



# IAIS

INTERNATIONAL ASSOCIATION OF  
INSURANCE SUPERVISORS

## Public Background Session on draft overall ComFrame and ICS Version 2.0 Consultation Document (published for consultation on 31 July 2018)

### Public Discussion Session on the outcome of Nov 2017 – Jan 2018 public consultation ComFrame in ICPs 8, 15 and 16

29 August 2018, Teleconference



# GENERAL INFORMATION

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Elise Liebers, Chair of the Policy Development Committee

# ComFrame development – main steps

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- March – June 2017 – public consultation on the first set of ComFrame material integrated into ICPs (5, 6, 7, 8, 9, 10, 12, 25) and ComFrame Introduction
- Nov 2017 – Jan 2018 – public consultation on ComFrame in ICPs 15 and 16 and additional ComFrame material in ICP 8
- March 2018 – publication of the summary of main comments from March-June 2017 public consultation
- 31 July 2018 – publication of:
  - summary of main comments from Nov 2017 – Jan 2018 public consultation on ComFrame in ICPs 8, 15 and 16 and their resolution
  - overall ComFrame and ICS Version 2.0 for 90-day public consultation (comments due by 30 October 2018)
- June 2019 – publication of:
  - summary of main comments on overall ComFrame and their resolution
  - further revision of ICPs/ComFrame for public consultation (60 days)
- November 2019 – adoption by the Annual General Meeting of ComFrame including ICS Version 2.0 (as a stand-alone document)

# Public consultation – ComFrame

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- Material for comments:
  - ComFrame Introduction
  - Glossary definitions of terms specific to ComFrame
  - ComFrame material in the following ICPs:
    - 5 (Suitability of Persons)
    - 7 (Corporate Governance)
    - 8 (Risk Management and Internal Controls)
    - 9 (Supervisory Review and Reporting)
    - 10 (Preventive Measures, Corrective Measures and Sanctions),
    - 12 (Exit from the Market and Resolution),
    - 15 (Investments),
    - 16 (Enterprise Risk Management for Solvency Purposes),
    - 23 (Group-wide Supervision)
    - 25 (Supervisory Cooperation and Coordination)
- ICP text: published only for context and information (not for comments)
- Background information – cover note and redline version

# OVERARCHING ISSUES RELATED TO DRAFTING OF COMFRAME

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Ryan Workman, Chair of the Supervisory Material Review Task Force

# Drafting of ComFrame – overarching issues

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- ComFrame-specific glossary definitions
- Consistency of terminology, including addressees of requirements
- Prescriptiveness, limiting the necessary flexibility, one-size-fits-all approach
- Materiality
- Location of ComFrame material

# QUESTIONS?

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# COMFRAME IN ICPs 5, 7, 8

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Annick Teubner, Chair of the Governance Working Group



# Corporate Governance

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## ComFrame in ICPs 5, 7 and 8

- Published for consultation in March 2017 (additional ComFrame material in ICP 8 released for consultation in November 2017)
- Reflects comments from public consultations and additional developments
- The majority of revisions made to clarify or specify the existing text
- Some guidance deleted from ComFrame: to be added to ICP guidance as applicable not only to IAIGs, but also to other insurance groups (black font text in the consultation document)

# Corporate Governance

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## ComFrame in ICPs 5, 7 and 8

- CF5.2.a: knowledge replaced with competence, with clarification that it refers to individual and collective competence of the IAIS Board members
- CF7.0.a: refers to a document instead of a written outline
- CF7.0.c: the requirement to establish clear reporting lines deleted from CF7.1.a and reflected in a new standard CF 7.0.c
- CF8.1.b: redrafted to simplify wording and not to refer to the nature, scale and complexity.
- CF8.2.b: two bullets merged to simplify the wording and avoid impression that two assessments should be carried out
- CF8.8.b: clarified that it refers to both internal and external outsourcing, with additional explanation in new guidance

# QUESTIONS?

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# COMFRAME IN ICPs 15 AND 16

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Ramon Calderon, Leader of the ICP 15&16 Review Work Stream

# Investments and ERM

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## ComFrame in ICPs 15 and 16

- Published for consultation in November 2017
- The majority of revisions were made to clarify existing text, or by adding guidance as a result of feedback received from stakeholders, and IAIS members

# Investments and ERM

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## ComFrame in ICPs 15 and 16

- Major changes to ICP 15 and 16:
  - ComFrame standards and guidance referencing the “investment policy” were moved from ICP 15 to under ICP 16.6. ICP 15 focuses on how the supervisor establishes regulatory investment requirements and ICP 16 deals with the investment policy from a risk management perspective and focuses on how the supervisor requires insurers to establish an ERM framework.
  - CF 16.7a.1 was moved to ICP 16.2.4 as guidance is applicable to all insurance groups rather than IAIGs only; the standard and guidance for CF 16.12a was deleted as it is covered by ICP 16.12 and related guidance
  - Recovery planning standards and guidance were moved to ICP 16.13

# QUESTIONS?

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# COMFRAME IN ICPs 9, 10, 23 AND 25

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Tom Crossland, Chair of the Insurance Groups Working Group



# Supervisor and Supervisory Measures Supervisory Cooperation and Coordination

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## ComFrame in ICPs 9, 10 and 25

- Published for consultation in March 2017
- Further amendments to improve for clarity and consistency of ComFrame standards and guidance (slide 18)
- New elements (comparing to the 2017 version):
  - Amendments following Kuala Lumpur agreement on the implementation of ICS Version 2.0 (slide 19)
  - Identification of the IAIGs and the Head of the IAIG (slides 20 and 21)

# Amendments following 2017 public consultation

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## ComFrame in ICPs 9, 10 and 25 – most significant amendments

- CF9.0.b merged with CF9.0a
- CF9.2.a (guidance on peer-group analysis): concerns on confidentiality and the use of information addressed
- CF9.2.b: shorter list of the group-wide risk assessment's elements, with details in guidance
- CF9.6.b (on-site inspections): a reference to reasonable supervisory interest moved to the standard (from guidance)
- CF10.0.a: expanded to address cases where the Head of the IAIG is not in the group-wide supervisor's jurisdiction
- CF10.6.a.2: explanation on flexibility in imposing sanctions expanded
- CF25.6.a.3 (new guidance): college meeting possible via telco, if an in-person meeting not practicable
- CF25.7.a – guidance simplified and clarified (name, membership of IAIG CMG, college as IAIG CMG)

# Amendments following Kuala Lumpur agreement on the implementation of ICS v2.0

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ComFrame in ICPs 9, 10, 25 and ComFrame Introduction (para. 20)

- New CF 9 standard stating that the group-wide supervisor requires the Head of the IAIG to report the reference ICS and, at the option of the group-wide supervisor, any additional reporting.
  - This reporting is done on a confidential basis
- New CF 25 standard stating that members of the IAIG's supervisory college discuss and assess a summary of the reference ICS prepared by the group-wide supervisor, as well as a summary of any additional reporting that has been reported at the option of the group-wide supervisor.
  - The purpose of the supervisory college discussing and assessing the summary of the reference ICS, and of any additional reporting, is to help refine the ICS.

# Identification of Internationally Active Insurance Groups

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## ComFrame in ICP 23

- The text integrates the former Module 1 *Scope of ComFrame* of the 2014 draft ComFrame into ICP 23
- A close alignment between the draft agreed upon in 2014 and the current version has been maintained
- The identification criteria are:
  - Internationally active:
    - Premiums written in three or more jurisdictions; and
    - Gross written premiums outside of the home jurisdiction at least 10% of the group's total gross written premiums.
  - Size (based on a three-year rolling average):
    - Total assets are at least USD 50 billion, or
    - Gross written premiums are at least USD 10 billion.

# Identification of the Head of the IAIG

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## ComFrame in ICP 23

- Identification of the Head of the IAIG – new text
  - A principle-based framework for the identification of the Head of the IAIG, developed having regard to the outcome of 2016 public consultation on ICS Version 1.0 and inputs received from IAIS Field Testing exercises
  - Approach aimed at fostering supervisory convergence by ensuring group-wide supervisors follow the same approach without losing the ability to exercise the supervisory discretion
- Scope of group supervision – new text
  - Details on the scope of group-wide supervision for an IAIG
  - Group-wide supervisors provided with specific ability to extend the scope of group-wide supervision beyond the IAIG to obtain information on the wider group which the IAIG is part of

# QUESTIONS?

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# COMFRAME IN ICP 12 AND ICP 16.13

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Hanne van Voorden, IAIS Secretariat

# Recovery and Resolution

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## ComFrame in ICP 12 & ICP / ComFrame 16.13

- Published for consultation in March 2017
- Recovery planning:
  - Material was moved to ICP 16.13 in response to stakeholder and member comments
  - More guidance was added in both ICP and ComFrame to provide more background on for instance the application of the proportionality principle and the expectations on recovery planning
  - IAIS is currently developing an application paper on recovery planning
- Resolution:
  - Changes were made to reflect comments received from the 2017 public consultation
  - Changes were made also to clarify or specify the wording, for instance by adding more guidance. For example, more guidance was added on resolution planning, its need and the role of different involved supervisors and resolution authorities



# QUESTIONS?

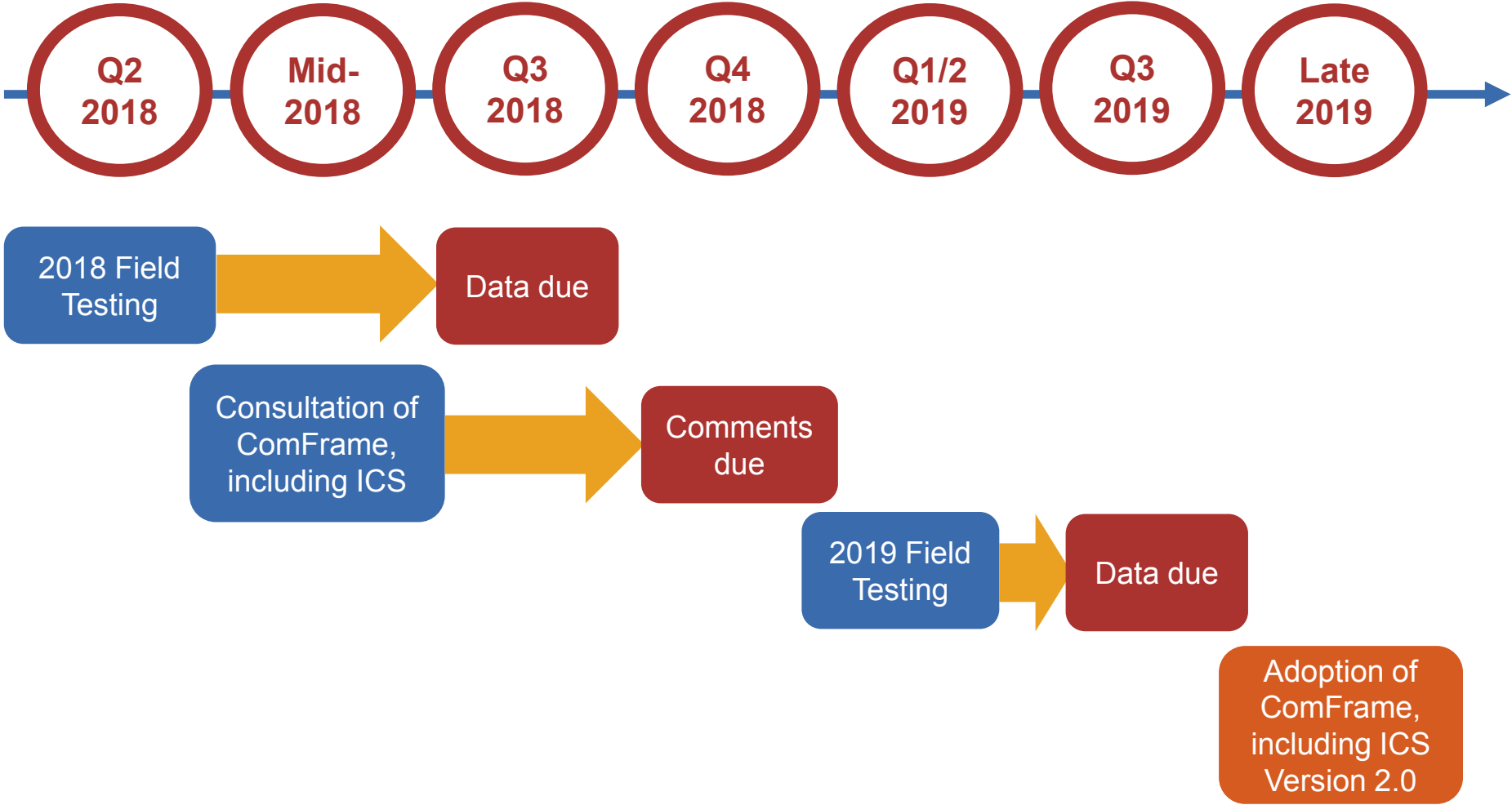
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# ICS VERSION 2.0

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Paolo Cadoni, Vice-Chair of the Policy Development Committee and  
Chair of the Capital, Solvency and Field Testing Working Group

# The Path Towards ICS Version 2.0



# Implementation of ICS Version 2.0

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## Conducted in two phases:

### Phase 1: five-year monitoring period

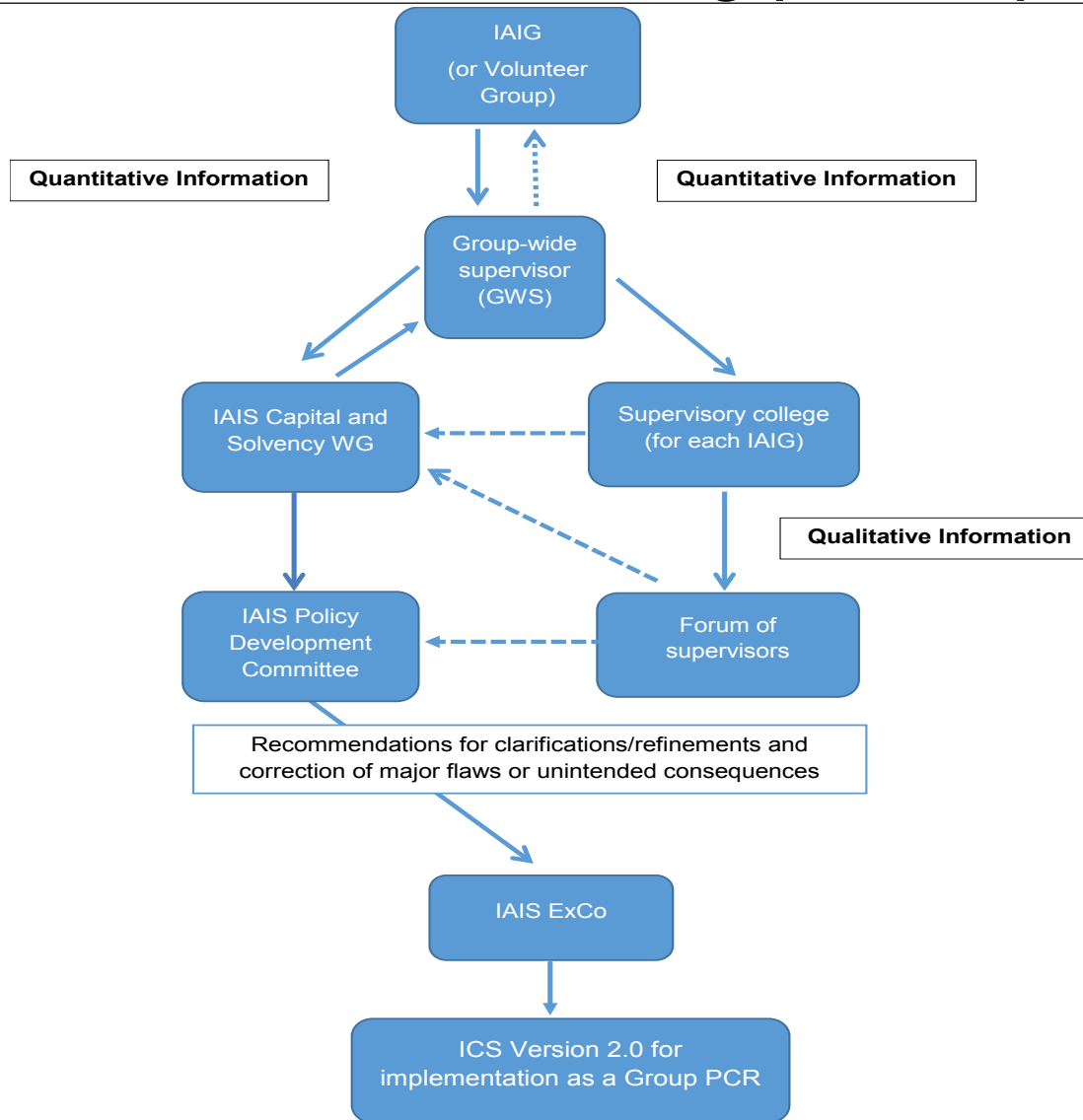
- ICS Version 2.0:
  - will be used for confidential reporting to group-wide supervisors and discussion in supervisory colleges
  - will not be used as a PCR (i.e. the ICS results will not be used to trigger supervisory action)

### Phase 2: implementation of the ICS as a group-wide PCR

## Two equally important components:

- **Mandatory confidential reporting** by all IAIGs of a **reference ICS** which is based on market-adjusted valuation (MAV), the standard method for capital requirements and converged criteria for qualifying capital resources; and
- **Additional reporting, at the option of the group-wide supervisor**, of ICS based on GAAP Plus valuation and/or an other methods-based capital requirement calculation

# ICS Version 2.0 monitoring period process



# 2018 Field Testing - enhancements

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- Valuation
  - MAV – only one approach tested (Three-Bucket Approach). Data on three additional discounting methods is being collected to inform future refinements of the Three-Bucket Approach
  - GAAP Plus – split between those GAAP Plus jurisdictions doing a full ICS calculation, balance sheet only or answering qualitative questions
- MOCE - Three MOCE options are included in field testing: fixed C-MOCE, Variable C-MOCE and P-MOCE
- Capital resources – only one issue open for 2018 Field Testing (acceleration clauses that may be triggered in going concern)
- Capital requirement – inclusion of Non-Default Spread risk within Market risk (to be further considered for ICS Version 2.0)
- Data collection on internal models (as per the Kuala Lumpur Agreement) and dynamic hedging

# QUESTIONS?

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# ANNEX: 2018 FIELD TESTING OF ICS VERSION 2.0

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# MAV – adjustment to the base yield curve

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- Three-bucket approach is the focus of 2018 Field Testing
- Three-bucket approach is the only discounting option on which the ICS ratio and all ICS risk charges will be calculated
- IAIS is focusing on developing a discounting method that has appropriate supervisory constraints, while considering differences in ALM practices for different insurance products

# MAV – adjustment to the base yield curve

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- To support future refinement of the three-bucket approach for ICS Version 2.0, additional quantitative and qualitative information will be collected in field testing, including:
  - Additional balance sheets (under stressed and economic conditions) for the updated Blended, OAG 2.0 and the risk-free rate, but not a full ICS calculation for these
  - Sensitivity analysis of key parameters used in the eligibility criteria for the buckets of the three-bucket approach
  - Magnitude of the contribution to the spread adjustment of certain elements (e.g. the allowance for spreads originating from assets denominated in foreign currency, post correction for hedging costs)
  - Information of product features that meet the criteria for each bucket
  - Information on specific criteria that disqualify products/liabilities from being allocated to specific buckets

# 2018 Field Testing of ICS Version 2.0

## Market Adjusted Valuation Three Bucket Approach

	Top Bucket	Middle Bucket	General Bucket
Portfolio Composition	Own assets as calculated by the IAIG	Weighted Average of Multiple Representative Portfolios (WAMP)	Representative Portfolio per currency
Adjustment	Parallel adjustment until run-off of liabilities	Parallel adjustment applied to Segment 1 only	Parallel adjustment applied to Segment 1 only
Default Deduction	Risk correction		
Scope of Assets	Only eligible assets (equity not included)		
Quantitative Guardrail	ICS RC 4 (BBB)		
Foreign assets basis risk mitigation mechanism	Spreads earned in assets denominated in foreign currency are allowed, provided they are hedged	Spreads earned in assets denominated in foreign currency may be used in the weighting, provided they are hedged	Not applicable
Application Ratio	100%	90%	80%

# 2018 Field Testing of ICS Version 2.0

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## Margin over Current Estimate (MOCE)

- Three MOCE options are included in field testing: fixed C-MOCE, Variable C-MOCE and P-MOCE
- All three are viable options that will be considered for ICS Version 2.0
- Fixed C-MOCE (cost of capital = 5%) with no deduction from the capital requirement is the default MOCE methodology for 2018 Field Testing, on which the ICS ratio will be calculated
- The Variable C-MOCE (with no deduction from the capital requirement) and P-MOCE (with full deduction from the capital requirement) will be field tested, but will not be used to calculate the ICS ratio

# 2018 Field Testing of ICS Version 2.0

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## Capital resources

- Structural subordination is recognised, subject to certain conditions being met, including that the instrument is issued by a clean holding company and proceeds are downstreamed into an insurance operating entity
- For mutual IAIGs only, the Tier 1 Limited requirement for an instrument to be perpetual can be met if redemption at maturity can be deferred subject to supervisory approval or a lock-in mechanism. In addition, a minimum maturity of 10 years is required.
- Tier 2 non-paid-up capital resources are limited to mutual IAIGs only
- Both with and without acceleration clauses that may be triggered in a going concern are included in field testing without specifying a default option, resulting in two calculations for capital resources

# 2018 Field Testing of ICS Version 2.0

## Standard Method

