

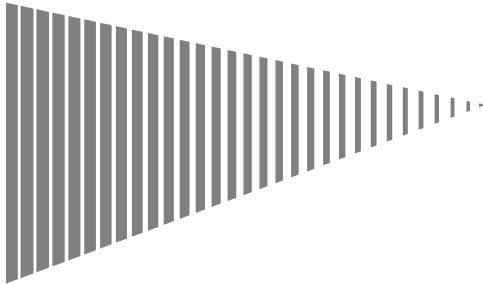
ComFrame: Lessons Learned from Solvency II

Part 1) Introduction to ComFrame

CAS Loss Reserve Seminar 2014

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September 16, 2014



Building a better
working world

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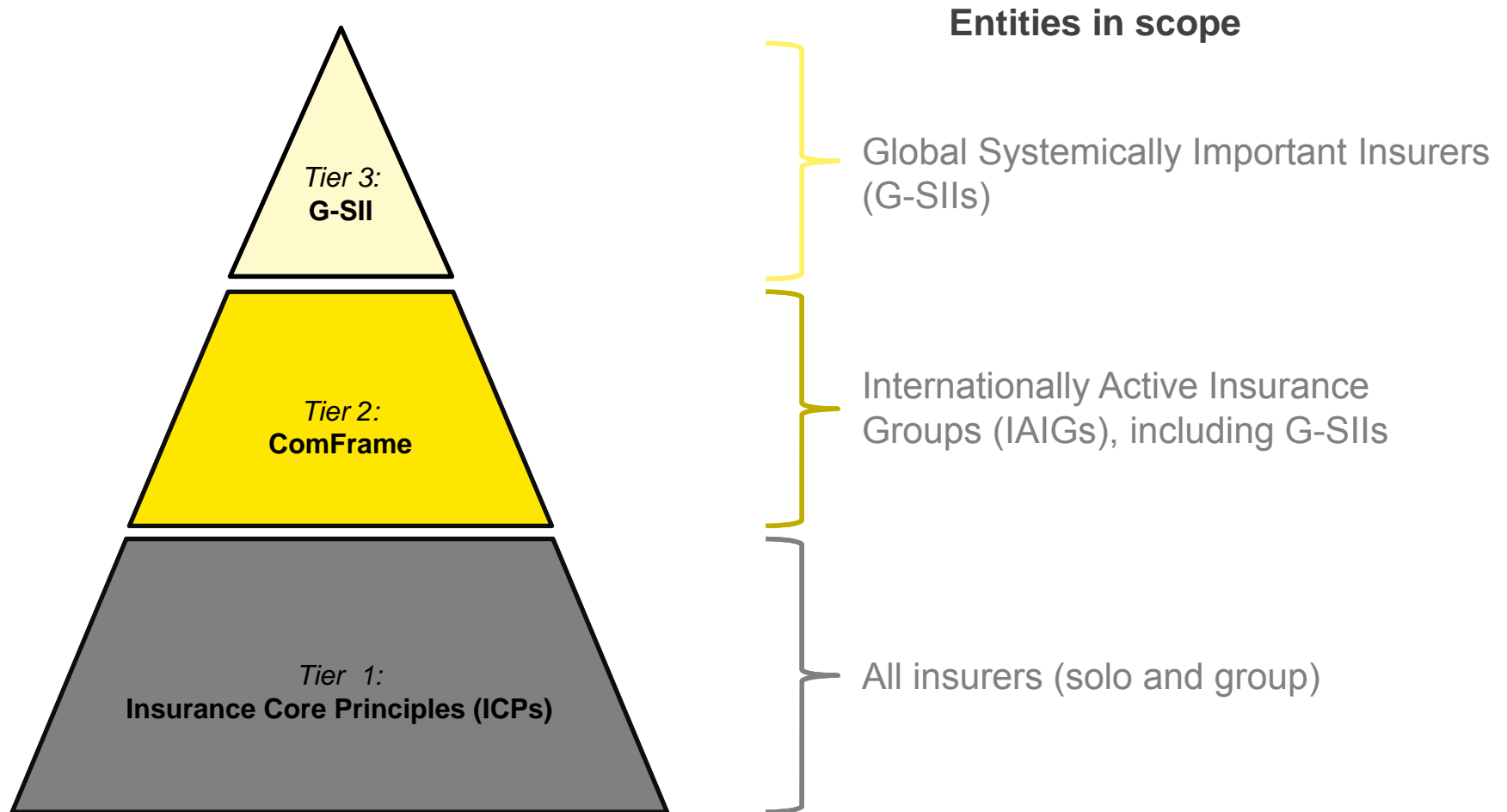
- ▶ Global capital standards
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Who are the IAIS?

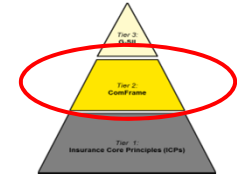
- ▶ The International Association of Insurance Supervisors (IAIS) was established in 1994 to **promote cooperation among insurance supervisors** around the globe and with supervisors in other financial sectors.
- ▶ Voluntary membership organization:
 - ▶ Regulators from more than 200 jurisdictions in more than 140 countries
 - ▶ 97% of the world's insurance premiums
 - ▶ 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.
 - ▶ Contribute to **global financial stability**.

IAIS: Proposed regulatory framework

The IAIS is proposing a three-tiered global regulatory framework:



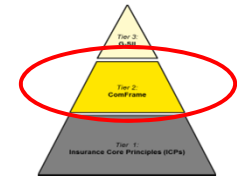
What is ComFrame?



“Common Framework for the group-wide supervision of Internationally Active Insurance Groups (IAIGs)”

- ▶ ComFrame builds on and expands upon the ICPs at a **group-wide** level.
- ▶ Requirements both for companies (IAIGs) and for national regulators.
- ▶ Would be enforced at local (national) level, not by IAIS itself.
- ▶ Scheduled to be formally adopted in 2018. Latest draft version released end of 2013.
- ▶ Biggest impact is development of new global Insurance Capital Standard.
 - ▶ *Field testing and impact assessments are currently underway.*

ComFrame structure



Module 1: Scope of ComFrame

M1E1 Identification of IAIGs

M1E2 Process of identifying IAIGs

M1E3 Scope of ComFrame supervision

M1E4 Identification of group-wide supervisor and involved supervisors

Module 2: The IAIG

Group structure and strategy

M2E1 IAIG's legal and management structures

Group governance

M2E2 Governance

Group ERM

M2E3 Enterprise Risk Management

M2E4 ERM policies

Group financial condition

M2E5 Capital adequacy assessment

Group reporting and disclosure

M2E6 Public disclosure and group reporting

Module 3: The supervisors

Group supervisory process

M3E1 Supervisory process

Supervisory cooperation

M3E2 Supervisory colleges, cooperation and coordination

Crisis management and resolution

M3E3 Crisis management and resolution among supervisors

Source: Draft ComFrame, October 2013

Module 1: Identification of IAIG



The proposed criteria for identifying IAIGs is based on both:

A) International activity

- ▶ Premiums are written in **three** or more jurisdictions, and
- ▶ At least **10%** of the group's total gross written premium written outside the home jurisdiction.

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

- ▶ Total assets of at least **\$50 billion**, or
- ▶ Gross written premiums at least **\$10 billion**.

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

M2E1: Group Structure & Strategy



The IAIG should:

- ▶ Clearly identify **legal and management structures** and inter-relationships within the IAIG.
- ▶ Develop and maintain **contingency plans** and procedures that enable it to deal with crisis situations.
 - ▶ How would IAIG restructure / reposition business strategy in crisis
 - ▶ Consideration of intra-group transactions
 - ▶ Maintain up-to-date Business Continuity Plans
- ▶ Take account of the **policyholder protection schemes (PPS)** that apply to its insurance entities, and how these schemes affect each of the entities in the IAIG.

M2E2: Governance

Model 1: Range of Conflicts	Model 2: The IASB	Model 3: The Insolvency
Establish and implement a group-wide governance framework	Establish and implement a group-wide governance framework	Establish and implement a group-wide governance framework
Implementation of business objectives, including risk strategy and risk appetite	Implementation of business objectives, including risk strategy and risk appetite	Implementation of business objectives, including risk strategy and risk appetite
Clearly define roles & responsibilities and provide oversight	Clearly define roles & responsibilities and provide oversight	Clearly define roles & responsibilities and provide oversight
Have appropriate composition and powers to discharge duties effectively	Have appropriate composition and powers to discharge duties effectively	Have appropriate composition and powers to discharge duties effectively
Set effective remuneration policy with appropriate incentives	Set effective remuneration policy with appropriate incentives	Set effective remuneration policy with appropriate incentives
Effective system of risk management and internal controls	Effective system of risk management and internal controls	Effective system of risk management and internal controls

- ▶ Board responsibilities:
 - ▶ Establish and implement a group-wide governance framework
 - ▶ Implementation of business objectives, including risk strategy and risk appetite
 - ▶ Clearly define roles & responsibilities and provide oversight
 - ▶ Have appropriate composition and powers to discharge duties effectively
 - ▶ Set effective remuneration policy with appropriate incentives
 - ▶ Effective system of risk management and internal controls.

- ▶ Establishment of following Control Functions:
 - ▶ Risk management
 - ▶ Compliance
 - ▶ Actuarial
 - ▶ Internal audit

- ▶ Outsourcing – same degree of oversight and accountability as internal activities

- ▶ Reliable financial reporting process, including adequate systems and structures

M2E3: Enterprise Risk Management

Module 1 Scope of Solvency II	Module 2 The IOR	Module 3 The Assessment
1.1. Introduction of Solvency II	2.1. The IOR	3.1. The Assessment
1.2. The IOR	2.2. The IOR	3.2. The Assessment
1.3. The IOR	2.3. The IOR	3.3. The Assessment
1.4. The IOR	2.4. The IOR	3.4. The Assessment
1.5. The IOR	2.5. The IOR	3.5. The Assessment
1.6. The IOR	2.6. The IOR	3.6. The Assessment
1.7. The IOR	2.7. The IOR	3.7. The Assessment
1.8. The IOR	2.8. The IOR	3.8. The Assessment
1.9. The IOR	2.9. The IOR	3.9. The Assessment
1.10. The IOR	2.10. The IOR	3.10. The Assessment

The IAIG should:

- ▶ Establish a group-wide **ERM Framework** which:
 - ▶ addresses all relevant and material risks, at both insurance entity and IAIG level
 - ▶ enables IAIG to assess its solvency requirements
- ▶ Develop comprehensive group-wide **ERM policy** which addresses the risks on both an insurance entity and group-wide basis.
- ▶ Establishes effective means for identifying, measuring, reporting and **managing risk** on a group-wide basis.
- ▶ Conduct a group-wide **ORSA** to monitor and manage its overall solvency.

M2E4: ERM Policies

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Requirement to develop and implement following group-wide policies:

- ▶ Investment policy
- ▶ Underwriting policy
- ▶ Claims management policy
- ▶ Insurance liability valuation policy
- ▶ Reinsurance and risk transfer strategy
- ▶ Actuarial policy

M2E5: Capital Adequacy Assessment



Requirement to assess capital adequacy by comparing available and required capital.

- ▶ Can be based on consolidated group basis or aggregation of entities.

Qualifying capital resources (*available capital*)

- ▶ Determine qualifying available capital
- ▶ Classify into at least two categories of capital:
 - ▶ *Core capital* – absorb losses during going-concern and winding-up
 - ▶ *Additional capital* – absorb losses upon winding-up

Capital benchmark (*required capital*)

- ▶ Total balance sheet approach to assess all the material risks to which it is exposed.
- ▶ Scenario-based approach
- ▶ Addresses the key categories of risk (including risk concentrations) which are:
 - ▶ Insurance risk
 - ▶ Market risk
 - ▶ Credit risk
 - ▶ Group risk
 - ▶ Operational risk
 - ▶ Dependencies & interrelationships

See further discussion on capital requirements in later slides

M2E6: Reporting & Disclosure

Module 1 Scope of ComFrame	Module 2 The IAG	Module 3 The Assessment
1.1 Introduction of the IAG	2.1 The IAG's role in the IAG's assessment	3.1 The IAG's assessment process
1.2 The IAG's assessment process	2.2 The IAG's assessment process	3.2 The IAG's assessment process
1.3 The IAG's assessment process	2.3 The IAG's assessment process	3.3 The IAG's assessment process
1.4 The IAG's assessment process	2.4 The IAG's assessment process	3.4 The IAG's assessment process
1.5 The IAG's assessment process	2.5 The IAG's assessment process	3.5 The IAG's assessment process
1.6 The IAG's assessment process	2.6 The IAG's assessment process	3.6 The IAG's assessment process
1.7 The IAG's assessment process	2.7 The IAG's assessment process	3.7 The IAG's assessment process
1.8 The IAG's assessment process	2.8 The IAG's assessment process	3.8 The IAG's assessment process
1.9 The IAG's assessment process	2.9 The IAG's assessment process	3.9 The IAG's assessment process
1.10 The IAG's assessment process	2.10 The IAG's assessment process	3.10 The IAG's assessment process

Need reliable group-wide (consolidated) **financial reporting process** presenting a balanced and accurate assessment of the IAIG's financial position.

- ▶ Both **supervisory** and **public** disclosure requirements.
- ▶ Disclose on an **interim** and **annual** basis, appropriately detailed qualitative and quantitative information on their profile, governance and controls, financial position, technical performance and the risks to which they are subject.
- ▶ Disclosures include:
 - ▶ technical provisions
 - ▶ capital management and assessment of capital adequacy
 - ▶ investments including financial instruments
 - ▶ ERM including asset-liability management (ALM)
 - ▶ performance measures
 - ▶ insurance risk exposures and their management
 - ▶ risk profile
 - ▶ corporate governance framework and management controls
 - ▶ annual audited consolidated financial statements

Based on older ComFrame Draft (July 2012)

Module 3: Supervisors



Three roles are defined for supervisors...

▶ ***Group-wide supervisor:***

- ▶ Responsible for the **on-going supervisory process** for the IAIG on a group-wide basis.
- ▶ Undertakes a **group-wide risk assessment** of the IAIG in cooperation with other involved supervisors.
- ▶ Responsible for determining any **preventive or corrective measures** that need to be taken at the group level.

▶ ***Supervisory college:***

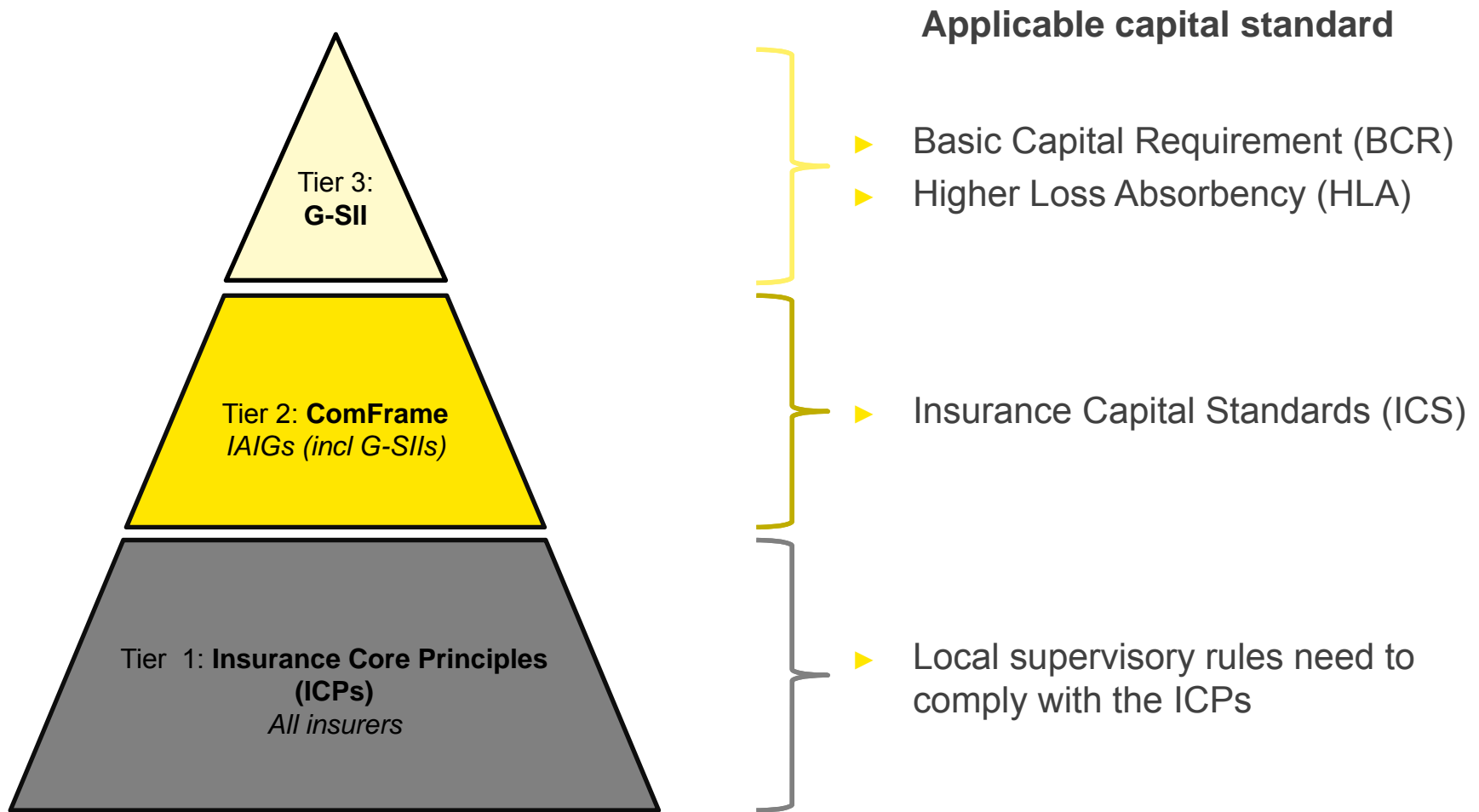
- ▶ Established as a **forum for the on-going supervision** of IAIG.
- ▶ Operates, communicates and **exchanges information** subject to confidentiality requirements.

▶ ***Crisis management and resolution measures:***

- ▶ *Still under development along with the FSB principles.*

Global capital standard?

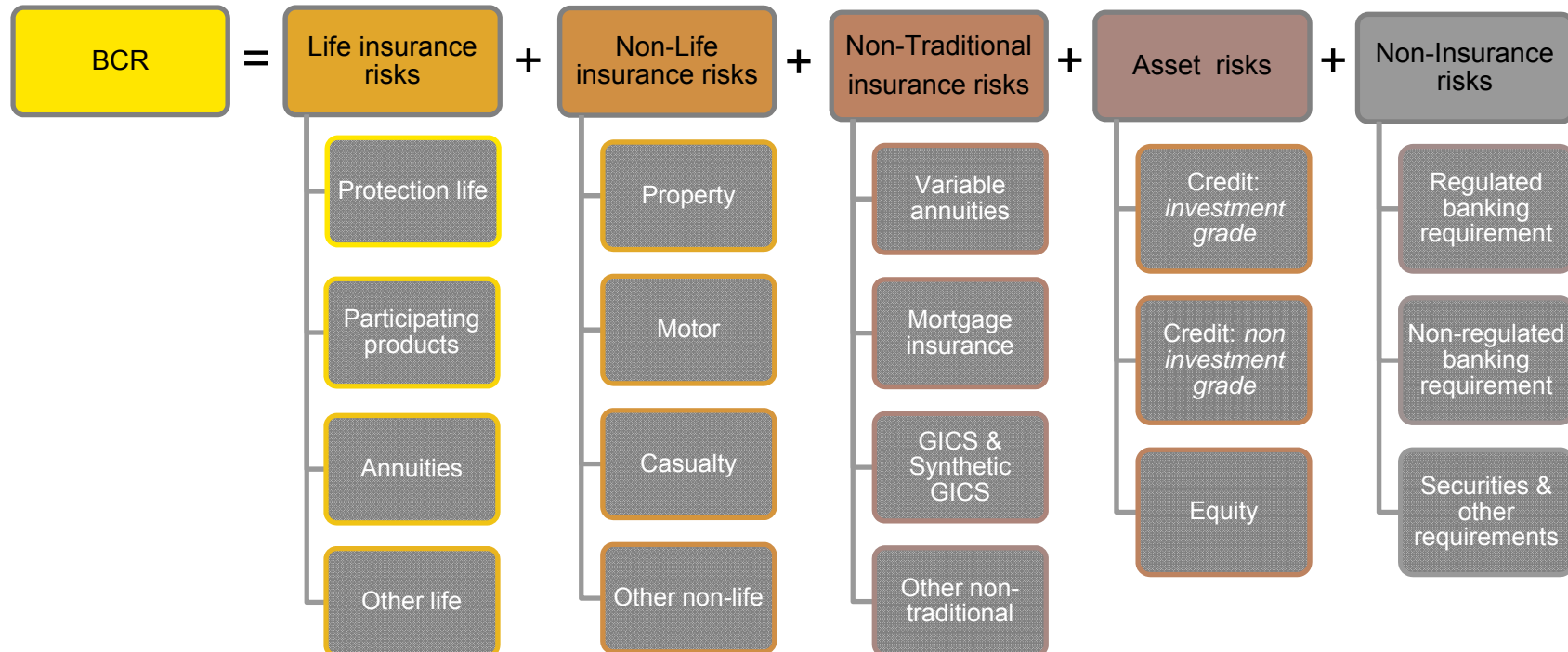
The following capital standards are being proposed for each tier:



Basic Capital Requirement - Field Testing

- ▶ IAIS undergoing Field Testing with IAIGs to help develop the BCR for G-SIIs.
- ▶ Currently very simple design – not yet clear how it will inform development of ICS for IAIGs.

Proposed structure of BCR



Basic Capital Requirement - Field Testing

Latest level of parameterization is as follows:

Life insurance

Segment	Exposure measure	Risk factor
Protection life	Net amount at risk	0.056%
Participating products	Current estimate	0.6%
Annuities	Current estimate	1.2%
Other life	Current estimate	0.6%

Non-Traditional insurance

Segment	Exposure measure	Risk factor
Variable annuities	Notional value	1.20%
Mortgage insurance	Face amount	1.11%
GICS & Synthetic GICS	Notional value	1.11%
Other non-traditional	Current estimate	1.29%

Non-life insurance

Segment	Exposure measure	Risk factor
Property	Premium	6.25%
Motor	Current estimate	6.25%
Casualty	Current estimate	11.25%
Other non-life	Current estimate	7.5%

Assets

Segment	Exposure measure	Risk factor
Credit: Investment grade	Fair value	0.69%
Credit: Non-invest grade	Fair value	1.8%
Equity	Fair value	8.4%

Note:

- Parameterization is subject to a single scalar adjustment “ α ”, applicable to all lines together
- Therefore overall level not known, but relativities are as shown

Capital Standards Timeline

