INSURANCE CORE PRINCIPLES, STANDARDS, GUIDANCE AND ASSESSMENT METHODOLOGY

Introduction and Assessment Methodology

VERSION FOR PUBLIC CONSULTATION

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A) Introduction

1. Established in 1994, the International Association of Insurance Supervisors (IAIS) is a voluntary membership organisation of insurance supervisors and regulators from around the globe. It is the international standard-setting body responsible for developing and assisting in the implementation of supervisory and supporting material for insurance supervision. The IAIS also provides a forum for members to share their experiences and understanding of insurance supervision and insurance markets.

2. The mission of the IAIS 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 to contribute to global financial stability. In this context, the IAIS has issued the Insurance Core Principles (ICPs), which are comprised of Principle Statements, Standards and Guidance, as a globally accepted framework for insurance supervision. The ICPs seek to encourage the maintenance of consistently high supervisory standards in IAIS member jurisdictions. A sound supervisory system is necessary for the protection of policyholders and promoting the stability of the financial system and should address the broad set of risks within, and posed by, the insurance sector.

Structure

3. The ICP material is presented according to the following hierarchy:

   - Principle Statements – the highest level in the hierarchy which set out the essential elements that must be present in a jurisdiction in order to protect policyholders and promote a financially sound insurance sector. In each ICP, the Principle Statement is numbered and presented in a box with bold font.

   - Standards – the next level in the hierarchy linked to specific Principle Statements. Standards set out key high-level requirements that are fundamental to the implementation of the Principle Statement and should be met for a jurisdiction to demonstrate observance with the particular Principle Statement. Standards are presented in bold font, with the number of the applicable principle statement followed by the Standard number (for example, the second standard under Principle Statement 3 appears as 3.2).

   - Guidance – the lowest level in the hierarchy supporting the Principle Statement and/or Standards. Guidance facilitates the understanding and application of the Principle Statement and/or Standards; it does not represent any requirements. Where appropriate, Guidance provides examples of ways to implement the Principle Statements and/or Standards. Guidance is presented in regular font, with the number of the Principle Statement and Standard followed by the Guidance number (for example, the first paragraph of guidance under Standard 3.2 appears as 3.2.1).

Overarching Concepts

4. There are a number of important overarching concepts to understand and keep in mind when reading and implementing the ICPs. While an individual ICP may focus on one particular subject, the ICPs need to be considered as a whole with these overarching concepts being relevant throughout.

Applicability

5. The ICPs apply to insurance supervision in all jurisdictions regardless of the level of development or sophistication of insurance markets, and the type of insurance products or services being supervised.

6. The ICPs apply to the supervision of all insurers, whether private or government-controlled insurers that compete with private enterprises, wherever their business is conducted, including through e-commerce.

7. Generally, the ICPs are equally applicable to the business of insurers and reinsurers. Where the ICPs do not apply to reinsurers, this is indicated in the text.

8. The ICPs only apply to the supervision of intermediaries where this is specifically indicated.

Proportionality and risk-based supervision

9. The ICPs establish the minimum requirements for effective insurance supervision and are expected to be implemented and applied in a proportionate manner. Therefore, proportionality underlies all the ICPs. Supervisors have the flexibility to tailor their implementation of supervisory requirements and their application of insurance supervision to achieve the outcomes stipulated in the Principle Statements and Standards.

   - Implementation - proportionality allows the ICPs to be translated in to a jurisdiction’s supervisory framework in a manner appropriate to its legal structure, market conditions and consumers.

   - Application - proportionality allows the supervisor to increase or decrease the intensity of supervision according to the risks inherent to insurers, and the risks posed by insurers to policyholders, the insurance sector or the financial system as a whole. A proportionate application involves using a variety of supervisory techniques and practices which are tailored to the insurer to achieve the outcomes of the ICPs. Such techniques and practices should not go beyond what is necessary in order to achieve their purpose.

10. Risk-based supervision is a related concept but distinct from proportionality; it means supervisory measures and resources are allocated to insurers, lines of business or market practices that pose the greatest risk to policyholders, the insurance sector, or the financial system as a whole.

Terminology

11. In these ICPs, terms have the same meaning as set out in the IAIS Glossary [*add link*].

12. The term 'supervision' is used to refer to supervision and regulation. Similarly, the term 'supervisor' also refers to 'regulator'. The expectation is that the Principle Statements and Standards are implemented within a jurisdiction by all authorities in accordance with their respective responsibility in relation to insurance supervision, rather than necessarily by only one authority. Therefore, the term 'supervisor' is used to refer collectively to those authorities within a jurisdiction with such responsibility. It is essential that in situations where multiple authorities exist, arrangements be established between them to ensure that the implementation of the Principle Statements and Standards within the jurisdiction occurs within a framework that makes clear which authority is accountable for which functions.

13. The term 'policyholder' is used to refer to a person (natural or legal) who holds an insurance policy, and includes, where relevant, other beneficiaries and claimants with a legitimate interest in the policy.

14. The term 'legislation' is used to include primary legislation (which generally requires full legislative consent), secondary legislation and legally enforceable rules set by the supervisor. The ICPs do not generally require a specific form of legislation but where they do this is specifically indicated.

15. The term 'insurer' means insurance legal entities, insurance groups and insurance-led financial conglomerates. The Principle Statements and Standards apply to the supervision of insurance legal entities and, unless otherwise specified, to insurance groups and insurance-led financial conglomerates, including the head of the insurance group and/or the head of the insurance-led financial conglomerate. The application may vary and, where necessary, further guidance is provided.

Group-Wide Supervision

16. It is recognised that the implementation of the Principle Statements and Standards relevant to group-wide supervision may vary across jurisdictions depending on the supervisory powers and structure within a jurisdiction. There are direct and indirect approaches to group-wide supervision.

    - Under the direct approach, the supervisor has the necessary powers over the parent and other entities in the insurance group and can impose relevant supervisory measures directly on such entities, including non-regulated entities.

    - Under the indirect approach, supervisory powers focus on the insurance legal entities and supervisory measures are applied to those insurance legal entities to address the group-wide risks posed by other entities within the group, including non-regulated entities.

    There may also be different combinations of elements of direct and indirect approaches.

17. Regardless of the approach, the supervisor must be able to demonstrate that in effect, the outcome is similar to having the supervisory requirements applied directly on those entities within the insurance group from which the risks are emanating. This is to ensure effective group-wide supervision, including that all relevant group-wide risks impacting the insurance entities are addressed appropriately.

ComFrame Introduction

18. In the context of its mission, the IAIS has issued the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame), which establishes international supervisory standards focusing on the effective group-wide supervision of internationally active insurance groups (IAIGs).

19. ComFrame provides quantitative and qualitative supervisory requirements tailored to the complexity and international scope of IAIGs. ComFrame seeks to assist supervisors in: addressing group-wide activities and risks; identifying and avoiding regulatory gaps; coordinating supervisory activities efficiently and effectively; sharing information about IAIGs between the group-wide and other involved supervisors; and providing a basis for comparing IAIG supervision across jurisdictions.

Structure

20. The ICPs are applicable to the supervision of all insurers within a jurisdiction, which includes IAIGs. Thus, ComFrame builds upon the ICPs and provides standards and guidance specific to the supervision of IAIGs. ComFrame material is presented in blue boxes within the relevant ICP material, following a similar hierarchy to the ICPs:

- ComFrame Standards – the highest level in the ComFrame hierarchy which build on specific ICP Principle Statements and/or ICP Standards. ComFrame Standards are outcomes-focused, specific requirements for supervisors. ComFrame Standards are presented in bold font, and follow the numbering of the relevant ICP Principle Statement and/or ICP Standard with the addition of “CF” and a letter (for example, the second ComFrame Standard under ICP Standard 3.2 would appear as CF3.2b).

- ComFrame Guidance – the lowest level in the hierarchy which provides support for ComFrame Standards. ComFrame Guidance is intended to facilitate the understanding and application of a ComFrame Standard; it does not represent any requirements. Where appropriate, ComFrame Guidance provides examples of ways to implement a ComFrame Standard. ComFrame Guidance is presented in regular font, with the number of the ComFrame Standard followed by the ComFrame Guidance number (for example, the first paragraph of ComFrame Guidance under ComFrame Standard CF3.2b would appear as CF3.2b.1).

Overarching Concepts

21. In addition to the overarching concepts identified in the ICP Introduction, there are several, ComFrame-specific overarching concepts to understand and keep in mind when reading and implementing ComFrame.

Allocation of roles

22. The group-wide supervisor takes responsibility for the supervision of the IAIG as a whole, on a group-wide basis. Other involved supervisors are responsible for the supervision of the IAIG's individual insurance legal entities in their respective jurisdictions and take into account the effect of their supervisory actions on the rest of the IAIG.

Governance structures

23. IAIGs have different models of governance (i.e. more centralised or more decentralised). ComFrame does not favour any particular governance model and instead focuses on the outcomes that the governance model needs to achieve.

Group-Wide Supervision

24. Whereas the ICPs are neutral as to direct or indirect approaches to group-wide supervision, ComFrame requires a direct approach for certain powers as indicated by the relevant ComFrame Standards.

B) Assessment Methodology

25. The IAIS strongly encourages implementation of the ICPs as a means to ensure each jurisdiction has a framework for effective insurance supervision. Assessment of a jurisdiction's observance of the ICPs can facilitate effective implementation by identifying the extent and nature of strengths and weaknesses in a jurisdiction's supervisory framework – especially those aspects that could affect policyholder protection and financial stability.

26. The framework described by the ICPs is general. When implementing the ICPs in a jurisdiction, it is important to take into account the domestic context, characteristics of the insurance sector and developmental stage of the financial system and overall macroeconomic conditions. How the ICPs are implemented will vary across jurisdictions. While established implementation practices should be kept in mind, there is no mandated method of implementation.

27. The methodology that should be followed when carrying out an assessment of a jurisdiction's observance of the ICPs is set out below. Following the methodology should result in greater consistency between assessments of different jurisdictions performed by different assessors. When carrying out an assessment, it is important to take into account factors that have shaped the implementation choices made in the jurisdiction.

Scope of assessments

28. Assessments against the ICPs can be conducted in a number of contexts including:
    - self-assessments performed by the jurisdiction itself. These may be performed with the assistance of outside experts and/or followed by peer review and analysis;
    - reviews conducted by third parties;
    - reviews in the context of the Financial Sector Assessment Program (FSAP) conducted by the International Monetary Fund (IMF) and World Bank.

29. An assessment may be conducted on a system-wide jurisdictional basis or focus on specific areas. While thematic assessments have a role, the IAIS has designed the ICPs as a comprehensive and holistic framework, with each ICP being integral in the creation of a sound supervisory system.

30. Where more than one authority is involved in a jurisdiction's insurance supervision process, the allocation and interaction of supervisory roles should be clearly described in the assessment. If an assessment is conducted in the context of an individual authority within a jurisdiction, a Standard may be not applicable if responsibility (either for its implementation or its delivery on a day-to-day basis) lies with another authority within that jurisdiction. However, the authority responsible for the observance of that Standard should be indicated in the report.

31. The ICPs are written to be equally applicable to both life and non-life sectors. However, where there are material differences between the life and non-life sectors, such that it would give rise to different results had they been assessed separately, the assessor may consider assigning separate levels of observance for each sector accordingly. In such cases, the distinction should be clearly identified and explained in any assessment report.

Use of experts

32. The process of assessing observance of the ICPs requires a judgmental weighing of numerous elements. It is important, therefore, that assessors are well qualified with relevant background, professional knowledge and practical experience. Assessors not familiar with insurance supervision, the insurance sector or entities and products that may be unique to the jurisdiction being assessed, could come to incorrect or misleading conclusions.

Access to information

33. When conducting an assessment, assessors need to have access to a range of information and people. The required information may include published information (such as the legislation and administrative policies) as well as non-published information (such as self-assessments performed and operational guidelines used by the insurance supervisor). Information should be provided to assessors as long as confidentiality is preserved. Information should be provided to and analysed by the assessors in advance, to the extent possible, to ensure that any on-site visits

are efficient and derive the most value. The assessors may need to meet with various individuals and organisations, including the insurance supervisor, other domestic supervisory authorities, relevant government ministries, insurers and insurance industry associations, consumer groups, actuaries, auditors, and other financial sector participants.

Assessment process

34. Assessments should be based solely on the legislation and other supervisory requirements and practices that are in place at the time. As a result, it is important to recognise when an assessment is conducted and to record this in the report. Nevertheless, improvements already proposed or scheduled for implementation by the supervisor should be noted in the assessment report by way of additional comments so as to provide recognition for efforts that are important, but not yet fully implemented. Additionally, the assessment should consider whether supervisory practices adequately meet the outcomes provided for in legislation and whether the supervisor enforces compliance. Having legislation without the necessary corresponding supervisory practices is not sufficient to demonstrate full observance.

35. Performing an assessment is not an exact science. Assessors should perform a comprehensive assessment of the degree and effectiveness of implementation for each Principle Statement and Standard rather than a checklist approach. The goal of the assessment should not be simply to apply a grade to the level of observance but to identify areas that need attention in order for the jurisdiction to achieve the outcomes identified in the ICPs.

Assessment of Standards

36. The Standards set requirements that are fundamental to the implementation of each Principle Statement. They also facilitate assessments that are comprehensive, precise and consistent. In making an assessment, each of the Standards under a Principle Statement has to be considered. As noted in the ICP Introduction, Guidance is intended to facilitate the understanding and application of the Principle Statement and/or Standard and does not prescribe any requirements, therefore it should not be assessed for observance.

37. The Standards should be assessed using five categories:

- **Observed** – for a Standard to be considered observed it is usually necessary that the supervisor has the legal authority to perform its tasks and that it exercises this authority to a satisfactory level. Where the supervisor sets requirements, it should also ensure that these requirements are implemented. Having the necessary resources is essential for the supervisor to implement the requirements effectively. Authority provided in the legislation is insufficient for full observance to be recorded against a Standard, except where the Standard is specifically limited in this respect. In the event that the supervisor has a history of using a practice for which it has no explicit legal authority, the assessment may be considered as observed if the practice is clearly substantiated by the supervisor as common and is generally accepted by stakeholders.

- **Largely observed** – for a Standard to be considered as largely observed, it is necessary that only minor shortcomings exist which do not raise any concerns about the supervisor's ability and intent to achieve full observance with the Standard within a prescribed period of time. The assessment of largely observed can be used when the jurisdiction does not meet all the criteria, but the overall effectiveness is sufficiently good and no material risks are left unaddressed.

- **Partly observed** – for a Standard to be considered partly observed, there are sufficient shortcomings to raise doubts about the supervisor's ability to achieve observance.

- **Not observed** – for a Standard to be considered not observed, there is no substantive progress toward achieving observance.

- **Not applicable** – for a Standard to be considered not applicable, the Standard does not apply given the structural, legal and institutional features of a jurisdiction.

Assessment of Principle Statements

38. As noted above, the level of observance for each Principle Statement reflects the assessments of its Standards. The Principle Statements should be assessed using five categories:

    - **Observed** – for a Principle Statement to be considered observed, all the Standards must be considered observed (except any Standards that are considered not applicable).

    - **Largely observed** – for a Principle Statement to be considered largely observed, it is necessary that only minor shortcomings exist which do not raise any concerns about the supervisor's ability to achieve full observance with the Principle Statement.

    - **Partly observed** – for a Principle Statement to be considered partly observed, there are sufficient shortcomings to raise doubts about the supervisor's ability to achieve observance.

    - **Not observed** – for a Principle Statement to be considered not observed, there is no substantive progress toward achieving observance.

    - **Not applicable** – for a Principle Statement to be considered not applicable, all the Standards must be considered not applicable.

Reporting

39. The IAIS does not prescribe a set format or content of reports that result from an assessment. However, it is recommended that an assessment report should:
    - be in writing;
    - identify the scope and timing of the assessment;
    - identify the assessors;
    - provide an assessment of observance;
    - refer to the information reviewed and meetings conducted, and note when any necessary information was not provided and the impact that this may have had on the accuracy or completeness of the assessment;
    - include any formal comments provided by the supervisor in response to the assessment; and
    - include prioritised recommendations for improving observance of the ICPs assessed.

40. While encouraged, it is the jurisdiction's discretion whether to publish the results of an assessment. Nevertheless, it is important for the credibility of assessments that they are conducted in a broadly uniform manner across jurisdictions.

Preconditions for effective insurance supervision

41. An effective system of insurance supervision requires a number of preconditions to be in place, as they can have a direct impact on supervision in practice. An assessment of a jurisdiction's observance of the Principle Statements and Standards may involve a review of preconditions for effective insurance supervision.

42. This section provides a number of categories of preconditions and descriptions of how each precondition may be reviewed. The preconditions include:
    - sound and sustainable macroeconomic and financial sector policies;
    - a well-developed public infrastructure;
    - effective market discipline in financial markets;
    - mechanisms for providing an appropriate level of protection; and
    - efficient financial markets.

43. As these preconditions are normally outside the control or influence of the supervisor, and because they are beyond the scope of the ICPs, an assessment should not evaluate a jurisdiction's observance of the preconditions. Instead, the objective of a review of preconditions is to help inform an assessment of observance of the ICPs because the preconditions can directly impact the effectiveness of supervision. Where shortcomings exist, the supervisor should make its government aware of these and their actual or potential repercussions for the achievement of supervisory objectives and seek to mitigate the effects of such shortcomings on the effectiveness of supervision.

44. Any report on a review of preconditions should:
    - be descriptive and not express an opinion on the adequacy of policies in these areas, other than through reference to analyses and recommendations in existing official documents;

- include an analysis of the linkages between these factors and the resilience of the insurance sector, when relevant;
- give a clear picture of the adequacy of the preconditions within the jurisdiction and the interaction of the preconditions with the assessment of observance with the ICPs; and
- flag any individual ICPs which are most likely to be affected by any material weakness in the preconditions.

Sound and sustainable macroeconomic and financial sector polices

45. Sound macroeconomic policies are the foundation of a stable financial system. This is not within the mandate of supervisors, although they will need to react if they perceive that existing policies are undermining the safety and soundness of the financial system. In addition, financial sector supervision needs to be undertaken within a transparent government policy framework aimed at ensuring financial stability, including effective supervision of the insurance and other financial sectors.

46. A review of this precondition should include a review of the relevant government financial sector policies, including whether there is a clear and published framework assigning responsibility to different bodies involved in financial stability and supervisory work.

Well-developed public infrastructure

47. A well-developed public infrastructure contains the following elements which, if not adequately provided, can contribute to the weakening of the financial system or frustrate their improvement:
    - a system of business laws, including corporate, insolvency, contract, consumer protection and private property laws, which is consistently enforced and provides a mechanism for the fair resolution of disputes;
    - an efficient and independent judiciary;
    - use of comprehensive and well-defined accounting principles and rules that command wide international acceptance;
    - a system of independent audits for companies to ensure that users of financial statements, including insurers, have independent assurance that the accounts provide a true and fair view of the financial position of the company and are prepared according to established accounting principles, with auditors held accountable for their work;
    - the availability of skilled, competent, independent and experienced actuaries, accountants and auditors, whose work complies with transparent technical and ethical standards set and enforced by official or professional bodies in line with international standards and is subject to appropriate oversight;
    - well defined rules governing, and adequate supervision of, other financial sectors;
    - access to a secure payment and clearing system for the settlement of financial transactions where counterparty risks are controlled; and
    - the availability to the supervisor, financial services and public of basic economic, financial and social statistics.

48. A review of the public infrastructure should focus on elements relevant to the insurance sector.

Effective market discipline in financial markets

49. Effective market discipline depends, in part, on adequate flows of information to market participants, appropriate financial incentives to reward well-managed institutions, and arrangements that ensure investors are not insulated from the consequences of their decisions. Among issues to be addressed are the existence of appropriate corporate governance frameworks and ensuring that accurate, meaningful, transparent and timely information is provided by issuers and borrowers to investors and creditors.

50. A review of the effectiveness of market discipline could cover issues such as:
    - the presence of rules on corporate governance;
    - transparency and audited financial disclosure;
    - appropriate incentive structures for the hiring and removal of managers and Board members;
    - protection of shareholders' and other stakeholders' rights;
    - adequate availability of market and consumer information; and
    - an effective framework for new entrants, mergers, takeovers, and acquisition of equity interests, including those involving foreign entities.

Mechanisms for providing an appropriate level of protection

51. In general, deciding on the appropriate level of policyholder protection is a policy question to be addressed by each jurisdiction, particularly if it may result in a commitment of public funds. The supervisor should have a role to play given their in-depth knowledge of the entities involved and be prepared and equipped, as far as possible, to manage crises involving insurers. Such protection mechanisms could include a hierarchy of claims, a policyholder protection scheme, or the use of public funds in the event of insolvency of an insurer and/or a broader sector wide crisis. Provided such mechanisms are carefully designed to limit moral hazard, they can contribute to public confidence.

Efficient financial markets

52. Efficient financial markets are important to provide investment and risk management opportunities for insurers. Insurers benefit by having access to domestic and global financial markets.

53. A review of whether there are efficient financial markets could cover, for example, the range of instruments and issuers (e.g. is there a spread of public sector issues, index-linked as well as conventional government bonds) and the spread of available maturities. A review could take note of how liquidity has been affected in markets in periods of stress. A review should focus on relevant issues for the carrying on of insurance business, taking into account the products offered, such as whether annuities or other long term contracts of insurance are provided.