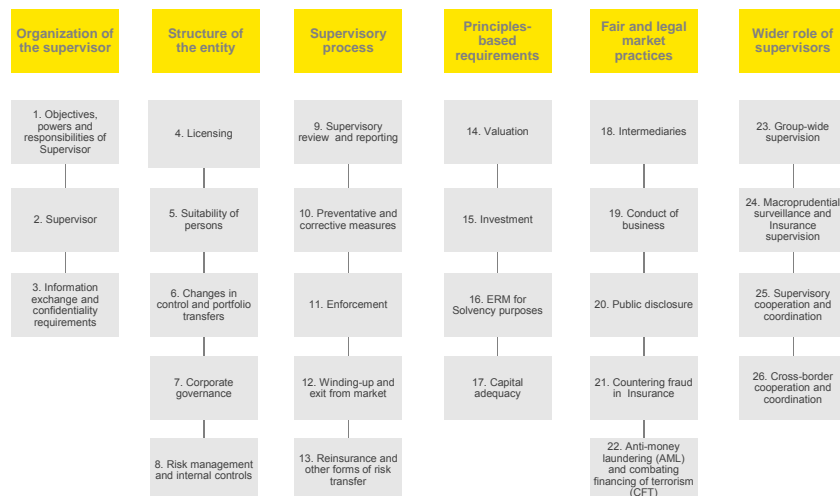
ICPs



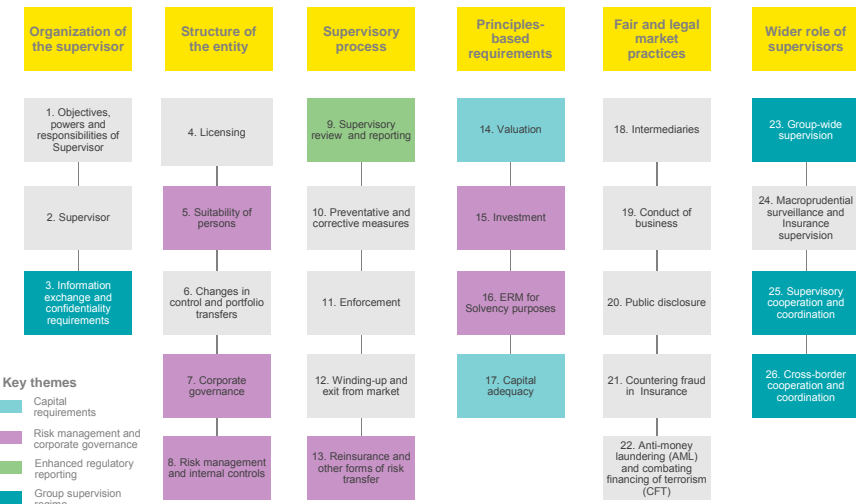
ICPs Overview

- ▶ Internationally developed set of 26 core principles applicable to insurance regulation that seek to foster convergence towards a “globally accepted framework for the supervision of the insurance sector.” Current set adopted in October 2011.
- ▶ The principles are presented using the following hierarchy:
 - ▶ **Statements of Core Principles:** prescribe the essential elements that must be present in a supervisory regime in order to promote a financially sound insurance sector.
 - ▶ **Standards:** set out key high level requirements that are fundamental to the implementation of ICPs. Standards must be met to demonstrate full observance with core principles.
 - ▶ **Guidance material:** the lowest level in the hierarchy, elaborates on the meaning of a standard and provides examples of possible ways to comply with or implement an ICP statement or standard.
- ▶ They serve as a basic benchmark for insurance supervisors in all jurisdictions and can be used when establishing a supervisory regime or for identifying areas in existing regimes that need to be improved.
- ▶ The ICPs are used in the evaluation of supervisory regimes under the Financial Sector Assessment Program (FSAP) conducted jointly by the World Bank and International Monetary Fund (IMF).

ICPs Structure



ICPs Structure: selected themes



ICPs Example: ICP 12

ICP 12 – Winding-up and exit from the market

Core principle statement:

The legislation defines a range of options for the exit of insurance legal entities from the market. It defines insolvency and establishes the criteria and procedure for dealing with insolvency of insurance legal entities. In the event of winding-up proceedings of insurance legal entities, the legal framework gives priority to the protection of policyholders and aims at minimizing disruption to the timely provision of benefits to policyholders.

Standards:

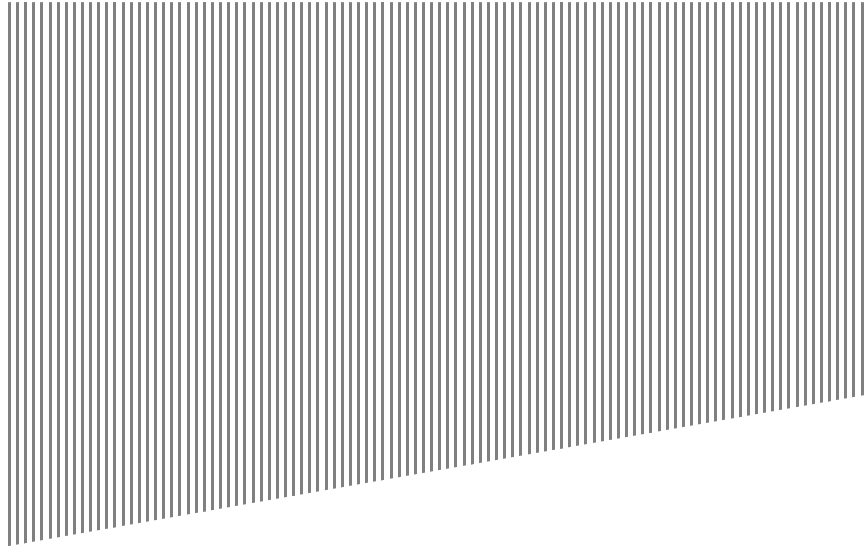
12.1 The procedures for the winding-up and exit of an insurer from the market are clearly set out in legislation. A high legal priority is given to the protection of the rights and entitlements of policyholders. The procedures aim at minimizing the disruption to the timely provision of benefits to policyholders.

Guidance material:

12.1.1 *The bodies responsible for dealing with the insolvency of an insurer, including the possible restructuring or portfolio transfer, and winding-up of the insurer are clearly set out in legislation.*

12.2 The legislation provides for the determination of the point at which it is no longer permissible for an insurer to continue its business.

ComFrame



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ComFrame Overview

*“Common Framework for the group-wide supervision of
Internationally Active Insurance Groups”*

- ▶ Set of international supervisory requirements focusing on the effective group-wide supervision of Internationally Active Insurance Groups (IAIGs). ComFrame is built and expands upon the ICPs at a group-wide level.
- ▶ ComFrame was initiated in response to the recognition that, despite the growing relevance of IAIGs in the global insurance marketplace, no internationally coherent framework exists for the supervision of such large, global groups beyond the ICPs.
- ▶ It contains qualitative and quantitative requirements for IAIGs, as well as requirements for supervisors intended to foster greater cooperation and coordination among supervisors.
- ▶ Most recent draft of ComFrame was issued for comment in July 2012. Another draft is due end of 2013, with field testing and impact assessments beginning in 2014. IAIS is currently scheduled to formally adopt ComFrame in 2018, with its Members to begin implementing ComFrame thereafter.

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ComFrame Structure

Module 1: Scope/criteria and process for identification of IAIGs	Module 2: The IAIG's requirements*	Module 3: The process of supervision	Module 4: Implementation of ComFrame
M1E1 Identification of IAIGs	Group governance M2E1 Governance	Group supervisory process M3E1 Supervisory process	M4E1 Applicability of ComFrame to all IAIS jurisdictions
M1E2 Process of identifying IAIGs	Group ERM M2E2 Enterprise Risk Management		M4E1 Peer review and peer assistance mechanism
M1E3 Scope of Comframe supervision	Group structure and strategy M2E3 IAIG's legal and management structures M2E4 IAIG's strategy from an ERM perspective	Supervisory cooperation M3E2 Cooperation and coordination M3E3 Roles of supervisors	M4E1 ComFrame data compilation platform/mechanism for macroprudential surveillance purposes
M1E4 Identification of group wide supervisor and involved supervisors	M2E5 Intra-group transactions and exposures Group financial condition M2E6 Liabilities, technical provisions and assets/investments M2E7 Valuation M2E8 Group capital adequacy assessment Group reporting and disclosure M2E9 Reporting and disclosure	Crisis mgmt and resolution M3E5 Crisis mgmt among supervisors M3E6 IAIGs and resolution	

* Quantitative and qualitative requirements that an IAIG will need to meet. These requirements will need to be reflected in national/regional jurisdictions' regulatory and supervisory regimes.

ComFrame Identification of IAIG

Specifically, the proposed criteria for identifying IAIGs is based on both:

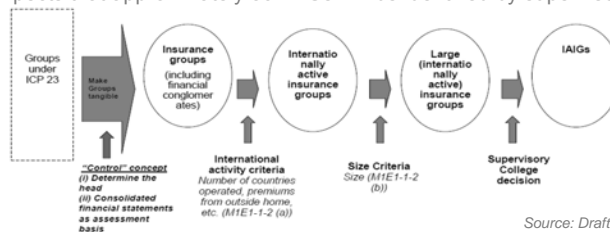
A) International Activity

- ▶ Premiums are written in not fewer than three jurisdictions, and
- ▶ Percentage of gross premiums written outside the home jurisdiction is not less than 10% of the group's total gross written premium;

B) Size (based on a rolling three-year average):

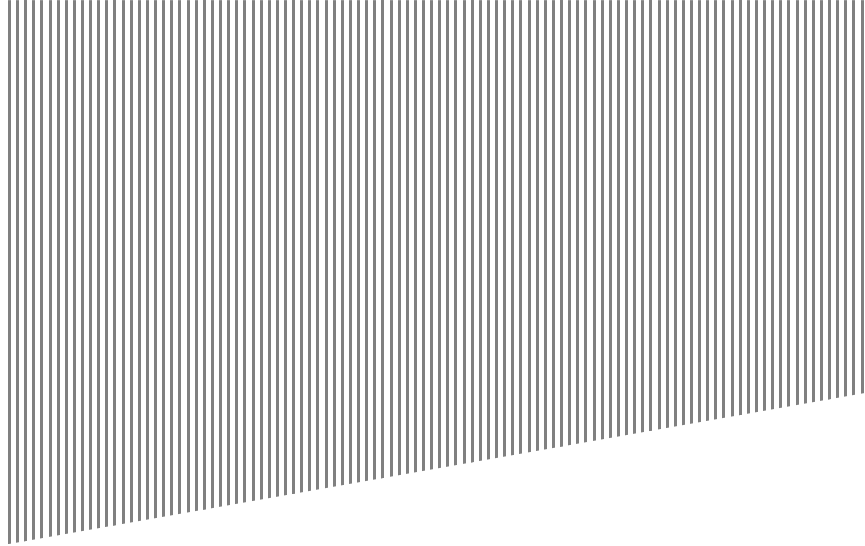
- ▶ Total assets of not less than US\$50 billion, or
- ▶ Gross written premiums of not less than US\$10 billion.

The IAIS expects that approximately 50 IAIGs will be identified by supervisors.



Source: Draft ComFrame, July 2012

Global Systemically Important Insurers (G-SII)



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G-SII Overview

- ▶ The global financial crisis highlighted the financial world's interconnectivity and the financial and economic risks associated with the failure of a single entity. It drew attention to the need to act proactively and to rapidly identify institutions in distress and subject them to orderly resolution if necessary.

- ▶ IAIS, along with the FSB and G20, proposed a framework to provide:
 - i. **designation** of Global Systemically Important Insurers (G-SIIs)
 - ii. **policy measures** for the supervision of such entities with the objectives of reducing moral hazard and risk

- ▶ In Nov 2011, 29 banks were designated Globally Systemically Important Banks (G-SIBs) by the FSB.

- ▶ 48 insurers were assessed, with designations made in June 2013.

- ▶ Policy measures are still being developed.

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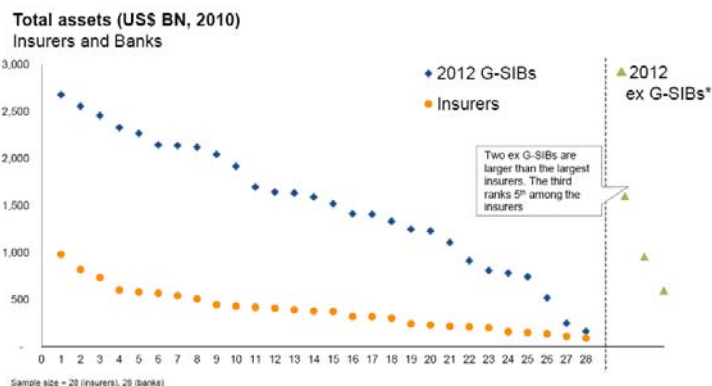
G-SII Designation criteria

The G-SII designation assessments will be based on five main criteria.
The most significant are interconnectedness and non-traditional and non-insurance activities.

Category	Weight	Description	Indicator
Size	5% – 10%	The importance of a single component for the working of the financial system generally increases with the amount of financial services that the component provides, noting that in an insurance context size is a prerequisite for effective pooling and diversification of risks	<ul style="list-style-type: none"> Total assets Total revenues
Global activity	5% – 10%	The methodology is aimed at identifying components of the financial system whose failure can have large negative externalities on a global scale	<ul style="list-style-type: none"> Revenues derived outside of home country Number of countries
Interconnectedness	30% – 40%	Systemic risk can arise through direct and indirect inter-linkages between the components of the financial system so that individual failure or distress has repercussions around the financial system, leading to a reduction in the aggregate amount of services	<ul style="list-style-type: none"> Intra-financial assets and liabilities Reinsurance Derivatives Large exposures Turnover Level III assets
Non Traditional & Non Insurance (NTNI) Activities	40% – 50%	Non-traditional insurance activities and non-insurance financial activities are potential drivers of the systemic importance of insurers and thus have the greatest impact upon failure	<ul style="list-style-type: none"> Non-policyholder liabilities Non-insurance revenues Derivative trading Short-term funding Financial guarantees Variable annuities Intra-group commitments
Substitutability	5% – 10%	The systemic importance of a single component increases in cases where it is difficult for the components of the system to provide the same or similar services in the event of failure	<ul style="list-style-type: none"> Premiums for specific business lines

G-SII Designation criteria: insurers vs. banks

- ▶ Many in insurance industry have been claiming insurers do not pose systemic risks to the economy.
- ▶ Geneva Association in Feb 2013 produced benchmark analysis comparing 28 Globally Systemically Important Banks (G-SIBs) to largest 28 insurers, using SIFI indicators announced to date.
- ▶ In all cases, insurers found to be significantly less systemically important than banks, for example:



G-SII Insurer designations

The following insurers were designated G-SII by the FSB in July 2013:

US	Europe	Other
AIG MetLife Prudential Financial	Allianz (<i>Germany</i>) Aviva (<i>UK</i>) AXA (<i>France</i>) Generali (<i>Italy</i>) Prudential (<i>UK</i>)	Ping An (<i>China</i>)

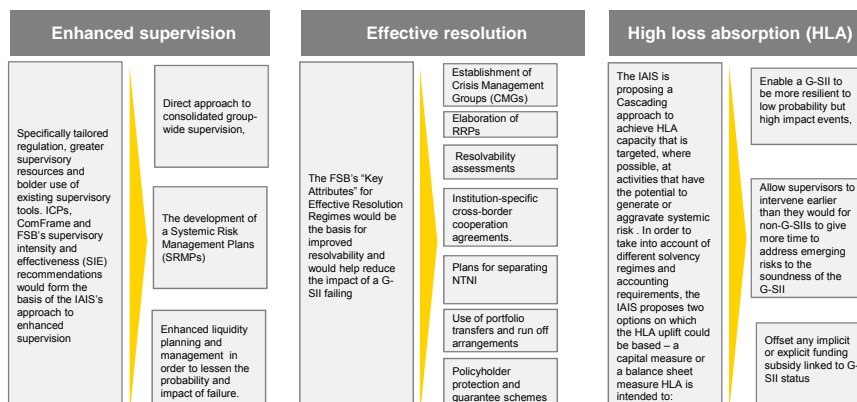
Reinsurers are due to be designated in July 2014.

Link to US SIFI:

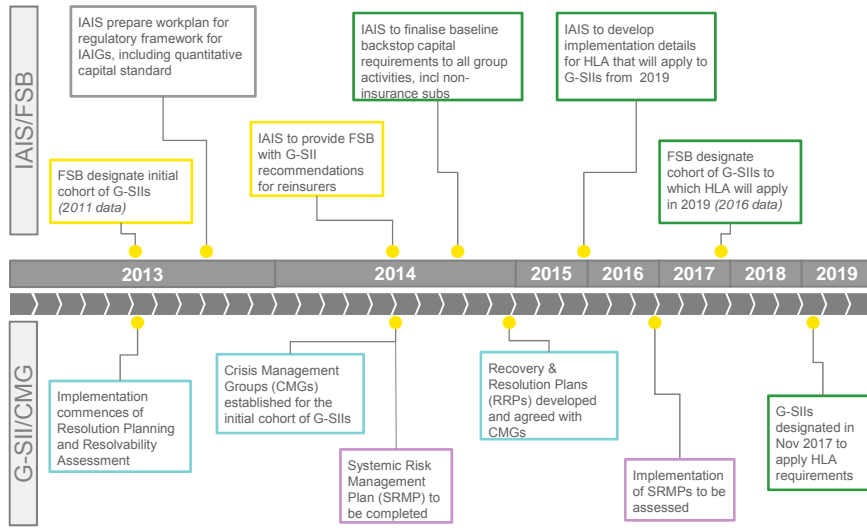
- ▶ **AIG** and **Prudential Financial** have also been designated US SIFIs by the Financial Stability Oversight Council (FSOC), established under Dodd-Frank act. These will now come under Federal Reserve supervision.
- ▶ **MetLife** may be soon to follow. Not previously assessed due to owning a bank, meaning Fed regulation automatic – this was disposed early 2013.

G-SII Policy measures

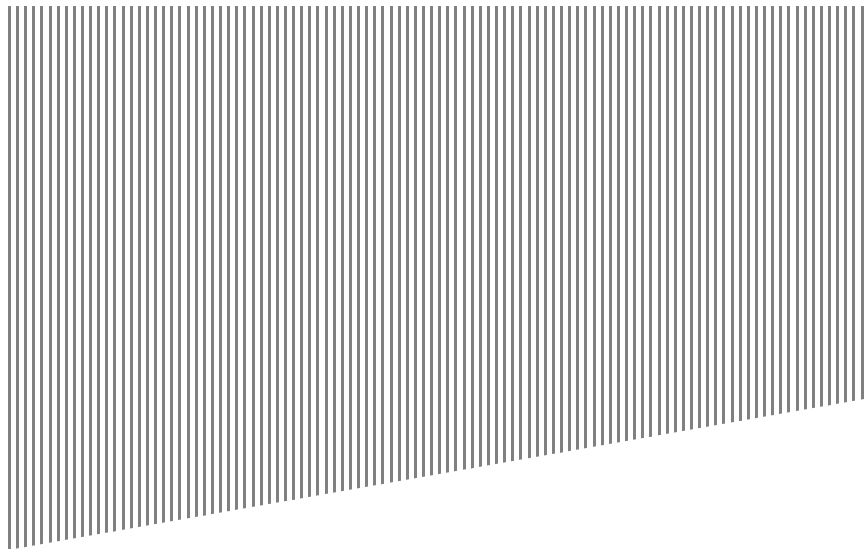
Policy measures are still under development, but will comprise the following three elements:



G-SII Timeline



IAIS summary



IAIS summary

Architecture of related regulations

The following table illustrates the relationship between IAIS, NAIC and SII regulations.

Type of entity	Legal entity	Group	Internationally Active Insurance Group (IAIG)	Global Systemically Important Insurer (G-SII) AND IAIG	G-SII that is not an IAIG
Global					
IAIS Tier 1	ICPs (for legal entity only)	ICPs for legal entities and groups			
IAIS Tier 2		ComFrame			
IAIS Tier 3				G-SII package	
Domestic					
US	NAIC standards (+ Fed for US SIFI)				
EU	Solvency II				
Other regions ...					

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