INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

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Only text in black font is subject to public consultation. Remaining text, published for information purposes, is in grey font. A redline version of this document is also available on the public consultation webpage. For details, please see a cover note published together with this material on the IAIS website.

Contents

Acronyms 3

Glossary 4

Introduction and Assessment Methodology 10

ICP 5 Suitability of Persons 23

ICP 7 Corporate Governance 30

ICP 8 Risk Management and Internal Controls 55

ICP 9 Supervisory Review and Reporting 82

ICP 10 Preventive Measures, Corrective Measures and Sanctions 98

ICP 12 Exit from the Market and Resolution 108

ICP 15 Investments 126

ICP 16 Enterprise Risk Management for Solvency Purposes 137

ICP 20 Public Disclosure 180

ICP 22 Anti-Money Laundering and Combating the Financing of Terrorism 196

ICP 23 Group-wide Supervision 207

ICP 24 Macroprudential Supervision 216

ICP 25 Supervisory Cooperation and Coordination 224

Acronyms

ERM	Enterprise Risk Management
IAIG	Internationally Active Insurance Group
IAIG CMG	Crisis management group of the IAIG
ICS	Insurance Capital Standard
IGT	Intra-group transactions
MIS	Management information systems
ORSA	Own Risk and Solvency Assessment
PCR	Prescribed Capital Requirement
PPS	Policyholder Protection Scheme

Glossary

Term	Definition
Alternative risk transfer (ART)	A form of risk transfer of insurance liabilities through the capital markets.
Asset-liability management (ALM)	An insurer's coordination of decisions and actions taken with respect to assets and liabilities through the ongoing process of formulating, implementing, monitoring and revising strategies related to assets and liabilities to achieve the insurer's financial objectives, given the risk appetite and other constraints.
Back-testing	A process of comparing the predictions from a model with actual experience to determine whether actual results are within the expected range produced by the model over a reasonable period of time.
Board of Directors (Board)	A body of elected or appointed individuals ultimately responsible for the governance and oversight of an insurer.
Basis risk	The risk that returns on instruments of varying types, credit quality, marketability, liquidity and/or maturity do not move together, thus exposing an insurer to market value variation of assets and/or hedges that can be independent of liability values. In respect to reinsurance transactions, basis risk is the risk that the actual loss experience of an insurer does not move together with the risk transferred to a reinsurer.
Captive insurer	An insurance or reinsurance legal entity owned, directly or indirectly by one or more industrial, commercial or financial entities for the purpose of providing insurance or reinsurance cover for risks of the legal entity or entities to which it belongs, or for legal entities connected to those entities and only a small part if any of its risk exposure is related to providing insurance or reinsurance to other parties.
Claims incurred	An insurer's total liability arising from insurance events related to an accounting period either on an accident year basis or on an underwriting year basis.
Claims provision	Amount set aside on the balance sheet of an insurer to meet the total estimated ultimate cost to settle all claims arising from events which have occurred up to the end of the reporting period, whether reported or not, less amounts already paid in respect of such claims.
Collateral	Assets held as security in support of a promise to pay a debt or perform other obligations under a contract.
Contagion risk	The risk that an event, whether internal or external, has a negative impact on one legal entity or part of a group and spreads to other legal entities or parts of the group.
Combined ratio	The sum of the loss ratio (claims ratio) and the expense ratio.
Consumers	Actual and potential customers for insurance products.
Control Function	Function (whether in the form of a person, unit or department) that has a responsibility in an insurer to provide objective assessment, reporting

	and/or assurance; this includes the risk management, compliance, actuarial and internal audit functions.
Control level	A threshold solvency level that triggers intervention by the supervisor in an insurer when capital resources fall below this level.
Corporate Culture	The set of norms, values, attitudes and behaviours of an insurer that characterises the way in which the insurer conducts its activities.
Corporate Governance framework	A set of relationships - between an insurer's board, senior management, customers and other stakeholders -, through which the insurer's objectives are set, and the means to achieve those objectives and to monitor performance are determined.
Counterparty risk	The risk that a counterparty does not comply with its contractual obligations.
Credit rating	A category or classification that is assigned to an issuer or a debt instrument based on an evaluation of its creditworthiness.
Credit rating agency	An entity that evaluates and assigns credit ratings to an issuer of debt or a debt instrument.
Customer	Policyholder or prospective policyholder with whom an insurer or insurance intermediary interacts, and includes, where relevant, other beneficiaries and claimants with a legitimate interest in the policy.
Derivative	A financial instrument whose value depends on (or is derived from) other assets, liabilities or indexes.
Direct powers	Powers a supervisor has, in the context of group-wide supervision, over the parent and other legal entities in the insurance group enabling the supervisor to impose supervisory measures directly on those legal entities to address all relevant group-wide risks.
Duration	A measure that could be used to estimate the sensitivity of the value of an asset or a liability to changes in interest rates.
Economic capital	The capital needed by an insurer to satisfy its risk appetite and support its business plans and which is determined from an economic assessment of the insurer's risks, the relationship between them and the risk mitigation in place
Enterprise Risk Management (ERM)	The strategies, policies and processes of identifying, assessing, measuring, monitoring, controlling and mitigating risks in respect of the insurer's enterprise as a whole.
Expense ratio	The ratio of expenses to earned premiums (may be reported either gross or net of reinsurance).
Facultative reinsurance	Reinsurance for a single risk or a defined package of risks. The ceding insurer is not compelled to submit the risks to the reinsurer, but neither is the reinsurer compelled to provide reinsurance
Financial conglomerate	Two or more legal entities, at least one of which is an insurance legal entity and one a regulated legal entity in the securities or banking sectors, where one has control over one or more insurance legal entities or one or more regulated legal entities in the securities or banking sectors and possibly other non-regulated legal entities, whose exclusive or predominant activities consist of providing significant services in at least two different financial sectors (banking, securities, insurance).
Finite reinsurance	A generic term that is used to describe an entire spectrum of reinsurance arrangements that share limited risk for a limited amount of premium. Also known as financial reinsurance,

	structured reinsurance, non-traditional reinsurance, or loss mitigation reinsurance...
General purpose financial report	Financial report prepared according to generally accepted accounting principles within the relevant jurisdiction to meet the common financial information needs of a wide range of users including policyholders and investors.
Going-concern basis	An approach for considering an insurer's financial situation assuming it will continue to operate and that future business will be written.
Going-concern capital	Capital which achieves both the objectives of reducing the probability of insolvency by absorbing losses on a going-concern basis, or in run-off, and of reducing the loss to policyholders in the event of insolvency or resolution.
Group-wide supervisor	The supervisor(s) responsible for effective and coordinated supervision of an insurance group including coordinating with other relevant supervisors in undertaking the supervision of an insurance group on a group-wide basis, as a supplement to insurance legal entity supervision.
Head of the insurance group	The legal entity that controls the insurance group.
Head of the financial conglomerate	The legal entity that controls the financial conglomerate.
Head of the group (or parent)	The legal entity that controls the activities of the group as a whole.
Head of the IAIG	The Head of the IAIG is a legal entity identified by the group-wide supervisor as controlling all of the insurance legal entities within the group and non-insurance legal entities which pose risk to the insurance operations
Home jurisdiction	The jurisdiction in which either • an insurance legal entity is incorporated or its head office or principal place of management is located; or • the head of an insurance group is incorporated or its head office or principal place of management is located.
Home supervisor	The supervisor of the home jurisdiction.
Host jurisdiction	Any jurisdiction other than the home jurisdiction in which the insurance legal entity has operations or the insurance group has operations.
Host supervisor	Any supervisor from a host jurisdiction.
IAIS MMoU	A multilateral memorandum of understanding established by the IAIS for cooperation and information exchange between IAIS Members who have been approved as Signatories.
Indirect powers	Powers which a supervisor, in the context of group-wide supervision, has over one or more insurance legal entities in a group that are used to address all relevant group-wide risks including risks posed by non-regulated legal entities in the group.

Insurance group	Two or more legal entities, at least one of which is an insurance legal entity, where one has control over one or more insurance legal entities and possibly other non-regulated legal entities, and whose primary business is insurance. This includes insurance-led financial conglomerates.
Insurance intermediary	Any natural person or legal entity that engages in insurance intermediation.
Insurance intermediation	The activity of soliciting, negotiating or selling insurance contracts through any medium Where: • “Solicit" means attempting to sell insurance or asking a person to apply for a particular kind of insurance from a particular insurer for compensation. • "Negotiate" means the act of conferring directly with, or offering advice directly to, a purchaser or prospective purchaser of a particular contract of insurance concerning any of the substantive benefits, terms or conditions of the contract, provided that the person engaged in that act either sells insurance or obtains insurance from insurers for purchasers. • "Sell" means to exchange a contract of insurance by any means, for money or its equivalent, on behalf of an insurer.
Insurance-led financial conglomerate	A financial conglomerate in which the head of the insurance group is also the head of the financial conglomerate.
Insurance legal entity	A legal entity, including its branches, that is licensed to conduct insurance, regulated and subject to supervision.
Insurer	Insurance legal entity or insurance group..
Internal controls	A set of processes, policies and activities governing an insurer’s organisational and operational structure, including reporting and the control functions.
Involved supervisors	Supervisors engaged in the supervision of an insurance group.
Key Persons in Control Functions	Persons responsible for heading control functions.
Licence	The formal authority given to conduct insurance activities or insurance intermediation, within a jurisdiction, under the applicable legislation.
Liquidity risk	The risk that an insurer is unable to realise its investments and other assets in a timely manner in order to settle its financial obligations as they fall due.
Loss ratio (claims ratio)	The ratio of claims incurred to earned premiums that provides an indication of how well the pricing of an insurer matches the risks taken in the insurance contracts (may be reported either gross or net of reinsurance).
Macroeconomic exposure	Exposure of an insurer or the insurance sector as a whole to macroeconomic risk factors resulting in their financial position being highly correlated with the broader financial markets and/or real economy and with each other.

Mismatching risk	The risk that the future cash flows generated by assets do not match the cash flow demands in magnitude or timing of the corresponding liabilities in a suitable manner.
Multiple gearing	Using the same capital simultaneously as a buffer against risk in two or more legal entities of a group. This includes double gearing.
Non-regulated legal entity	A legal entity which is not subject to any financial sector supervision.
Operating ratio	The combined ratio adjusted by the addition of allocated investment return to earned premiums.
Outsourcing	An arrangement between an insurer and a service provider, whether internal within a group or external, for the latter to perform a process, service or activity which would otherwise be performed by the insurer itself.
Provision for unearned premiums	Balance sheet amount representing premiums written on unexpired policies to be allocated to the following financial year, or to subsequent financial years.
Provision for unexpired risks	Balance sheet amount (in addition to unearned premiums) representing risks to be borne by the insurer after the end of the reporting period in order to provide for all claims and expenses in connection with insurance contracts in force in excess of the related unearned premiums and any premiums receivable on those contracts.
Reinsurance	A transaction, in which a ceding insurer transfers some or all of the risks acquired from the insured to the reinsurer, in exchange for a premium.
Reinsurer	An insurer that assumes the risks of a ceding insurer in exchange for a premium.
Retrocession	Reinsurance ceded by reinsurers to assuming reinsurers in exchange for a premium.
Risk appetite	The aggregate level and types of risk an insurer is willing to assume, within its risk capacity, to achieve its strategic objectives and business plan.
Risk Culture	The set of norms, values, attitudes and behaviours of an insurer that characterises the way in which the insurer conducts its activities related to risk awareness, risk taking and risk management and controls.
Risk Management	The process through which risks are managed allowing all risks of an insurer to be identified, assessed, monitored, mitigated (as needed and reported on a timely and comprehensive basis.
Scenario analysis	A method of solvency assessment that considers the impact of a combination of circumstances to reflect historical or other scenarios which are analysed in light of current conditions. Such analysis may be conducted deterministically or stochastically.
Senior management	The individuals or body responsible for managing an insurer on a day-to-day basis in accordance with strategies, policies and procedures set out by the Board.
Significant owner	A person (legal or natural) that directly or indirectly, alone or with another person (legal or natural), exercises control over an insurer.
Solvency	Financial soundness of an insurer including the ability to meet its obligations to policyholders when they fall due. Solvency includes capital

	adequacy, liquidity, technical provisions, and other aspects addressed in an enterprise risk management framework.
Solvency assessment	A process for measuring the current and possible future solvency of an insurer relative to the level of policyholder protection required by the solvency regime. This process includes assessing the effectiveness of an insurer's enterprise risk management within the constraints placed on the insurer's operation and the adequacy of the insurer's financial resources, including capital resources.
Special Purpose Entity (SPE)	A dedicated entity or a legally ring-fenced arrangement, specifically constituted to carry out the transfer of risk.
Stochastic modelling	A methodology which aims at attributing a probability distribution to certain financial variables. It sometimes uses closed form solutions, often involves simulating large numbers of scenarios in order to reflect the distributions of the capital required by, and the different risk exposures of, the insurer.
Stress testing	A method of solvency assessment that measures the financial impact of stressing one or more factors which could severely affect the insurer.
Supervisory college	A coordination arrangement to foster cooperation and coordination between involved supervisors with regard to the supervision of an insurance group, as well as to promote common understanding, communication and information exchange..
Swap	A type of derivative in which two counterparties agree to exchange streams of payments over time according to a predetermined rule.

Introduction and Assessment Methodology

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, promote the maintenance of a fair, safe and stable insurance market and contribute to financial stability. 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. The wording used in Guidance varies to reflect the intended weight of the text; for example, the use of “should” provides more of a recommendation, whereas the use of “may” is more of a suggestion. 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 more supervisory activities 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.

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 deliver effective group-wide supervision, including that all relevant group-wide risks impacting the insurance entities are addressed appropriately.

Group corporate governance and materiality

18. The head of an insurance group is ultimately responsible for the group's sound and prudent management. In doing so, it is important to take into account the risks and activities of the individual legal entities within the group, focusing in particular on those which are material for the group as a whole.

19. While the ultimate responsibility for an insurance group's corporate governance lies with the head of the group, the legal entities within the group are fully responsible for their own sound and prudent management.

ComFrame Introduction

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

21. ComFrame provides quantitative and qualitative supervisory mimimum requirements tailored to the international activity and size of IAIGs. ComFrame seeks to assist supervisors in: addressing group-wide activities and risks; identifying and avoiding supervisory gaps; coordinating supervisory activities efficiently and effectively between the group-wide and other involved supervisors. ComFrame also aims to provide a basis for comparing IAIG supervision across jurisdictions. However, it does not create a one-size-fits all approach to IAIG supervision as, ultimately, what is important is that supervisors and IAIGs achieve the outcomes described by ComFrame.

22. As part of ComFrame, the IAIS is developing an insurance capital standard (ICS), which aims to provide a globally comparable risk-based measure of capital adequacy of IAIGs. ICS Version 2.0 is presented in a stand-alone document and is being used during a five-year monitoring period for confidential reporting to group-wide supervisors and discussion in supervisory colleges. The ICS is not used as a group-wide Prescribed Capital Requirement (PCR) during the monitoring period. In the second phase of implementation of ICS Version 2.0, the ICS will be implemented as a group-wide PCR.

Structure

23. The ICPs are applicable to the supervision of all insurers within a jurisdiction, which includes IAIGs. ComFrame provides additional Standards and Guidance applicable only to the supervision of IAIGs. The qualitative requirements of 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 certain 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 ComFrame 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 and letter 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

24. The overarching concepts identified in the ICP Introduction are equally applicable to ComFrame, in particular proportionality. Additionally, there are several, ComFrame-specific overarching concepts to understand and keep in mind when reading and implementing ComFrame.

Allocation of roles

25. 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

26. IAIGs have different models of governance (i.e. more centralised or more decentralised). ComFrame does not favour any particular governance model and is intended to be read to apply to all models. The organisation of an IAIG can be structured in various ways as long as the outcomes are achieved.

Group-Wide Supervision

27. Similar to the ICPs, ComFrame, for the most part, is neutral as to direct or indirect approaches to group-wide supervision, so long as the intended outcomes of the group-wide supervision are achieved. Where ComFrame uses a direct approach for certain powers, it is indicated in the relevant ComFrame Standards.

B) Assessment Methodology

28. 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.

29. 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. When carrying out an assessment, it is important to take into account factors that have shaped the implementation choices made in the jurisdiction.

30. 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; or
- reviews in the context of the Financial Sector Assessment Program (FSAP) conducted by the International Monetary Fund (IMF) and World Bank.

31. 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, especially assessments of different jurisdictions performed by different assessors. While the results of an assessment may not always be made public, it is still important for their credibility that similar types of assessments are conducted in a broadly uniform manner from jurisdiction to jurisdiction.

Scope of assessments

32. 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.

33. 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.

34. 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

35. 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

36. 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 supervisor). The supervisor may provide confidential information to the assessors, provided 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 supervisor, other domestic supervisory authorities, relevant government ministries, insurers and insurance industry associations, consumer groups, actuaries, auditors, and other financial sector participants.

Assessment process

37. Assessments should be based solely on the legislation and supervisory 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.

38. 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

39. 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.

40. The Standards should be assessed using five categories:

- **Observed** – for a Standard to be considered observed it is necessary that the supervisor has and exercises, when required, the legal authority and supervisory practices to effectively perform the requirements of the Standard. Having legislation without supervisory practices to implement a Standard is insufficient to be considered observed, except for those Standards that are specifically focused on legislation itself and what it contains. For supervisory practices which may lack explicit legal authority, the assessment should be considered as observed if the practice is clearly substantiated by the supervisor and is generally accepted by stakeholders. Having the necessary resources is essential for the supervisor to implement Standards effectively.
- **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

41. 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

42. 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.
43. 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

44. 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.

45. 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.

46. 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.

47. 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

48. 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.

49. 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

50. 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.

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

Effective market discipline in financial markets

52. 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.

53. 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 policyholder protection

54. In general, deciding on the appropriate level of policyholder protection is a policy question to be addressed by each jurisdiction. Protection mechanisms could include, for example, a hierarchy of claims or a policyholder protection scheme. Provided such mechanisms are transparent and carefully designed to limit moral hazard, they can contribute to public confidence. For issues such as crisis management or the resolution of an insurer, the supervisor should have a role to play given its in-depth knowledge of the entities involved.

Efficient financial markets

55. 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.

56. 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.

ComFrame Assessment Methodology

57. As with the ICPs, the IAIS strongly encourages implementation of ComFrame as a means to ensure that jurisdictions to which ComFrame is applicable have a framework for effective supervision of IAIGs. In general, the assessment methodology described for the ICPs is applicable to ComFrame. However, given the nature of ComFrame, which provides quantitative and qualitative supervisory requirements tailored to the international activity and size of IAIGs, there are some additional considerations that should be taken into account when assessing observance of ComFrame requirements.

Role of involved supervisors

58. ComFrame seeks to assist supervisors in coordinating supervisory activities efficiently and effectively between the group-wide and other involved supervisors, thus a number of ComFrame Standards address coordination. However, it is recognised that having efficient and effective coordination depends on all involved supervisors. The group-wide supervisor relies on the other involved supervisors to do their part and vice versa. Where there are shortcomings with an involved supervisor doing their part for coordination, there are limits to what the other supervisors can do to improve the situation. When assessing parts of ComFrame that focus on coordination, this should be taken into account.

59. The type of assessment of a jurisdiction's implementation of ComFrame will depend on whether, in that jurisdiction, there is: a group-wide supervisor of an IAIG; an other involved supervisor; or both. Most ComFrame Standards are addressed to the group-wide supervisor and describe the outcomes they are expected to achieve, whereas some ComFrame Standards also include the other involved supervisors. Therefore, an assessment of a jurisdiction's implementation of ComFrame should reflect the role it has in the supervision of an IAIG. A jurisdiction where there is only an other involved supervisor will not be assessed on the implementation of ComFrame Standards that are addressed only to the group-wide supervisor.

60. For ComFrame Standards that are addressed to both the group-wide supervisor and other involved supervisors, the assessment of those Standards should be based on the role of the jurisdiction's supervisor. An assessment of a group-wide supervisor jurisdiction should focus on whether it has put in place the necessary legislation and supervisory practices for coordination with the other involved supervisors, whereas an assessment of an other involved supervisor jurisdiction would focus on its role within this context (for example, coordinating with the group-wide supervisor on processes, exchanging information).

Reporting

61. Involved supervisors are encouraged to share results within the supervisory college for information.

Assessment process

62. As some ComFrame Standards focus on coordination and information exchange between the group-wide supervisor and other involved supervisors, in demonstrating observance of such Standards there may be more emphasis on supervisory practices rather than legislation. While legislation provides the authority to coordinate and exchange information the supervisor, more importantly, needs to have appropriate supervisory practices for coordination in place that facilitate effective supervision of an IAIG.

Interaction with assessments of ICPs

63. The ICPs are applicable to the supervision of all insurers within a jurisdiction, which includes IAIGs. ComFrame provides additional Standards and Guidance applicable only to the supervision of IAIGs. As observance of the ICPs is a necessary foundation for observance of ComFrame, an assessment of ComFrame Standards cannot be done in isolation. It should be determined in advance of an assessment whether the level of observance of ComFrame Standards is included when assessing the level of observance of the relevant Principle Statements within the ICPs or whether an assessment of the level of observance of ComFrame Standards is treated separately.

ICP 5 Suitability of Persons

The supervisor requires Board Members, Senior Management, Key Persons in Control Functions and Significant Owners of an insurer to be and remain suitable to fulfil their respective roles.

5.1 Legislation identifies which persons are required to meet suitability requirements. At a minimum, the legislation includes Board Members, Senior Management, Key Persons in Control Functions and Significant Owners.

5.1.1 Suitability requirements may extend to other individuals (e.g. financial controllers and treasurers) to account for the roles of such individuals that may differ depending on the jurisdiction and the legal form and governance structure of the insurer.

5.2 The supervisor requires that in order to be suitable to fulfil their roles:

- **Board Members (individually and collectively), Senior Management and Key Persons in Control Functions possess competence and integrity; and**
- **Significant Owners possess the necessary financial soundness and integrity.**

Suitability requirements for Board Members, Senior Management and Key Persons in Control Functions

5.2.1 Competence is demonstrated generally through the level of an individual’s professional or formal qualifications and knowledge, skills and pertinent experience within the insurance and financial industries or other businesses. Competence also includes having the appropriate level of commitment to perform the role. Refer to ICP 7 (Corporate Governance) with regard to competence and commitment and to ICP 8 (Risk Management and Internal Controls) with regard to control functions.

5.2.2 Integrity is demonstrated generally through character, personal behaviour and business conduct.

5.2.3 The supervisor should require the insurer to take the necessary measures to ensure that these requirements are met by setting high internal standards of ethics and integrity, promoting sound corporate governance and requiring that these individuals have pertinent experience, and maintain a sufficient degree of knowledge and decision making ability.

5.2.4 To ensure an appropriate level of suitability, Board Members, Senior Management and Key Persons in Control Functions should acquire, maintain and enhance their knowledge and skills to fulfil their roles, for example, by participating in induction and ongoing training on relevant issues. Sufficient time, budget and other resources should be dedicated for this purpose, including external expertise drawn upon as needed.

More extensive efforts should be made to train those with more limited financial, regulatory or risk-related experience.

CF 5.2.a **The group-wide supervisor requires the IAIG Board members (individually and collectively), Senior Management, and Key Persons in Control Functions, to have the necessary competence to fulfil their role, taking into account the complexity and international nature of the IAIG, any specific features of the jurisdictions where the IAIG operates, and the risks to which it is exposed.**

CF 5.2.a.1 Appropriate competencies include, for example, knowledge of and experience with international business and processes, as well as with different business models.

Suitability requirements for Significant Owners

5.2.5 At a minimum, the necessary qualities of a Significant Owner relate to:

- financial soundness demonstrated by sources of financing/funding and future access to capital; and
- integrity demonstrated in personal or corporate behaviour.

5.3 **The supervisor requires the insurer to demonstrate initially and on an ongoing basis, the suitability of Board Members, Senior Management, Key Persons in Control Functions and Significant Owners. The suitability requirements and the extent of review required by the supervisor depend on the person's role.**

5.3.1 The supervisor should assess the suitability of Board Members, Senior Management, Key Persons in Control Functions and Significant Owners of an insurance legal entity as part of the licensing procedure before the insurance legal entity is permitted to operate. See ICP 4 (Licensing).

5.3.2 The supervisor should assess the suitability of Board Members, Senior Management, Key Persons in Control Functions and Significant Owners of insurers either prior to changes in the positions or as soon as possible after appointment. The supervisor should also require the insurer to perform internal suitability assessments of Board Members, Senior Management and Key Persons in Control Functions on an ongoing basis, for example on an annual basis or when there are changes in the circumstances of the individuals. The supervisor may require the insurer to certify that it has conducted such assessments and demonstrate how it reached its conclusions.

5.3.3 With regard to Control Functions, the individual(s) to be assessed should be the Key Persons in Control Functions.

5.3.4 The supervisor should have sufficient and appropriate information to assess whether an individual meets suitability requirements. The information to be collected and the supervisor's assessment of such information may differ depending on the role.

5.3.5 For the purpose of the assessment, the supervisor should require the submission of a résumé or similar indicating the professional qualifications as well as previous and current positions and experience of the individual and any information necessary to assist in the assessment, such as:

- evidence that the individual has sufficient relevant knowledge and pertinent experience within the insurance and financial industries or other businesses; and
- evidence that the individual has the appropriate level of commitment to perform the role.

5.3.6 The application of suitability requirements relating to competence for Board Members, Senior Management and Key Persons in Control Functions of an insurer may vary depending on the degree of their influence and on their roles. It is recognised that an individual considered competent for a particular position within an insurer may not be considered competent for another position with different responsibilities or for a similar position within another insurer. When assessing the competence of the Board Members, regard should be given to respective duties allocated to individual members to ensure appropriate diversity of qualities and to the effective functioning of the Board as a whole.

5.3.7 In assessing the integrity of an individual Board Member, Senior Management, Key Person in Control Functions and Significant Owner, the supervisor should consider a variety of indicators such as:

- Legal indicators: These provide information on possible legal misconduct. Such indicators could include civil liability, criminal convictions or pending proceedings:
    - for breaches of law designed to protect members of the public from financial loss, e.g. dishonesty, or misappropriation of assets, embezzlement and other fraud or other criminal offences (including anti-money laundering and the combating of the financing of terrorism.
    - against the individual in his/her personal capacity;
    - against an entity in which the individual is or was a Board Member, a member of the Senior Management, a Key Person in Control Functions or a Significant Owner; or
    - incurred by the individual as a consequence of unpaid debts.
- Financial indicators: These provide information on possible financial misconduct, improper conduct in financial accounting, or negligence in decision-making. Such indicators could include:
    - financial problems or bankruptcy in his/her private capacity; or

- financial problems, bankruptcy or insolvency proceedings of an entity in which the individual is or was a Board Member, a member of the Senior Management or a Key Person in Control Functions.

- Supervisory indicators: These provide information gathered by or that comes to the attention of supervisors in the performance of their supervisory duties. These supervisors could also be authorities with supervisory responsibility in sectors other than insurance. Such indicators could include:
  - the withholding of information from public authorities or submission of incorrect financial or other statements;
  - conduct of business transgressions;
  - prior refusal of regulatory approval for key positions;
  - preventive or corrective measures imposed (or pending) on entities in which the individual is or was a Board Member, a member of the Senior Management, or a Key Person in Control Functions; or
  - outcome of previous assessments of suitability of an individual, or sanctions or disciplinary actions taken (or pending) against that individual by another supervisor.
- Other indicators: These may provide other information that could reasonably be considered material for the assessment of the suitability of an individual. Examples include:
  - suspension, dismissal or disqualification of the individual from a position as a Board Member or a member of the Senior Management of any company or organisation;
  - disputes with previous employers concerning incorrect fulfilment of responsibilities or non-compliance with internal policies, including code of conduct, employment law or contract law;
  - disciplinary action or measures taken against an individual by a professional organisation in which the individual is or was a member (e.g., actuaries, accountants or lawyers); or
  - strength of character, such as the ability and willingness to challenge, as an indicator of a person's integrity as well as competence to perform the respective role.

The presence of any one indicator may, but need not in and of itself, determine a person's suitability. All relevant indicators, such as the pattern of behaviour, should be considered in a suitability assessment. Consideration should also be taken to the lapse of time since a particular indicator occurred and its severity, as well as the person's subsequent conduct.

5.3.8 For Significant Owners, the supervisor sets out minimum standards of financial soundness. If the Significant Owner that is to be assessed is a legal person or a corporate entity, the supervisor should collect sufficient and appropriate information such as:

- the nature and scope of its business;
- its ownership structure, where relevant;
- its source of finance/funding and future access to capital;
- the group structure, if applicable, and organisation chart; and
- other relevant factors.

5.3.9 In determining the financial soundness of Significant Owners, the supervisor should assess their source of financing/funding and future access to capital. To do so, the supervisor may consider financial indicators such as:

- Financial statements and exhibits. If the Significant Owner is a legal person, financial statements may include annual financial statements; for a natural person, it may include financial information (such as tax accounts or personal wealth statements) that are reviewed by an independent public accountant; and
- Transactions and agreements such as: loans; investments; purchase, sale or exchange of securities or other assets; dividends and other distributions to shareholders; management agreements and service contracts; and tax allocation agreements.

5.3.10 Additionally the supervisor should also consider matters such as, but not limited to, whether:

- Significant Owners understand their role as potential future sources of capital, if needed;
- there are any indicators that Significant Owners will not be able to meet their debts as they fall due;
- appropriate prudential solvency requirements are met if the Significant Owner is a financial institution;
- Significant Owners have been subject to any legally valid judgment, debt or order that remains outstanding or has not been satisfied within a reasonable period;
- Significant Owners have made arrangements with creditors, filed for bankruptcy or been adjudged bankrupt or had assets sequestered; and
- Significant Owners have been able to provide the supervisor with a satisfactory credit reference.

The presence of any one indicator may, but need not in and of itself, determine a person's suitability. All relevant indicators, such as the pattern of behaviour, should be considered in a suitability assessment. If the Significant Owner is regulated by another supervisor, the suitability assessment done by the latter may be relied upon to the extent that this assessment reasonably meets the requirements of this standard.

5.4 The supervisor requires notification by insurers of any changes in Board Members, Senior Management, Key persons in Control Functions and Significant Owners, and of any circumstances that may materially adversely affect the suitability of its Board Members, Senior Management, Key Persons in Control Functions and Significant Owners.

5.4.1 Insurers should be required to report promptly any information gained about these persons that may materially affect their suitability, for example, if a Board Member is convicted of a financial crime. See guidance under Standard 5.3 for additional examples of indicators of circumstances that may materially affect the suitability of an individual.

5.5 The supervisor takes appropriate action to rectify the situation when Board Members, Senior Management and Key Persons in Control Functions or Significant Owners no longer meet suitability requirements.

5.5.1 The supervisor should impose measures in respect of Board Members, Senior Management and Key Persons in Control Functions who do not meet the suitability requirements. Examples of such measures include:

- requesting the insurer to provide additional education, coaching or the use of external resources in order to achieve compliance with suitability requirements by an individual in a position as Board Member, member of the Senior Management or Key Person in Control Functions;
- preventing, delaying or revoking appointment of an individual in a position as Board Member, member of the Senior Management or Key Person in Control Functions;
- suspending, dismissing or disqualifying an individual in a position as a Board Member, Senior Management or Key Person in Control Function, either directly or by ordering the insurer to take these measures;
- requiring the insurer to appoint a different person for the position in question who does meet the suitability requirements, to reinforce the sound and proper management and control of the insurer;
- imposing additional reporting requirements and increasing solvency monitoring activities; or
- withdrawing or imposing conditions on the business licence, especially in the case of a major breach of suitability requirements, taking into account the impact of the breach or the number of members of the Board, Senior Management or Key Persons in Control Functions involved.

5.5.2 The supervisor should impose measures of a preventive and corrective nature in respect of Significant Owners who do not meet suitability requirements. Examples of such measures include:

- requiring the Significant Owners to dispose of their interests in the insurer within a prescribed period of time;
- the suspension of the exercise of their corresponding voting rights; or
- the nullification or annulment of any votes cast by the Significant Owners.

5.5.3 There can be circumstances where a Board Member, a member of the Senior Management or a Key Person in Control Functions is unable to carry out his/her role and a replacement needs to be appointed on short notice. In jurisdictions where the supervisor approves the post-licensing appointment of Board Members, Senior Management or Key Persons in Control Functions, it may be appropriate for the supervisor to permit the post to be filled temporarily until the successor's suitability assessment is affirmed. In such circumstances, a supervisor may require that these temporary replacements meet certain suitability requirements, depending on his/her position or responsibilities within the insurer. However, such assessment should be conducted and concluded in a timely manner.

5.6 The supervisor exchanges information with other authorities inside and outside its jurisdiction where necessary to check the suitability of Board Members, Senior Management, Key Persons in Control Functions and Significant Owners of an insurer.

5.6.1 Supervisors should use the modes available for supervisory cooperation, in particular, the ability to exchange information relevant to check suitability with domestic or foreign authorities. Having such arrangements in place is important so as to not unduly delay relevant supervisory processes and/or affect the insurers' ability to satisfy composition requirements for the Board or make necessary changes to its management team. For additional information, see ICP 3 (Information Exchange and Confidentiality Requirements).

5.6.2 The supervisor may use this information as an additional tool to assess effectively the suitability of, or to obtain information about, a Board Member, a member of the Senior Management or a Key Person in Control Functions.

5.6.3 If a Significant Owner that is to be assessed is a legal person or a corporate entity regulated in another jurisdiction, the supervisor should seek confirmation from the relevant authority that the entity is in good standing in that other jurisdiction.

ICP 7 Corporate Governance

The supervisor requires insurers to establish and implement a corporate governance framework which provides for sound and prudent management and oversight of the insurer's business and adequately recognises and protects the interests of policyholders.

Introductory Guidance

7.0.1 The corporate governance framework of an insurer:

- promotes the development, implementation and effective oversight of policies that clearly define and support the objectives of the insurer;
- defines the roles and responsibilities of persons accountable for the management and oversight of an insurer by clarifying who possesses legal duties and powers to act on behalf of the insurer and under which circumstances;
- sets requirements relating to how decisions and actions are taken including documentation of significant or material decisions, along with their rationale;
- provides sound remuneration practices which promote the alignment of remuneration policies with the long term interests of insurers to avoid excessive risk taking;
- provides for communicating with the supervisor, as appropriate, matters relating to the management and oversight of the insurer; and
- provides for corrective actions to be taken for non-compliance or weak oversight, controls or management.

7.0.2 An effective corporate governance framework enables an insurer to be flexible and transparent; to be responsive to developments affecting its operations in making timely decisions and to ensure that powers are not unduly concentrated. The corporate governance framework supports and enhances the ability of the key players responsible for an insurer's corporate governance; i.e. the Board, Senior Management and Key Persons in Control Functions to manage the insurer's business soundly and prudently.

Organisational structures

7.0.3 The insurer should establish a transparent organisational structure which supports the strategic objectives and operations of the insurer. The board and senior management should know and understand the structure and the risks that it poses.

The ways in which an insurer chooses to organise and structure itself can vary depending on a number of factors such as:

- jurisdictional corporate law, which may allow or require different board structures (such as one-tier or two-tier Boards);
- organisational structure such as stock companies, mutuals or co-operatives; and
- group, branches, or solo legal entity operations.

These considerations can affect how an insurer establishes and implements its corporate governance framework and are explained in more detail below. It is important for supervisors to understand these different considerations in order to be able to adequately assess the effectiveness of an insurer's corporate governance framework.

CF 7.0.a The group-wide supervisor requires the Head of the IAIG to document the legal and management structures of, and inter-relationships within, the IAIG to enable an understanding of its structure to help identify risks and how they are managed.

CF 7.0.a.1 The documentation should mainly support the IAIG Board and Senior Management in discharging their responsibilities, but can also be useful for the group-wide supervisor.

CF 7.0.a.2 The documentation covers legal entities within the IAIG and, where relevant, the wider group of which the IAIG is part, and includes items such as:

- home jurisdiction of the Head of the IAIG;
- the jurisdictions of legal entities within the IAIG, including branches;
- off-balance sheet entities;
- materiality of legal entities or business lines within the IAIG;
- financial ties (such as commercial contracts) and non-financial ties (such as common directors);
- details of the shareholding structure and significant shareholdings, including controlling shareholders;
- governance structure, including Boards and their committee structure and key responsibilities; and
- management structure, including the division of authority and decision making between business line management, local management, and Board oversight.

7.0.4 The standards on corporate governance are designed with sufficient flexibility to apply to supervision of insurers regardless of any differences in the corporate structures and legal systems.

7.0.5 The term Board includes its management and oversight roles, regardless of Board structure.

Mutuals and co-operatives

7.0.6 Governance of insurers formed as mutuals or co-operatives is different from that of insurers formed as joint stock companies (i.e., bodies corporate). These standards are nevertheless sufficiently flexible to be adapted to mutuals and co-operatives to promote the alignment of actions and interests of the Board and Senior Management with the broader interests of policyholders. Where there are references to shareholders or stakeholders, they should be generally treated as references to policyholders in mutuals, unless otherwise indicated.

Insurance Groups

7.0.7 Insurance groups should ensure that the corporate governance framework is appropriate to the structure, business and risks of the insurance group and its legal entities. The corporate governance framework should include policies, processes and controls which address risks across the insurance group and legal entities, and clear reporting lines between the head of the group and the legal entities within the group.

7.0.8 When setting up or monitoring their corporate governance framework, insurance groups should evaluate the specific challenges which might arise from the organisational model adopted by a group (e.g. centralised or decentralised model). The main factors underlying the challenges are:

- the division of authorities and responsibilities between the key players at the insurance group and legal entity level;
- effective group-wide direction and coordination;
- proper consideration of the legal obligations, governance responsibilities and risks both at the insurance group and legal entity level; and
- effective communication within the group and adequate information at all levels.[1]

7.0.9 The supervisor should take the organisational structure of the group into consideration in evaluating its governance. Particularly when the management structure differs from the legal entity structure, it is not sufficient to assess governance only at the legal entity level. In such a case, it is important that appropriate governance exists across the group and that the supervisor assesses it on a group-wide basis.

CF 7.0.b The group-wide supervisor requires the Head of the IAIG to ensure that the group-wide corporate governance framework is appropriate to the structure, business and risks of the IAIG including its legal entities.

CF 7.0.c The group-wide supervisor requires the Head of the IAIG to establish clear reporting lines between the legal entities within the IAIG and the Head of the IAIG.

[1] See Issues Paper, Approaches to Group Corporate Governance; Impact on Control Functions, October 2014.

Branch operations

7.0.10 If an insurer is a branch, these standards would generally apply to the legal entity in its home jurisdiction. However, the host supervisor may require designated oversight and/or management accountabilities and structures to be maintained at the branch, including in some cases a designated representative responsible for the management of the branch. In such cases, these standards should also apply, as appropriate, to the oversight and management roles maintained within the branch taking due account of the governance structures and arrangements as determined by the host supervisor.

Appropriate allocation of oversight and management responsibilities

7.1 The supervisor requires the insurer's Board to:

- **ensure that the roles and responsibilities allocated to the Board, Senior Management and Key Persons in Control Functions are clearly defined so as to promote an appropriate separation of the oversight function from the management responsibilities; and**
- **provide oversight of the Senior Management.**

7.1.1 The Board should ensure that the insurer has a well-defined governance structure which provides for the effective separation between oversight and management functions. The Board is responsible for providing the overall strategy and direction for the insurer and overseeing its proper overall management, while leaving the day-to-day management of the insurer to Senior Management. The separation of the roles of the Chair of the Board and the Chief Executive Officer (CEO) reinforces a clear distinction between accountability for oversight and management.

7.1.2 The Board should also ensure that there is a clear allocation of roles and responsibilities to the Board as a whole, to committees of the Board where they exist, and to the Senior Management and Key Persons in Control Functions to ensure proper oversight and sound management of the insurer. The allocation of roles and responsibilities should clearly identify the individual and collective accountabilities for the discharge of the respective roles and responsibilities. The organisational structure of the insurer and the assignment of responsibilities should enable the Board and Senior Management to carry out their roles in an adequate and objective manner and should facilitate effective decision making.

7.1.3 The allocation of responsibilities to individual Board members (for example the membership of Board committees such as the audit or remuneration committee) should take due account of whether the relevant member has the degree of independence and objectivity required to carry out the functions of the particular committee. The effective oversight of the executive functions should be performed by the non-executive members of the Board, because they are not involved in the day-to-day management of the insurer. Within a group the allocation and division of the oversight and management responsibilities at different levels should be transparent, appropriate for, and aligned with, the organisational model of the group. Where individuals undertake functions for more than one legal entity within a group, the group should have in place appropriate measures so that there is no conflict of interest between the different roles to be performed by such individuals.

7.1.4 In order to provide effective oversight of the Senior Management, the Board should:

- ensure that there are adequate policies and procedures relating to the appointment, dismissal and succession of the Senior Management, and be actively involved in such processes;
- ensure that Senior Management's knowledge and expertise remain appropriate given the nature of the business and the insurer's risk profile;
- monitor whether the Senior Management is managing the affairs of the insurer in accordance with the strategies and policies set by the Board, and the insurer's risk appetite, corporate values and corporate culture;
- set appropriate performance and remuneration standards for Senior Management consistent with the long-term strategy and the financial soundness of the insurer and monitor whether the Senior Management is meeting the performance goals set by the Board;
- regularly meet with the Senior Management to discuss and review critically the decisions made, information provided and any explanations given by the Senior Management relating to the business and operations of the insurer; and
- have regular interaction with any committee it establishes as well as with other key functions, proactively request information from them and challenge that information when necessary.

7.1.5 As a part of its regular monitoring and review of the insurer's operations, the Board should review whether the relevant policies and procedures, as set by the Board, are being properly implemented by Senior Management and are operating as intended. Particular attention should be paid as to whether the responsibilities for managing and implementing the policies of the Board have been effectively discharged by those responsible. The Board should obtain reports at least annually for this purpose and such reports may include internal or external independent reports as appropriate.

CF 7.1.a The group-wide supervisor requires the IAIG Board to establish a well-defined group-wide governance structure, which promotes effective oversight of the group-wide operations independent of day-to-day management.

Corporate culture, business objectives and strategies of the insurer

7.2 The supervisor requires the insurer's Board to set and oversee the implementation of the insurer's corporate culture, business objectives and strategies for achieving those objectives, in line with the insurer's long term interests and viability.

7.2.1 The Board should adopt a rigorous process for setting, approving, and overseeing the implementation of the insurer's overall business objectives and strategies, taking into account the long term financial safety and soundness of the insurer as a whole, the interests of its policyholders and other stakeholders, and the fair treatment of customers. The Board ensures that the Senior Management has adequately documented and communicated these objectives and strategies to the Key Persons in Control Functions and all other relevant staff.

7.2.2 The effective implementation of objectives and strategies should be supported by the corporate culture and by clear and objective performance goals and measures, taking due account of, among other things, the insurer's long term interests and viability and the interests of policyholders and other stakeholders. The Board should review the appropriateness of the goals and measures set.

7.2.3 A corporate culture reflects the fundamental corporate values and includes norms for responsible and ethical behaviour applicable to all employees of the insurer. The Board should take the lead in setting the appropriate tone at the top. This includes adherence to the corporate values by the Board and a strong risk culture avoiding excessive risk taking. The corporate values, norms and supporting policies should be communicated throughout the insurer. These are also reflected in the insurer's business objectives and strategies, and supported by professional standards and codes of ethics that set out what the insurer considers to be acceptable and unacceptable conduct. In this regard, the Board should take account of the interests of policyholders and other relevant stakeholders. In setting the tone at the top the Board should ensure that employees are aware that appropriate disciplinary or other actions will follow unacceptable behaviours.

7.2.4 The Board should ensure that the corporate culture promotes timely and frank discussion and escalation of problems to Senior Management or itself. The Board should set and oversee the implementation of transparent policies and processes which promote and facilitate that employees can communicate concerns or information about illegal or unethical behaviour confidentially and without reprisal directly or indirectly to the Board (e.g. whistle blower policy). The Board should determine how and by whom legitimate concerns shall be investigated and addressed (Senior Management, Board or an external party).

7.2.5 The Board should define and oversee the implementation of norms for responsible and ethical behaviour. It should not allow behaviour that would be incompatible with the protection of policyholders and that could lead to reputational risks or improper or illegal activity, such as financial misreporting, fraud, money laundering, bribery and corruption. The norms for responsible and ethical behaviour should also make clear that employees are expected to conduct themselves ethically in addition to complying with laws, regulations and the insurer's policies.

7.2.6 The Board should ensure that the insurer's corporate governance framework and overall business objectives and strategies are reviewed at least annually to ensure that they have been properly implemented and that they remain appropriate in light of any material changes in the organisational structure, activities, strategy, and regulatory and other external factors. The Board should ensure more frequent reviews, for instance when an insurer embarks on a significant new business initiative (e.g. a merger or acquisition, or a material change in the direction with respect to the insurer's product portfolio, risk or marketing strategies), upon the introduction of a new type or class of risk or product or a decision to market products to a new class or category of clients, or following the occurrence of significant external or internal events which may potentially have a material impact on the insurer (including its financial condition, objectives and strategies) or the interests of its policyholders or other stakeholders.

CF 7.2.a The group-wide supervisor requires the IAIG Board to ensure that the group-wide business objectives, and strategies for achieving those objectives, take into account at least the following:

- **applicable laws and regulations of, and the risks which may arise from doing business in, the jurisdictions in which the IAIG operates;**
- **long term financial safety and soundness of the IAIG;**
- **the interests of policyholders and other stakeholders;**
- **fair treatment of customers; and**
- **the interests and objectives of the insurance legal entities within the IAIG.**

CF 7.2.a.1 The IAIG Board should establish processes for identifying and addressing risks to the proper implementation of the IAIG's objectives and strategies for achieving those objectives, including any emerging risks.

CF 7.2.a.2 The group-wide supervisor should cooperate and coordinate with the other involved supervisors to compare the consistency of the interests and objectives of the IAIG with those of the insurance legal entities within the IAIG.

CF 7.2.b The group-wide supervisor requires the Head of the IAIG to provide to the group-wide supervisor, at least annually, an explanation of the strategy that the IAIG Board has set for the IAIG.

CF 7.2.b.1 An explanation of the strategy provides the group-wide supervisor with information useful for understanding of the IAIG's corporate governance framework. The explanation of the strategy should include matters such as:

- the overall business model and its rationale;

- material business lines and how they are likely to develop;
- non-insurance business activities the IAIG is likely to pursue;
- the geographic emphasis of the IAIG and any likely changes;
- anticipated changes in market share(s);
- the consequences (financial or otherwise) of achieving, or not achieving, the strategy; and
- how the strategy ensures the IAIG will have the ability to fulfil its obligations to policyholders.

Structure and governance of the Board

7.3 The supervisor requires the insurer's Board to have, on an on-going basis:

- **an appropriate number and mix of individuals to ensure that there is an overall adequate level of competence at the Board level commensurate with the governance structure;**
- **appropriate internal governance practices and procedures to support the work of the Board in a manner that promotes the efficient, objective and independent judgment and decision making by the Board; and**
- **adequate powers and resources to be able to discharge its duties fully and effectively.**

Board composition

7.3.1 The Board of an insurer should have a sufficient number of members who have relevant expertise among them as necessary to provide effective leadership, direction and oversight of the insurer's business to ensure it is conducted in a sound and prudent manner. For this purpose, the Board should collectively and individually have, and continue to maintain, including through training, necessary skills, knowledge and understanding of the insurer's business to be able to fulfil their roles. In particular, the Board should have, or have access to, knowledge and understanding of areas such as the lines of insurance underwritten by the insurer, actuarial and underwriting risks, finance, accounting, the role of control functions, investment analysis and portfolio management and obligations relating to fair treatment of customers. While certain areas of expertise may lie in some, but not all, members, the collective Board should have an adequate spread and level of relevant competencies and understanding as appropriate to the insurer's business.

CF 7.3.a The group-wide supervisor requires that the collective competence of the IAIG Board includes an understanding of at least:

- **the group-wide corporate governance framework and corporate structure;**

- **the activities of the legal entities within the IAIG, including associated risks;**
- **the supervisory regimes applicable to the IAIG;**
- **the issues that arise from cross-border business and international transactions; and**
- **the risk management, compliance, audit, actuarial and related areas.**

CF 7.3.a.1 The IAIG Board should be capable of understanding and describing the purpose, structure, strategy, material operations, and material risks of the IAIG, including those of legal entities in other financial sectors and unregulated legal entities that are part of the group.

7.3.2 Board members should have the commitment necessary to fulfil their roles, demonstrated by, for example, a sufficient allocation of time to the affairs of the insurer and reasonable limits on the number of Board memberships held within or outside the insurance group.

Board effectiveness

7.3.3 The Board should review, at least annually, its own performance to ascertain whether members collectively and individually remain effective in discharging the respective roles and responsibilities assigned to them and identify opportunities to improve the performance of the Board as a whole. The Board should implement appropriate measures to address any identified inadequacies, including any training programmes for Board members. The Board may also consider the use of external expertise from time to time to undertake its performance assessment where appropriate in order to enhance the objectivity and integrity of that assessment process.

Internal governance

7.3.4 The Board should have appropriate practices and procedures for its own internal governance, and ensure that these are followed and periodically reviewed to assess their effectiveness and adequacy. These may be included in organisational rules or by-laws, and should set out how the Board will carry out its roles and responsibilities. They should also cover a formal and documented process for nomination, selection and removal of Board members, and a specified term of office as appropriate to the roles and responsibilities of the Board member, particularly to ensure the objectivity of decision making and judgment. Appropriate succession planning should also form part of the Board's internal governance practices.

Chair of the Board

7.3.5 While the Board as a whole remains collectively responsible for the stewardship of the insurer, the Chair of the Board has the pivotal role of providing leadership to the Board for its proper and effective functioning. The role of the Chair of the Board should generally encompass responsibilities such as setting the Board's agenda, ensuring that there is adequate time allocated for the discussion of agenda items, especially if they involve strategic or policy decisions of significant importance, and promoting a culture of openness and debate by facilitating effective participation of non-executive and executive members and communication between them and also with the Senior Management and Key Persons in Control Functions. To promote checks and balances, it is good practice for the Chair of the Board to be a non-executive Board member and not serve as chair of any Board committee. In jurisdictions where the Chair of the Board is permitted to assume executive duties, the insurer should have measures in place to mitigate any adverse impact on the insurer's checks and balances.

Board committees

7.3.6 To support the effective discharge of the responsibilities of the Board, the Board should assess whether the establishment of committees of the Board is appropriate. Committees that a Board may commonly establish include audit, remuneration, ethics/compliance, nominations and risk management committees. Where committees are appointed, they should have clearly defined mandates and working procedures (including reporting to the Board), authority to carry out their respective functions, and a degree of independence and objectivity as appropriate to the role of the committee. The Board should consider occasional rotation of members and of the chairs of committees, or tenure limits to serve on a committee, as this can help to avoid undue concentration of power and promote fresh perspectives. If the functions of any committees are combined, the Board should ensure such a combination does not compromise the integrity and/or effectiveness of the functions combined. In all cases, the Board remains ultimately responsible for matters delegated to any such committees.

Independence and objectivity

7.3.7 To promote objectivity in decision making by the Board, the formal and perceived independence of Board members should be ensured. To that end, Board members should avoid personal ties or financial or business interests which conflict with that of the insurer. Where it is not reasonably possible to avoid conflicts of interests, such conflicts should be effectively managed. Documented procedures and policies should be in place to identify and address conflicts of interests which could include disclosure of potential conflicts of interests, requirements for arm's length transactions, abstention of voting and, where appropriate, prior approval by the Board or shareholders of professional positions or transactions.

7.3.8 Besides policies on conflicts of interests, the insurer should ensure objectivity in decision making by establishing clear and objective independence criteria which should be met by an adequate number of members of the Board (i.e. non-executive Board members). For this purpose, the independence criteria should also take account of group structures and other applicable factors. Meeting such criteria is particularly important for those Board members undertaking specific roles (such as members of the remuneration and audit committees) in which conflicts of interests are more likely to arise.

7.3.9 Objectivity in decision making is also promoted by independence of mind of the individual Board members. This means that a Board member should act without favour; provide constructive and robust challenge of proposals and decisions; ask for information when the member judges it necessary in the light of the issues; and avoid "group-think".

7.3.10 Board members should also bear in mind the duties of good faith and loyalty applicable to them at the individual level, as set out in Standard 7.4.

CF 7.3.b The group-wide supervisor requires the IAIG Board to ensure that the group-wide corporate governance framework includes policies and processes to identify and avoid, or mitigate, conflicts of interest that may adversely affect the IAIG as a whole or any of its legal entities.

CF 7.3.b.1 Conflicts of interest within an IAIG could arise:

- at the level of the Board, Senior Management and Key Persons in Control Functions of the Head of the IAIG and of its legal entities; and
- among the interests of the legal entities, or between the group-wide interests and those of any legal entity. For example, when the IAIG may be harmed by actions of insurance legal entities within the IAIG, or when an insurance legal entity within the IAIG may be harmed by the actions of the IAIG.

CF 7.3.b.2 Where conflicts of interest involving individuals or legal entities cannot be avoided, the relevant individuals or legal entities should inform the relevant Board or the IAIG Board of the conflict and take measures to mitigate its adverse impact.

Board powers

7.3.11 To be able to discharge its role and responsibilities properly, the Board should have well-defined powers, which are clearly set out either in legislation and/or as part of the constituent documents of the insurer (such as the constitution, articles of incorporation, by-laws or internal/organisational rules). These should, at a minimum, include the power to obtain timely and comprehensive information relating to the management of the insurer, including direct access to relevant persons within the organisation for obtaining information, such as Senior Management and Key Persons in Control Functions.

Access to resources

7.3.12 Adequate resources, such as sufficient funding, staff and facilities, should be allocated to the Board to enable the Board members to carry out their respective roles and responsibilities efficiently and effectively. The Board should have access to services of external consultants or specialists where necessary or appropriate, subject to criteria (such as independence) and due procedures for appointment and dismissal of such consultants or specialists.

Delegations

7.3.13 The Board may delegate some of the activities or tasks associated with its own roles and responsibilities. (Delegations in this context are distinguished from outsourcing of business activities by the insurer, which is dealt with in ICP 8 Risk Management and Internal Controls.) Notwithstanding such delegations, the Board as a whole retains the ultimate responsibility for the activities or tasks delegated, and the decisions made in reliance on any advice or recommendations made by the persons or committees to whom the tasks were delegated.

7.3.14 Where the Board makes any delegations, it should ensure that:

- the delegation is appropriate. Any delegation that results in the Board not being able to discharge its own roles and responsibilities effectively would be an undue or inappropriate delegation. For example, the duty to oversee the Senior Management should not be delegated to a Board committee comprised mostly or solely of executive members of the Board who are involved in the day-to-day management of the insurer;
- the delegation is made under a clear mandate with well-defined terms such as those relating to the powers, accountabilities and procedures relating to the delegation, and is supported by adequate resources to effectively carry out the delegated functions;
- there is no undue concentration of powers giving any one person or group of individuals an unfettered and inappropriate level of powers capable of influencing the insurer's business or management decisions;
- it has the ability to monitor and require reports on whether the delegated tasks are properly carried out; and
- it retains the ability to withdraw the delegation if it is not discharged properly and for due purposes by the delegate, and, for this purpose, have appropriate contingency arrangements in place.

Duties of individual Board members

7.4 The supervisor requires that an individual member of the Board:

- **act in good faith, honestly and reasonably;**
- **exercise due care and diligence;**
- **act in the best interests of the insurer and policyholders, putting those interests ahead of his/her own interests;**
- **exercise independent judgment and objectivity in his/her decision making, taking due account of the interests of the insurer and policyholders; and**

- **not use his/her position to gain undue personal advantage or cause any detriment to the insurer.**

7.4.1 The specific duties identified above are designed to address conflicts of interests that arise between the interests of the individual members of the Board and those of the insurer and policyholders. The insurer should include these duties as part of the terms of engagement of the individual Board members.

7.4.2 The supervisor should be satisfied that individual Board members understand the nature and scope of their duties and how they impact on the way in which the member discharges his/her respective roles and responsibilities. A Board member should consider his/her ability to discharge the roles and responsibilities in a manner as would be expected of a reasonably prudent person placed in a similar position. He/she should act on a fully informed basis, and for this purpose continually seek and acquire information as necessary.

7.4.3 Where a member of the Board of an insurer has common membership on the Board of any other entity within or outside the insurer's group, there should be clear and well defined procedures regarding the member's duty of loyalty to the insurer. These may include appropriate disclosure and in some instances shareholder approval of such overlapping roles. In the event of a material conflict with the interests of the insurer, the member should disclose such conflicts promptly to the Board of the insurer and its stakeholders as appropriate, and be required to decline to vote or take any decisions in any matters in which he/she has an interest.

Duties related to risk management and internal controls

7.5 The supervisor requires the insurer's Board to provide oversight in respect of the design and implementation of risk management and internal controls.

7.5.1 It is the Board's responsibility to ensure that the insurer has appropriate systems and functions for risk management and internal controls and to provide oversight to ensure that these systems and the functions that oversee them are operating effectively and as intended. The responsibilities of the Board are described further in ICP 8 (Risk Management and Internal Controls).

Duties related to remuneration

7.6 The supervisor requires the insurer's Board to:

- **adopt and oversee the effective implementation of a written remuneration policy for the insurer, which does not induce excessive or inappropriate risk taking, is in line with the corporate culture, objectives, strategies, identified risk appetite, and long term interests of the insurer, and has proper regard to the interests of its policyholders and other stakeholders; and**

- **ensure that such a remuneration policy, at a minimum, covers those individuals who are members of the Board, Senior Management, Key Persons in Control Functions and other employees whose actions may have a material impact on the risk exposure of the insurer (major risk–taking staff).**

7.6.1 Sound remuneration policy and practices are part of the corporate governance of an insurer. This standard and guidance are neither intended to unduly restrict nor reduce an insurer's ability to attract and retain skilled talent by prescribing any particular form or level of individual remuneration. Rather, they aim to promote the alignment of remuneration policies with the long term interests of insurers to avoid excessive risk taking, thereby promoting sound overall governance of insurers and fair treatment of customers.

Overall remuneration strategy and oversight

7.6.2 As a part of effective risk management, an insurer should adopt and implement a prudent and effective remuneration policy. Such a policy should not encourage individuals, particularly members of the Board and Senior Management, Key Persons in Control Functions and major risk-taking staff, to take inappropriate or excessive risks, especially where performance-based variable remuneration is used.

7.6.3 The Board, particularly members of the remuneration committee where one exists, should collectively have the requisite competencies to make informed and independent judgments on the suitability of an insurer's remuneration policy. Such competencies include skills, such as a sufficient understanding of the relationship between risk and remuneration practices. The remuneration committee, where established, should have an adequate representation of non-executive members to promote objectivity in decision-making.

7.6.4 In order to satisfy itself about the effectiveness of the remuneration policy and practices, the Board should consider at least:

- the components of the overall remuneration policy, particularly the use and balance of fixed and variable components;
- the performance criteria and their application for the purposes of determining remuneration payments;
- the remuneration of the members of the Board, Senior Management and major risk-taking staff; and
- any reports or disclosures on the insurer's remuneration practices provided to the supervisor or the public.

7.6.5 The Board should ensure that in structuring, implementing and reviewing the insurer's remuneration policy, the decision-making process identifies and manages conflicts of interests and is properly documented. Members of the Board should not be placed in a position of actual or perceived conflicts of interests in respect of remuneration decisions.

7.6.6 The Board should also ensure that the relevant Key Persons in Control Functions are involved in the remuneration policy-setting and monitoring process to ensure that remuneration practices do not create incentives for excessive or inappropriate risk taking, are carried out consistently with established policies and promote alignment of risks and rewards across the organisation. Similarly, the remuneration and risk management committees of the Board, if such committees exist, should interact closely with each other and provide input to the Board on the incentives created by the remuneration system and their effect on risk-taking behaviour.

7.6.7 The potential for conflicts of interests that may compromise the integrity and objectivity of the staff involved in control functions should be mitigated. This can be achieved by a variety of means, such as making their remuneration:

- predominantly based on the effective achievement of the objectives appropriate to such control functions. Performance measures for staff in control functions should represent the right balance between objective assessments of the control environment (e.g. the conduct of the relationship between the control functions and executive management) and outputs delivered by the control functions, including their impact, quality and efficiency in supporting the oversight of risks. Such output measures may include recommendations made and implemented to reduce risks, reduction in number of compliance breaches and measures adopted to promptly rectify identified breaches, results of external quality reviews and losses recovered or avoided through audits of high risk areas;

- not linked to the performance of any business units which are subject to their control or oversight. For example, where risk and compliance functions are embedded in a business unit, a clear distinction should be drawn between the remuneration policy applicable to staff undertaking control functions and other staff in the business unit, such as through the separation of the pools from which remuneration is paid to the two groups of staff; and

- adequate as an overall package to attract and retain staff with the requisite skills, knowledge and expertise to discharge those control functions effectively and to increase their competence and performance.

7.6.8 Where any control function is outsourced, the remuneration terms under the agreement with the service provider should be consistent with the objectives and approved parameters of the insurer’s remuneration policy.

Variable remuneration

7.6.9 Variable remuneration should be performance-based using measures of individual, unit or group performance that do not create incentives for inappropriate risk taking.

7.6.10 To better align performance-based incentives with the long term value creation and the time horizon of risks to which the insurer may be exposed, due consideration should be given to the following:

- There should be an appropriate mix of fixed and variable components, with adequate parameters set for allocating cash versus other forms of remuneration, such as shares. A variable component linked to performance that is too high relative to the fixed component may make it difficult for an insurer to reduce or eliminate variable remuneration in a poor financial year;
- The reward for performance should include an adjustment for the material current and future risks associated with performance. Since the time horizon of performance and associated risks can vary, the measurement of performance should, where practicable, be set in a multi-year framework to ensure that the measurement process is based on longer term performance;
- If the variable component of remuneration is significant, the major part of it should be deferred for an appropriate specified period. The deferral period should take account of the time frame within which risks associated with the relevant performance (such as the cost of capital required to support risks taken and associated uncertainties in the timing and the likelihood of future revenues and expenses) may materialise. The deferral period applied may vary depending on the level of seniority or responsibility of the relevant individuals and the nature of risks to which the insurer is exposed;
- The award of variable remuneration should contain provisions that enable the insurer, under certain circumstances, to apply malus or claw back arrangements in the case of subdued or negative financial performance of the insurer which is attributed to the excessive risk taking of the staff concerned and when risks of such performance have manifested after the award of variable remuneration; and
- Guaranteed variable remuneration should generally not be offered, as they are not consistent with sound risk management and performance-based rewards.

7.6.11 The variable component should be subject to prudent limits set under the remuneration policy that are consistent with the insurer’s capital management strategy and its ability to maintain a sound capital base taking account of the internal capital targets or regulatory capital requirements of the insurer.

7.6.12 The performance criteria applicable to the variable components of remuneration should promote a complete assessment of risk-adjusted performance. For this purpose, due consideration should be given to the need for performance criteria to:

- be clearly defined and be objectively measurable;

- be based not only on financial but also on non-financial criteria as appropriate (such as compliance with regulation and internal rules, achievement of risk management goals, adequate and timely follow up of internal audit recommendations as well as compliance with market conduct standards and fair treatment of customers;
- take account of not only the individual's performance, but also the performance of the business unit concerned where relevant and the overall results of the insurer and the group; and
- not treat growth or volume as a criterion in isolation from other performance criteria.

Share-based components

7.6.13 Where share-based components of variable remuneration (such as shares, share options or similar instruments) are used, appropriate safeguards should be implemented to align incentives and the longer-term interests of the insurer. Such safeguards may include that:

- shares do not vest for a minimum specified period after their award ("vesting restrictions");
- share options or other similar rights are not exercisable for a minimum specified period after their award ("holding restrictions"); and
- individuals are required to retain an appropriate proportion of the shares awarded until the end of their employment or other specified period beyond their employment ("retention restrictions").

7.6.14 Subject to any applicable legal restrictions, it is appropriate that future vesting and holding restrictions for share-based remuneration remain operative even upon cessation of employment (i.e. there should be no undue acceleration of the vesting of share-based payments or curtailing of any holding restrictions).

Severance payments

7.6.15 Where an insurer provides discretionary pay-outs on termination of employment ("severance payments", sometimes also referred to as "golden parachutes"), such payment should be subject to appropriate governance controls and limits. In any case, such pay-outs should be aligned with the insurer's overall financial condition and performance over an appropriate time horizon. Severance payments should be related to performance over time; should not reward failure and should not be payable in the case of failure or threatened failure of the insurer, particularly to an individual whose actions have contributed to the failure or potential failure of the insurer.

Reliable and transparent financial reporting

7.7 **The supervisor requires the insurer's Board to ensure there is a reliable financial reporting process for both public and supervisory purposes that is supported by clearly defined roles and responsibilities of the Board, Senior Management and the external auditor.**

7.7.1 The Board is responsible for overseeing the insurer's systems and controls to ensure that the financial reports of the insurer present a balanced and accurate assessment of the insurer's business and its general financial health and viability as a going concern.

The Board carries out functions including:

- overseeing the financial statements, financial reporting and disclosure processes;
- monitoring whether accounting policies and practices of the insurer are operating as intended;
- overseeing the internal audit process (reviews by internal audit of the insurer's financial reporting controls) and reviewing the internal auditor's plans and material findings; and
- reporting to the supervisor on significant issues concerning the financial reporting process, including actions taken to address or mitigate identified financial reporting risks.

7.7.2 The Board should ensure that significant findings and observations regarding weaknesses in the financial reporting process are promptly rectified. This should be supported by a formal process for reviewing and monitoring the implementation of recommendations by the external auditor.

External Audit

7.8 **The supervisor requires the insurer's Board to ensure that there is adequate governance and oversight of the external audit process.**

7.8.1 The Board should ensure that the insurer:

- applies robust processes for approving, or recommending for approval, the appointment, reappointment, removal and remuneration of the external auditor;
- applies robust processes for monitoring and assessing the independence of the external auditor and to ensure that the appointed external auditor has the necessary knowledge, skills, expertise, integrity and resources to conduct the audit and meet any additional regulatory requirements;
- monitors and assesses the effectiveness of the external audit process throughout the audit cycle;
- investigates circumstances relating to the resignation or removal of an external auditor, and ensuring prompt actions are taken to mitigate any identified risks to the integrity of the financial reporting process, and

- reports to the supervisor on circumstances relating to the resignation or removal of the external auditor.

7.8.2 The Board should oversee the external audit process and safeguard and promote an effective relationship with the external auditor. For this purpose the Board should ensure that:

- the terms of engagement of the external auditor are clear and appropriate to the scope of the audit and resources required to conduct the audit and specify the level of audit fees to be paid;
- the auditor undertakes a specific responsibility under the terms of engagement to perform the audit in accordance with relevant local and international audit standards;
- the external auditor complies with internationally accepted ethical and professional standards and, where applicable, the more stringent requirements applicable to audits of listed entities and public interest entities;
- there are adequate policies and a process to ensure the independence of the external auditor, including:
  - restrictions and conditions for the provision of non-audit services which are subject to approval by the Board;
  - periodic rotation of members of the audit team and/or audit firm as appropriate; and
  - safeguards to eliminate or reduce to an acceptable level identified threats to the independence of the external auditor.
- there is adequate dialogue with the external auditor on the scope and timing of the audit to understand the issues of risk, information on the insurer's operating environment which is relevant to the audit, and any areas in which the Board may request for specific procedures to be carried out by the external auditor, whether as a part or an extension of the audit engagement; and
- there is unrestricted access by the external auditor to information and persons within the insurer as necessary to conduct the audit.

7.8.3 In order to establish the degree of assurance that the Board can draw from the external auditor's report, the Board should also understand the external auditor's approach to the audit. This includes the assessment of the external auditor's ability to:

- identify and assess the risks of material misstatement in the insurer's financial statements, taking into consideration the complexities of insurance activities and the need for insurers to have a strong control environment;
- respond appropriately to the significant risks of material misstatement in the insurer's financial statements; and

- develop appropriate relationships with the internal audit function and the actuarial function.

The Board should take appropriate actions where doubts arise as to the reliability of the external audit process.

7.8.4 In order to enable the Board to carry out its oversight responsibilities and to enhance the quality of the audit, the Board should have an effective communication with the external auditor. This should include:

- regular meetings between the Board and the external auditor during the audit cycle, including meetings without management present; and
- prompt communication of any information regarding internal control weaknesses or deficiencies of which the external auditor becomes aware.

The Board should require the external auditor to report to it on all relevant matters.

7.8.5 The supervisor and the external auditor should have an effective relationship that includes appropriate communication channels for the exchange of information relevant to carrying out their respective statutory responsibilities.

7.8.6 Reports prepared by the external auditor for the insurer (e.g. management letters) should be made available to the supervisor by the insurer or the external auditor.

7.8.7 The supervisor should require the external auditor to report matters that are likely to be of material significance. This would include material fraud, suspicion of material fraud and regulatory breaches or other significant audit findings identified in the course of the audit. Such information should be provided to the supervisor without the need for prior consent of the insurer and the external auditor should be duly protected from liability for any information disclosed to the supervisor in good faith.

7.8.8 The supervisor should require a further audit by a different external auditor where necessary.

Communications

7.9 The supervisor requires the insurer's Board to have systems and controls to ensure appropriate, timely and effective communications with the supervisor on the governance of the insurer.

7.9.1 Communications with the supervisor should promote effective engagement of the supervisor on the governance of the insurer to enable informed judgments about the effectiveness of the Board and Senior Management in governing the insurer.

7.9.2 Subject to any reasonable commercial sensitivities and applicable privacy or confidentiality obligations, the insurer's communication policies and strategies should include providing to the insurer's stakeholders information such as the following:

- the insurer's overall strategic objectives, covering existing or prospective lines of business and how they are being or will be achieved;
- the insurer's governance structures, such as allocation of oversight and management responsibilities between the Board and the Senior Management, and organisational structures, including reporting lines;
- members of the Board and any Board committees, including their respective expertise, qualifications, track-record, other positions held by such members, and whether such members are regarded as independent;
- processes in place for the Board to evaluate its own performance and any measures taken to improve the Board's performance;
- the general design, implementation and operation of the remuneration policy;
- major ownership and group structures, and any significant affiliations and alliances; and
- material related-party transactions.

7.9.3 In addition to information publicly available, the supervisor may require more detailed and additional information relating to the insurer's corporate governance for supervisory purposes, which may include commercially sensitive information, such as assessments by the Board of the effectiveness of the insurer's governance system, internal audit reports and more detailed information on the remuneration structures adopted by the insurer for the Board, Senior Management, Key Persons in Control Functions and major risk-taking staff. The insurer's communication policies and strategies should enable such information to be provided to the supervisor in a timely and efficient manner. Supervisors should safeguard such information having due regard to the confidentiality of commercially sensitive information and applicable laws.

CF 7.9.a The group-wide supervisor requires the IAIG Board to ensure that the Head of the IAIG reports to the group-wide supervisor, through regularly scheduled or ad hoc reporting, material changes related to at least the following:

- **location of legal entities;**
- **legal structures;**
- **management structures;**
- **governance structure and processes of the IAIG Board;**
- **affiliations with other groups;**
- **strategy;**
- **risk appetite; and**

- **business activities.**

CF 7.9.a.1 The group-wide systems and controls for communications should give the Head of the IAIG the ability to inform the group-wide supervisor of governance issues concerning the IAIG.

7.9.4 Disclosure of information on remuneration should be sufficient to enable stakeholders to evaluate how the remuneration system relates to risk and whether it is operating as intended. Relevant information may include:

- the operation of risk adjustments, including examples of how the policy results in adjustments to remuneration for employees at different levels;
- how remuneration is related to performance (both financial and personal business conduct) over time; and
- valuation principles in respect of remuneration instruments.

7.9.5 Appropriate quantitative information should also be made available to enable supervisors to evaluate the financial impact of the remuneration policy. Such information may include:

- the total cost of remuneration awarded in the period, analysed according to the main components such as basic salary, variable remuneration and long-term awards;
- the total amount set aside in respect of deferred variable remuneration;
- adjustment to net income for the period in respect of variable remuneration awarded in previous periods;
- the total costs of all sign-on payments in the period and number of individuals to whom these relate; and
- the total costs of all severance payments in the period and number of individuals to whom these relate.

7.9.6 These amounts should be analysed by type of instrument (e.g. cash, shares, share options etc.) as applicable, and in a manner consistent with the key elements of the remuneration policy.

7.9.7 Disclosure of information on governance should be made on a regular (for instance, at least annually) and timely basis.

Duties of Senior Management

7.10 The supervisor requires the insurer to ensure that Senior Management:

- **carries out the day-to-day operations of the insurer effectively and in accordance with the insurer's corporate culture, business objectives and strategies for achieving those objectives in line with the Insurer's long term interests and viability;**
- **promotes sound risk management, compliance and fair treatment of customers;**

- **provides the Board adequate and timely information to enable the Board to carry out its duties and functions including the monitoring and review of the performance and risk exposures of the insurer, and the performance of Senior Management; and**
- **maintains adequate and orderly records of the internal organisation.**

7.10.1 Senior Management should implement appropriate systems and controls, in accordance with the established risk appetite and corporate values and consistent with internal policies and procedures.

7.10.2 Such systems and controls should provide for organisation and decision-making in a clear and transparent manner that promotes effective management of the insurer. Senior Management's systems and controls should encompass:

- processes for engaging persons with appropriate competencies and integrity to discharge the functions under Senior Management, which include succession planning, on-going training and procedures for termination;
- clear lines of accountability and channels of communication between persons in Senior Management and Key Persons in Control Functions;
- proper procedures for the delegation of Senior Management functions and monitoring whether delegated functions are carried out effectively and properly, in accordance with the same principles that apply to delegations by the Board (see Guidance 7.3.13 and 7.3.14);
- standards of conduct and codes of ethics for the Senior Management and other staff to promote a sound corporate culture, and the effective implementation on an on-going basis of standards and codes (see ICP 8 Risk Management and Internal Controls for conflicts of interest provisions);
- proper channels of communications, including clear lines of reporting, as between the individuals performing the functions of the Senior Management and the Board, including provisions dealing with whistleblower protection, and their effective implementation; and
- effective communication strategies with supervisors and stakeholders that include the identification of matters that should be disclosed, and to whom such disclosure should be made.

7.10.3 Adequate procedures should be in place for assessing the effectiveness of Senior Management's performance against the performance objectives set by the Board. For this purpose, annual assessments of their performance against set goals should be carried out at least annually, preferably by an independent party, a control function, or the Board itself. Any identified inadequacies or gaps should be addressed promptly and reported to the Board.

7.10.4 Senior Management should also promote strong risk management and internal controls through personal conduct and transparent policies. Senior Management should communicate throughout the insurer the responsibility of all employees in this respect. It should not interfere with the activities that control functions carry out in the rightful exercise of their responsibilities, including that of providing an independent view of governance, risk, compliance and control related matters.

Supervisory review

7.11 The supervisor requires the insurer to demonstrate the adequacy and effectiveness of its corporate governance framework.

7.11.1 The supervisor plays an important role by requiring the Board and Senior Management of the insurer to demonstrate that they are meeting the applicable corporate governance requirements, consistent with these standards, on an on-going basis. The onus for demonstrating, to the satisfaction of the supervisor, that the corporate governance framework is effective and operates as intended rests with the insurer.

7.11.2 The Supervisor should assess through its supervisory review and reporting processes whether the insurer's overall corporate governance framework is effectively implemented and remains adequate (see ICP 9 Supervisory Review and Reporting).

7.11.3 To help facilitate the supervisory review and reporting processes, the supervisor should establish effective channels of communication with the insurer, and have access to relevant information concerning the governance of the insurer. This may be obtained through periodic reports to the supervisor and any information obtained on an ad-hoc basis (see also Standard 7.7). Communication may also be facilitated by the supervisor having regular interaction with the Board, Senior Management and Key Persons in Control Functions.

7.11.4 The supervisor should assess the governance effectiveness of the Board and Senior Management and determine the extent to which their actions and behaviours contribute to good governance. This includes the extent to which the Board and Senior Management contribute to setting and following the "tone at the top;" how the corporate culture of the insurer is communicated and put into practice; how information flows to and from the Board and Senior Management; and how potential material problems are identified and addressed throughout the insurer.

7.11.5 To ascertain the on-going effectiveness of the Board and Senior Management, the supervisor may also consider the use of measures such as the following, where appropriate:

- on-going mandatory training that is commensurate with their respective duties, roles and responsibilities of the Board and Senior Management within the insurer;
- a review of the periodic self-evaluation undertaken by the Board as referred to in Guidance 7.3.3 and 7.11.1;

- meetings and/or interviews with the Board and Senior Management, both collectively and individually as appropriate, particularly to reinforce expectations relating to their performance and to get a sense of how informed and proactive they are; and
- attending and observing Board proceedings.

7.11.6 Where remuneration policies of an insurer contain more high risk elements, closer supervisory scrutiny of those policy and practices may also be warranted, including requests for additional information as appropriate to assess whether those practices are having an adverse impact on the on-going viability of the insurer or commissioning an independent assessment of the insurer's remuneration policy and practices.

ICP 8 Risk Management and Internal Controls

The supervisor requires an insurer to have, as part of its overall corporate governance framework, effective systems of risk management and internal controls, including effective functions for risk management, compliance, actuarial matters and internal audit.

Introductory Guidance

8.0.1 As part of the overall corporate governance framework and in furtherance of the safe and sound operation of the insurer and the protection of policyholders, the Board is ultimately responsible for ensuring that the insurer has in place effective systems of risk management and internal controls and functions to address the key risks it faces and for the key legal and regulatory obligations that apply to it. Senior Management effectively implements these systems and provides the necessary resources and support for these functions.

8.0.2 In some jurisdictions, risk management is considered a subset of internal controls, while other jurisdictions would see it the other way around. The two systems are in fact closely related. Where the boundary lies between risk management and internal controls is less important than achieving, in practice, the objectives of each.

8.0.3 The systems and functions should be adequate for the insurer's objectives, strategy, risk profile, and the applicable legal and regulatory requirements. They should be adapted as the insurer's business and internal and external circumstances change.

8.0.4 The nature of the systems that the insurer has is dependent on many factors. The systems typically include:

- strategies setting out the approach of the insurer for dealing with specific areas of risk and legal and regulatory obligation;
- policies defining the procedures and other requirements that members of the Board and employees need to follow;
- processes for the implementation of the insurer's strategies and policies; and
- controls to ensure that such strategies, policies and processes are in fact in place, are being observed and are attaining their intended objectives.

8.0.5 An insurer's functions (whether in the form of a person, unit or department) should be properly authorised to carry out specific activities relating to matters such as risk management, compliance, actuarial matters and internal audit. These are generally referred to as control functions.

Special considerations for groups

8.0.6 Group wide risks may affect insurance legal entities within a group, while risks at the insurance legal entity level could also affect the group as a whole. To help address this, groups should have strong risk management and compliance culture across the group and at the insurance legal entity level. Thus, in addition to meeting group governance requirements, the group should take into account the obligations of its insurance legal entities to comply with local laws and regulations.

8.0.7 How a group's systems of risk management and internal controls are organised and operate will depend on the governance approach the group takes, i.e., a more centralised or a more decentralised approach (see IAIS Issues Paper on Approaches to Group Corporate Governance; impact on control functions, October 2014). Regardless of the governance approach, it is important that effective systems of risk management and internal controls exist and that risks are properly monitored and managed at the insurance legal entity level and on a group-wide basis.

8.0.8 Additionally, a group’s governance approach will also affect the way in which its control functions are organised and operated. Coordination between the insurance legal entity and group control functions is important to help ensure overall effective systems of risk management and internal controls. Regardless of how the group control functions are organised and operated, the result should provide an overall view of the group-wide risks and how they should be managed.

8.0.9 Supervisors should require the establishment of comprehensive and consistent group governance and assess its effectiveness. While the group-wide supervisor is responsible for assessing the effectiveness of the group’s systems of risk management and internal controls, the other involved supervisors undertake such assessments on a legal entity basis. Appropriate supervisory cooperation and coordination is necessary to have a group-wide view and to enhance the assessment of the legal entities.

Systems for risk management and internal controls

8.1 **The supervisor requires the insurer to establish, and operate within, an effective and documented risk management system, which includes, at a minimum:**

- **a risk management strategy that defines the insurer’s risk appetite;**
- **a risk management policy outlining how all material risks are managed within the risk appetite; and**
- **the ability to respond to changes in the insurer’s risk profile in a timely manner.**

Basic components of a risk management system

8.1.1 The risk management system is designed and operated at all levels of the insurer to allow for the identification, assessment, monitoring, mitigation and reporting of all risks of the insurer in a timely manner. It takes into account the probability, potential impact and time horizon of risks.

8.1.2 An effective risk management system should:

- take into account the insurer's overall business strategy and business activities (including any business activities which have been outsourced);
- provide that the insurer's risk appetite, expressed in a risk appetite statement, be aligned with the insurer's business strategy and embedded in its day-to-day activities;
- provide relevant objectives, key principles and proper allocation of responsibilities for dealing with risk across the business areas and business units of the insurer;
- provide explanations of the methodologies, key assumptions and limitations of risk management; for groups this would include the rationale as to the risk appetite for different individual insurance legal entities within the group;
- provide a documented process defining the Board approval required for any deviations from the risk management strategy or the risk appetite and for settling any major interpretation issues that may arise;
- define and categorise material risks (by type) to which the insurer is exposed, at both insurance legal entity and group level where applicable, and the levels of acceptable risk limits for each type of these risk;
- include documented policies that describe how categories of risks are managed and the specific obligations of employees and the insurer in dealing with risk, including risk escalation and risk mitigation tools;
- provide suitable processes and tools (including stress testing and, where appropriate, models) for identifying, assessing, monitoring and reporting on risks. Such processes should also cover contingency planning;
- provide for regular reviews of the risk management system (and its components) to help ensure that necessary modifications and improvements are identified and made in a timely manner; and
- appropriately address other matters related to risk management for solvency purposes set out in ICP 16 Enterprise Risk Management for Solvency Purposes.

Scope and embedding of the risk management system

8.1.3 The risk management system should cover at least the following risks: underwriting and reserving, asset-liability management, investments, liquidity, concentration, operational and conduct, as well as reinsurance and other risk mitigation techniques.

8.1.4 The risk management system should be aligned with the insurer's risk culture and embedded into the various business areas and units with the aim of having the appropriate risk management practices and procedures embedded in the key operations and structures.

CF 8.1.a The group-wide supervisor requires the Head of the IAIG to ensure that the group-wide risk management system encompasses the levels of the Head of the IAIG and legal entities within the IAIG and covers, at least, the:

- **diversity and geographical reach of the activities of the IAIG;**
- **nature and degree of risks of individual legal entities and business lines;**
- **aggregation of risks from the legal entities within the IAIG that arises at the level of the Head of the IAIG, including cross-border risks;**
- **interconnectedness of the legal entities within the IAIG;**
- **level of sophistication and functionality of information and reporting systems in addressing key group-wide risks; and**
- **applicable laws and regulations of the jurisdictions where the IAIG operates.**

CF 8.1.a.1 The group-wide risk management system should:

- be integrated with its organisational structure, decision-making processes, business operations, and risk culture;
- be integrated within its legal entities; and
- measure the risk exposure of the IAIG against the risk limits on an on-going basis in order to identify potential concerns as early as possible.

CF 8.1.b The group-wide supervisor requires the Head of the IAIG to reflect, in the documentation of its group-wide risk management system, material differences in risk management that may apply to different legal entities within the IAIG and their associated risks.

CF 8.1.c The group-wide supervisor requires the Head of the IAIG to ensure that the IAIG has in place policies and processes for promoting a sound risk culture.

CF 8.1.c.1 Policies and processes for promoting a sound risk culture should include risk management training, address independence, and create appropriate incentives for staff.

CF 8.1.c.2 The IAIG's risk culture should support timely evaluation and open communication of emerging risks that may be significant to the IAIG and its legal entities.

Identification and Assessment

8.1.5 The risk management system should take into account all reasonably foreseeable and relevant material risks to which the insurer is exposed, both at the insurer and the individual business unit levels. This includes current and emerging risks.

8.1.6 Insurers should assess material risks both qualitatively and, where appropriate, quantitatively. Appropriate consideration should be given to a sufficiently wide range of outcomes, as well as to the appropriate tools and techniques to be used. The interdependencies of risks should also be analysed and taken into account in the assessments.

8.1.7 The insurer's risk assessment should be documented including detailed descriptions and explanations of the risks covered, the approaches used, and the key judgements and assumptions made.

8.1.8 Insurers should have in place adequate processes, controls and systems to assess the risks of new products and carry out a risk assessment before entering into new business lines and products. Significant new or changed activities and products that may increase an existing risk or create a new type of exposure should be approved by Senior Management and/or by the Board.

Monitoring

8.1.9 The risk management system should include processes and tools for monitoring risk, such as early warnings or triggers that allow timely consideration of, and adequate response to, material risks.

Mitigation

8.1.10 The risk management system should include strategies and tools to mitigate against material risks. In most cases an insurer will control or reduce the risk to an acceptable level. Another response to risk is to transfer the risk to a third party. If risks are not acceptable within the risk appetite and it is not possible to control, limit or transfer the risk, the insurer should cease or change the activity which creates the risk.

Reporting

8.1.11 Risks, the overall assessment of risks and the related action plans should be reported to the Board and/or to Senior Management, as appropriate, using qualitative and quantitative indicators and effective action plans. The insurer's documented risk escalation process should allow for reporting on risk issues within established reporting cycles and outside of them for matters of particular urgency.

8.1.12 The Board should have appropriate ways to carry out its responsibilities for risk oversight. The risk management policy should therefore cover the content, form and frequency of reporting that it expects on risk from Senior Management and each of the control functions. Any proposed activity that would go beyond the Board-approved risk appetite should be subject to appropriate review and require Board approval.

Risk Management Policy

8.1.13 The insurer's risk management policy should be written in a way to help employees understand their responsibilities regarding risk management. It should also reflect how the risk management system relates to the insurer's overall corporate governance framework and its corporate culture. Regular internal communications and training within the insurer on the risk management policy and risk appetite may help in this regard.

8.1.14 For insurance groups, a risk management policy addresses the way in which the group manages risks that are material at the insurance group level, including risks that arise from the insurance group being part of a wider group. For an insurance legal entity that is part of a group, the risk management policy of that entity should address management of risks material at the entity level as well as additional risk it faces as a result of its membership in a group, which can encompass the widest group of which the insurance legal entity is a member and not only the entity's insurance group. Within an insurance group, the head of the group and the legal entities should ensure appropriate coordination and consistency between the head of the group and the legal entities when setting the risk management policy.

Changes to the risk management system

8.1.15 Both the Board and Senior Management should be attentive to the need to modify the risk management system in light of changes in the insurer's risk profile as well as other new internal or external events and/or circumstances. The risk management system should include mechanisms to incorporate new risks and new information related to risk already identified on a regular basis. The risk management system should also be responsive to the changing interests and reasonable expectations of policyholders and other stakeholders.

8.1.16 Material changes to an insurer's risk management system should be documented and subject to approval by the Board. The reasons for the changes should be documented. Appropriate documentation should be available to internal audit, external audit and the supervisor for their respective assessments of the risk management system.

8.1.17 As part of its responsiveness to changes in the insurer's risk profile, the risk management system should incorporate a feedback loop based on appropriate information, management processes and objective assessment. A feedback loop provides a process of assessing the effect of changes in risk leading to changes in risk management policy, risk limits and risk mitigating actions. This may help ensure that decisions made by the Board and Senior Management are implemented and their effects monitored and reported in a timely and sufficiently frequent manner.

8.1.18 Within an insurance group, there should be sufficient coordination and exchange of information between the head of the insurance group and its insurance legal entities as part of their respective feedback loops to ensure relevant changes in risk profiles can be taken into account.

CF 8.1.d The group-wide supervisor requires the Head of the IAIG to:

- **review, at least annually, the group-wide risk management system to ensure that existing and emerging risks as well as**

changes in the IAIG's structure and/or business strategy, are taken into account; and

- **identify and make the necessary modifications and improvements in a timely manner.**

CF 8.1.d.1 The Head of the IAIG should assess whether a change occurring in one or more legal entities may affect the IAIG's risk profile overall, because the impact on a group-wide basis may not be immediately apparent.

CF 8.1.d.2 The group-wide risk management system should take account of all material changes at a legal entity level that may have an impact on how the IAIG measures and mitigates risk at a group level.

8.2 The supervisor requires the insurer to establish, and operate within, an effective and documented system of internal controls.

Basic components of an internal controls system

8.2.1 The internal controls system should ensure effective and efficient operations, adequate control of risks, prudent conduct of business, reliability of financial and non-financial information reported (both internally and externally), and compliance with laws, regulations, supervisory requirements and the insurer's internal rules and decisions. It should be designed and operated to assist the Board and Senior Management in the fulfilment of their respective responsibilities for oversight and management of the insurer. Some insurers have a designated person or function to support the advancement, coordination and/or management of the overall internal controls system on a more regular basis.

8.2.2 The internal controls system should cover all units and activities of the insurer and should be an integral part of the daily activities of an insurer. The controls should form a coherent system, which should be regularly assessed and improved as necessary. Each individual control[2] of an insurer, as well as all its controls cumulatively, should be designed for effectiveness and operate effectively.

8.2.3 An effective internal control system requires an appropriate control structure with control activities defined at every business unit level. Depending on the organisational structure of the insurer, business or other units should own, manage and report on risks and should be primarily accountable for establishing and maintaining effective internal control policies and procedures. Control functions should determine and assess the appropriateness of the controls used by the business or other

[2] Individual controls may be preventive (applied to prevent undesirable outcomes) or detective (to uncover undesirable activity). Individual controls may be manual (human), automated, or a combination and may be either general or process or application specific.

units. The internal audit function should provide independent assurance on the quality and effectiveness of the internal controls system.[3]

8.2.4 An effective internal controls system typically includes:

Segregation of duties and prevention of conflicts of interest

- appropriate segregation of duties and controls to ensure such segregation is observed. This includes, amongst others, having sufficient distance between those accountable for a process or policy and those who check if for such a process or policy an appropriate control exists and is being applied. It also includes appropriate distance between those who design a control or operate a control and those who check if such a control is effective in design and operation;
- up-to-date policies regarding who can sign for or commit the insurer, and for what amounts, with corresponding controls, such as practice that key decisions should be taken at least by two persons and the practice of double or multiple signatures. Such policies and controls should be designed, among other things, to prevent any major transaction being entered into without appropriate governance review or by anyone lacking the necessary authority and to ensure that borrowing, trading, risk and other such limits are strictly observed. Such policies should foresee a role for control functions, for example by requiring for major matters the review and sign-off by Risk Management or Compliance, and/or approval by a Board level committee;

Policies and processes

- appropriate controls for all key business processes and policies, including for major business decisions and transactions (including intra-group transactions), critical IT functionalities, access to critical IT infrastructure by employees and related third parties, and important legal and regulatory obligations;
- policies on training in respect of controls, particularly for employees in positions of high trust or responsibility or involved in high risk activities;
- a centralised documented inventory of insurer-wide key processes and policies and of the controls in place in respect of such processes and policies, that also may introduce a hierarchy among the policies;

[3] This division of responsibilities between business, risk management and compliance and internal audit is typically referred to as the three lines of defence. The business is considered as the first line of defence, the control functions (other than internal audit) as the second line of defence, and internal audit as the third line of defence. The business is deemed to “own” the controls, and the other lines of defence are there to help ensure their application and viability. Whatever approach is used, it is important that responsibilities be clearly allocated to promote checks and balances and avoid conflicts of interest.

Information and communication

- appropriate controls to provide reasonable assurance over the accuracy and completeness of the insurer's books, records, and accounts and over financial consolidation and reporting, including the reporting made to the insurer's supervisors;
- adequate and comprehensive internal financial, operational and compliance data, as well as external market information about events and conditions that are relevant to decision making. Information should be reliable, timely, accessible, and provided in a consistent format;
- information processes that cover all significant activities of the insurer, including contingency arrangements;
- effective channels of communication to ensure that all staff fully understand and adhere to the internal controls and their duties and responsibilities and that other relevant information is reaching the appropriate personnel;
- policies regarding escalation procedures;

Monitoring and review

- processes for regularly checking that the totality of all controls forms a coherent system and that this system works as intended; fits properly within the overall corporate governance structure of the insurer; and provides an element of risk control to complement the risk identification, risk assessment, and risk management activities of the insurer. As part of such review, individual controls are monitored and analysed periodically to determine gaps and improvement opportunities with Senior Management taking such measures as are necessary to address these; and
- periodic testing and assessments (carried out by objective parties such as an internal or external auditor) to determine the adequacy, completeness and effectiveness of the internal controls system and its utility to the Board and Senior Management for controlling the operations of the insurer.

CF 8.2.a The group-wide supervisor requires the Head of the IAIG to ensure that the group-wide internal controls system at the group-wide level covers, at least, the:

- **diversity and geographical reach of the activities of the IAIG;**
- **intra-group transactions;**
- **interconnectedness of the legal entities within the IAIG; and**

- **applicable laws and regulations of the jurisdictions where the IAIG operates.**

CF 8.2.b The group-wide supervisor requires the Head of the IAIG to ensure annual testing and assessments carried out by an independent external or internal party to assess the coherence, completeness and effectiveness of the internal controls system within the IAIG and its utility to the IAIG Board and Senior Management.

Responsibilities of the Board

8.2.5 The Board should have an overall understanding of the control environment across the various entities and businesses, and require Senior Management to ensure that for each key business process and policy, and related risks and obligations, there is an appropriate control.

8.2.6 In addition, the Board should ensure there is clear allocation of responsibilities within the insurer, with appropriate segregation, including in respect of the design, documentation, operation, monitoring and testing of internal controls. Responsibilities should be properly documented, such as in charters, authority tables, governance manuals or other similar governance documents.

8.2.7 The Board should determine which function or functions report to it or to any Board Committees in respect of the internal controls system.

Reporting

8.2.8 Reporting on the internal controls system should cover matters such as:

- the strategy in respect of internal controls (such as responsibilities, target levels of compliance to achieve, validations and implementation of remediation plans);
- the stage of development of the internal controls system, including its scope, testing activity, and the performance against annual or periodic internal controls system goals being pursued;
- an assessment of how the various business units are performing against internal control standards and goals;
- control deficiencies, weaknesses and failures that have arisen or that have been identified (including any identified by the internal or external auditors or the supervisor) and the responses thereto (in each case to the extent not already covered in other reporting made to the Board); and
- controls at the appropriate levels so as to be effective, including at the process or transactional level.

Control functions (general)

8.3 The supervisor requires the insurer to have effective control functions with the necessary authority, independence and resources.

8.3.1 As part of the effective systems of risk management and internal controls, insurers have control functions, including for risk management, compliance, actuarial matters and internal audit. Control functions add to the governance checks and balances of the insurer and provide the necessary assurance to the Board in the fulfilment of its oversight duties.

CF 8.3.a The group-wide supervisor requires the Head of the IAIG to ensure that:

- **the tasks and responsibilities of the group-wide control functions, whether located at the level of the Head of the IAIG or within another legal entity of the IAIG, are clearly defined; and**
- **these group-wide control functions do not duplicate, limit or restrict the tasks and responsibilities of control functions at the insurance legal entity level.**

CF 8.3.b The group-wide supervisor requires the Head of the IAIG to ensure that the group-wide control functions:

- **coordinate with the control functions at the insurance legal entity level; and**
- **ensure effective group-wide management reporting.**

8.3.2 The existence of control functions does not relieve the Board or Senior Management of their respective governance and related responsibilities.

8.3.3 The control functions should be subject to periodic review either by the internal audit function (for control functions other than internal audit) or an objective external reviewer.

Appointment and dismissal of heads of control functions

8.3.4 The appointment, performance assessment, remuneration, discipline and dismissal of the head of control functions should be done with the approval of, or after consultation with, the Board or the relevant Board committee. For the head of the internal audit function, the appointment, performance assessment, remuneration, discipline and dismissal should be done by the Board, its Chair or the Audit Committee.

8.3.5 The insurer should notify the supervisor of the reasons for dismissals of heads of control functions.

Authority and independence of control functions

8.3.6 The Board should approve the authority and responsibilities of each control function to allow each control function to have the authority and independence necessary to be effective.

8.3.7 The authority and responsibilities of each control function should be set out in writing and made part of, or referred to in, the governance documentation of the insurer. The head of each control function should periodically review such document and submit suggestions for any changes to Senior Management and the Board for approval, where appropriate.

8.3.8 A control function should be led by a person of appropriate level of authority. The head of the control function should not have operational business line responsibilities.

8.3.9 Insurers should organise each control function and its associated reporting lines into the insurer's organisational structure in a manner that enables such function to operate and carry out their roles effectively. This includes direct access to the Board or the relevant Board committee.

8.3.10 Notwithstanding the possibility for insurers to combine certain control functions, a control function should be sufficiently independent from Senior Management and from other functions to allow its staff to:

- serve as a component of the insurer's checks and balances;
- provide an objective perspective on strategies, issues, and potential violations related to their areas of responsibility; and
- implement or oversee the implementation of corrective measures where necessary.

8.3.11 Each control function should avoid conflicts of interest. Where any conflicts remain and cannot be resolved with Senior Management, these should be brought to the attention of the Board for resolution.

8.3.12 Each control function should have the authority to communicate on its own initiative with any employee and to have unrestricted access to information in any business unit that it needs to carry out its responsibilities. The control functions should have the right to conduct investigations of possible breaches and to request assistance from specialists within the insurer, e.g. legal and internal audit, or engage external specialists to perform the task. The control functions should be free to report to Senior Management or the Board on any irregularities or possible breaches disclosed by its investigations, without fear of retaliation or disfavour from management.

Resources and qualifications of the control functions

8.3.13 Each control function should have the resources necessary to fulfil its responsibilities and achieve the specific goals in its areas of responsibility. This includes qualified staff and appropriate IT/management information processes. The function should be organized in an appropriate manner to achieve its goals.

8.3.14 The head of each control function should review regularly the adequacy of the function's resources and request adjustments from Senior Management as necessary. Where the head of a control function has a major difference of opinion with Senior Management on the resources needed, the head of the control function should bring the issue to the Board or relevant Board Committee for resolution.

8.3.15 Persons who perform control functions should be suitable for their role and meet any applicable professional qualifications and standards. Higher expectations apply to the head of each control function. Persons who perform control functions should receive regular training relevant to their role to remain up to date on the developments and techniques related to their areas of responsibility.

Board access and reporting by the control functions; Board assessment of control functions

8.3.16 The Board should grant the head of each control function the authority and responsibility to report periodically to it or one of its committees. The Board should determine the frequency and depth of such reporting so as to permit timely and meaningful communication and discussion of material matters. The reporting should include, among other things:

- information as to the function's strategy and longer term goals and the progress in achieving these;
- annual or other periodic operational plans describing shorter term goals and the progress in achieving these; and
- resources (such as personnel, budget, etc.), including an analysis on the adequacy of these resources.

8.3.17 In addition to periodic reporting, the head of each control function should have the opportunity to communicate directly and to meet periodically (without the presence of management) with the Chair of any relevant Board committee (e.g. Audit or Risk Committee) and/or with the Chair of the full Board. The Board should periodically assess the performance of each control function. This may be done by the full Board, by the Chair of the Board, by the relevant Board committee or by the Chair of the relevant Board committee.

CF 8.3.c The group-wide supervisor requires the IAIG Board to ensure that the group-wide control functions:

- **are not combined, unless exceptional circumstances apply;**
- **are subject to periodic review either by the group-wide internal audit function (for control functions other than internal audit) or an independent external party;**
- **have unrestricted access and periodically report to the IAIG Board or one of its committees; and**
- **have access to people and information, on a group-wide or legal entity level, to carry out their responsibilities.**

CF 8.3.c.1 The group-wide supervisor should assess on a case-by-case basis whether the exceptional circumstances justify a combination of group-wide control functions on a time-limited basis.

CF 8.3.c.2 When assessing whether to allow for a combination of group-wide control functions, the group-wide supervisor should consider at least whether:

- the combination would give rise to potential conflicts of interest and how they could be resolved – either for affected individuals and/or the combined group-wide control functions (for example, where one group-wide control function has responsibilities for reviewing another);

- the individuals in charge of combined group-wide control functions would have the necessary availability or resources to perform efficiently the tasks related to both functions; and
- the combined group-wide control functions would undermine the ability of either function to fulfil its responsibilities in assisting the IAIG Board and Senior Management in maintaining adequate oversight across the IAIG. This risk is likely to be greater where control functions across different lines of defence are combined.

Risk management function

8.4 The supervisor requires the insurer to have an effective risk management function capable of assisting the insurer to

- **identify, assess, monitor, mitigate and report on its key risks in a timely way; and**
- **promote and sustain a sound risk culture.**

8.4.1 A robust risk management function that is well positioned, resourced and properly authorised and staffed is an essential element of an effective risk management system. Within some insurers, and particularly at larger or more complex ones, the risk management function is typically led by a Chief Risk Officer.

Access and reporting to the Board by the risk management function

8.4.2 The risk management function should have access and provide written reports to the Board as required by the Board, typically on matters such as:

- an assessment of risk positions and risk exposures and steps being taken to manage them;
- an assessment of changes in the insurer's risk profile relative to risk appetite;
- where appropriate, an assessment of pre-defined risk limits;
- where appropriate, risk management issues resulting from strategic affairs such as corporate strategy, mergers and acquisitions and major projects and investments;
- an assessment of risk events and the identification of appropriate remedial actions.

8.4.3 The head of the risk management function should have the authority and obligation to inform the Board promptly of any circumstance that may have a material effect on the risk management system of the insurer.

Main activities of the risk management function

8.4.4 The risk management function should establish, implement and maintain appropriate mechanisms and activities including to:

- assist the Board and Senior Management in carrying out their respective responsibilities, including by providing specialist analyses and performing risk reviews;
- identify the individual and aggregated risks (actual, emerging and potential) the insurer faces;
- assess, aggregate, monitor and help manage and otherwise address identified risks effectively; this includes assessing the insurer's capacity to absorb risk with due regard to the nature, probability, duration, correlation and potential severity of risks;
- gain and maintain an aggregated view of the risk profile of the insurer both at a legal entity and/or group-wide level;
- establish a forward-looking assessment of the risk profile;
- evaluate the internal and external risk environment on an on-going basis in order to identify and assess potential risks as early as possible. This may include looking at risks from different perspectives, such as by territory or by line of business;
- consider risks arising from remuneration arrangements and incentive structures;
- conduct regular stress testing and scenario analyses as defined in ICP 16 (Enterprise Risk Management for Solvency Purposes);
- regularly provide written reports to Senior Management, Key Persons in Control Functions and the Board on the insurer's risk profile and details on the risk exposures facing the insurer and related mitigation actions as appropriate;
- document and report material changes affecting the insurer's risk management system to the Board to help ensure that the system is maintained and improved; and
- conduct regular self-assessments and implement or monitor the implementation of any needed improvements.

CF 8.4.a The group-wide supervisor requires the Head of the IAIG to ensure that the group-wide risk management function, at least:

- **coordinates and monitors consistent and effective implementation of risk management mechanisms and activities at the group-wide level and at the legal entity level;**
- **sets out expectations relating to the group-wide responsibilities and reporting of the risk management function of each legal entity within the IAIG, as applicable;**

- **sets policies and processes for effective interaction between the risk management functions of the Head of the IAIG and of the legal entities within the IAIG;**
- **assesses the group-wide risk management strategy, which is approved by the IAIG Board, and ensures that this risk management strategy, including supporting processes, is implemented at the group-wide level;**
- **annually plans and conducts an assessment of risks at the group-wide level, including those that arise from the legal entity and material business line level; and**
- **provides at least quarterly risk management reports to the IAIG Board or one of its committees.**

CF 8.4.b **The group-wide supervisor requires the group-wide risk management function to be independent from risk taking activities.**

Compliance function

8.5 **The supervisor requires the insurer to have an effective compliance function capable of assisting the insurer to i) meet its legal, regulatory and supervisory obligations and ii) promote and sustain a compliance culture, including through the monitoring of related internal policies**.

8.5.1 The compliance function has a broader role than merely monitoring compliance with laws and regulations and supervisory requirements; monitoring compliance with internal policies and promoting and sustaining a compliance culture within the insurer are equally important aspects of this control function.

8.5.2 Compliance starts at the top. The Board is ultimately responsible for establishing standards for honesty and integrity throughout the insurer and for creating an effective corporate culture that emphasises them. This should include a code of conduct or other appropriate mechanism as evidence of the insurer's commitment to comply with all applicable laws, regulations, supervisory requirements, and internal policies, and conduct its business ethically and responsibly.

8.5.3 As part of this commitment, the insurer has in place a robust and well positioned, resourced and properly authorised and staffed compliance function. Within some insurers, particularly larger or more complex ones, such a function is typically led by a Chief Compliance Officer.

Board access and reporting of the compliance function

8.5.4 The compliance function should have access and provide written reports to Senior management, key persons in control functions and the Board on matters such as:

- an assessment of the key compliance risks the insurer faces and the steps being taken to address them;
- an assessment of how the various parts of the insurer (e.g. divisions, major business units, product areas) are performing against compliance standards and goals;

- any compliance issues involving management or persons in positions of major responsibility within the insurer, and the status of any associated investigations or other actions being taken;
- material compliance violations or concerns involving any other person or unit of the insurer and the status of any associated investigations or other actions being taken; and
- material fines or other disciplinary actions taken by any regulator or supervisor in respect of the insurer or any employee.

8.5.5 The head of the compliance function should have the authority and obligation to inform promptly the Chair of the Board directly in the event of any major non-compliance by a member of management or a material non-compliance by the insurer with an external obligation if in either case he or she believes that Senior Management or other persons in authority at the insurer are not taking the necessary corrective actions and a delay would be detrimental to the insurer or its policyholders.

Main activities of the compliance function

8.5.6 The compliance function should establish, implement and maintain appropriate mechanisms and activities including to:

- promote and sustain an ethical corporate culture that values responsible conduct and compliance with internal and external obligations; this includes communicating and holding training on an appropriate code of conduct or similar that incorporates the corporate values of the insurer, aims to promote a high level of professional conduct and sets out the key conduct expectations of employees;
- identify, assess, report on and address key legal and regulatory obligations, including obligations to the insurer's supervisor, and the risks associated therewith; such analyses should use risk and other appropriate methodologies;
- ensure the insurer monitors and has appropriate policies, processes and controls in respect of key areas of legal, regulatory and ethical obligation;
- hold regular training on key legal and regulatory obligations particularly for employees in positions of high responsibility or who are involved in high risk activities;
- facilitate the confidential reporting by employees of concerns, shortcomings or potential or actual violations in respect of insurer internal policies, legal or regulatory obligations, or ethical considerations; this includes ensuring there are appropriate means for such reporting;
- address compliance shortcomings and violations, including ensuring that adequate disciplinary actions are taken and

any necessary reporting to the supervisor or other authorities is made; and

- conduct regular self-assessments of the compliance function and the compliance processes and implement or monitor needed improvements.

CF 8.5.a The group-wide supervisor requires the Head of the IAIG to ensure that the group-wide compliance function at least:

- **coordinates and monitors consistent and effective implementation of compliance mechanisms and activities at the group-wide level and at the legal entity level;**
- **sets appropriate policies and processes regarding the legal and regulatory obligations of the IAIG and its legal entities;**
- **assesses the material legal and regulatory obligations and compliance risks of the IAIG, and the steps being taken to fulfil or address them, at least annually and as required by the Board;**
- **supports the IAIG Board in fostering an effective corporate culture throughout the IAIG;**
- **assesses how the IAIG itself is, and the legal entities within the IAIG are, performing against group-wide compliance standards and goals; and**
- **provides at least quarterly written reports on its activities to the IAIG's Board or one of its committees.**

Actuarial function

8.6 The supervisor requires the insurer to have an effective actuarial function capable of evaluating and providing advice regarding, at a minimum, technical provisions, premium and pricing activities, capital adequacy, reinsurance and compliance with related statutory and regulatory requirements.

8.6.1 A robust actuarial function that is well positioned, resourced and properly authorised and staffed is essential for the proper operation of the insurer. It plays a key role as part of the insurer's overall systems of risk management and internal controls.

Board access and reporting of the actuarial function

8.6.2 The actuarial function should have access to and periodically report to the Board on matters such as:

- any circumstance that may have a material effect on the insurer from an actuarial perspective;
- the adequacy of the technical provisions and other liabilities;
- distribution of profits to participating policyholders;

- stress testing and capital adequacy assessment with regard to the prospective solvency position of the insurer; and
- any other matters as determined by the Board.

8.6.3 Written reports on actuarial evaluations should be made to the Board, Senior Management, or other Key Persons in Control Functions or the supervisor as necessary or appropriate or as required by legislation.

Main activities of the actuarial function

8.6.4 The actuarial function evaluates and provides advice to the insurer on matters including:

- the insurer's insurance liabilities, including policy provisions and aggregate claim liabilities, as well as determination of reserves for financial risks;
- asset liability management with regards to the adequacy and the sufficiency of assets and future revenues to cover the insurer's obligations to policyholders and capital requirements, as well as other obligations or activities;
- the insurer's investment policies and the valuation of assets;
- an insurer's solvency position, including a calculation of minimum capital required for regulatory purposes and liability and loss provisions;
- an insurer's prospective solvency position by conducting capital adequacy assessments and stress tests under various scenarios, and measuring their relative impact on assets, liabilities, and actual and future capital levels;
- risk assessment and management policies and controls relevant to actuarial matters or the financial condition of the insurer;
- the fair treatment of policyholders with regard to distribution of profits awarded to participating policyholders;
- the adequacy and soundness of underwriting policies;
- the development, pricing and assessment of the adequacy of reinsurance arrangements;
- product development and design, including the terms and conditions of insurance contracts and pricing, along with estimation of the capital required to underwrite the product;
- the sufficiency, accuracy and quality of data, the methods and the assumptions used in the calculation of technical provisions;
- the research, development, validation and use of internal models for internal actuarial or financial projections, or for solvency purposes as in the ORSA; and

- any other actuarial or financial matters determined by the Board.

8.6.5 Where required, the actuarial function may also provide to the supervisor certifications on the adequacy, reasonableness and/or fairness of premiums (or the methodology to determine the same) and certifications or statements of actuarial opinion.

8.6.6 The supervisor should clearly define when such certifications or statements of actuarial opinion need to be submitted to the supervisor. When these are required to be submitted, the supervisor should also clearly define both the qualifications of those permitted to certify or sign such statements and the minimum contents of such an opinion or certification.

CF 8.6.a The group-wide supervisor requires the Head of the IAIG to ensure that the group-wide actuarial function performs an overview of the group-wide actuarial activities, functions and risks emanating from insurance legal entities within the IAIG. This overview includes, at least:

- **risk assessment and management policies and controls relevant to govern the activities of the group-wide actuarial function or financial condition;**
- **actuarial concerns related to any insurance legal entity within the IAIG, or the IAIG as a whole, as applicable;**
- **the IAIG's solvency position, based on calculations of group-wide regulatory capital requirements and technical provisions;**
- **the IAIG's prospective solvency position, based on capital adequacy assessments and stress tests, under various scenarios, and their relative impact on assets, liabilities, and actual and future capital levels;**
- **the adequacy of the IAIG's reinsurance arrangements; and**
- **actuarial-related risk modelling in the IAIG's Own Risk and Solvency Assessment (ORSA) and use of internal models.**

CF 8.6.b The group-wide supervisor requires the Head of the IAIG to ensure that the group-wide actuarial function:

- **works with the actuarial functions at the insurance legal entity level to review actuarial information; and**
- **provides independent advice and at least annually reports to the IAIG Board or one of its committees on the insurance activities and risks posed to the IAIG.**

Appointed actuary

8.6.7 Some jurisdictions may require an "appointed actuary," "statutory actuary," or "responsible actuary" (referred to here as an "Appointed

Actuary") to perform certain functions, such as determining or providing advice on an insurer's compliance with regulatory requirements for certifications or statements of actuarial opinion. The tasks and responsibilities of the Appointed Actuary should be clearly defined and should not limit or restrict the tasks and responsibilities of other individuals performing actuarial functions.

8.6.8 The insurer should be required to report the Appointed Actuary's appointment to the supervisor.

8.6.9 The Appointed Actuary should not hold positions within or outside of the insurer that may create conflicts of interest or compromise his or her independence. If the Appointed Actuary is not an employee of the insurer, the Board should determine whether the external actuary has any potential conflicts of interest, such as if his or her firm also provides auditing or other services to the insurer. If any such conflicts exist, the Board should subject them to appropriate controls or choose another Appointed Actuary.

8.6.10 If an Appointed Actuary is replaced, the insurer should notify the supervisor and give the reasons for the replacement. In some jurisdictions, such a notification includes statements from both the insurer and the former Appointed Actuary as to whether there were any disagreements with the former Appointed Actuary over the content of the actuary's opinion on matters of risk management, required disclosures, scopes, procedures, or data quality, and whether or not any such disagreements were resolved to the former Appointed Actuary's satisfaction.

8.6.11 In some jurisdictions, the Appointed Actuary also has the obligation to notify the supervisor if he or she resigns for reasons connected with his or her duties as an Appointed Actuary or with the conduct of the insurer's business and give the reasons for resigning. The Appointed Actuary should also notify the supervisor and provide an explanation if his or her appointment is revoked by the insurer.

8.6.12 The supervisor should have the authority to require an insurer to replace an Appointed Actuary when such person fails to adequately perform required functions or duties, is subject to conflicts of interest or no longer meets the jurisdiction's eligibility requirements.

Internal audit function

8.7 **The supervisor requires the insurer to have an effective internal audit function capable of providing the Board with independent assurance in respect of the quality and effectiveness of the insurer's corporate governance framework.**

8.7.1 One of the oversight roles of the Board is to ensure that the information provided by the internal audit function allows the Board to effectively validate the effectiveness of the internal control system.

8.7.2 The internal audit function should provide independent assurance to the Board through general and specific audits, reviews, testing and other techniques in respect of matters such as:

- the overall means by which the insurer preserves its assets and those of policyholders, and seeks to prevent fraud, misappropriation or misapplication of such assets;
- the reliability, integrity and completeness of the accounting, financial and risk reporting information, as well as the capacity and adaptability of IT architecture to provide that information in a timely manner to the Board and Senior management;
- the design and operational effectiveness of the insurer's individual controls in respect of the above matters, as well as of the totality of such controls (the internal controls system);
- other matters as may be requested by the Board, Senior Management, the supervisor or the external auditor; and
- other matters which the internal audit function determines should be reviewed to fulfil its mission, in accordance with its charter, terms of reference or other documents setting out its authority and responsibilities.

Authority and independence of the internal audit function

8.7.3 To help ensure objectivity, the internal audit function is independent from management and other control functions and is not involved operationally in the business. The internal audit function's ultimate responsibility is to the Board, not management. To help ensure independence and objectivity, the internal audit function should be free from conditions that threaten its ability to carry out its responsibilities in an unbiased manner. In carrying out its tasks, the internal audit function forms its judgments independently. If necessary, the internal audit function should consider the need to supplement its own assessment with third party expertise in order to make objective and independent decisions.

8.7.4 The Board should grant suitable authority to the internal audit function, including the authority to:

- access and review any records or information of the insurer which the internal audit function deems necessary to carry out an audit or other review;
- undertake on the internal audit function's initiative a review of any area or any function consistent with its mission;
- require an appropriate management response to an internal audit report, including the development of a suitable remediation, mitigation or other follow-up plan as needed; and
- decline doing an audit or review, or taking on any other responsibilities requested by management, if the internal audit function believes this is inconsistent with its mission or with the strategy and audit plan approved by the Board. In any such case, the internal audit function should inform the Board or the Audit Committee and seek their guidance.

Board access and reporting of the internal audit function

8.7.5 The head of the internal audit function reports to the Board (or to any member who is not part of the management) or to the Audit Committee if one exists (or its Chair). In its reporting, the internal audit function should cover matters such as:

- the function's annual or other periodic audit plan, detailing the proposed areas of audit focus, and any significant modifications to the audit plan;
- any factors that may be adversely affecting the internal audit function's independence, objectivity or effectiveness;
- material findings from audits or reviews conducted; and
- the extent of management's compliance with agreed upon corrective or risk mitigating measures in response to identified control deficiencies, weaknesses or failures, compliance violations or other lapses.

8.7.6 In addition to periodic reporting, the head of internal audit should be authorised to communicate directly, and meet periodically, with the head of the Audit Committee or the Chair of the Board without management present.

Main activities of the internal audit function

8.7.7 The audit function should carry out such activities as are needed to fulfil its responsibilities. These activities include:

- establishing, implementing and maintaining a risk-based audit plan to examine and evaluate alignment of the insurer's processes with their risk culture;
- monitoring and evaluating the adequacy and effectiveness of the insurer's policies and processes and the documentation and controls in respect of these, on a legal entity and group-wide basis and on an individual subsidiary, business unit, business area, department or other organisational unit basis;
- reviewing levels of compliance by employees, organisational units and third parties with laws, regulations and supervisory requirements, established policies, processes and controls, including those involving reporting;
- evaluating the reliability, integrity and effectiveness of management information processes and the means used to identify, measure, classify and report such information;
- monitoring that identified risks are effectively addressed by the internal control system;
- evaluating the means of safeguarding insurer and policyholder assets and, as appropriate, verifying the existence of such assets and the required level of segregation in respect of insurer and policyholder assets;

- monitoring and evaluating the effectiveness of the insurer's control functions, particularly the risk management and compliance function; and
- coordinating with the external auditors and, to the extent requested by the Board and consistent with applicable law, evaluating the quality of performance of the external auditors.

8.7.8 In carrying out the above tasks, the internal audit function should ensure all material areas of risk and obligation of the insurer are subject to appropriate audit or review over a reasonable period of time. Among these areas are those dealing with:

- market, underwriting, credit, liquidity, operational, conduct of business, as well as reputational issues derived from exposure to those risks;
- accounting and financial policies and whether the associated records are complete and accurate;
- extent of compliance by the insurer with applicable laws, regulations, rules and directives from all relevant jurisdictions;
- intra-group transactions, including intra-group risk transfer and internal pricing;
- adherence by the insurer to the insurer's remuneration policy;
- the reliability and timeliness of escalation and reporting processes, including whether there are confidential means for employees to report concerns or violations and whether these are properly communicated, offer the reporting employee protection from retaliation, and result in appropriate follow up; and
- the extent to which any non-compliance with internal policies or external legal or regulatory obligations is documented and appropriate corrective or disciplinary measures are taken including in respect of individual employees involved.

8.7.9 Subject to applicable laws on record retention, the internal audit function should keep records of all areas and issues reviewed so as to provide evidence of these activities over time.

CF 8.7.a The group-wide supervisor requires the IAIG Board to ensure that the group-wide internal audit function provides independent assessment and assurance to the IAIG Board regarding, at least, the:

- **group-wide policies, processes, and controls;**
- **overall means by which the IAIG preserves its assets, and those of policyholders, and seeks to prevent fraud, misappropriation or misapplication of such assets;**

- **reliability, integrity and completeness of the accounting, financial, management, information technology systems and risk reporting information;**
- **capacity and adaptability of information technology systems to provide information in an accurate and timely manner to the IAIG Board and Senior Management; and**
- **design and operational effectiveness of the group-wide risk management and internal controls systems, both individually and overall.**

CF 8.7.a.1 The group-wide internal audit function coordinates with the internal audit functions and external auditors of the legal entities within the IAIG when providing assessment and assurance to the IAIG Board.

Outsourcing of material activities or functions

8.8 The supervisor requires the insurer to retain at least the same degree of oversight of, and accountability for, any outsourced material activity or function (such as a control function) as applies to non-outsourced activities or functions.

8.8.1 Outsourcing should not materially increase risk to the insurer or materially adversely affect the insurer's ability to manage its risks and meet its legal and regulatory obligations.

8.8.2 The Board and Senior Management remain responsible in respect of functions or activities that are outsourced.

8.8.3 The supervisor should require the Board to have review and approval processes for outsourcing of any material activity or function and to verify, before approving, that there was an appropriate assessment of the risks, as well as an assessment of the ability of the insurer's risk management and internal controls to manage them effectively in respect of business continuity. The assessment should take into account to what extent the insurer's risk profile and business continuity could be affected by the outsourcing arrangement.

8.8.4 The supervisor should require insurers which outsource any material activity or function to have in place an appropriate policy for this purpose, setting out the internal review and approvals required and providing guidance on the contractual and other risk issues to consider. This includes considering limits on the overall level of outsourced activities at the insurer and on the number of activities that can be outsourced to the same service provider. Because of the particularly important role that control activities and control functions play in an insurer's corporate governance framework, the supervisor should consider issuing additional requirements for their outsourcing or dedicating more supervisory attention to any such outsourcing.

8.8.5 Outsourcing relationships should be governed by written contracts that clearly describe all material aspects of the outsourcing arrangement, including the rights, responsibilities and expectations of all parties. When entering into or varying an outsourcing arrangement, the Board and Senior Management should consider, among other things:

- how the insurer's risk profile and business continuity will be affected by the outsourcing;
- the service provider's governance, risk management and internal controls and its ability to comply with applicable laws and with regulations;
- the service providers' service capability and financial viability; and
- succession issues to ensure a smooth transition when ending or varying an outsourcing arrangement.

8.8.6 In choosing an outsourcing provider, the Board or Senior Management should be required to satisfy themselves as to the expertise, knowledge and skills of such provider.

8.8.7 Outsourcing arrangements should be subject to periodic reviews. Periodic reports should be made to management and the Board.

CF 8.8.a The group-wide supervisor requires the Head of the IAIG to have:

- **a policy which takes into account the potential impact on the IAIG of outsourcing of any material group-wide activity or function, sets out the internal review and approvals required, and provides guidance on the contractual and other risk issues to consider; and**
- **written contracts that describe all material aspects of the outsourcing arrangement, including the rights, responsibilities and expectations of all parties.**

CF 8.8.b When choosing a service provider (either internal or external) for a material group-wide activity or function that is to be outsourced, the group-wide supervisor requires the Head of the IAIG to:

- **assess the potential service provider's ability and capacity to deliver the outsourced activities or functions;**
- **perform due diligence on the service provider with respect to explicit or potential conflicts of interest that would jeopardise the fulfilment of the needs of the IAIG; and**
- **ensure that the service provider has the necessary resources to perform the outsourced activities or functions in a proper and reliable way, as well as adequate contingency plans in place to deal with emergency situations or business disruptions.**

CF 8.8.b.1 Activities or functions may be outsourced to an internal service provider (i.e. a legal entity which is part of the IAIG) or an external service provider. In the case of an internal service provider, the assessment and due diligence process may be different from the case of an external service provider. For example, if the internal service provider has already been assessed recently, some aspects of the assessment may not need to be repeated. Even though the assessment process used may vary between an internal or external service provider, it should be equally robust.

CF 8.8.c **The group-wide supervisor requires the Head of the IAIG to ensure that outsourcing (either internal or external) of a group-wide activity or function does not impede effective supervision of the Head of the IAIG.**

CF 8.8.d **The group-wide supervisor requires the Head of the IAIG to carry out a periodic review of the cumulative risks of outsourced activities and functions and address identified risks.**

ICP 9 Supervisory Review and Reporting

The supervisor uses off-site monitoring and on-site inspections to: examine the business of each insurer; evaluate its financial condition, conduct of business, corporate governance framework and overall risk profile; and assess its compliance with relevant legislation and supervisory requirements. The supervisor obtains the necessary information to conduct effective supervision of insurers and evaluate the insurance market.

Introductory Guidance

9.0.1 This ICP focuses on the general processes and procedures supervisors should have in place with respect to supervisory review and reporting. For the purpose of this ICP, off-site monitoring and on-site inspections are collectively referred to as "supervisory review". Aspects of what supervisors may require or assess as part of supervisory review and reporting on specific areas (such as solvency, governance, conduct of business) are dealt with in other ICPs with respect to those ICPs' specific areas of focus.

9.0.2 Supervision is a dynamic process that includes:

- developing and implementing a framework for supervisory review and reporting;
- developing and executing supervisory plans for insurers;
- analysis of reported and other relevant information;
- feedback and dialogue between the supervisor and insurers;
- intervention, including any preventive/corrective measures or sanctions, where necessary;
- follow-up (including updating the supervisory framework and/or adjusting the frequency and intensity of assessment under supervisory plans); and
- cooperation and coordination with other relevant supervisors and authorities where necessary.

CF 9.0.a The group-wide supervisor engages with the Head of the IAIG and, in cooperation with other involved supervisors, carries out a supervisory review to assess the IAIG's compliance with relevant legislation and supervisory requirements applicable at the level of the Head of the IAIG.

CF 9.0.a.1 This supervisory review may be conducted within the supervisory college (see ComFrame material under ICP 25 Supervisory Cooperation and Coordination).

CF 9.0.a.2 Cooperation with other involved supervisors includes them providing relevant information concerning the insurance legal entities within the

IAIG that they supervise. It is the responsibility of the group-wide supervisor to assess the IAIG's compliance with the relevant legislation and supervisory requirements applicable at the level of the Head of the IAIG.

Framework for supervisory review and reporting

9.1 The supervisor has a documented framework which outlines its approach for supervisory review and reporting. The supervisor reviews periodically that this framework remains effective and adequate.

9.1.1 While the framework should encompass all insurers within a jurisdiction, it should be sufficiently flexible with varying supervisory review and reporting requirements that allow for taking a risk-based approach. For example, the supervisory processes and activities which are appropriate for a complex, internationally active insurer may be different than those for a small, local insurer.

9.1.2 The supervisor should have documented procedures and/or guidelines for consistent and regular supervisory review and reporting at an appropriate level of depth.

9.1.3 The supervisor should be able to process data in a timely and effective way and have processes and procedures to collect and store reported data securely in an electronic format. The framework should have the necessary protections for confidential information in the possession of the supervisor and for the sharing of information (see ICP 2 Supervisor and ICP 3 Information Sharing and Confidentiality Requirements).

9.1.4 The framework should enable the supervisor to coordinate on-site inspection and off-site monitoring activities. The supervisor should document the results of these activities in such a way that they are accessible and comprehensible to all involved staff.

9.1.5 The supervisor should establish both qualitative and quantitative methods for assessing insurers, in a consistent manner and on an on-going basis. The supervisor should develop monitoring tools to identify potential risks within or affecting the insurer or its customers in a timely manner.

9.1.6 The framework should enable the supervisor to evaluate the insurer's business, financial condition, conduct of business and corporate governance framework to determine the insurer's overall risk profile. In order to achieve this objective, the supervisor should have an understanding of at least the insurer's:

- current and prospective solvency, including assets and liabilities and off-balance sheet commitments;
- capital resources management;
- technical operations (e.g. actuarial methods, underwriting policy, reinsurance policy);
- treatment of customers and whether any activities being engaged in are not fair, lawful or proper;

- corporate culture, business objectives and strategies and business models;
- the systems of risk management and internal controls;
- organisational structure; and
- compliance with supervisory requirements.

9.1.7 The supervisor should assess the insurer's enterprise risk management framework for the identification and quantification of risks, and evaluate whether business activities and/or internal practices/processes reflect the insurer's risk assessment. The supervisor should compare the risk profile of the insurer with its risk-carrying capacity and seek to detect issues that may adversely affect its capacity to meet obligations towards policyholders. The framework should enable the supervisor to analyse trends and compare risk assessments including against any stress test outcomes.

9.1.8 The framework should include assessments of the risks to which insurers are exposed and the risks which insurers may pose to policyholders, the insurance sector and financial stability. These assessments should include risks which may lead to an insurer's distress or disorderly failure or which may be transmitted through collective activities or exposures of a group of insurers and that may have a serious negative impact on financial stability (see ICP 24 Macroprudential Supervision).

9.1.9 The framework should include sufficiently comprehensive and regular communication between the supervisor and insurers. This communication should involve senior level representatives as well as specialised areas within both the supervisor and insurers, and for insurance groups, may include contact with non-regulated and parent entities. Additionally, there should be appropriate communication channels between the supervisor and the external auditors for the exchange of information relevant to carrying out their respective statutory responsibilities.

9.1.10 The framework should promote pro-active and early intervention by the supervisor, in order to enable the insurer to take appropriate action to mitigate risks and/or minimise current or future problems.

Review of the Framework

9.1.11 The supervisor's review of its framework should pay due attention to the evolving risks which may be posed by insurers and to risks to which insurers may be exposed.

9.1.12 As part of the framework review, the supervisor should confer regularly internally as well as externally with other relevant authorities and stakeholders so that all relevant information is being appropriately assessed and analysed, and to facilitate the identification of potential new risks or emerging market trends that the framework may need to address. While the framework should be updated accordingly, the supervisor should be mindful that such updates are not done so frequently or in a manner that causes unnecessary disruption to the supervisory process and/or excessive costs to the supervisor and insurers.

9.1.13 The framework should be suitably flexible so that it may adapt easily and in a timely manner to domestic and global developments in, for example, legislation, the insurance and broader financial markets, or international standards.

Group Perspectives

9.1.14 The framework of the group-wide supervisor should take into account all entities identified within the scope of the insurance group (see ICP 23 Group-wide Supervision). While insurance groups may have different approaches to governance structures – either more centralised or more decentralised – the framework should include appropriate tools for supervisory review and reporting for all relevant entities (see Issues Paper on Approaches to Group Corporate Governance).

9.1.15 Although the group-wide supervisor may not have the power to conduct supervisory review and reporting of non-regulated entities, it should assess, at a minimum, the potential adverse impact of such non-regulated entities on the group.

9.1.16 Similarly, where the group-wide supervisor does not have the power to conduct supervisory review and reporting of a group entity in another jurisdiction, it should communicate and coordinate with the host supervisor accordingly. For example, the group-wide supervisor could approach the host supervisor to propose a joint on-site inspection or recommend that the host supervisor undertake such an inspection, when deemed necessary.

9.2 As part of the supervisory framework, the supervisor develops supervisory plans which set priorities and determine the appropriate depth and level of off-site monitoring and on-site inspection activity.

9.2.1 A supervisory plan is a tool for supervisors to determine the frequency, scope and depth of supervisory review activities. It could be generic (e.g. addressing categories or groups of insurers) or specific (addressing individual insurers).

9.2.2 In establishing a supervisory plan, the supervisor should assess and determine the key areas of risk to which insurers are exposed or risks which insurers may pose, using its judgement and the information, methodologies and tools at its disposal.

9.2.3 The circular nature of the supervisory framework provides a variety of inputs to help develop and/or adjust supervisory plans. For example, market analyses, internal models, insurers' own risk and solvency assessments (ORSA), horizontal reviews, stress/scenario testing, previous risk and conduct assessments, work of external auditors and information gathered as a result of supervisory reporting requirements provide information the supervisor should use as input in determining the scope and frequency of off-site monitoring and on-site inspections.

Group-wide supervisory plan and risk assessment

CF 9.2.a The group-wide supervisor's supervisory plan for an IAIG includes a group-wide risk assessment that is conducted at least annually.

CF 9.2.a.1 The group-wide risk assessment of an IAIG should be conducted with inputs from the supervisory process.

CF 9.2.a.2 The group-wide supervisor should consider the results of the IAIG's enterprise risk management framework including its ORSA assessment, as part of the group-wide risk assessment.

CF 9.2.a.3 The group-wide supervisor should use information gathered on legal entities within the IAIG from other involved supervisors as another basis for the assessment of group-wide risk. Where other involved supervisors identify risks that may be relevant to the supervision of the IAIG at the group level, they should share their individual risk assessment.

CF 9.2.a.4 The group-wide supervisor should consider inputs from other relevant supervisors not involved in the direct supervision of the IAIG such as macro-prudential analysis, anti-money laundering or combatting the financing of terrorism.

Peer-group analysis

CF 9.2.a.5 To the extent practicable and where useful, the group-wide supervisor should conduct an analysis of the IAIG's peers as part of the group-wide risk assessment, in cooperation with group-wide supervisors of other IAIGs. Information in the public domain should be used for the purposes of the peer-group analysis. The group-wide supervisor may also use non-public information provided by other supervisors. If sharing non-public information for the purpose of the peer-group analysis, the supervisors should be conscious of the risk of sharing information that in certain situations could compromise the competitive advantage of the IAIG's peers. The supervisors should consider whether it is appropriate to anonymise information shared.

CF 9.2.a.6 In conducting peer group analysis, the group-wide supervisor should consider issues such as:

- the similarity of business models and geographical scope of IAIGs;
- the size, type and structure of IAIGs; and
- internal IAIG practices and governance, including risk management.

CF 9.2.a.7 It is the group-wide supervisor's responsibility to decide to what extent the outcomes of peer-group analysis are shared with other involved supervisors. Peer-group analysis is subject to confidentiality requirements (see ICP 3 – Information Exchange and Confidentiality Requirements).

CF 9.2.b The group-wide supervisor includes in its group-wide risk assessment of an IAIG, at least, an evaluation of the following:

- **the complexity of the IAIG's group structure and the resulting risks to effective group-wide supervision;**
- **the capital adequacy and the availability of capital to meet group-wide capital requirements taking into account the regulatory capital requirements for each insurance legal entity within the IAIG; and**
- **the impact of the complexity of the IAIG's group structure on the effectiveness of its group-wide corporate governance framework.**

CF 9.2.b.1 In conducting the group-wide risk assessment, the group-wide supervisor should consider:

- the alignment between the IAIG's competitive position, business plans and strategy, risk appetite, and risk-carrying capacity;
- the IAIG's approach to its legal and regulatory obligations, its product distribution model and its proposals for dealing with specific areas of risk;
- non-regulated and non-financial legal entities within the IAIG;
- the adequacy and outcomes of the IAIG's stress testing and scenario analysis;
- the IAIG's ability to meet policyholder obligations in both the near and long-term within the context of the risks arising from the macro environment in which the IAIG's operates; and
- the potential impact that the IAIG's distress or disorderly failure would have on policyholders, the insurance sector, and financial stability, as well as the impact from the IAIG's contribution to collective activities or exposures that may have serious negative impact on financial stability.

Complexity

CF 9.2.b.2 In conducting the group-wide risk assessment, the group-wide supervisor should consider:

- aggregated risk exposures that the IAIG has towards external counterparties, which can arise from direct and indirect exposures, on-balance and off-balance sheet items, regulated and non-regulated legal entities within the IAIG, the same or different financial sectors across the IAIG, or a combination or interaction of such exposures. The group-wide supervisor should evaluate if the Head of the IAIG has adequate oversight and has implemented an adequate risk management system to assess its aggregated credit, market, insurance and liquidity risk concentrations. Such risk concentrations should be viewed in the context of single or closely related drivers of risk that may have material impact on the IAIG;

- increased operational risk where the IAIG relies on significant cross-border services or support. Such cross-border activity may also increase the complexity of recovery and resolution planning. The group-wide supervisor should evaluate the effectiveness of the IAIG's policies, processes and systems, and assess whether the IAIG has adequate business continuity plan arrangements to mitigate such cross-border operational risk; and
- significant intra-group transactions which can give rise to contagion effects within the IAIG, or result in a circumvention of sectoral regulatory requirements. The group-wide supervisor should evaluate whether the Head of the IAIG has adequate oversight over all material intra-group transactions.

Capital adequacy

CF 9.2.b.3 In conducting the group-wide risk assessment, the group-wide supervisor should assess the adequacy of an IAIG's capital position against group capital standards applicable at the level of the Head of the IAIG. The role of the group-wide supervisor in conducting and coordinating this assessment is particularly important in cases where the IAIG has a mixture of insurance, banking and securities sector operations.

CF 9.2.b.4 In conducting the group-wide risk assessment, the group-wide supervisor should identify situations that may give rise to double or multiple gearing. Such situations may occur within IAIGs which are not fully consolidated and when one legal entity holds regulatory capital issued by another entity within the IAIG, where the issuer is permitted to include the capital in meeting its own regulatory requirements. These situations can result in an overstatement of group capital. The group-wide supervisor should require that the capital adequacy assessments of the IAIG exclude intra-group holdings of regulatory capital if not performed on a fully consolidated basis.

CF 9.2.b.5 In conducting the group-wide risk assessment, the group-wide supervisor, in cooperation with other involved supervisors, should assess the fungibility of capital (its ability to absorb losses arising anywhere in the IAIG as needed). The group-wide supervisor should take into account regulatory, legal and other requirements that may affect the IAIG's ability to transfer capital between entities, sectors and jurisdictions, both in normal circumstances and in a crisis.

Non-regulated and non-financial legal entities

CF 9.2.b.6 In conducting the group-wide risk assessment, the group-wide supervisor should consider the activities undertaken by non-regulated legal entities within the IAIG by assessing issues such as:

- the potential contagion risks arising from the activities of non-regulated legal entities due to interdependencies or exposures between the insurance legal entities and the non-regulated legal entities within the IAIG;

- the competence of the IAIG Board and Senior Management in understanding and managing the risks arising from the non-regulated legal entities, particularly if these entities are significant to the group;
- the strength of the group capital adequacy to support the insurance legal entities. Non-regulated legal entities' contribution to the group capital adequacy could be assessed by calculation of a proxy capital requirement as if the entity were regulated or through deduction of the group's interest in the non-regulated legal entity; and
- where risk has been transferred from regulated to non-regulated legal entities within the IAIG, the group-wide supervisor in cooperation with supervisors of the regulated entities should look through to the overall quantum and quality of assets in the non-regulated entities. The risk assessment should address third party participations and minority interests.

Stress testing

CF 9.2.b.7 In conducting the group-wide risk assessment, the group-wide supervisor should evaluate the results of group-wide stress tests that the IAIG performed.

Macro-prudential analysis

CF 9.2.b.8 In conducting the group-wide risk assessment, the group-wide supervisor, with input from other involved supervisors, should consider the current and forecasted business and the macroeconomic environment in the material jurisdictions in which the IAIG operates. The group-wide supervisor should assess the cumulative potential impact from this on the operations of the IAIG as well as the impact of the IAIG's distress, disorderly failure, or its contribution to collective activities or exposures, on financial stability. This analysis should also be incorporated into forward-looking stress testing to identify possible events or changes in market conditions that could adversely impact the IAIG's financial position or where its distress, disorderly failure, or its contribution to collective activities or exposures, could adversely impact financial stability.

9.3 The supervisor reviews outsourced material activities or functions to the same level as non-outsourced material activities or functions.

9.3.1 The supervisor should review outsourced material activities or functions through the insurer itself, but should also obtain information from, and conduct on-site inspections of, entities engaged in providing outsourced activities or functions for the insurer, where necessary.

9.3.2 The supervisory review process for outsourced material activities or functions may differ from the process used for non-outsourced activities or functions, provided that the supervisory outcomes are met.

9.3.3 Agreements between the insurer and entities providing the outsourced material activities or functions should be drawn up in such a way that the supervisor's ability to conduct its review is not restricted.

Supervisory reporting

9.4 The Supervisor:

- **establishes documented requirements for the regular reporting of qualitative and quantitative information from all insurers licensed in its jurisdiction;**
- **defines the scope, content and frequency of the information to be reported;**
- **sets out the relevant accounting and auditing standards to be used;**
- **requires that an external audit opinion is provided on annual financial statements;**
- **requires insurers to report on any material changes or incidents that could affect their condition or customers;**
- **requires insurers to correct inaccurate reporting as soon as possible; and**
- **requires more frequent reporting and/or additional information from insurers as needed.**

9.4.1 Supervisory reporting requirements should apply to all insurers licensed in a jurisdiction, and form the general basis for off-site monitoring. Supervisory reporting requirements are a reflection of the supervisor's needs and will thus vary by jurisdiction according to overall market structure and conditions and by insurer according to its nature, scale and complexity.

9.4.2 In setting supervisory reporting requirements, the supervisor may make a distinction for foreign insurers who are allowed to conduct insurance activities within the jurisdiction by way of a local branch or subsidiary or on a cross-border provision of services basis.

9.4.3 The supervisor should require insurers to report both quantitative and qualitative information, including at a minimum:

- financial reports, which include at least a balance sheet and income statement as well as a statement of comprehensive income if appropriate;
- an external audit opinion on annual financial statements;
- off-balance sheet exposures;
- material outsourced functions and activities;

- a description of the insurer's organisational structure, corporate governance framework and risk management and internal control systems; and
- information on complaints, claims, surrenders and lapses.

9.4.4 The supervisor should require insurers to utilise a consistent and clear set of instructions and definitions for any element in required reports that is not self-evident, in order to maximise comparability.

9.4.5 The supervisor may require that certain reports and information, such as solvency ratios or technical provisions, are subject to independent (internal or external) review, including audit and/or actuarial review.

9.4.6 While the supervisor sets out the relevant accounting and auditing standards to be used for supervisory reporting, the actual standards are generally established by a party other than the supervisor. To help accounting and auditing standards reflect the nature of insurance business, the supervisor could provide guidance and practices to be used for areas such as fair value estimations and technical provisions.

9.4.7 The external audit of the annual financial statements should be conducted in accordance with auditing standards that are generally accepted internationally.

9.4.8 The supervisor should consider using the work of external auditors in order to support the supervisory review process. For example, the supervisor may utilize the external audits to identify: internal control weaknesses and possible audit material risks; issues resulting from regulatory and accounting changes; changes in insurance and financial risks; and issues encountered in applying the audit approach.

9.4.9 The supervisor should require the external auditor to report matters that are likely to be of material significance without delay. Such matters would include (indication of) material fraud and regulatory breaches or other significant findings identified in the course of the audit. Such information should be provided to the supervisor without the need for prior consent of the insurer and the external auditor should be duly protected from liability for any information disclosed to the supervisor in good faith.

9.4.10 Depending on the nature, scale and complexity of the insurer, more frequent reporting and/or additional information may be requested from specific insurers on a case-by-case basis.

9.4.11 The supervisor should require that information on changes that could materially impact the insurer's risk profile, financial position, organisational structure, governance or treatment of its customers is provided by the insurer in a timely manner.

9.4.12 The supervisor periodically reviews its reporting requirements to ascertain that they still serve their intended objectives and to identify any gaps which need to be filled. Assessing the results of off-site monitoring and on-site inspections may help inform such a review.

Group Perspectives

9.4.13 The supervisor should require an insurance legal entity which is part of an insurance group to describe its group reporting structure, and to provide timely notification of any material changes to that structure and significant changes or incidents that could affect the soundness of the insurance group. The description of the reporting structure should include information on the relationships between entities within the insurance group, and on the nature and volume of material intra-group transactions. The supervisor may require information on the impact on the insurance legal entity of being part of an insurance group.

9.4.14 The supervisor may request and obtain relevant information about any entity within an insurance group, subject to applicable legal provisions and coordination with the supervisors of affected jurisdictions.

9.4.15 The group-wide supervisor should establish its supervisory reporting requirements on a group-wide basis in coordination with the other involved supervisors. Such coordination may help the group-wide supervisor understand what information is being reported and avoid any gaps as well as facilitate the submission of information on group entities in other jurisdictions.

9.4.16 In order to better understand the group and its risks, the group-wide supervisor should require the group to submit information on the group structure, business operation and financial position of material entities within the insurance group and relationship among entities within the insurance group, including participation in other group entities and material intra-group transactions.

CF 9.4.a 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 related to the ICS.

CF 9.4.a.1 Reporting to the group-wide supervisor should be on a confidential basis for the purpose of discussion in the supervisory college.

Off-site monitoring

9.5 The supervisor monitors insurers on an on-going basis, based on communication with the insurer and analysis of information obtained through supervisory reporting as well as market and other relevant information.

9.5.1 The supervisor should be proactive and forward-looking in conducting effective off-site monitoring, and not rely only on historical data. The supervisor should analyse information obtained in a timely manner.

9.5.2 The results of off-site monitoring should influence the supervisory plan and help determine the content, nature, timing and frequency of on-site inspections. Off-site monitoring may also enable the early detection of problems so that prompt and appropriate supervisory responses can be taken before such problems become more serious.

9.5.3 Analysis by the supervisor may provide a deeper understanding of developing trends affecting an insurer and its customers. Analysis by business lines, customer grouping and/or distribution channels may provide insights into the insurer's overall risk profile.

9.5.4 The supervisor should establish and follow documented procedures for the analysis and monitoring of the supervisory reporting that it receives. These may be conducted by individual supervisory staff using monitoring tools and/or specialised resources, as appropriate.

9.5.5 Examples of ways in which this Standard and its corresponding guidance can be pursued include the following: [see text in Annex]

On-site inspection

9.6 The supervisor sets the objective, scope and timing for on-site inspections of insurers, develops corresponding work programmes and conducts such inspections.

9.6.1 On-site inspections help the supervisor to identify strengths and weaknesses within an insurer, and to assess and analyse the risks to which an insurer and its customers are exposed.

9.6.2 On-site inspections may supplement the analysis from off-site monitoring and provide the supervisor with the opportunity to verify information it has received. On-site inspection may also help detect problems that may not be apparent through off-site monitoring. It is important that on-site inspections are coordinated with off-site monitoring to increase efficiency and avoid duplication of work.

9.6.3 On-site inspections should be tailored to the particular insurer and its risks. However, an on-site inspection work programme should remain flexible since new priorities might arise.

9.6.4 The on-site inspection work programme should take account of the insurer's distribution model, the nature, size and profile of its customer base and its relative importance in the market. On-site inspections should be more frequent and more in- depth for insurers which are in a difficult financial position or where there is concern that their business practices pose a high risk of negative customer outcomes.

9.6.5 The supervisor may use independent experts (see ICP 2 Supervisor) to conduct part of an on-site inspection, for instance when additional resources or specific expertise is needed.

9.6.6 The supervisor can conduct on-site inspections on either a broad or targeted basis. The purpose of a broad on-site inspection is to assess the overall condition, activities and risk-profile of the insurer. A targeted on-site inspection is focused on a specific area or areas of an insurer, such as a particular key activity or process. Targeted on-site inspections can also be carried out across a number of insurers based on a specific theme, activity or risk (sometimes called "thematic reviews"). Targeted on-site inspections can be very effective in focusing supervisory resources quickly on those areas requiring immediate attention. If a targeted on-site inspection leads to other areas of supervisory concern, the supervisor may determine that a broad on-site inspection is necessary.

9.6.7 Advance notice is normally given to the insurer before the supervisor conducts an on-site inspection so that both parties may plan accordingly. However, the supervisor may decide not to provide advance notice in certain circumstances.

9.6.8 Examples of ways in which this Standard and its corresponding guidance can be pursued include the following [see text in Annex]:

CF 9.6.a The group-wide supervisor performs on-site inspections at the level of the Head of the IAIG.

CF 9.6.a.1 The group-wide supervisor's on-site inspections should consider group-wide activities and major risks that impact legal entities within the IAIG.

CF 9.6.a.2 During on-site inspections, the group-wide supervisor should have access to the IAIG Board, Senior Management and Key Persons in Control Functions responsible for the group-wide functions wherever these functions are performed. Where the group-wide functions are performed by an insurance legal entity within the IAIG, which is outside the jurisdiction of the group-wide supervisor, the group-wide supervisor should inform the relevant other involved supervisor prior to approaching this insurance legal entity as part of the on-site inspection carried out at the level of the Head of the IAIG.

CF 9.6.a.3 Other involved supervisors should inform the group-wide supervisor of significant planned on-site inspections and communicate the main findings to the supervisory college where they are material to the IAIG or to another insurance legal entity within the IAIG.

CF 9.6.b Where appropriate, the group-wide supervisor, or other involved supervisors with reasonable supervisory interest, join on-site inspections of an insurance legal entity in another jurisdiction, coordinated by the relevant involved supervisor, with prior consent from that supervisor.

CF 9.6.b.1 Relevant involved supervisors should consider organising a joint on-site inspection to address issues that are material to the IAIG or to another insurance legal entity within the IAIG. The relevant involved supervisor should share the main outcomes of a joint on-site inspection within the supervisory college.

Supervisory feedback and follow-up

9.7 The supervisor discusses with the insurer as soon as practical any relevant findings of the supervisory review and the need for any preventive or corrective measures.

9.7.1 The supervisor should provide appropriate feedback in a timely manner to the insurer during the ongoing supervisory review process. The supervisor should issue in writing the findings of the review and the actions required. In many circumstances, the supervisor's initial action will be to discuss the issue with the insurer, which may resolve the issue and require no further action. However some issues may require preventive or corrective measures, and in some cases imposing sanctions (see ICP 10 Preventive Measures, Corrective Measures and Sanctions).

9.7.2 Whether and how the insurer has subsequently addressed issues identified by the supervisor should be considered in the evaluation of the insurer and should be factored into the on-going supervisory plan.

CF 9.7.a The group-wide supervisor communicates the results of the group-wide supervisory review of the IAIG, including the group-wide risk assessment, to the supervisory college and, as appropriate, to the Head of the IAIG.

Annex: Examples of ways in which Standards 9.5 and 9.6 and their corresponding guidance can be pursued include the following:

A) The evaluation of the effectiveness of the insurer’s corporate governance framework, including its risk management and internal control systems, can be done through:

- reviewing and analysing the minutes of the Board and its committees;
- examining communications provided by the auditors to the Board and/or the Audit Committee, such as the auditors’ reports;
- analysing information obtained from and/or received through direct engagement with the external auditor on substantial insights into the insurer’s corporate governance framework, control environment, and financial reporting;
- evaluating the suitability of significant owners by analysing the ownership structure and sources of finance/funding;
- evaluating the independence of the Board Members, the suitability of the Board Members, Senior Management and Key Persons in Control Functions, their effectiveness, and their ability to acknowledge improvement needs and correct mistakes (especially after such needs or mistakes have been identified by the insurer, its auditors, or the supervisor and after changes of management and in the Board);
- testing the insurer's internal policies, processes and controls in order to assess compliance with regulations and/or adequacy of these in light of the insurer's risk profile;
- testing the accounting procedures in order to assess accuracy of the financial and statistical information periodically sent to the supervisor and its compliance with the regulations; and
- evaluating the organisational structure and the management of the insurer.

B) Analyses of the nature of the insurer’s activities can be done through:

- analysing business lines, the type of products offered, policyholders and location of business;
- analysing the distribution model(s) used;
- meeting with the management to get information and a deeper understanding about current and future business plans;
- analysing material contracts;
- analysing the sales and marketing policies of the insurer, in particular, policy conditions and remuneration paid to the intermediaries; and
- evaluating the reinsurance cover and its security. In particular, the reinsurance cover should be appropriate with regards to the financial means of the insurer and the risks it covers.

C) Analyses of the relationships with external entities can be done through:

- analysing organisational charts, the group structures and the intragroup links;
- analysing the relationships with major investors and among branches and subsidiaries;

- analysing intragroup transactions, fees and other arrangements, including identifying instances of cross-subsidization of businesses within a group or non-arm's length fees and charges;
- analysing agreements with external service providers;
- identifying financial problems originating from an entity in the group to which the insurer belongs; and
- identifying of conflicts of interest arising from intra-group relationships or relationships with external entities.

D) Evaluation of the insurer's financial strength can be done through:

- analysing audited financial statements and off-balance sheet commitments;
- analysing the settlement of claims and the calculation of technical provisions according to current regulations;
- analysing the operations and financial results by line of business;
- analysing the investment policy (including derivatives policy) and the assets held to cover the technical provisions;
- valuation of the insurer's investments;
- assessing litigation in which the insurer is a party; and
- analysing the forecasted balance sheets and profit and loss accounts in relation to the most recent results and the management plans.

E) Assessment of the insurer's fair treatment of customers can be done through:

- assessing the culture of the insurer in relation to customer treatment, including the extent to which the insurer's leadership, governance, performance management and recruitment, complaints handling policies and remuneration practices demonstrate a culture of fair treatment to customers;
- assessing how conflicts of interests with customers are identified, managed and mitigated;
- reviewing how products are designed and distributed to ensure they fulfil the customers' demands and needs;
- checking the adequacy, appropriateness and timeliness of the information and advice given to customers;
- reviewing the handling and timing of claims and other payments;
- reviewing the handling, frequency and nature of customer complaints, disputes and litigation; and
- reviewing any customer experience reports used by the insurer or from other sources, such as an ombudsman.

ICP 10 Preventive Measures, Corrective Measures and Sanctions

The supervisor:

- **requires and enforces preventive and corrective measures; and**
- **imposes sanctions**

which are timely, necessary to achieve the objectives of insurance supervision, and based on clear, objective, consistent, and publicly disclosed general criteria.

Introductory Guidance

10.0.1 The supervisor should initiate escalating measures to prevent a breach of regulatory requirements by an insurer, respond to a breach of regulatory requirements by an insurer, and enforce those measures to ensure that the insurer responds to the supervisor's concerns. Preventive measures should be used to prevent a breach of regulatory requirements and corrective measures should be used to respond to a breach of regulatory requirements. Functionally, supervisors may take similar or identical actions as preventive or corrective measures. In addition, where a regulatory requirement has been violated, supervisors may use sanctions.

10.0.2 Supervisors should promptly and effectively deal with insurer non-compliance with regulatory requirements or supervisory measures that could put policyholders at risk, could pose a threat to financial stability, or could impinge on any other supervisory objectives. The more significant the threat to policyholders' interests or to financial stability, then the quicker the supervisor will need to act and to require action from the insurer, and the more significant the measures that may be required. By mitigating certain risks, preventive and corrective measures that are primarily intended to protect policyholders may also contribute to financial stability, by decreasing the probability and magnitude of any negative systemic impact.

10.0.3 Circumstances may arise when preventive or corrective measures are insufficient to prevent an insurer from being no longer viable, or likely to become no longer viable, and therefore need to exit the market or be resolved (see ICP 12 Exit from the Market and Resolution).

10.0.4 As part of the supervisory framework (see ICP 9 Supervisory Review and Reporting), supervisors should consider in advance how to use preventive and corrective measures, enforcement of those measures, and the imposition of sanctions. A supervisor's framework should be documented to assist in the delivery of consistent supervision over time. It is crucial that the framework leaves room for the exercise of supervisory judgement and discretion, so flexibility should be allowed in the use of preventive measures, corrective measures and sanctions. In addition to general criteria, other parts of the framework on preventive measures, corrective measures and sanctions can also be released publicly, particularly where the supervisor feels that this additional transparency will lead to the market functioning more effectively. The decision-making processes that underpin the supervisory framework should function in a way that allows the supervisor to take immediate action when necessary.

10.0.5 In some instances, the supervisor will need to work with other authorities or bodies in order to take or enforce supervisory measures or sanctions against an insurer. For example, some measures or sanctions will require the approval of a judicial body.

10.0.6 There are different methods by which supervisory outcomes can be achieved. The method chosen may vary depending on the jurisdiction's legal framework. In some jurisdictions, one method is to accept an enforceable written agreement to do, or not to do, some thing or things from the insurer in question. The potential advantages of achieving an outcome by this route are that it can be quicker and less costly. This option can be used to achieve outcomes related to preventive or corrective measures or to sanctions.

Group perspectives

10.0.7 Measures or sanctions targeted at non-insurance legal entities within an insurance group may require the supervisor to work with other regulatory authorities.

10.0.8 The supervisor for an insurance legal entity within an insurance group should inform other involved supervisors when taking supervisory measures against or imposing sanctions on that insurance legal entity, where those sanctions are material or otherwise relevant to those supervisors.

CF 10.0.a The group-wide supervisor applies supervisory measures directly to the Head of the IAIG. If the Head of the IAIG is not within the group-wide supervisor's jurisdiction, other involved supervisors apply supervisory measures to assist the group-wide supervisor.

CF 10.0.a.1 The group-wide supervisor should have flexibility in how it applies supervisory measures, which may need to vary according to the legal structure of the group, the jurisdiction in which the legal entities in the group are established, and the supervisory authority over relevant parts of the group.

CF 10.0.a.2 If the Head of the IAIG is not located in the jurisdiction of the group-wide supervisor, the group-wide supervisor should use indirect powers to apply supervisory measures.

CF 10.0.a.3 Other involved supervisors should assist the group-wide supervisor to apply supervisory measures to the Head of the IAIG or to insurance legal entities if they have direct supervisory powers to do so.

CF 10.0.b An involved supervisor coordinates with other involved supervisors before requiring a specific preventive or corrective measure if that measure will have a material effect on the supervision of the IAIG as a whole, or on the supervision of an insurance legal entity within the IAIG, unless exceptional circumstances preclude such coordination.

CF 10.0.b.1 The supervisory college provides a forum for the group-wide supervisor and other involved supervisors to coordinate preventive and corrective measures. In addition to supervisory colleges, coordination can take place through a crisis management group (see ComFrame material under ICP 25 Supervisory Coordination and Cooperation).

CF 10.0.b.2 Supervisory measures that should be preceded by coordination between involved supervisors include: restricting the transfer of assets between entities within the IAIG; requiring an increase in capital; and suspending or revoking the licence of an insurance legal entity.

CF 10.0.b.3 There may be exceptional circumstances where an involved supervisor that wishes to act cannot coordinate in advance with the other involved supervisors. In such circumstances, the involved supervisor should inform the other involved supervisors of the decision made, or action taken, and the supporting rationale, as soon as possible.

CF 10.0.b.4 An involved supervisor does not need to coordinate with the other involved supervisors if the preventive or corrective measure will not materially affect the IAIG as a whole or another insurance legal entity. For example, an involved supervisor may not need to coordinate with the other involved supervisors before requiring the insurance legal entity to enhance its regulatory reporting as a preventive measure to monitor the entity's specific business.

CF 10.0.b.5 If an involved supervisor requires an insurance legal entity within the IAIG to take preventive or corrective measures that are long-term and material in nature, that supervisor should provide periodic updates to the supervisory college.

CF 10.0.b.6 The requirement to coordinate action (other than in exceptional circumstances) does not imply that the supervisor taking action needs the consent of other involved supervisors to take action which is necessary to discharge its duties under the law in its jurisdiction.

10.1 The supervisor acts against individuals or entities that conduct insurance activities without the necessary licence.

10.1.1 The supervisor should have in place mechanisms to identify when unlicensed insurance activity is being carried out. Examples of such mechanisms include monitoring of media and advertising, review of consumer complaints or encouraging industry and other stakeholders to notify the supervisor of suspicious activity.

10.1.2 Where unlicensed activity is identified, the supervisor should act to address the issue. Examples include requiring the unlicensed entity to apply for a licence, seeking court orders to require the unlicensed entity to stop the activity, informing law enforcement authorities of criminal and/or civil concerns, imposing sanctions on the individual/entity or publicising the fact that the individual and/or entity is/are not licensed to conduct insurance activities.

10.2 The supervisor requires preventive measures if the insurer seems likely to operate in a manner that is inconsistent with regulatory requirements.

10.2.1 Determining when an insurer seems likely to operate in a manner that is inconsistent with regulatory requirements will require a degree of discretion on the part of the supervisor. Nevertheless, concerns that necessitate preventive measures should be well founded based on the supervisor's assessment.

10.2.2 If the insurer operates in a manner that is likely to impact its ability to protect policyholders' interests or pose a threat to financial stability, it should lead to more urgent preventive measures by the supervisor.

10.2.3 The supervisor should communicate concerns to the insurer with a promptness that reflects the significance of the concern. Some concerns, such as relating to insurer solvency, policyholder protection, or financial stability, will be sufficiently significant to require immediate communication to the insurer. Other concerns, although significant, may not require such rapid communication, but should still be communicated appropriately. For example, it is unlikely to be appropriate for a supervisor to wait for the next on-site visit to an insurer before communicating a significant concern.

10.2.4 The supervisor should promptly bring significant concerns to the attention of the Board because it has ultimate responsibility for the insurer and that such concerns are resolved. In addition, the supervisor should also communicate with Senior Management and with Key Persons in Control Functions to bring significant concerns to their attention.

10.2.5 The supervisor should have available a range of preventive measures broad enough to address insurers of all sizes and complexities. Preventive measures should be chosen to address the severity of the insurer's problems.

10.2.6 The supervisor should have the power to issue, and enforce:

- restrictions on business activities, such as:
  - prohibiting the insurer from issuing new policies or new types of product;
  - requiring the insurer to alter its sales practices or other business practices;
  - withholding approval for new business activities or acquisitions;
  - restricting the transfer of assets;
  - prohibiting the insurer from continuing a business relationship with an intermediary or other outsourced provider, or requiring the terms of such a relationship to be varied;
  - restricting the ownership of subsidiaries; and

    - restricting activities of a subsidiary where, in its opinion, such activities jeopardise the financial situation of the insurer;
- directions to reinforce the insurer's financial position, such as:
    - requiring measures that reduce or mitigate risks (for example, restricting exposures, through either hard or soft limits, to individual counterparties, sectors, or asset classes);
    - requiring an increase in capital;
    - restricting or suspending dividend or other payments to shareholders; and
    - restricting purchase of the insurer's own shares; and
- other directions, including:
    - requiring the reinforcement of governance arrangements, internal controls or the risk management system;
    - requiring the insurer to prepare a report describing actions it intends to undertake to address specific activities the supervisor has identified, through macroprudential surveillance, as potentially leading to a threat to financial stability (see ICP 24 Macroprudential Supervision);
    - facilitating the transfer of obligations under the policies from a failing insurer to another insurer that accepts this transfer;
    - suspending the licence of an insurer; and
    - barring individuals acting in key roles from such roles in future.

10.2.7 The supervisor may also have other powers available, including:

- temporarily delaying or suspending, in whole or in part, the payments of the redemption values on insurance liabilities or payments of advances on contracts;
- lowering the maximum rate of guarantees for new business or introducing additional reserving requirements; or incentivising the use of a system-wide lending facility, when available, for market-wide liquidity issues extending to insurers.

10.2.8 The supervisor should take steps to address problems arising from Board Members, Senior Management, Key Persons in Control Functions, significant owners, external auditors and any other person who plays a significant role within the insurer. For example, the supervisor should require the insurer to replace or restrict the power and role of those involved (listed above) in the governance processes if the supervisor has material concerns with management or governance.

10.2.9 The supervisor should reject, rescind and/or request a court to revoke the appointment of an external auditor who is deemed to have inadequate expertise or independence, or is not subject to, or does not adhere to, established professional standards.

10.2.10 Supervisors should take action to address insurer audit quality concerns, including, where possible, requiring replacement or appointment of a supplementary auditor and the sanctioning of an external auditor if necessary. Supervisors should watch for indicators of potential major audit quality concerns, such as when:

- the auditor does not have adequate insurance industry knowledge and competence;
- there is an identified issue with auditor objectivity and independence;
- the auditor does not disclose to the supervisor matters that it is required to disclose;
- clear audit quality concerns are identified, such as if the auditor fails to test internal control systems sufficiently, the auditor is not appropriately sceptical, or does not appropriately challenge the insurer's management regarding the major accounting figures; or
- the auditor's system of internal quality control appears ineffective.

CF 10.2.a The group-wide supervisor requires the Head of the IAIG to take preventive measures if:

- **a legal entity within the IAIG seems likely to operate in a manner that**

  would have a material adverse effect on the IAIG as a whole; or
- **the IAIG as a whole seems likely to operate in a manner that is inconsistent with regulatory requirements.**

CF 10.2.a.1 The situation described in the first part of the Standard could arise, for example, where one regulated legal entity in the group seems likely to fail to meet its capital requirement, causing the IAIG as a whole to be likely to fail to meet a group capital requirement to which it is subject.

CF 10.2.a.2 The group-wide supervisor should not require the Head of the IAIG to take additional preventive measures if the supervisor of an insurance legal entity within the IAIG has already required that entity to take preventive measures and the group-wide supervisor has assessed that the preventive measures adequately mitigate the risk to the IAIG as a whole.

CF 10.2.a.3 The situation described in the second part of the Standard could arise, for example, where every regulated legal entity in the IAIG meets its capital requirement, but the group as a whole seems unlikely to meet a group capital requirement to which it is subject.

10.3 The supervisor requires corrective measures if the insurer fails to operate in a manner that is consistent with regulatory requirements.

10.3.1 The Guidance under Standard 10.2 is equally applicable when considering corrective measures.

10.3.2 In addition to the supervisory tools set out in 10.2.6, when considering corrective measures the supervisor may find it necessary, in cases of serious breach of regulatory requirements, to revoke the licence of an insurer. The supervisor should be able to enforce this decision.

10.4 The supervisor:

- **requires the insurer to take actions that address the supervisor's identified concerns;**
- **periodically checks that the insurer is taking action; and**
- **assesses the effectiveness of the insurer's actions.**

10.4.1 The supervisor should require the insurer to prepare a plan to resolve the concerns within an acceptable timeframe. The plan should include actions proposed by the insurer or preventive or corrective measures required by the supervisor. What is acceptable as a timeframe will depend on the circumstances of the concerns raised.

10.4.2 If the insurer does not prepare an acceptable plan in a specified timeframe to respond to the supervisor's concerns, the supervisor should impose such a plan on the insurer.

10.4.3 The supervisor should review the results of the actions that the insurer has taken. The supervisor should review both whether the actions have been taken and, if so, the effectiveness of the actions.

10.4.4 The supervisor may require assurance from an independent reviewer regarding adequate resolution of significant concerns. In such cases the supervisor may also require that such an independent reviewer be appointed at the expense of the insurer.

10.5 The supervisor escalates, including enforcing, preventive or corrective measures if its concerns are not addressed by the insurer's actions.

10.5.1 The supervisor should require further measures if its concerns with the insurer become worse, including if the insurer fails to take the actions in a plan.

10.5.2 Supervisory measures should escalate in line with the supervisor's concerns about the insurer. If the insurer's inaction leads to an increased risk to policyholders, then the supervisor should respond by requiring stronger measures to mitigate this risk.

10.5.3 Enforcement of preventive or corrective measures could involve the supervisor issuing a formal direction to an insurer to take particular actions or to cease conducting particular activities. It could also involve the supervisor seeking the assistance of other authorities, or the courts, to enforce a measure.

CF 10.5.a The group-wide supervisor coordinates with other involved supervisors if the Head of the IAIG, or an insurance legal entity within the IAIG, fails to take action to address the group-wide supervisor's, or other involved supervisor's, identified concerns.

CF 10.5.b Where an insurance legal entity within the IAIG fails to take preventive or corrective measures, as required by the involved supervisor, the group-wide supervisor informs the Head of the IAIG of that lack of compliance and assists the involved supervisor, to the extent possible, in achieving compliant outcome.

10.6 The supervisor imposes sanctions on insurers and individuals proportionate to the breach of regulatory requirements or other misconduct.

10.6.1 The supervisor should be able to impose a range of sanctions, which could be administrative, civil or criminal in nature. These can include the ability to impose fines, the ability to bar individuals acting in key roles from holding similar roles in future, and the ability to require remediation (such as requiring compensation of policyholders in cases of mis-selling). It is recognised that supervisors will not always be able to take a full range of legally binding actions themselves and may need to act in conjunction with, or refer matters to, other authorities, in particular, in the case of criminal penalties.

10.6.2 In some cases it may be appropriate to apply sanctions against insurers or individuals when justified by their actions, or inactions.

10.6.3 The supervisor should, in particular, be able to impose sanctions against insurers and individuals who:

- fail to provide information to the supervisor in a timely fashion;
- withhold information from the supervisor;
- provide information that is intended to mislead the supervisor;
- deliberately misreport to the supervisor; or
- do not act in accordance with orders or directions imposed on the insurer.

10.6.4 The sanctions imposed by the supervisor should be commensurate with the nature and severity of the insurer's non-compliance with regulatory requirements. Administrative or procedural breaches will generally attract less severe sanctions than breaches arising from an insurer's intentional disregard of regulatory requirements. The sanction imposed should be sufficiently dissuasive so that the insurer, or other insurers, do not commit a similar breach in the future.

10.6.5 The supervisor should impose more severe sanctions relative to the gravity of the breach where an insurer's history demonstrates a pattern of non-compliance with regulatory requirements.

10.6.6 The supervisor may impose sanctions on insurers or individuals in addition to supervisory measures or in the absence of supervisory measures.

10.6.7 The imposition of sanctions against an insurer or an individual typically should not delay either supervisory measures or insurer action taken in response to supervisory measures. However, in some instances, the nature of the sanctions may delay supervisory measures. For example, where a supervisor sanctions an insurer by requiring a number of Senior Managers to be replaced with new individuals, supervisory measures intended to improve the governance of the insurer may not be practical until after the new individuals are appointed.

10.6.8 The supervisor, or another responsible authority in the jurisdiction, should take action to enforce sanctions that have been imposed.

10.6.9 The supervisor should sanction insurers and individuals within a consistent framework, so that similar violations and weaknesses attract similar sanctions. Supervisors should consider how proposed sanctions relate to previous cases. The supervisor should identify precedents where the supervisor has sanctioned an insurer or individual for similar actions/inactions. Where the supervisor has sanctioned an insurer or individual for similar actions/inactions, then the supervisor should consider carefully whether a comparable sanction is appropriate. If the supervisor concludes that a very different sanction is appropriate, the supervisor should be prepared to explain why it reached this conclusion.

10.6.10 In order for sanctions to have a deterrent effect on other insurers, the fact of the sanction, and sufficient details of the breach, should in general be published. However, the supervisor should retain the discretion to take a different course of action (for example, not to publish, or to delay publication) where this would further the achievement of supervisory objectives or it is otherwise in the public interest to do so.

CF 10.6.a The group-wide supervisor imposes sanctions directly on the Head of the IAIG within the group-wide supervisor's jurisdiction.

CF 10.6.a.1 Sanctions should include, but are not limited to, the imposition of fines and penalties (even if non-compliance by the Head of the IAIG is due to the actions of a legal entity within the IAIG).

CF 10.6.a.2 The group-wide supervisor should have flexibility in how it imposes sanctions, which may need to vary according to the legal structure of the group, the jurisdiction in which the legal entities in the group are established, and the supervisory authority over relevant parts of the group.

CF 10.6.a.3 If the Head of the IAIG is not located in the jurisdiction of the group-wide supervisor, the group-wide supervisor should use indirect powers to impose sanctions.

CF 10.6.b An involved supervisor communicates with other involved supervisors before imposing sanctions on:

- **an insurance legal entity;**
- **the Head of the IAIG; or**
- **an individual involved with the relevant insurance legal entity or the Head of the IAIG**

if the sanction will have a material effect on the supervision of the IAIG as a whole or a material effect on the supervision of another insurance legal entity within the IAIG, unless exceptional circumstances preclude such communication.

CF 10.6.a.1 The involved supervisor should communicate the need for sanctions to other involved supervisors at the earliest opportunity. Where an involved supervisor must act before communicating the need for sanctions, that supervisor should inform the group-wide supervisor and other involved supervisors of the sanction, and the supporting rationale, as soon as possible.

ICP 12 Exit from the Market and Resolution

Legislation provides requirements for:

- **the voluntary exit of insurers from the market;**
- **the resolution of insurers that are no longer viable or are likely to be no longer viable, and have no reasonable prospect of returning to viability.**

Introductory Guidance

12.0.1 An orderly process for an insurer's withdrawal from the business of insurance helps to protect policyholders, and contributes to the stability of the insurance market and the financial system. Jurisdictions should have transparent and effective regimes for an insurer's exit from the market and the resolution of an insurer.

12.0.2 In this ICP, "resolution" refers to an action taken by a resolution authority towards an insurer that is no longer viable, or is likely to be no longer viable, and has no reasonable prospect of returning to viability. Resolution actions include portfolio transfer, run-off, restructuring, and liquidation.

12.0.3 In this ICP, the term "resolution authority" refers to authorities that are responsible for exercising resolution powers over insurers. Depending on the jurisdiction, this term may include supervisors, other governmental entities or private persons (including administrators, receivers, trustees, conservators, liquidators, or other officers), or courts authorised by law to exercise resolution powers. Thus in this ICP:

- "supervisor" is used when the standard and/or guidance involves responsibilities and/or roles of the day-to-day supervisor of the insurer;
- "resolution authority" is used when the standard and/or guidance involves resolution powers and/or processes after resolution has been instituted: this includes supervisors acting under their resolution powers; and
- "supervisor and/or resolution authority" is used when the standard and/or guidance involves responsibilities for planning and/or initiation of resolution and encompasses supervisors acting in their pre-resolution roles (e.g. before a supervisor or resolution authority institutes resolution and/or obtains any necessary administrative and/or judicial approvals to do so).

12.0.4 The structure and roles of resolution authorities vary across jurisdictions. In some jurisdictions, the resolution authority and the supervisor may be one single authority; in other jurisdictions, resolution of insurers may be the responsibility of one or more separate authorities. In some jurisdictions certain resolution powers may be exercised or overseen by the court. Whatever the allocation of responsibilities, a transparent and effective resolution regime should clearly delineate the responsibilities and powers of each authority involved in the resolution of insurers (see ICP 1 Objectives, Powers and Responsibilities of the Supervisor). Where there are multiple authorities responsible for the resolution of insurers, the resolution regime should empower the relevant authorities to cooperate and coordinate with each other.

12.0.5 Exit from the market refers to cessation of the insurer's business, in part or in whole. Insurers that meet regulatory requirements may decide to exit from the market on a voluntary basis for business and/or strategic reasons. This is often referred to as 'voluntary exit from the market'.

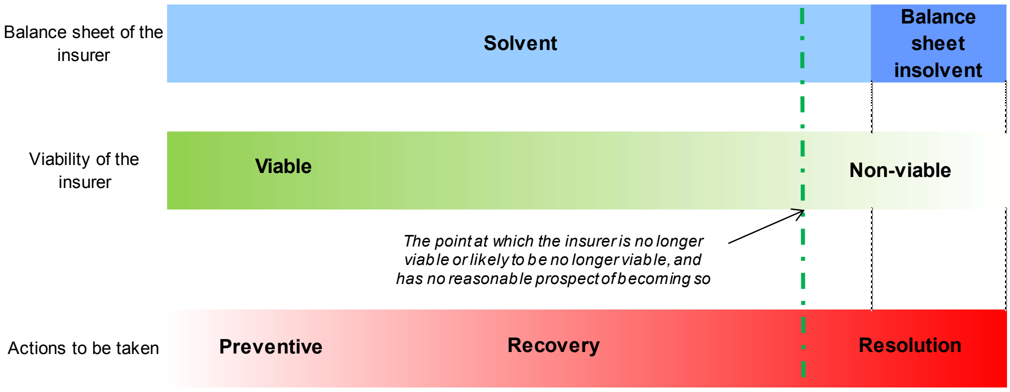
12.0.6 Insurers may also be required by the supervisor to exit from the market. For example, supervisory measures and/or sanctions may result in an insurer exiting from the market (i.e. involuntary exit from the market) (see ICP 10 Preventive and Corrective Measures and Sanctions).

12.0.7 Jurisdictions may need to have mechanisms in place to determine whether the continuity of insurance cover is necessary when insurers exit from the market. Any such continuity should preferably be on the same contract terms, but when necessary, on amended terms. Such mechanisms need to be proportionate to the unique nature and structure of the insurance market in each jurisdiction. Continuity of insurance cover may be facilitated by transferring insurance portfolios to a succeeding insurer, including a bridge institution. Continuity of some insurance contracts, particularly for some non-life products, may be necessary for only a short period (for example 30 or 60 days) so that the policyholder has sufficient time to find another insurer. Facilitating continuity of insurance cover might not be necessary for certain types of insurance products, such as those that are offered by many insurers in a market and which are highly substitutable.

12.0.8 Where an insurer exits from the market and there is no succeeding insurer or no similar insurance products available in the market, mechanisms that facilitate the availability of alternate cover may need to be explored by the supervisor, such as when the exiting insurer delivers insurance contracts that cover risks that may be important to a particular jurisdiction's economy and/or are compulsory insurance in legislation.

12.0.9 Insurers that are no longer viable or likely to be no longer viable and have no reasonable prospect of becoming so through their recovery action or supervisory measures, should be resolved. Figure 1 illustrates in a stylised way the relationship between solvency, viability and the nature of actions to be taken. No uniform, single fixed point of non-viability can be defined that will be appropriate for the application of resolution measures in all circumstances. Whether to apply resolution measures, and the type of measures implemented, will depend upon the factual circumstances of the particular resolution scenario.

Figure 1. Stylised relationship among solvency, viability, and actions to be taken


Balance sheet of the insurer
Solvent
Balance sheet insolvent
Viability of the insurer
Viable
Non-viable
The point at which the insurer is no longer viable or likely to be no longer viable, and has no reasonable prospect of becoming so
Actions to be taken
Preventive
Recovery
Resolution

12.0.10 A resolution regime should make it possible for any losses to be absorbed by: i) shareholders; ii) general creditors; and iii) policyholders, in a manner that respects the jurisdiction's liquidation claims hierarchy. Policyholders should absorb losses only after all lower ranking creditors have absorbed losses to the full extent of their claims. Mechanisms, such as policyholder protection schemes (PPSs), may mitigate the need for the absorption of losses by policyholders.

12.0.11 Depending on the circumstances, appropriate resolution measures may be applied to one or more separate entities in an insurance group, such as: i) the head of the insurance group; ii) an intermediate holding company below the head of the insurance group; iii) an insurance legal entity within the group; iv) a branch of an insurance legal entity within the group; or v) other regulated (e.g. banks) or non-regulated entities within the group. For other regulated entities within the group (e.g. banks), a resolution regime relevant to their sector may apply.

12.0.12 Some insurers operate on a cross-border basis through subsidiaries or branches in another jurisdiction, or through providing insurance services on a cross-border basis without setting up a physical presence outside their home jurisdiction. Also, where an insurance legal entity is a member of a group, there could be intra-group transactions and guarantees among insurance legal entities and/or other group entities in different jurisdictions. Cross-border coordination and cooperation, including exchange of information, is necessary for the orderly and effective resolution of insurers that operate on a cross-border basis.

Voluntary exit from the market

12.1 Legislation provides a framework for voluntary exit from the market that protects the interests of policyholders.

12.1.1 Voluntary exit from the market is initiated by the insurer.

12.1.2 The supervisor should require the insurer which voluntarily exits from the market to make appropriate arrangements for the voluntary exit (e.g., run-off or portfolio transfer), including ensuring adequate human and financial resources to fulfil all its insurance obligations.

12.1.3 The supervisor should require the insurer which voluntarily exits from the market through run-off to submit a run-off programme to the supervisor. The programme should include at least the following information:

- expected timeframe;
- projected financial statements;
- human and material resources that will be available;
- governance and risk management of the process;
- communication with policyholders about the insurer's exit from the market; and
- communication to the public.

12.1.4 Insurers that exit from the market on a voluntary basis should continue to be subject to supervision until all insurance obligations are either discharged or transferred to succeeding insurers. Legislation should provide for appropriate requirements for these exiting insurers.

Objectives of the resolution of insurers

12.2 Legislation provides a framework for resolving insurers which:

- **protects policyholders; and**
- **provides for the absorption of losses in a manner that respects the liquidation claims hierarchy.**

12.2.1 The legislation should support the objective of protecting policyholders. This however does not mean that policyholders will be fully protected under all circumstances and does not exclude the possibility that losses be absorbed by policyholders, to the extent they are not covered by PPSs or other mechanisms. A jurisdiction may have additional resolution objectives in the legislation, such as maintaining financial stability.

12.2.2 The legislation should provide a scheme for prioritising the payment of claims of policyholders and other creditors in liquidation (liquidation claims hierarchy). Resolution powers should be exercised in a way that respects the hierarchy of creditors' claims in liquidation. In a resolution action other than a liquidation, creditors should be entitled to compensation if they receive less than they would have received if the insurer was liquidated (i.e. the "no creditor worse off than in liquidation" (NCWOL) principle). The NCWOL principle may require funding to provide compensation to creditors so that they receive at least as much as they would have received in a liquidation.

12.2.3 Resolution should seek to minimise reliance on public funding. In principle, any public funding used for the resolution of the insurer should be recouped from the insurance sector in a transparent manner. The phrase "reliance on public funding" does not refer to the use of funds from policyholder protection schemes to support the implementation of resolution actions.

CF 12.2.a.1 In addition to the resolution objectives in ICP 12.2, the framework for resolving IAIGs should also include as an objective the maintenance of financial stability, where applicable. A jurisdiction may, at its discretion, choose to rank these resolution objectives with respect to IAIGs.

CF 12.2.b The resolution of an IAIG seeks to minimise reliance on public funding.

Planning

12.3 The supervisor and/or the resolution authority requires, as necessary, insurers to evaluate prospectively their specific operations and risks in possible resolution scenarios and to put in place procedures for use during a resolution.

12.3.1 The supervisor may identify risks, specific to an insurer's circumstances, that would arise in resolution and which may impact achieving the resolution objectives of the jurisdiction. For example, such risks may relate to the insurer's provision of relevant information to the supervisor or resolution authority, the continuity of certain business operations, and/or the orderly implementation of a jurisdiction's PPS.

12.3.2 The supervisor should require the insurer to consider such risks and where appropriate, prepare contingency plans to mitigate the risk.

12.3.3 The supervisor should require that the insurer have procedures in place to provide necessary information (e.g. policyholders' names, types of their contracts, and the value of each contract) to a relevant organisation (such as a PPS) in a timely manner when the insurer enters into resolution.

CF 12.3.a Resolution plans are in place for IAIGs where the group-wide supervisor and/or resolution authority, in consultation with the crisis management group of the IAIG (IAIG CMG), deems necessary.

CF 12.3.a.1 The group-wide supervisor and/or resolution authority should decide, in consultation with members of the IAIG CMG (see ComFrame material under ICP 25), whether a resolution plan is needed for an IAIG, considering at least the following:

- the IAIG's activities and its lines of business;
- the number of jurisdictions where the IAIG operates;
- the complexity of the IAIG's group structure; and
- the potential impact of failure of the IAIG on the financial system and the real economy in the jurisdictions in which the IAIG operates.

Other issues that may also be taken into consideration are, for example:

- the IAIG's risk management mechanisms; and

- expected costs, benefits and outcomes of the resolution planning requirement.

CF 12.3.a.2 The group-wide supervisor and/or resolution authority should lead the development of the group-wide resolution plan, in coordination with members of the IAIG CMG, and involve the IAIG as appropriate. To facilitate its implementation, the resolution plan should identify, in particular:

- financial and economic functions that need to be continued to achieve the resolution objectives for the IAIG;
- suitable resolution options to preserve such functions or wind them down in an orderly manner;
- data requirements for the IAIG's business operations, structures and financial and economic functions;
- potential barriers to effective resolution and actions to mitigate those barriers; and
- actions to protect policyholders.

CF 12.3.a.3 Host supervisors and/or resolution authorities may deem it appropriate to have their own resolution plan for the IAIG's insurance legal entity in their jurisdictions when, for instance:

- the insurance legal entity's presence in the jurisdiction is large in scope and/or scale;
- the insurance legal entity provides critical and/or non-substitutable insurance coverages; and/or
- its resolution may impact that jurisdiction's financial system and/or real economy.

Host jurisdiction resolution plans should be established in cooperation with the group-wide supervisor and/or resolution authority to ensure that the plan is as consistent as possible with the group-wide resolution plan for the IAIG.

CF 12.3.a.4 Resolution plans should be reviewed on a regular basis, or when there are material changes to the IAIG's business or structure or any other change that could have a material impact on the resolution plan, and be updated when necessary. These plans should also be subject to regular reviews within the IAIG CMG.

CF 12.3.b Where a resolution plan is required, the group-wide supervisor and/or resolution authority, in coordination with the IAIG CMG:

- **requires relevant legal entities within the IAIG to submit necessary information for the development of resolution plan;**
- **regularly undertakes resolvability assessments to evaluate the feasibility and credibility of resolution strategies, in light of the possible impact of the IAIG's failure on policyholders and the financial system and real economy in the jurisdictions in which the IAIG operates;**

- **requires the IAIG to take prospective actions to improve its resolvability.**

CF 12.3.b.1 Resolvability assessments should be conducted at the level of those entities where it is expected that resolution actions would be taken, in accordance with the resolution strategies for the IAIG, as set out in the resolution plan.

CF 12.3.b.2 Resolvability assessments should consider if it is feasible and credible for the resolution authority to resolve the IAIG in a way that protects policyholders and maintains financial stability while minimising reliance on public funds.

CF 12.3.b.3 Resolvability assessments should be undertaken on a regular basis, or when there are material changes to the IAIG's business or structure, or any other change that could have a material impact on the resolvability assessment. These assessments should also be subject to regular reviews within the IAIG CMG.

CF 12.3.b.4 When the resolution plan and/or resolvability assessment identifies potential barriers to effective resolution, the IAIG may be given the opportunity to propose its own prospective actions to improve its resolvability by mitigating these barriers.

CF 12.3.c The group-wide supervisor and/or resolution authority, in coordination with the IAIG CMG, requires the Head of the IAIG to have and maintain group-wide management information systems (MIS) that are able to produce information on a timely basis, for supervisors and/or resolution authorities, for the purposes of resolution planning and actions.

CF 12.3.c.1 Information should be available at the Head of the IAIG and the legal entity level.

CF 12.3.c.2 The IAIG may rely on its existing information system, so long as it fulfils the objectives of producing information on a timely basis for the purposes of resolution planning and actions.

CF 12.3.c.3 The IAIG should:

- maintain a detailed inventory, including a description and location, of the key MIS used in material legal entities of the IAIG, mapped to core services and critical functions;
- identify and take steps to address legal constraints on the exchange of management information among material entities of the IAIG (for example, as regards the information flow from individual entities of the group to/from the Head of the IAIG);
- demonstrate, as part of the resolution planning process, that it is able to produce the essential information needed to implement plans within an appropriate period of time; and
- maintain specific information at a legal entity level, including, for example, information on intra-group guarantees booked on a back-to-back basis, or

information on the assets supporting policyholder liabilities.

Cooperation and coordination

12.4 **The roles and responsibilities of relevant authorities within a jurisdiction that are involved in exit of insurers from the market or their resolution are clearly defined.**

12.4.1 The jurisdiction should have a designated authority or authorities empowered to exercise powers for the resolution of an insurer. Where there are multiple authorities within a jurisdiction, their respective mandates, roles and responsibilities are clearly defined and coordinated.

12.4.2 Where different authorities within a single jurisdiction are in charge of the resolution of an insurer, a lead authority that coordinates the resolution of the insurer should be identified.

12.4.3 An example where a lead resolution authority should be identified is where the insurer has insurance and other financial operations (such as banking), and the authority responsible for the resolution of the other financial operations is different from the authority responsible for the resolution of the insurance operations in the jurisdiction.

12.4.4 Coordination agreements may be established where multiple authorities may be involved in the resolution of an insurer.

12.5 **The supervisor and/or resolution authority shares information, cooperates and coordinates with other relevant authorities for the exit of insurers from the market or their resolution.**

12.5.1 Relevant authorities in this context may include the group-wide supervisor and/or resolution authority, host supervisors and/or resolution authorities and others that may need to be involved in the resolution of insurers, such as PPS and supervisors in other financial sectors.

12.5.2 When an insurer voluntarily exits from the market, the supervisor should cooperate and coordinate with other relevant supervisors as necessary.

12.5.3 Cooperation and coordination should include matters, among others, such as consulting with or informing other relevant authorities of e.g. the anticipated exercise of resolution powers that the resolution authority considers necessary before taking resolution actions, where this is practicable.

12.5.4 When consulting, authorities should seek to determine if coordinated action on the resolution of an insurance group is necessary to avoid or minimise adverse impact on other group entities.

12.5.5 The supervisor and/or resolution authority should seek to achieve a cooperative solution with authorities in other jurisdictions who are concerned with the resolution of the insurance group.

12.5.6 Cooperation and coordination would be crucial when considering resolution action such as ordering the insurer to cease business (for example, when the insurer has overseas branches), freezing the insurer's assets, and/or removing management of overseas branches, subsidiaries, or holding companies.

12.5.7 Information sharing, cooperation and coordination should be undertaken in a manner that do not compromise the prospect of successful exit or resolution.

12.5.8 Cross-border coordination agreements may need to be established between relevant authorities.

Triggers

12.6 Legislation provides criteria for determining the circumstances in which the supervisor and/or resolution authority initiates resolution of an insurer.

12.6.1 Resolution should be initiated where an insurer is no longer viable, or is likely to be no longer viable and has no reasonable prospect of becoming so, even if the entity is solvent in light of financial reporting standards. Criteria that determine or help determine when the supervisor and/or resolution authority initiates resolution should be considered in light of the insurer and the circumstances of its resolution. Criteria for determining whether resolution processes should be initiated may include, but are not limited to, any of the following:

- the insurance legal entity is in breach of the minimum capital requirement (MCR) and there is no reasonable prospect of restoring compliance with MCR;
- the consolidated own funds of the insurance group are lower than the sum of the proportional shares of the MCRs, or minimum capital requirements of the regulated legal entities belonging to the insurance group (e.g. due to double-gearing);
- the insurer is in breach of other material prudential requirements (such as a requirement on assets backing technical provisions) and there is no reasonable prospect of compliance being restored;
- there is a strong likelihood that policyholders and/or other creditors will not receive payments as they fall due;
- intra-group transactions impede or are likely to impede the ability of the insurer to meet policyholder and/or creditor obligations as they fall due; or
- measures attempting the recovery of the insurer have failed, or there is a strong likelihood that such proposed measures will: i) not be sufficient to return the insurer to viability; or ii) cannot be implemented in a reasonable timeframe.

Powers

12.7 Legislation provides an appropriate range of powers to resolve insurers effectively. These powers are exercised proportionately and with appropriate flexibility.

12.7.1 Powers to resolve insurers should be exercised in a proportionate manner that resolves the insurer most effectively in light of the circumstances and objectives of resolution. Some powers may not be needed for all insurers but only for insurers that are, for example, of systemic importance in the jurisdiction. Some powers may only affect the insurer, while others may impact contractual rights of third parties (such as a suspension of policyholders' rights or restructuring of policies).

12.7.2 Some resolution powers are exercised with the aim to stabilise or restructure an insurer and avoid liquidation. Liquidation can be used in conjunction with other resolution powers. Creditors should have a right to compensation where they do not receive at a minimum what they would have received in a liquidation of the insurer under the applicable insolvency regime (NCWOL principle).

12.7.3 If a court order is required for the resolution authority to exercise resolution powers, the time required for court proceedings should be taken into consideration for the effective implementation of resolution actions.

12.7.4 Powers to resolve insurers that may be exercised, subject to adequate safeguards, should include, but are not limited to, the following. This list is not exhaustive and the resolution authority should have discretion to apply other available powers. The order of presentation of the powers is not an indication of the sequence in which these powers could be exercised.

- prohibit the payment of dividends to shareholders;
- prohibit the payment of variable remuneration to, and allow the recovery of monies from, Members of the Board, Senior Management, Key Persons in Control Functions and major risk taking staff, including claw-back of variable remuneration;
- prohibit the transfer of the insurer's assets without supervisory approval;
- retain, remove or replace the Board, Senior Management and Key Persons in Control Functions;
- take control of and manage the insurer, or appoint an administrator or manager to do so;
- withdraw the license to write new business and put all or part of the insurance business contracts into run-off;
- sell or transfer the shares of the insurer to a third party;
- restructure, limit or write down liabilities (including insurance liabilities), and allocate losses to creditors and policyholders, where applicable and in a manner consistent with the liquidation claims hierarchy and jurisdiction's legal framework;
- override rights of shareholders of the insurer in resolution, including requirements for approval by shareholders of

particular transactions, in order to permit a merger, acquisition, sale of substantial business operations, recapitalisation or other measures to restructure and dispose of the insurer's business or its liabilities and assets;

- terminate, continue or transfer certain types of contracts, including insurance contracts;
- transfer or sell the whole or part of the assets and liabilities of the insurer to a solvent insurer or third party;
- transfer any reinsurance associated with transferred insurance policies without the consent of the reinsurer;
- temporarily restrict or suspend the policyholders' rights of withdrawing their insurance contracts;
- stay rights of the reinsurers of the ceding insurer in resolution to terminate or not reinstate coverage relating to periods after the commencement of resolution;
- impose a temporary suspension of payments to unsecured creditors and a stay on creditor actions to attach assets or otherwise collect money or property from the insurer; and
- initiate the liquidation of the whole or part of the insurer.

12.7.5 The choice and application of the powers set out above should take into account whether an insurer's disorderly failure would potentially cause significant disruption to the financial system and economic activity, the types of business the insurer is engaged in, and the nature of its assets and liabilities.

12.7.6 Where the resolution authority takes action which leads to another person taking control of an insurer with a view to restoring, restructuring or running off the business, the resolution authority should continue to be responsible for the orderly resolution of the insurer. In particular, the resolution authority should continue to exercise functions which ensure that the objectives of resolution are met, notwithstanding any additional responsibilities which the person appointed may have to the insurer or to the courts.

12.7.7 Resolution powers should be exercised in a manner that does not discriminate between creditors on the basis of their nationality, the location of their claim, or the jurisdiction where it is payable.

12.7.8 Mechanisms should be in place to (i) enable continuity of cover for policyholders where this is needed and (ii) ensure timely payment of claims to policyholders of the insurer in resolution, with the aim to minimise disruption to the timely provision of benefits to policyholders. A PPS can be one of the mechanisms that can help ensure timely payments to policyholders and minimise disruption.

12.7.9 When requiring contracts to be transferred to another insurer, the resolution authority should satisfy itself that the interests of the policyholders of the transferor and of the transferee are safeguarded. In some cases this may be achieved through varying, reducing or restructuring the transferred liabilities.

12.7.10 Portfolio transfers and transfers of other types of contracts of the insurer in resolution should not require the consent of each policyholder or party to the contract.

12.7.11 Consistent with the liquidation claims hierarchy, insurance liabilities should be written down only after equity and all liabilities that rank lower than insurance liabilities have absorbed losses, and only if the resolution authority is satisfied that policyholders are no worse off than in liquidation after compensation, where necessary.

12.7.12 Information on the period during which policyholders are prohibited from withdrawing from their insurance contracts should be available to policyholders in a transparent manner for the purposes of policyholder protection.

12.7.13 The exercise of stay powers, their scope of application and the duration of the stays should be designed to address the specific situation of the insurer in resolution. For example, the duration of the stay could depend on the type of the insurance or financial contract.

Group and Branch Perspectives

12.7.14 There may be circumstances where resolution powers will need to be exercised at the level of the head of the insurance group and/or non-regulated entities. Resolution authorities should have the capacity to exercise resolution powers directly on such entities within their jurisdiction to the extent necessary and appropriate. Where resolution powers need to be exercised on entities outside of their jurisdiction or legal authority, the resolution authority should cooperate and coordinate with relevant supervisors and resolution authorities in the relevant jurisdictions, to the extent necessary and appropriate.

12.7.15 Unless otherwise specified by the resolution authority, resolution powers exercised on an insurance legal entity (for instance to cease writing business) should also apply to the legal entity's branches. However, the resolution authority responsible for a branch can also exercise powers toward the branch. In either case, the resolution authorities responsible for the branch and the insurance legal entity should consult and cooperate with one another.

12.7.16 The resolution authority may choose which power, or which combination of powers, is applied to which entity within the group. Different types of powers may be applied to different parts of the entity's business.

CF 12.7.a The powers that the supervisor and/or resolution authority may exercise, subject to adequate safeguards and proportionality, for the resolution of an IAIG include, at least, the following:

- **prohibit the payment of dividends to shareholders;**
- **prohibit the payment of variable remuneration to, and allow the recovery of monies from, Members of the Boards, Senior**

Management, Key Persons in Control Functions and major risk taking staff, including claw-back of variable remuneration;

- prohibit the transfer of the IAIG's assets without supervisory approval;
- retain, remove or replace the Members of the Boards, Senior Management and/or Key Persons in Control Functions;
- take control of, and manage, the IAIG, or appoint an administrator or manager to do so;
- withdraw the licence to write new business and put all or part of the insurance contracts into run-off;
- sell or transfer the shares of the IAIG to a third party;
- restructure, limit or write down liabilities (including insurance liabilities), and allocate losses to creditors and policyholders, where applicable and in a manner consistent with the liquidation claims hierarchy and jurisdiction's legal framework;
- override rights of shareholders of the IAIG in resolution, including requirements for approval by shareholders of particular transactions, in order to permit a merger, acquisition, sale of substantial business operations, recapitalisation, or other measures to restructure and dispose of the IAIG's business or its liabilities and assets;
- terminate, continue or transfer certain types of contracts, including insurance contracts;
- transfer or sell the whole or part of the assets and liabilities of the IAIG to a solvent insurer or third party;
- transfer any reinsurance associated with transferred insurance policies without the consent of the reinsurer;
- temporarily restrict or suspend the policyholders' rights of withdrawing their insurance contracts;
- stay rights of the reinsurers of the ceding insurer in resolution to terminate, or not reinstate, coverage relating to periods after the commencement of resolution;
- impose a temporary suspension of payments to unsecured creditors and a stay on creditor actions to attach assets or otherwise collect money or property from the IAIG;
- establish a bridge institution;
- take steps to provide continuity of essential services and functions including, but not limited to:
    - requiring other legal entities within the IAIG (including non-regulated entities) to continue to provide these

  - **essential services to the entity in resolution, any successor, or an acquiring entity;**
  - **ensuring that the residual entity in resolution can temporarily provide such services to a successor or an acquiring entity; or**
  - **procuring necessary services from unaffiliated third parties;**
- **temporarily stay early termination rights associated with derivatives and securities financing transactions; and**
- **initiate the liquidation of the whole or part of the IAIG.**

CF 12.7.a.1 In some jurisdictions, PPSs can be utilised as a bridge institution to which insurance contracts of the IAIG are transferred.

CF 12.7.a.2 Essential services mentioned under CF12.7a include, in particular, IT.

Liquidation

12.8 Legislation provides that the supervisor is involved in the initiation of the liquidation of an insurance legal entity (or a branch of a foreign insurer in its jurisdiction).

12.8.1 Legislation should define the involvement of the supervisor in a liquidation, which promotes the protection of policyholders. The supervisor should be authorised to initiate, or should be involved in the liquidation of an insurance legal entity, or a branch of a foreign insurer in its jurisdiction.

12.8.2 In many jurisdictions, all resolution actions, including liquidation, may only be initiated by the supervisor and/or resolution authority. However, in some jurisdictions, the liquidation process can be initiated by another person (such as a creditor of the insurance legal entity, the insurance legal entity itself, or the court). If legislation permits another person to initiate liquidation, it should: i) require prior approval of the supervisor, or ii) at a minimum, require prior coordination with the supervisor. If legislation permits another person to initiate liquidation without such prior approval or coordination, it should provide that the supervisor may challenge the person’s action.

12.9 Legislation provides a high legal priority to policyholders’ claims within the liquidation claims hierarchy.

12.9.1 Policyholders should receive high legal priority in the liquidation of an insurance legal entity (or of a branch) so that policyholders rank above ordinary unsecured creditors. However, it is common in many jurisdictions that a higher priority is given to a limited number of other categories of claims. These may include claims:

- by liquidators, such as claims corresponding to expenses arising from the liquidation procedure;
- by employees;
- by tax or fiscal authorities;

- by social security systems; and
- claims on assets subject to rights in rem (e.g. through collateral, lien, mortgage).

12.9.2 In some jurisdictions, policyholders receive higher priority but only on a determined part of the insurance legal entity's assets (e.g. the assets covering technical provisions). In such jurisdictions, with respect to this portion of the insurer's assets, policyholders' claims are generally subordinate only to liquidation expenses.

12.9.3 Mechanisms facilitating timely payment and, when needed, continuity of contracts should be in place. In some jurisdictions, a PPS or other protection mechanisms can contribute to a resolution and ensure timely payment of claims to policyholders. Where a bridge institution is available, this can ensure continuity of insurance products in cases where no insurer present in the market takes over the insurance portfolio of the insurance legal entity that would otherwise be liquidated. A PPS or other protection mechanisms could also ensure compliance with NCWOL principle by providing compensation to policyholders so that none are worse off than in liquidation. In some jurisdictions, a PPS can only pay claims after liquidation has been initiated.

Safeguards

12.10 The resolution authority exercises resolution powers in a way that respects the liquidation claims hierarchy and adheres to the NCWOL principle. If the resolution authority departs from the general principle of equal treatment of creditors of the same class (pari passu), the resolution authority substantiates the reasons for such departure to all affected parties.

12.10.1 While respecting the liquidation claims hierarchy, the resolution authority could treat certain types of creditors differently from others in the same class of creditors' hierarchy. In such cases, the reasons for such a treatment should be transparent and clearly explained. Concerned creditors should be protected by the NCWOL principle and where they do not receive at a minimum what they would have received in a liquidation of the entity they should have a right to compensation.

12.10.2 For instance, different types of creditors could be:

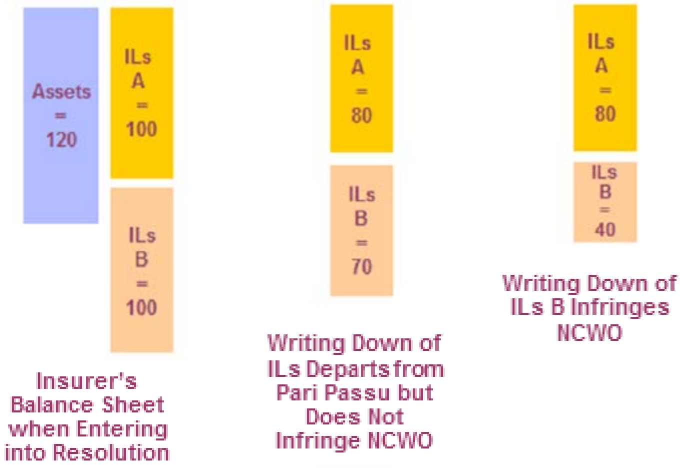
- two categories of policyholders ranking pari passu where one is covered by a PPS while the other is not; or
- two categories of creditors ranking pari passu but the creditors are different in nature (e.g. direct policyholders versus cedents).

12.10.3 For instance, different treatment of a creditor could be:

- settling contracts ranking pari passu at a different pace; or
- reducing (writing down) contracts ranking pari passu at a different rate.

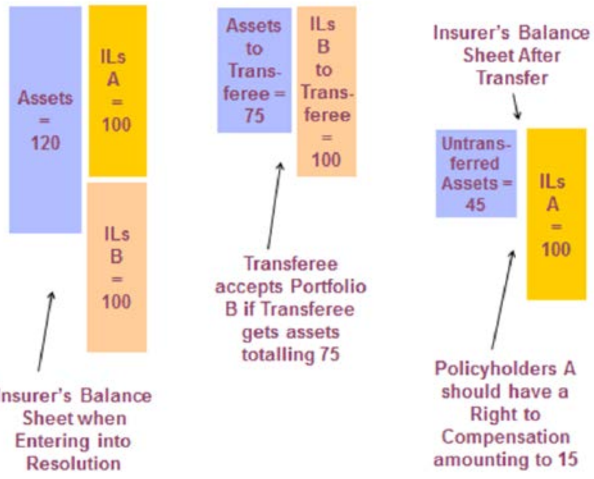
12.10.4 These options could be used provided this does not infringe the NCWOL principle. For instance, Figure 2 illustrates the insurance liabilities (ILs) of an insurance legal entity consisting of two portfolios (A and B), where the total assets amount to 120 but the ILs of each portfolio amount to 100. Assuming that these two portfolios rank pari passu, each policyholder would receive 60% of their credit in liquidation. The resolution authority could reduce the ILs of A to 80 and the ILs of B to 70 (for instance, in the event where a sound insurer or sound insurers accepted to fund part of but not the whole shortfall). However, if the resolution authority reduces the ILs of B to 40, the resolution authority will need to provide compensation to policyholders of portfolio B (in the amount of 20) in order to meet the NCWOL principle. This simplified example does not take account of potential PPSs which could pay some claims.

Figure 2


Assets = 120
ILs A = 100
ILs B = 100
Insurer's Balance Sheet when Entering into Resolution
ILs A = 80
ILs B = 70
Writing Down of ILs Departs from Pari Passu but Does Not Infringe NCWO
ILs A = 80
ILs B = 40
Writing Down of ILs B Infringes NCWO

12.10.5 The resolution authority could take actions which could worsen the position of some creditors, provided that said creditors receive compensation sufficient to meet the NCWOL principle. Figure 3 illustrates this approach – it would be beneficial to policyholders in portfolio B to have their policies transferred, but the portfolio transfer worsens the position of policyholders in portfolio A. Policyholders in portfolio A therefore should receive appropriate compensation to ensure that they are not worse off compared to a liquidation scenario prior to the portfolio transfer. This example does not take account of potential PPSs which could pay some claims.

Figure 3


Assets = 120
ILs A = 100
ILs B = 100
Insurer's Balance Sheet when Entering into Resolution
Assets to Transferee = 75
ILs B to Transferee = 100
Transferee accepts Portfolio B if Transferee gets assets totalling 75
Insurer's Balance Sheet After Transfer
Untransferred Assets = 45
ILs A = 100
Policyholders A should have a Right to Compensation amounting to 15

12.11 Legislation provides whether insurance liabilities may be restructured and whether policyholders may absorb losses.

12.11.1 In some jurisdictions, insurance liabilities may be restructured. Restructuring, limiting or writing down insurance liabilities may include:

- suspending or postponing payments to policyholders;
- amending terms of insurance contracts;
- terminating or restructuring options provided to policyholders;
- reducing the value of current and future benefits;
- early settling of contracts by payment of a proportion of the insurance liabilities to provide a more rapid and cost-effective resolution. This can apply to future determined benefits but also, and in particular in the case of inward (accepted) reinsurance, to future contingent claims; or
- restructuring reinsurance contracts to allow losses to be imposed on cedents as appropriate.

12.11.2 In most cases, approval from the court is required for the restructuring, while in some jurisdictions the resolution authority is empowered to restructure all or part of insurance liabilities without court approval. Restructuring should only occur if it adheres to the NCWOL principle.

12.11.3 Where insurance liabilities may be subject to restructuring in resolution, the resolution authority should clearly communicate information (for example, the processes through which such restructuring is undertaken and the extent that policyholders may be forced to absorb losses) to interested stakeholders.

Issues specific to groups and branches

12.12 Where the insurance legal entity belongs to a group and the head of the insurance group is located in the same jurisdiction as the legal entity,

mechanisms are in place through which the head of the insurance group is able to be resolved.

12.12.1 When an insurance legal entity is resolved, the resolution of, or the application of some resolution powers to, the head of the group may support or aid the orderly resolution of the insurance legal entity and best ensure the protection of policyholders.

CF 12.12.a.1 ICP 12 and the ComFrame material under ICP 12 may be applicable, where appropriate, to the resolution of:

- the Head of the IAIG, and any intermediate holding company within the IAIG;
- non-regulated operational entities within the IAIG that are significant to the business of the group;
- non-insurance financial institutions within the IAIG; and
- branches of insurers within the IAIG.

This guidance is not intended to override any existing sectoral requirement (e.g. for banks).

CF 12.12.a.2 Resolution actions should be taken for legal entities and branches within the IAIG, that fall within the scope stipulated above, as necessary and appropriate.

12.13 The resolution authority has the authority to resolve a branch of a foreign insurer located in its jurisdiction and, in such circumstance, coordinates and cooperates with the supervisor and/or resolution authority responsible for the insurance legal entity.

12.13.1 The resolution authority responsible for a branch should have the ability to support a resolution carried out by the resolution authority of the insurance legal entity which owns the branch or by the resolution authority responsible for the resolution of the insurance group to which the branch belongs.

12.13.2 The resolution process may differ in the jurisdiction of the branch and in that of the insurance legal entity, due, among other things, to different insolvency laws and creditor hierarchies.

12.13.3 Where the resolution authority of the insurance legal entity which owns the branch or the resolution authority responsible for the resolution of the insurance group to which the branch belongs are not taking action, or are acting in a manner that does not take sufficient account of the objectives of resolution in the branch jurisdiction, the resolution authority responsible for the branch may need to take actions of its own initiative.

12.13.4 Where the resolution authority for a branch takes resolution action of its own initiative, it should give prior notification and consult the supervisor or resolution authority of the insurance legal entity which owns the branch and/or the supervisor or resolution authority of the insurance

ICP 15 Investments

The supervisor establishes regulatory investment requirements for solvency purposes in order for insurers to make appropriate investments taking account of the risks they face.

Basis for establishing regulatory investment requirements

15.1 The supervisor establishes regulatory investment requirements on the investment activities of the insurer.

15.1.1 The nature of insurance business necessitates the investment in and holding of assets sufficient to cover technical provisions and capital requirements. The quality and characteristics of an insurer's asset portfolio and the interdependence between the insurer's assets and its liabilities are central to an assessment of an insurer's solvency position, and therefore, are important aspects to be addressed by the supervisor and for an insurer to manage.

15.1.2 Quantitative requirements alone are not sufficient to ensure solvency, but should also be complemented with appropriate qualitative requirements on investment risk. Having both kinds of requirements helps to guard against the possibility that the regulatory capital requirements do not fully cover the risks inherent in those investment activities.

15.1.3 Factors to consider in establishing regulatory investment requirements may include:

- the overall quality of risk management practices and corporate governance frameworks of insurers;
- the comprehensiveness and transparency of disclosure frameworks in the jurisdiction and the ability for third parties to exercise sufficient scrutiny and market discipline;
- the development of relevant investment and capital markets locally and internationally and the range of available financial instruments;
- the cost of compliance, the impact on innovation and the effect on the efficiency of industry practices; and
- the level of prudence and risk-sensitivity of the regulatory solvency requirements and the risks that they cover.

15.1.4 Additionally, the supervisor should consider requirements applied in other, non-insurance, financial sectors when establishing regulatory investment requirements for insurers. It is important that requirements across financial sectors are as consistent as possible in order to discourage groups from taking advantage of regulatory arbitrage. Consistency of regulation between sectors may assist in maintaining a level playing field and enhancing fairness. However, such requirements should take into account the differences in risk profiles and risk management between sectors.

15.1.5 Openness and transparency of the regulatory investment requirements may help facilitate their effectiveness. The supervisor should be explicit as to the objectives of setting regulatory investment requirements. This is particularly important in order to ensure the consistency of such requirements with other building blocks of the regulatory solvency assessment of the insurer, such as the valuation of assets and liabilities, the calculation of regulatory capital requirements and the determination of available capital resources.

Rules-based and principles-based approaches

15.1.6 Regulatory investment requirements may take many forms and may influence the investment strategies of the insurer. Requirements may be rules-based, setting out specific rules or restrictions on the investment activities of the insurer, or principles-based, where there is no specific restriction on the asset strategy taken by the insurer, as long as defined principles are met.

15.1.7 Regulatory investment requirements may also be a combination of rules-based and principles-based, setting out some specific rules or restrictions and some principles with which the insurer's investment strategy should comply.

15.1.8 Rules-based requirements may be used to prohibit or limit specific classes of investment. Such rules or restrictions may either be applied directly to the investments or lead to capital charges or deductions from available capital which act as a disincentive to investment in risky assets or high concentrations in particular assets, rather than as a prohibition.

15.1.9 Rules-based requirements may be relatively easy to enforce by supervisors, as there is limited scope for different interpretations of the rules. However, rules-based requirements may inhibit innovation in investment strategies and may restrain insurers from holding assets most appropriate for meeting their financial objectives. Rules-based requirements may also discourage insurers from fully developing their own risk management.

15.1.10 Principles-based requirements may provide more flexibility for the insurer to choose particular investments to best manage its investment risks. It may allow the insurer to follow an investment strategy that it believes is the most appropriate to its risk appetite and overall financial objectives. However, it may also be more difficult for the supervisor to determine the need to take supervisory measures as principles-based investment requirements allow some scope for differences in interpretation.

Group perspectives

15.1.11 In addition to meeting the qualitative and quantitative investment requirements at an insurance legal entity level, the insurance group should monitor investment risk exposures on an aggregate basis for the group as a whole.

15.1.12 For insurance groups, regulatory investment requirements may specify how investment exposures should be aggregated for the purposes of determining investment risk at a group level. Such requirements should provide for appropriate mitigation of risks associated with intra-group transactions, for example, to limit contagion or reputational risk. Issues to be considered may include exposures to related counterparties and other interests over which the insurer has some influence (for example, through a minority interest). In stress situations there will tend to be greater restrictions on movements and realisation of investments across the group. The regulatory investment regime may require contractual evidence of the ability to access assets for solvency purposes before allowing their inclusion for aggregation at the group level.

15.1.13 The regulatory investment requirements that apply at the insurance legal entity and group levels, as well as the objectives of such requirements should be explicit. Such requirements should include issues specific to groups, such as requirements for liquidity, transferability of assets and fungibility of capital within the group.

15.1.14 Regulatory investment requirements should be set having regard to the possibility of losses from investments made by entities of an insurance group weakening another entity or the group as a whole (for example, if there is explicit or implicit support from another entity).

Regulatory investment requirements regarding the asset portfolio

15.2 **The supervisor requires the insurer to invest assets so that, for its portfolio as a whole:**

- **assets are sufficiently secure and are held in the appropriate location for their availability;**
- **payments to policyholders or creditors can be made as they fall due; and**
- **assets are adequately diversified.**

Security

15.2.1 The insurer’s investments should be sufficiently secure for the portfolio as a whole, which is essential in ensuring obligations to policyholders can be met. Regulatory investment requirements may restrict the insurer’s selection of, or exposure to, investments that have low security or whose security is difficult to assess reliably. There should be appropriate measures in place to recognise and mitigate aggregations of exposure across the insurer’s portfolio, having particular regard to concentrations of low security assets or those whose security is difficult to assess reliably.

15.2.2 The security of an investment is related to the protection of its value and can be affected by credit risk and market risks (including currency risk). The security of an investment is also affected by safekeeping, custodianship or trusteeship. Assets should be held in an appropriate location so they are available to meet policyholder claims where policyholder payments are made.

15.2.3 External credit ratings can assist the insurer in determining the credit risk of an investment. However, the insurer should be aware of the limits of using external credit ratings and conduct its own due diligence to assess credit risk. The supervisor may establish requirements for the appropriate use of external credit ratings. The supervisor may also require the insurer to conduct a credit analysis independent of the external credit rating, which may help in assessing the security of an investment.

15.2.4 To assess the security of its investments, it is important that the insurer is capable of assessing the nature, scale and complexity of the associated risks. This may be difficult in cases where there is a lack of transparency as to the underlying risk profile of an investment, such as indirect investments through a collective investment fund or for investments in complex financial instruments such as structured assets. Some markets may also suffer from a lack of transparency or clarity in terms of the applicable regulatory and legal systems and the degree of protection that they provide.

15.2.5 For assets lacking in transparency, the risk profile should be carefully analysed by the insurer. The insurer should look through to the underlying exposure of the investment as far as possible, considering the additional risks that are due to the investment structure. For example, additional legal risks may arise if investments are located outside of the insurer's operating jurisdiction(s).

15.2.6 The insurer should evaluate the security of derivative products by taking into account the underlying exposures, as well as the security of the derivative counterparty, the purpose for which the derivative is held, and the cover (such as collateral) the insurer has for derivative exposures. In some cases, derivative counterparties may improve the security by giving the insurer the right to collateral if the counterparty fails. Similarly, the security of investments may be improved by guarantees from third parties.

15.2.7 When engaging in securities lending or repurchase agreements, an insurer should consider counterparty risk and reinvestment risk. The insurer should ensure the transactions are appropriately collateralised (with suitably frequent updating) and should recognise that these transactions do not mitigate the market or credit risk in the security, since the security is returned to the insurer at the end of the transaction. Care should be taken by the insurer when investing the collateral it holds to ensure that the transactions are covered even under adverse market conditions.

Security – group perspectives

15.2.8 The supervisor should consider the possibility that aggregation of exposures in an insurance group may result in heightened security issues which may be less important at the insurance legal entity level. The supervisor should closely monitor a group investing in assets that are not secure, and which could be distributed around the group to avoid investment restrictions.

CF 15.2.a The group-wide supervisor requires the Head of the IAIG to ensure that the IAIG conducts its own due diligence to avoid placing undue reliance on assessments by credit rating agencies with regard to investment selection and risk management process.

CF 15.2.a.1 The IAIG should conduct due diligence to check the appropriateness of credit rating assessments, using various sources of information, and should conduct its own credit assessments on its larger or more complex exposures.

CF 15.2.a.2 Undue reliance generally refers to unchallenged acceptance of the ratings provided by credit rating agencies.

Liquidity

15.2.9 The insurer should have assets that generate sufficient cash flows to pay policyholder claims when due, as well as all other obligations. The cash generated from investments includes disposals, maturity, and coupon or dividend payments.

15.2.10 The ability of the insurer to remain liquid may be adversely impacted for a variety of reasons. For example, the insurer:

- pledges or hypothecates its assets;
- experiences an unexpectedly large claim;
- experiences an event resulting in many claims;
- experiences significant shifts in market conditions; or
- has a derivative that needs to be serviced (for example, due to collateralisation or posting of margins).

15.2.11 The ability to realise or liquidate a sufficient amount of investments to meet policyholder claims, as well as all other obligations, at any point in time is important. For example, where an investment is made in a closed fund, a resale is usually not possible. This would impede the security of the investment in terms of its ability to settle obligations towards policyholders. Similar considerations would need to be given for property used by the insurer which might be hard to liquidate without an operational disruption.

Liquidity – group perspectives

15.2.12 The insurers and home and host supervisors should consider the nature of the potential legal and practical impediments to cross-border transfer of assets as well as any potential effect those impediments might have, particularly in a resolution.

15.2.13 Group issues are relevant when managing liquidity risk, both in terms of the availability of additional liquidity and the possible need to provide liquidity support to other parts of the group.

15.2.14 Entities within a group frequently engage in intra-group transactions (e.g. swaps, inter-company loans) in order to manage risks that exist in different parts of the group or to have more mature businesses support growing businesses within the group. Such transactions should be done using appropriate transfer pricing based on current market conditions so that there is appropriate recognition of the impact of these transactions for each of the entities involved and the group as a whole.

15.2.15 Liquidity of assets and fungibility of capital are especially important if the group relies on diversification between entities without each entity being fully capitalised on a stand-alone basis (where allowed by the supervisor). The insurers should consider their liquidity needs, transferability of assets and fungibility of their capital in a stressed environment when determining the minimum criteria for liquidity of their investment portfolio.

CF 15.2.b The group-wide supervisor requires the Head of the IAIG to consider the effect of potential legal and operational impediments to the IAIG's ability to transfer capital and assets on a cross-border basis.

CF 15.2.b.1 The Head of the IAIG should document specific restrictions that apply to the transfer of capital and assets from one jurisdiction to another, and what, if any, additional restrictions apply in the case of the resolution of a legal entity (see ICP 12 Exit from the Market and Resolution). The IAIG should have documented procedures on actions required for cross-border transfer of capital and assets in normal and stressed times.

Diversification

15.2.16 Diversification and pooling of risks is central to the functioning of insurance business. To mitigate the risk of adverse financial events, it is important that the insurer's overall investment portfolio is adequately diversified and that its asset and counterparty exposures are kept to prudent levels.

15.2.17 There is a distinction between diversification within a risk category and diversification between risk categories. Diversification within a risk category occurs where risks of the same type are pooled (e.g. shares relating to different companies). Diversification between risk categories is achieved through pooling different types of risk. For example, where the insurer combines two asset portfolios whose performances are not fully correlated, the exposure to the aggregated risks will generally be lower than the sum of the exposures to the risks in the individual portfolios.

15.2.18 With respect to its investment portfolio, the insurer should ensure that it is diversified within and between risk categories, taking into account the nature of the liabilities. Diversification between investment risk categories could, for example, be achieved through spreading the investments across different classes of assets and different markets. For diversification within a risk category, the investments are sufficiently uncorrelated so that – through pooling of individual assets – there is a sufficient degree of diversification of the portfolio as a whole.

15.2.19 To ensure that its investment portfolio is adequately diversified, the insurer should avoid overreliance on, for example, any specific asset type, issuer, counterparty, group, or market and any excessive concentration or accumulation of risk in the portfolio as a whole. The insurer may also consider its asset concentration by type of investment product, by geographical dispersion or by credit rating. Additionally the insurer may consider its aggregate exposure to related entities (such as joint ventures) and different types of exposure to the same entity or group (such as equity investment in a reinsurer which is also providing its reinsurance cover).

Diversification – group perspectives

15.2.20 Having risk management processes to monitor investments on a group-wide basis is more likely to make Senior Management aware of issues (e.g. asset concentrations) that could be overlooked if only the individual legal entities are monitored. Groups that are unaware of their global exposures could face an inappropriate level of exposure to certain investments, which may create financial difficulties within the group if the value or liquidity of these investments decreases.

Group perspectives

15.2.21 The assets of an entity within an insurance group may include participations or investments in another entity within the same group. Appropriate investment requirements should apply to such investments or participations, particularly due to liquidity concerns. Relatively small holdings in another legal entity, within the same insurance group that does not give the investor control over the issuer may, for example, be subject to the same requirements that apply to investments in entities external to the group. On the other hand, for larger holdings which give the investor control or significant influence over the issuer, consideration should be given to aggregating the assets of the issuer with those of the investor for the purposes of applying investment requirements. This is done so that adequate security, liquidity and diversification are maintained and that the investor, using its control over the issuer, ensures the issuer's investment activities are consistent with its own investment policy.

Regulatory investment requirements relating to the nature of the liabilities

15.3 The supervisor requires the insurer to invest in a manner that is appropriate to the nature and duration of its liabilities.

15.3.1 Assets that are held to cover policyholder liabilities and those covering regulatory capital requirements should be invested in a manner which is appropriate to the nature of the liabilities, as the insurer needs to use the proceeds of its investments to make payments to policyholders and other creditors when due. The insurer's investment strategies should take into account the extent to which the cash flows from investments match the liability cash flows in terms of timing, amount and currency, and how this changes in varying conditions. In this context, the insurer should specifically consider investment guarantees and embedded options that are contained in its insurance policies.

15.3.2 Insurers are not necessarily required to employ an investment strategy which matches the assets and the liabilities as closely as possible. However, to the extent that assets and liabilities are not well matched, movements in financial variables (e.g. interest rates, market values and exchange rates) may affect the value of the assets and the liabilities differently and result in an adverse economic impact for the insurer.

15.3.3 As liability cash flows are often uncertain, or there are not always assets with appropriate cash flow characteristics, the insurer is usually not able to adopt a completely matched position. Additionally, the insurer may wish to adopt a mismatched position deliberately in an attempt to optimise the return on its business. In such circumstances, the supervisor may require the insurer to hold additional technical provisions and/or capital to cover the mismatching risk. The regulatory investment requirements may also constrain an insurer's ability to mismatch its assets and liabilities as the extent of mismatching should not expose policyholders to risks that cannot be effectively managed by the insurer.

15.3.4 Nevertheless, close matching of assets and liabilities is often possible and should be considered as a potential requirement in the case of unit-linked or universal life policies where there is a direct link between policyholder benefits and investment funds or indices. It may not be possible for the mismatching risk to be covered effectively by capital. Where the supervisor requires assets to be closely matched to such liabilities, other restrictions on investments may be appropriate to contain the investment fund risk being borne directly by policyholders.

15.3.5 The insurer should manage conflicts of interest (e.g. between the insurer's corporate objectives and disclosed insurance policy objectives) to ensure assets are invested appropriately. For example, for with-profits liabilities, an insurer should invest appropriately to meet policyholders' reasonable expectations.

Group Perspectives

15.3.6 Investments that back liabilities including those covering regulatory capital requirements within one of a group's insurance legal entities should be tailored to the characteristics of the liabilities and the needs of the insurance legal entity and not be subject to undue influence from the wider objectives of the group.

Regulatory investment requirements regarding risk assessability

15.4 The supervisor requires the insurer to invest only in assets where it can properly assess and manage the risks.

15.4.1 The insurer should have sufficient information about its investments, including those in collective investment funds, to ensure that its asset risks can be properly managed.

15.4.2 The insurer should understand the risks involved, and determine how material the risk from a proposed investment is, before undertaking any investments. Assessment of risks should take into account the maximum possible loss, including losses that may occur in situations where assets, such as derivatives, become liabilities for the insurer.

15.4.3 Where the insurer is able to look through the structure of the investments to the underlying assets, the insurer should consider the risk characteristics of the underlying assets and how this affects the risk characteristics of the investments itself. However, where such a look through is not possible, appropriate techniques should be developed to assess the risks associated with the investment including assessing the investment manager of an investment fund.

15.4.4 Investments that are not traded on a regulated financial market should be kept to prudent levels, as an objective assessment of the risks is likely to be difficult and costly. This is particularly relevant in jurisdictions where standardised approaches to determining regulatory capital requirements are used, since such approaches will often be designed to be not unduly complex and thus feasible in practice for all insurers. Moreover, by its very nature a standardised approach may not be able to fully and appropriately reflect the risk profile of the investment portfolio of each individual insurer.

15.4.5 The insurer should have access to the requisite knowledge and skills to assess and manage the risks of its investments. When an external investment advisor or manager is used, the insurer should retain adequate investment expertise in-house, as it has the ultimate responsibility for its investments.

Group Perspectives

15.4.6 Investments held by entities within a group are sometimes managed centrally by an investment management function, with the entities relying on its expertise. In such arrangements, the investment management function should have the requisite knowledge and skills to assess and manage the risks of these investments and manage the investments with due regard to the needs of individual entities in addition to the group as a whole.

Regulatory investment requirements relating to specific financial instruments

15.5 The supervisor establishes quantitative and qualitative requirements, where appropriate, on:

- **the use of more complex and less transparent classes of assets; and**
- **investments in markets or instruments that are subject to less governance or regulation.**

15.5.1 Complex investments may have a higher risk of large, sudden or unexpected losses due to the nature of the underlying risks and volatilities. Similarly, there are some assets in which investment is permitted by the regulatory investment regime (because the risk is generally sufficiently assessable), but are less transparent compared to other investments. Other assets could be less well governed in terms of the systems and controls in place for managing them or the market regulation that applies to them. Such assets may present operational risks, particularly in adverse conditions that are difficult to assess reliably. In terms of market regulation, investments in an unregulated market or a market that is subject to less regulation (such as the Professional Securities Market of the London Stock Exchange) need to be given special consideration.

15.5.2 The supervisor should therefore establish quantitative or qualitative requirements or restrictions on such investments, as necessary. For example, regulatory investment requirements may include the pre-approval of an insurer's derivative use plan, whereby the insurer has to describe its controls over and testing of the derivative investment process before it is used in a live environment.

15.5.3 The investments described below are examples of investments that may necessitate quantitative and qualitative requirements; however, this is not an exhaustive list and regulatory investment requirements should be flexible and/or sufficiently broad to take account of the changing environment. The solvency position and the sophistication of an insurer should also be considered. The amount of available capital an insurer has could provide additional flexibility to the supervisor in particular cases.

Off-balance sheet structures

15.5.4 When deciding whether to invest in off-balance sheet structures, the insurer should take into account their unique characteristics and risk exposures. For example, Special Purpose Entities (SPEs) (see ICP 13 Reinsurance and Other Forms of Risk Transfer) are generally more complex than other forms of investments.

15.5.5 An investment strategy that uses an off-balance sheet structure may have an impact on the ability of the insurer to pay policyholder claims and all other obligations, especially under stressed circumstances.

Investments in structured credit products

15.5.6 An insurer may invest in securities or other financial instruments which have been packaged by an SPE and which may originate from other financial institutions (including banks or other insurers). Examples of such instruments are asset backed securities (ABS), credit linked notes (CLN) or insurance linked securities (ILS). In these cases, it may be very difficult for the insurer to assess the risk inherent in the investment, and in particular the risk profile of the underlying reference instruments, which in some cases may be of particularly poor quality (e.g. sub-prime mortgages). Where the originator is another insurer, the investment may also carry insurance related risks (such as non-life catastrophe risks in the case of a non-life catastrophe bond securitisation) which may not be transparent to the insurer or else difficult to assess.

15.5.7 If the supervisor is concerned that the insurer is exposed to an undue level of risk in such cases, it may consider establishing qualitative or quantitative requirements which may relate directly to the insurer investing in such assets, or which may relate to the originator of the packaged instrument.

15.5.8 In establishing such requirements, the supervisor may recognise that some structured credit products are higher risk than others and consider, for example:

- the treatment of such investment in other financial sectors;
- the extent to which the originator has retained an interest in a proportion of the risk being distributed to the market;

- the definition and soundness of criteria applied by the originator in extending the original credit and in diversifying its credit portfolio;
- the transparency of the underlying instruments; and
- the procedures the insurer has in place to monitor exposures to securitisations, including consideration of securitisation tranches, and reporting them to the insurer's Board and Senior Management and supervisor.

15.5.9 Restrictions or prohibitions may be applied to investments in structured products where appropriate conditions are not satisfied.

Use of derivatives and similar commitments

15.5.10 An insurer choosing to engage in derivative activities should clearly define its objectives, ensuring that these are consistent with any supervisory requirements.

15.5.11 When used appropriately, derivatives may be useful tools in the management of portfolio risk of insurers and in efficient portfolio management. In monitoring the activities of insurers involved in derivatives, the supervisor should satisfy itself that the insurer has the ability to recognise, measure and prudently manage the risks associated with their use. The supervisor should obtain sufficient information on the insurer's policies and procedures on the use of derivatives and may request information on the purpose for which particular derivatives are to be used and the rationale for undertaking particular transactions.

15.5.12 Given the nature of insurance operations, derivatives should preferably be used as a risk management mechanism rather than for speculation. The supervisor may restrict the use of derivatives (particularly derivatives that involve the possibility of unlimited loss) to the reduction of investment risk or efficient portfolio management. This means that where derivatives are used, it is for the purpose of reducing risk and costs or generating additional capital or income with an acceptable level of risk. Restrictions may also be applied to require the suitability of derivative counterparties, the derivative collateral, the tradability of the derivative and, in the case of over-the-counter derivatives, the ability to value and to close out the position when needed. Derivatives should be considered in the context of a prudent overall asset-liability management strategy.

ICP 16 Enterprise Risk Management for Solvency Purposes

The supervisor requires the insurer to establish within its risk management system an enterprise risk management (ERM) framework for solvency purposes to identify, measure, report and manage the insurer's risks in an ongoing and integrated manner.

Introductory Guidance

16.0.1 ERM for solvency purposes is the co-ordination of risk management, strategic planning, capital adequacy, and financial efficiency in order to enhance sound operation of the insurer and ensure the adequate protection of policyholders. Capital adequacy measures the insurer's assessment of residual risk of its business, after overlaying the mitigating financial effect of the insurer's established risk management system. Any decision affecting risk management, strategic planning or capital would likely necessitate a compensating change in one or both of the other two. Successful implementation of ERM for solvency purposes results in enhanced insight into an insurer's risk profile and solvency position that promotes an insurer's risk culture, earnings stability, sustained profitability, and long-term viability, as well as the insurer's ability to meet obligations to policyholders. Collectively practiced in the industry, ERM for solvency purposes supports the operation and financial condition of the insurance market. These aspects of ERM should therefore be encouraged from a prudential standpoint.

16.0.2 The ERM framework for solvency purposes (ERM framework) is an integrated set of strategies, policies and processes, established by the insurer for an effective implementation of ERM for solvency purposes.

16.0.3 Components of the ERM framework that are covered in this ICP:

- Risk identification (including group risk and relationship between risks);
- Quantitative techniques to measure risk;
- Inter-relationship of risk appetite, risk limits and capital adequacy;
- Risk appetite statement;
- Asset-liability management, investment, underwriting policies and liquidity risk management;
- Own risk and solvency assessment (ORSA); and
- Recovery planning.

16.0.4 The ERM framework should be integrated within the insurer's risk management system (see ICP 8 Risk Management and Internal Controls).

16.0.5 The ERM framework should enhance an insurer's understanding of material risk types, their characteristics, interdependencies, and the sources of the risks, as well as their potential aggregated financial impact on the business for a holistic view of risk at enterprise level. Senior Management should exhibit an understanding of the insurer's enterprise risk issues and show a willingness and ability to address those issues. A fundamental aspect of ERM is the development and execution of a consistent, transparent, deliberate, and systematic approach to manage risks, both individually and in aggregate, on an ongoing basis to maintain solvency and operation within the risk appetite and risk limits. ERM should be embedded in an insurer's corporate culture to ensure that the whole organisation contributes to risk awareness, feedback loops and coordinated responses to risk management needs.

16.0.6 The objective of ERM is not to eliminate risk. Rather, it is to manage risks within a framework that includes self-imposed limits. In setting limits for risk, the insurer should consider its solvency position and its risk appetite. Risk limits should be set after careful consideration of strategic objectives, business plans and circumstances and should take into account the projected outcomes of scenarios run using a range of plausible future business assumptions which reflect sufficiently adverse scenarios. A risk limits structure is used to establish guardrails on an insurer's risk profile to optimise its returns without endangering the ability of the insurer to meet its commitments to policyholders.

16.0.7 Some insurers may utilise internal models as part of their ERM process in order to generate sophisticated risk metrics to inform management actions and capital needs. Internal models may enhance risk management and embed risk culture in the insurer. They may provide a common measurement basis across all risks (e.g. same methodology, time horizon, risk measure, level of confidence) and strengthened risk-based strategic decision-making across the organisation. Such an approach typically adopts a total balance sheet approach whereby the impact of the totality of material risks is fully recognised on an economic basis. A total balance sheet approach reflects the interdependence between assets, liabilities, capital requirements and capital resources, and identifies the capital allocation sufficient to protect the insurer and its policyholders, as well as to improve capital efficiency.

16.0.8 The insurer should have adequate governance and internal controls in place for models used in the ERM framework. The calculation of risk metrics should be transparent, supportable, and repeatable.

16.0.9 An insurer should have contingency plans that describe in advance the necessary actions and resources to limit business disruption and losses resulting from an adverse financial event (such as risk exposures exceeding risk limits), or an operational event (such as a natural disaster). Contingency planning may include a recovery plan, when deemed necessary.

Enterprise risk management framework - risk identification

16.1 The supervisor requires the insurer's ERM framework to provide for the identification of all reasonably foreseeable and relevant material risks and risk interdependencies for risk and capital management.

Risk identification

16.1.1 The scope of risk identification and analysis of risk interdependencies should cover, at a minimum: insurance risk, market risk, credit risk, concentration risk, operational risk and liquidity risk. Other risks may be included, such as conduct risk, legal risk, political risk, reputational risk, strategic risk and group risk.

Sources of risk and the relationship between risks

16.1.2 An insurer should consider the sources of different risks and their impacts and assess the relationship between risk exposures. By doing so, an insurer can better identify both strengths and weaknesses in governance, control functions and business units. The insurer should use and improve risk management policies, techniques and practices and change its organisational structure to make these improvements where necessary. The insurer should also assess external risk factors which, if they were to crystallise, could pose a significant threat to its business.

16.1.3 In assessing the relationship between risk exposures, consideration should be given to correlations between the tails of risk profiles. For example, risks that show no strong dependence under normal economic conditions (such as catastrophe risks and market risks) could be more correlated in a stress situation.

16.1.4 Assessments of risk exposures should consider macroeconomic exposures (see ICP 24 Macroprudential Supervision). For example, an insurer should consider interdependencies between guarantees and options embedded in its products, the assets backing those products, financial markets and the real economy.

16.1.5 Sources of risks may include catastrophes, downgrades from rating agencies or other events that may have an adverse impact on the insurer's financial condition and reputation. These events can result, for example, in an unexpected level of claims, collateral calls or policyholder terminations and may lead to serious liquidity issues. The ERM framework should adequately address the insurer's options for responding to such events.

Group risk

16.1.6 Group risk is the risk that the financial condition of a group or a legal entity within the group may be adversely affected by a group-wide event, an event in a legal entity, or an event external to the group. Such an event may either be financial or non-financial (such as a restructuring).

16.1.7 Group risk may arise, for example, through contagion, leveraging, double or multiple gearing, concentrations, large exposures and complexity. Participations, loans, guarantees, risk transfers, liquidity, outsourcing arrangements and off-balance sheet exposures may all give rise to group risk. Many of these risks may be borne by stand-alone insurance legal entities and are not specific to being a legal entity that is part of a group. However, the inter-relationships among legal entities within a group including aspects of control, influence and interdependence alter the impact of risks on the legal entities and should therefore be taken into account in managing the risks of an insurance legal entity within the insurance group and in managing the risks of that insurance group as a whole.

Group perspectives

16.1.8 The ERM framework of an insurance group should address the direct and indirect interrelationships between legal entities within the insurance group. The more clearly-defined and understood such relationships are, the more accurately they can be allowed for in the group-wide solvency assessment. For example, legally enforceable capital and risk transfer instruments between legal entities within a group may help with the effectiveness of its ERM framework for group-wide solvency assessment purposes. To be effective, the management of insurance group risk should take into account risks arising from all parts of an insurance group, including non-insurance legal entities (regulated or unregulated) and partly-owned entities.

16.1.9 Assumptions that are implicit in the solvency assessment of an insurance legal entity may not apply at an insurance group level because of separation of legal entities within the insurance group. For example, there may be few, if any, constraints on the fungibility of capital and the transferability of assets within an individual insurance legal entity. However, such constraints may feature much more prominently for an insurance group and may restrict the degree to which benefits of diversification of risks across the group can be shared among legal entities within the insurance group. Such constraints should be taken into account in both the insurance group's and the insurance legal entity's ERM frameworks.

CF 16.1.a The group-wide supervisor requires:

- **the group-wide ERM framework to be as consistent as possible across its legal entities;**
- **material differences in the group-wide ERM framework to be transparent and explicitly linked to legal and supervisory requirements in the jurisdictions where the IAIG operates, and the risks associated with business conducted in those jurisdictions.**

CF 16.1.b The group-wide supervisor requires the group-wide ERM framework to include strategies, policies, and processes to manage effectively at least the following risks and to address these risks in a cross-border context:

- **insurance risk;**
- **market risk;**
- **credit risk;**
- **liquidity risk;**

- **concentration risk;**
- **operational risk;**
- **group risk; and**
- **strategic risk.**

CF 16.1.b.1 While these risks should be recognised and managed in the group-wide ERM framework, each risk category does not have to be managed separately. Some risk types, such as strategic or concentration risk, may be included in other risk categories.

CF 16.1.c The group-wide supervisor requires the group-wide ERM framework to take into account intra-group transactions (IGT) including:

- **the mechanisms to keep track of intra-group transactions that are of substantial importance to, and have a significant consequence for, the IAIG;**
- **the risks arising from intra-group transactions; and**
- **the qualitative and quantitative restrictions on such risks.**

CF 16.1.c.1 Intra-group transactions may include, but are not limited to:

- loans;
- guarantees;
- issuance of contingent capital;
- payment of dividends;
- cost sharing structures;
- service contracts;
- management arrangements and outsourcing;
- reinsurance;
- transactions across different financial services entities within the IAIG; and
- equity holdings.

CF 16.1.c.2 On a consolidated basis, or other aggregated basis, the risks to the IAIG arising from IGT may not be evident. The IAIG's risk assessment of its IGT should consider, among other factors:

- fungibility of capital and transferability of assets (such as capital or equity injections from one legal entity into another);
- currency effects such as if there are cost sharing or service contracts between legal entities located in different jurisdictions;
- correlation or concentration of risk;

- practical issues, including the time needed to reallocate risk and risk mitigants among legal entities; and
- contagion risk within the group.

CF 16.1.c.3 The IAIG should take account of, the risk of support being withdrawn from one part of the IAIG to another due to adverse publicity, poor results, operational inefficiencies, or supervisory measures.

CF 16.1.c.4 The group-wide ERM framework should address any financial or other activities (e.g. maturity transformation, securities lending) being undertaken by individual legal entities that may change the risk profile of the group. For example, in securities lending transactions, the group-wide ERM framework may provide that high quality assets not be swapped with low quality assets, that appropriate arrangements for the provisioning of collateral are in place, or that the maturity of the swapped assets does not significantly alter the risk profile of the IAIG.

Enterprise risk management framework – quantitative techniques to measure risk

16.2 The supervisor requires the insurer's ERM framework to:

- **provide for the quantification of risk and risk interdependencies under a sufficiently wide range of techniques for risk and capital management; and**
- **as necessary, include the performance of stress testing to assess the resilience of its total balance sheet against macroeconomic stresses.**

Measuring, analysing and modelling the level of risk

16.2.1 The level of risk is a combination of the impact that the risk will have on the insurer and the probability of that risk materialising. The insurer should assess regularly the level of risk it bears by using appropriate forward-looking quantitative techniques (such as risk modelling, stress testing, including reverse stress testing, and scenario analysis). An appropriate range of adverse circumstances and events should be considered, including those that pose a significant threat to the financial condition of the insurer, and management actions should be identified together with the appropriate timing of those actions. Risk measurement techniques may also be used in developing long-term business and contingency plans.

16.2.2 Different approaches to measuring risk may be appropriate depending on the nature, scale and complexity of a risk and the availability of reliable data on the behaviour of that risk. For example, a low frequency but high impact risk where there is limited data (such as catastrophe risk) may require a different approach from a high frequency, low impact risk for which there is substantial amounts of experience data available. Stochastic risk modelling may be appropriate to measure some risks (such as non-life catastrophe), whereas relatively simple calculations may be appropriate in other circumstances.

16.2.3 The measurement of risks should be based on a consistent economic assessment of the total balance sheet as appropriate to ensure that appropriate risk management actions are taken. In principle, an insurer's ERM framework should take into consideration the distribution of future cash flows to measure the level of risks. The insurer should be careful not to base decisions purely on accounting or regulatory measures that involve non-economic considerations and conventions although the constraints on cash flows that they represent should be taken into account.

Group perspectives

16.2.4 An insurance group should clarify whether data used in risk assessments is based on a consolidated, aggregated or other method. The insurance group should take into account the implications and inherent risks of the selected methodology when developing its ERM framework. For example, intra-group transactions may be eliminated in consolidation and thus may not be reflected in the consolidated financial statement of the insurance group at the top level. In using the consolidation basis for the ERM framework, the insurance group may be able to account, and take credit, for diversification of risk. Conversely, using another aggregation method may facilitate a more granular recognition of risk.

Use of models for ERM

16.2.5 Measurement of risks undertaken at different valuation dates should be produced on a broadly consistent basis overall, which may make variations in results easier to explain. Such analysis also aids the insurer in prioritising its risk management.

16.2.6 Regardless of how sophisticated they are, models cannot exactly replicate the real world. Risks associated with the use of models (modelling and parameter risk), if not explicitly quantified, should be acknowledged and understood as the insurer implements its ERM framework, including by the insurer's Board and Senior Management.

16.2.7 Models may be external or internal. External models may be used to assess catastrophes or market risks. Internal models may be developed by an insurer to assess specific material risks or to assess its risks overall.

16.2.8 Internal models can play an important role in facilitating the risk management process and the supervisor should encourage insurers to make use of such models for parts or all of their business, where it is appropriate.

16.2.9 An insurer may consider that the assessment of current financial resources and the calculation of regulatory capital requirements would be better achieved through the use of internal models, where permitted.

16.2.10 If used, an internal model may provide an important strategic and operational decision-making tool and should be used to enable the insurer to integrate its risk and capital management processes. In particular, the internal model used for ORSA should be consistent with models for other processes within the ERM framework. These include:

assessment of the risks faced within the insurer's business; construction of risk limits structure; and the determination of the economic capital needed, where appropriate, to meet those risks.

16.2.11 To be effective, an internal model should address all the identified risks within its scope, and their interdependencies, and assess their potential impact on the insurer's business given the possible situations that could occur. The methods by which this analysis could be conducted range from simple stress testing of events to more complex stochastic modelling, as appropriate.

16.2.12 The insurer's internal model should be calibrated on the basis of defined modelling criteria that the insurer believes will determine the level of capital appropriate and sufficient to meet its business plan and strategic objectives. These modelling criteria may include the basis for valuation of the assets and liabilities, the confidence level, risk measure and time horizon, as well as other business objectives (for example, aiming to achieve a certain minimum investment rating).

16.2.13 In constructing its internal model, an insurer should adopt risk modelling techniques and approaches that are appropriate to its risk strategy and business plans. An insurer may consider various inputs to the modelling process, such as economic scenarios, asset portfolios and liabilities from in-force or past business, and regulatory constraints on the transfer of assets.

16.2.14 An internal model used to determine economic capital may enable the insurer to allocate sufficient financial resources to ensure it continues to meet its policyholder liabilities as they fall due, at a confidence level appropriate to its business objectives. To fully assess policyholder liabilities in this way, all liabilities that should be met to avoid putting policyholder interests at risk need to be considered, including any liabilities for which a default in payment could trigger the winding up of the insurer.

16.2.15 If an insurer uses its own internal model as part of its risk and capital management processes, the insurer should validate it and review it on a regular basis. Validation should be carried out by suitably experienced individuals in a different department or persons other than those who created the internal model, in order to facilitate independence. The insurer may wish to consider an external review of its internal model by appropriate specialists; for example, if the internal review cannot be performed with sufficient independence, an external review may be warranted.

16.2.16 Where a risk is not readily quantifiable (for instance some operational risks or where there is an impact on the insurer's reputation), the insurer should make a qualitative assessment that is appropriate to that risk and sufficiently detailed to be useful for risk management. The insurer should analyse the controls needed to manage such risks to ensure that its risk assessments are reliable and consider events that may result in high operational costs or operational failure. Such analysis should inform the insurer's judgments in assessing the size of the risks and enhancing overall risk management.

16.2.17 It may be appropriate for internal models to be used for a group even where the use of an internal model is not an approach appropriate at the insurance legal entity level due to, for example, lack of sufficient data.

CF 16.2.a The group-wide supervisor requires the Head of the IAIG to ensure that the IAIG measures all reasonably foreseeable, quantifiable, and relevant material risks using an economic capital model taking into account the risks that the IAIG faces in different sectors, jurisdictions and economic environments.

CF 16.2.a.1 The IAIG should prioritise its risks in a consistent and reliable manner using appropriate means, including the use of an economic capital model.

CF 16.2.a.2 The economic capital model should be based on techniques that estimate the amount of capital needed in reasonably foreseeable adverse situations to which the IAIG is or may be exposed. The economic capital model, in conjunction with other relevant capital measures (for example, regulatory capital requirements), should support major management decisions by focusing attention on capital adequacy.

CF 16.2.a.3 The IAIG should consider the output of its economic capital model and regulatory capital requirements as inputs to its capital planning, which covers at least the IAIG's business planning period.

Stress testing, scenario analysis and reverse stress testing

16.2.18 Stress testing measures the financial impact of stressing one or more factors which could severely affect the insurer. Scenario analysis considers the impact of a combination of circumstances to reflect historical or other scenarios which are analysed in the light of current conditions. Scenario analysis may be conducted deterministically using a range of specified scenarios or stochastically, using models to simulate many possible scenarios, to derive statistical distributions of the results.

16.2.19 Stress testing and scenario analysis should be carried out by the insurer to validate and understand the limitations of its models. They may also be used to complement the use of models for risks that are difficult to model or where the use of a model may not be appropriate from a cost-benefit perspective. For example, these techniques can be used to investigate the effect of proposed management actions.

16.2.20 Scenario analysis may be particularly useful as an aid to communicate risk management issues to the Board, Senior Management, business units and control functions. As such, scenario analysis can facilitate the integration of the insurer's ERM framework within its business operations and establish a sound risk culture.

16.2.21 Reverse stress testing may help identify scenarios that could result in failure or cause the financial position of an insurer to fall below a predefined level. While some risk of failure is always present, such an approach may help to ensure adequate focus on the management actions that are appropriate to avoid undue risk of business failure. The focus of such reverse stress testing is on appropriate risk management actions rather than the assessment of its financial condition and so may be largely qualitative in nature although broad assessment of associated financial impacts may help in deciding the appropriate action to take.

16.2.22 Stress testing is intended to serve the insurer as an aid to sound risk management, particularly to identify residual macroeconomic exposure. Additionally, stress test results may provide the supervisor with a view of vulnerabilities in the insurance sector as a whole and inform any necessary supervisory measures.

16.2.23 Macroeconomic exposure in the insurance sector can accumulate through some types of insurance liabilities or may be created through non-insurance activities. Examples of activities that may create macroeconomic exposure are:

- savings-oriented products (or protection-oriented products with a savings component) that offer guarantees on policyholders' premium payments, often combined with embedded options for policyholders, particularly where guarantees of significant value are unmatched. Such products could require adjusting hedges when financial markets are functioning poorly, thereby exacerbating market movements;
- products embedding features such as automatic asset sales triggered by asset value decreases or that require dynamic hedging, as these products can procyclically aggravate market movements, by leading to "buy high, sell low" asset trades; and
- derivatives contracts such as financial guarantee products including credit default swaps (CDS) that are not used to hedge risk;

16.2.24 In deciding whether it is necessary to require stress testing, and the frequency, scope and type of such stress testing, the supervisor should take into account, for example:

- the nature, scale and complexity of the insurer, its business model and products, including the characteristics of the guarantees it provides;
- the characteristics of any automatic asset reallocation mechanisms;
- the use of dynamic hedging and the extent to which such guarantees are matched or hedged;,
- its activity in derivatives markets; and
- any other activities that the supervisor deems relevant to the insurer's macroeconomic exposure.

Group perspectives

16.2.25 The risks identified and the techniques that are appropriate and adequate for measuring them (including stress testing, scenario analysis, risk modelling and reverse stress testing) may differ at insurance group and insurance legal entity level. Where an insurance legal entity's ERM framework is an integral part of the insurance group's ERM framework, the techniques used to measure risks at group level should consider those that are appropriate and adequate at the insurance legal entity level.

CF 16.2.b The group-wide supervisor requires the IAIG's risk measurement to include:

- **stress and reverse stress testing and scenario analysis the IAIG deems relevant to its risk profile; and**
- **the total balance sheet effects of macroeconomic stresses.**

CF 16.2.b.1 Stresses should include (but may not be limited to) those in the risk transfer markets that may have an adverse effect on the IAIG's risk profile. For example, when developing its scenarios for stress testing, the IAIG should consider reinsurance capacity and related risk transfer costs in future periods after a catastrophic event.

CF 16.2.b.2 The IAIG's assessment of macroeconomic stresses should pay particular attention to the impact of stresses on guarantees and options embedded in insurance products and on the assets backing them.

CF 16.2.c The group-wide supervisor requires the group-wide ERM framework to be independently reviewed at least once every three years, in order to ascertain that it remains fit for purpose.

CF 16.2.c.1 The group-wide ERM framework review may be carried out by an internal or external body as long as the reviewer is independent and not responsible for, nor been actively involved in, the part of the group-wide ERM framework that it reviews.

CF 16.2.c.2 It may be necessary for the IAIG to perform an ad hoc review after a major change has occurred, such as a change in its risk profile, structure or business strategy.

Enterprise risk management framework - Inter-relationship of risk appetite, risk limits and capital adequacy

16.3 The supervisor requires the insurer's ERM framework to reflect the relationship between the insurer's risk appetite, risk limits, regulatory capital requirements, economic capital and the processes and methods for monitoring risk.

16.3.1 An insurer's ERM framework should reflect how its risk management coordinates with strategic planning and its management of capital (regulatory capital requirement and economic capital).

16.3.2 As an integral part of its ERM framework, an insurer should also reflect how its risk management links with corporate objectives, strategy and current circumstances to maintain capital adequacy and solvency and to operate within the risk appetite and risk limits described in the risk appetite statement.

16.3.3 An insurer’s ERM framework should use reasonably long time horizon, consistent with the nature of the insurer’s risks and the business planning horizon, so that it maintains relevance to the insurer's business going forward. This can be done by using methods (such as scenario models) that produce a range of outcomes based on plausible future business assumptions which reflect sufficiently adverse scenarios. The analysis of these outcomes may help the Board and Senior Management in strategic business planning.

16.3.4 Risks should be monitored and reported to the Board and Senior Management, in a regular and timely manner, so that they are fully aware of the insurer's risk profile and how it is evolving and make effective decisions on risk appetite and capital management.

16.3.5 Where internal models are used for business forecasting, the insurer should perform back-testing, to the extent practicable, to validate the accuracy of the model over time.

16.3.6 The insurer’s ERM framework should note the insurer’s reinsurance arrangements and how they:

- reflect the insurer’s risk limits structure;
- play a role in mitigating risk; and
- impact the insurer’s capital requirements.

The use of any non-traditional forms of reinsurance (e.g. finite reinsurance) should also be addressed.

Enterprise risk management framework - risk appetite statement

16.4 The supervisor requires the insurer to have a risk appetite statement that:

- **articulates the aggregate level and types of risk the insurer is willing to assume within its risk capacity to achieve its financial and strategic objectives, and business plan;**
- **takes into account all relevant and material categories of risk and their interdependencies within the insurer’s current and target risk profiles; and**
- **is operationalised in its business strategy and day-to-day operations through a more granular risk limits structure.**

16.4.1 An insurer’s risk appetite statement should include qualitative statements as well as quantitative measures expressed relative to earnings, capital, risk measures, liquidity and other relevant measures as appropriate.

16.4.2 Qualitative statements should:

- complement quantitative measures;
- set the overall tone for the insurer’s approach to risk taking; and

- articulate clearly the motivations for taking on or avoiding certain types of risks, products, country/regional exposures, or other categories.

16.4.3 Risk appetite may not necessarily be expressed in a single document. However the way it is expressed should provide the insurer's Board with a coherent and holistic, yet concise and easily understood, view of the insurer's risk appetite.

16.4.4 The supervisor should require risk capacity of the insurer to include the consideration of regulatory capital requirements, economic capital, liquidity and operational environment.

16.4.5 The risk appetite statement should give clear guidance to operational management on the level of risk to which the insurer is prepared to be exposed and the limits of risk to which they are able to expose the insurer. It should also be communicated across and within the insurer to facilitate entrenching the risk appetite into the insurer's risk culture.

16.4.6 An insurer should consider how to embed these limits in its ongoing operations. This may be achieved by expressing limits in a way that can be measured and monitored as part of ongoing operations. Stress testing may provide an insurer with a tool to help ascertain whether the limits are suitable for its business.

Group perspectives

16.4.7 An insurance legal entity's risk appetite statement should define risk limits taking into account all of the group risks it faces to the extent that they are relevant and material to the insurance legal entity.

16.4.8 When creating a risk limits structure at the insurance legal entity level, the entity's Board and Senior Management should take into account risk limits at the group level.

CF 16.4.a The group-wide supervisor requires the group-wide ERM framework to establish and maintain processes to communicate its risk appetite internally and externally.

CF 16.4.a.1 The granularity of disclosure may differ between internal and external communication.

Asset-liability management, investment, underwriting policies and liquidity risk management

16.5 The supervisor requires the insurer's ERM framework to include an explicit asset-liability management (ALM) policy which specifies the nature, role and extent of ALM activities and their relationship with product development, pricing functions and investment management.

16.5.1 As appropriate, the ALM policy should set out how:

- the investment and liability strategies allow for the interaction between assets and liabilities;
- the liability cash flows will be met by the cash inflows; and

- the economic valuation of assets and liabilities will change under a range of different scenarios.

ALM does not imply that assets should be matched as closely as possible to liabilities, but rather that mismatches are effectively managed. Not all ALM needs to use complex techniques. For example, simple, low risk or short term business may call for less complex ALM techniques.

16.5.2 The insurer's ALM policy should recognise the interdependence between all of the insurer's assets and liabilities and take into account the correlation of risk between different asset classes as well as the correlations between different products and business lines, recognising that correlations may not be linear. The ALM policy should also take into account any off-balance sheet exposures that the insurer may have and the contingency that risks transferred may revert to the insurer.

16.5.3 Different strategies may be appropriate for different categories of assets and liabilities. One possible approach to ALM is to identify separate homogeneous segments of liabilities and obtain investments for each segment that would be appropriate if each liability segment was a stand-alone business. Another possible approach is to manage the insurer's assets and liabilities together as a whole. The latter approach may provide greater opportunities for profit and management of risk than the former. If ALM is practised for each business segment separately, this is likely to mean that the insurer may not benefit as much from the benefits of scale, hedging, diversification and reinsurance.

16.5.4 However, for some types of insurance business it may not be appropriate to manage risks by combining liability segments. It may be necessary for the insurer to devise separate and self-contained ALM policies for particular portfolios of assets that are ring-fenced or otherwise not freely available to cover obligations in other parts of the insurer.

16.5.5 Assets and liabilities may be ring-fenced to protect policyholders. For example, non-life insurance business is normally ring-fenced from life insurance business, and likewise, participating business is separated from non-participating. Supervisory requirements or the insurer's ERM framework may require some liabilities to be closely matched with the supporting assets. For example, equity-linked or indexed-linked benefits may be closely matched with corresponding assets, and annuities' cash outflows may be closely matched with cash inflows from fixed income instruments.

16.5.6 Some liabilities may have particularly long durations, such as certain types of liability insurance and whole-life policies and annuities. In these cases, assets with sufficiently long duration may not be available to match the liabilities, introducing a significant reinvestment risk, such that the present value of future net liability cash flows is particularly sensitive to changes in interest rates. There may also be gaps in the asset durations available. An ALM policy should address the risks arising from duration or other mismatches (for example, by holding adequate capital or having appropriate risk mitigation in place). The ERM framework should reflect the insurer's capacity to bear ALM risk, according to the insurer's risk appetite and risk limits structure.

Group perspectives

16.5.7 The group-wide ALM policy should take into account any legal restrictions that may apply to the treatment of assets and liabilities within the jurisdictions in which the group operates.

16.6 The supervisor requires the insurer's ERM framework to include an explicit investment policy that:

- **addresses investment risk according to the insurer's risk appetite and risk limits structure;**
- **specifies the nature, role and extent of the insurer's investment activities and how the insurer complies with regulatory investment requirements; and**
- **establishes explicit risk management procedures with regard to more complex and less transparent classes of asset and investments in markets or instruments that are subject to less governance or regulation; and**
- **as necessary, includes a counterparty risk appetite statement.**

16.6.1 An investment policy may set out the insurer's strategy for optimising investment returns and specify asset allocation strategies and authorities for investment activities and how these are related to the ALM policy.

16.6.2 The investment policy should address the safe-keeping of assets including custodial arrangements and the conditions under which investments may be pledged or lent.

16.6.3 Credit risk should be considered in the investment policy.

16.6.4 The investment policy should consider asset concentration based on certain characteristics, including:

- type of asset;
- credit rating;
- issuer/counterparty or related entities of an issuer/counterparty;
- financial market;
- sector; and
- geographic area.

16.6.5 It is important for the insurer to understand the source, type and amount of investment risk. For example, it is important to understand who has the ultimate legal risk or basis risk in a complex chain of transactions. Similar questions arise where the investment is via external funds, especially when such funds are not transparent.

16.6.6 A number of factors may shape the insurer's investment strategy. For insurers in many jurisdictions concentration risk arising from the limited availability of suitable domestic investment vehicles may be an issue. By contrast, international insurers' investment strategies may be complex because of a need to manage or match assets and liabilities in a number of currencies and different markets. In addition, the need for liquidity resulting from potential large-scale payments may further complicate an insurer's investment strategy.

16.6.7 Where appropriate, the investment policy should outline how the insurer deals with inherently complex financial instruments such as derivatives, hybrid instruments that embed derivatives, private equity, hedge funds, insurance linked instruments and commitments transacted through special purpose entities. Complex or less transparent assets may present operational risks that are difficult to assess reliably, especially in adverse conditions.

16.6.8 An effective investment policy and ERM framework should provide for appropriately robust models reflecting relevant risks of complex investment activities (including underwriting guarantees for such complex securities). There should be explicit procedures to evaluate non-standard risks associated with complex structured products, especially new forms of concentration risk that may not be obvious.

16.6.9 For complex investment strategies, the insurer's investment policy and ERM framework may incorporate the use of stress testing and contingency planning to handle hard-to-model risks such as liquidity and sudden market movements. Trial operation of procedures may also be appropriate in advance of 'live' operation.

16.6.10 The insurer's investment policy and ERM framework should be clear about the purpose of using derivatives and address whether it is appropriate for it to prohibit or restrict the use of some types of derivatives where, for example:

- the potential exposure cannot be reliably measured;
- closing out of a derivative is difficult considering the illiquidity of the market;
- the derivative is not readily marketable as may be the case with over-the-counter instruments;
- independent (i.e. external) verification of pricing is not available;
- collateral arrangements do not fully cover the exposure to the counterparty;
- the counterparty is not suitably creditworthy; and
- the exposure to any one counterparty exceeds a specified amount.

These factors are particularly important for unregulated over-the-counter derivatives. The effectiveness of clearing facilities available may be a relevant consideration in assessing the counterparty risk associated with some types of over-the-counter derivatives, such as credit default swaps.

16.6.11 A counterparty risk appetite statement sets out the level of risk the insurer is willing to accept that a counterparty will be unable to meet its obligations as they fall due. This may impact the insurer's financial position through, for example, reductions in fair value or impairment of investments, loss of reinsurance cover, open market exposures or the loss of securities that have been loaned.

16.6.12 In deciding whether it is necessary to require a counterparty risk appetite statement, the supervisor should take into account the size of the insurer's counterparty exposures, both in absolute terms and relative to the insurer's portfolio, according to the characteristics outlined in ICP 16.6.4, as well as the complexity and form of these exposures. Particular attention should be paid to financial sector counterparties, as these counterparties may be more likely to contribute to the build-up of systemic risk. Attention should also be paid to off-balance sheet exposures or commitments, as these may be more likely to materialise during stress.

CF 16.6.a The group-wide supervisor requires the Head of the IAIG to establish and maintain a group-wide investment policy that sets criteria for investment quality and addresses the selection of, and exposure to, low-quality investments or investments whose security is difficult to assess.

CF 16.6.a.1 The group-wide investment policy should take into account the different regulatory investment requirements of the jurisdictions in which the IAIG operates.

CF 16.6.b The group-wide supervisor requires the Head of the IAIG to:

- **set limits, or other requirements, in the group-wide investment policy so that assets are properly diversified and asset concentration risk is mitigated; and**
- **have a counterparty risk appetite statement.**

CF 16.6.b.1 The IAIG should avoid excessive concentrations in any particular:

- type of asset;
- credit rating;
- issuer/counterparty or related entities of an issuer/ counterparty;
- financial market;
- sector; or
- geographic area.

CF 16.6.b.2 To support the assessment of concentrations, the IAIG should analyse aggregate exposures to individual counterparties and to groups of related counterparties both at the legal entity level and group-wide level.

CF 16.6.c The group-wide supervisor requires the Head of the IAIG to establish criteria on intra-group investments in the group-wide investment policy.

CF 16.6.c.1 Criteria on intra-group investments should take into account, when appropriate:

- liquidity;
- contagion or reputational risk;
- valuation uncertainty;
- impact on capital resources;
- nature of the IAIG's business; and
- financial condition of the individual legal entities.

The fact that intragroup investments may be subject to supervisory approval, in certain jurisdictions, does not remove the requirement for the Head of the IAIG to set its own criteria.

CF 16.6.d The group-wide supervisor requires the Head of the IAIG to monitor investments on a group-wide basis to identify levels of investment exposure that do not comply with the group-wide investment policy.

CF 16.6.d.1 Group-wide investment exposures that exceed limits, or any other non-compliance, should be reported to the IAIG Board and Senior Management upon identification. Reports to the IAIG Board and Senior Management should include material exposures that, even if within limits, could create financial difficulties within the IAIG if the value or liquidity of the investments decreases.

16.7 The supervisor requires the insurer's ERM framework to include an underwriting policy that addresses the:

- **insurer's underwriting risk according to the insurer's risk appetite and risk limits structure;**
- **nature of risks to be underwritten, including any material relationship with macroeconomic conditions; and**
- **interaction of the underwriting strategy with the insurer's reinsurance strategy and pricing.**

16.7.1 An underwriting policy should cover the underwriting process, pricing, claims settlement and expense control (where applicable and relevant to the expenses of the underwriting process). Such a policy may include:

- the terms on which contracts are written and any exclusions;
- the procedures and conditions that need to be satisfied for risks to be accepted;
- additional premiums for substandard risks; and
- procedures and conditions that need to be satisfied for claims to be paid.

16.7.2 Control of expenses associated with underwriting and payment of claims is an important part of managing risk especially in conditions of high general rates of inflation. Inflation of claim amounts also tends to be high in such conditions for some types of risk. Insurers should have systems in place to control their expenses. These expenses should be monitored by the insurer on an on-going basis.

16.7.3 The underwriting policy should take into account the effectiveness of risk transfer. This includes ensuring that:

- the insurer's reinsurance programme provides coverage appropriate to its level of capital, the profile of the risks it underwrites, its business strategy and risk appetite; and
- the risk will not revert to the insurer in adverse circumstances.

16.7.4 In addressing the nature and amount of risks to be underwritten the underwriting policy should cover, at a minimum:

- product classes the insurer is willing to write;
- relevant exposure limits (e.g. geographical, counterparty, economic sector); and
- a process for setting underwriting limits.

16.7.5 The underwriting policy should address the potential impact on the insurer's financial position from correlations between macroeconomic conditions and the insurance portfolio (for example by assessing the potential impact stemming from certain insurance products with embedded guarantees and options).

16.7.6 The underwriting policy should address:

- how an insurer analyses emerging risks in the underwritten portfolio; and
- how emerging risks are considered in modifying underwriting practices.

16.7.7 The underwriting policy should describe interactions with the reinsurance strategy and associated credit risk, and should include details of the reinsurance cover of certain product classes or particular risks.

CF 16.7.a The group-wide supervisor requires the Head of the IAIG to ensure that the IAIG implements its group-wide ERM framework by establishing procedures and monitoring practices for the use of sufficient, reliable and relevant data for its underwriting, pricing, reserving and reinsurance processes.

Group-wide claims management policy

CF 16.7.b The group-wide supervisor requires the Head of the IAIG to establish and maintain a group-wide claims management policy, as part of the group-wide ERM framework, that includes procedures for:

- **claims estimation and settlement;**

- **feedback into the group-wide underwriting policy and reinsurance strategy; and**
- **claims data reporting for group analysis.**

CF 16.7.b.1 The group-wide claims management policy may establish procedures for:

- delegations of authority for claims settlement;
- criteria for accepting or rejecting claims; and
- escalating claims.

CF 16.7.b.2 A group-wide claims management policy should allow insurance legal entities to establish individual claims management policies and procedures, adjusted to supervisory requirements and circumstances in their jurisdictions.

CF 16.7.b.3 Escalating claims may include information about sudden increases in claim activity, delays in settlements and increased rejections.

Group-wide strategy for reinsurance and other forms of risk transfer

CF 16.7.c The group-wide supervisor requires the Head of the IAIG to establish and maintain a group-wide strategy for reinsurance and other forms of risk transfer as part of the group-wide ERM framework that considers the following issues, as applicable:

- **the interaction with the group-wide risk and capital management strategies;**
- **how the risk appetite is achieved, on both a gross limit and net retention basis;**
- **the appetite for reinsurer credit risk, including approved security criteria for reinsurance transactions and aggregate exposure criteria to individual or related reinsurers;**
- **the autonomy afforded to individual insurance legal entities to enter into "entity specific" reinsurance arrangements, and the management and the aggregation of these exposures in the group-wide context;**
- **procedures for managing reinsurance recoverables, including required reporting from insurers;**
- **intra-group reinsurance strategy and practice;**
- **use of alternative risk transfer, including capital markets risk transfer products; and**
- **effectiveness of risk transfer in adverse circumstances.**

CF 16.7.c.1 A strategy for other forms of risk transfer may include the use of capital markets risk transfer products (for example, insurance linked securities). Strategic considerations may include factors like the maturity of the capital markets offering such risk transfer products, regulatory approaches regarding the use of such risk transfer products, and overall mix of traditional reinsurance with other forms of risk transfer.

Group-wide actuarial policy

CF 16.7.d **The group-wide supervisor requires the Head of the IAIG to establish and maintain a group-wide actuarial policy, as part of the group-wide ERM framework, that consists of a set of group-wide practice standards, covering at least:**

- **the process to assess the appropriateness, at the group-wide level, of the data, methodologies and underlying models used, as well as the assumptions made in the calculation of technical provisions;**
- **the process to calculate reinsurance recoverable assets taking into account the design of the reinsurance programme under the reinsurance strategy of the IAIG; and**
- **model risk management of internal models that generate actuarial and financial projections for solvency purposes.**

CF 16.7.d.1 The group-wide practice standards comprising the group-wide actuarial policy should:

- be compliant with applicable law and regulation, accounting regime, and professional actuarial standards;
- formalise materiality thresholds to trigger higher levels of management actions to ensure well-governed activities;
- provide for a data validation process that supports actuarial activities to ensure data quality, comprehensiveness, granularity and timeliness;
- provide a framework for determining assumptions used in valuations, including a process of incorporating the experience of the IAIG and its insurance legal entities, as well as a process of developing assumptions if the IAIG does not have enough experience in a particular business line or market;
- articulate model validation and maintenance procedure to ensure that model usage and model modifications align with the risk appetite and risk limits structure; and
- create consistent management information requirements from in-depth reviews and monitoring of actuarial activities.

CF 16.7.d.2 The group-wide actuarial policy should contain practice standards to raise awareness of matters that have, or are likely to have, a materially adverse effect on the solvency, reserves or financial condition of one of the insurance legal entities, or the IAIG as a whole. Such standards would prompt the group-wide actuarial function to inform the relevant Board, Senior Management or Key Persons in Control Functions, as appropriate, for suitable action (see ICP 8 Risk Management and Internal Controls).

CF 16.7.d.3 Differences in reporting may exist at the insurance legal entity level to comply with jurisdictional requirements. The group-wide actuarial policy should focus on group-wide reporting requirements, both for internal management purposes and for reporting and disclosure purposes. The group-wide reporting should reflect jurisdictional differences.

CF 16.7.d.4 The group-wide actuarial policy should require an assessment of the consistency of the base assumptions used to derive technical provisions compared to those used to derive capital requirements, economic capital models, or the forward-looking view in the ORSA. Such an assessment of consistency may provide insight as to the coherence of the base assumptions and those applied in stress conditions.

CF 16.7.e The group-wide supervisor requires the group-wide actuarial function, as part of the group-wide ERM framework, to report annually (whether certified or not) to the IAIG Board on at least the following:

- **a prospective actuarial analysis of the financial condition of the IAIG which goes beyond the current balance sheet of the IAIG;**
- **the reliability and sufficiency of the technical provisions;**
- **the adequacy of reinsurance credit for technical provisions; and**
- **consideration of non-insurance legal entities and non-regulated legal entities.**

CF 16.7.e.1 The group-wide actuarial function should provide the IAIG Board an actuarial analysis of the current and future financial condition of the IAIG given recent experience and the group-wide policies for underwriting, claims management and investment and the group-wide reinsurance strategy.

CF 16.7.e.2 The group-wide actuarial function may use the underlying actuarial reports submitted by the individual insurance legal entities as input to its annual reporting to the IAIG Board. Further examples of issues that could be addressed include:

- the assumptions used by all of the insurance legal entities in the group and the consolidation/aggregation method applied at the group level;
- the methodologies used to determine current estimates by each insurance legal entity and the consolidation/ aggregation method applied at the group level;
- the methodologies used to determine the margin over current estimate by each insurance legal entity and the consolidation/aggregation method applied at the group level;

- the availability and appropriateness of data used in valuations;
- back-testing of assumptions and valuations;
- uncertainty in current estimates used by both insurance legal entities and at the consolidated/aggregated group level;
- the adequacy of pricing, taking into account the underwriting policies, at the appropriate unit level, the insurance legal entity level and the group level;
- the performance of the IAIG's insurance portfolios and analysis of any changes in business volumes, exposures, claims experience, mix of business and pricing during the year;
- asset-liability management under the group-wide investment policy;
- suitability and adequacy of reinsurance or other forms of risk transfer arrangements, taking into account the strategies for underwriting and claims management, as well as the overall financial condition and risk appetite of the IAIG; and
- the extent of reliance on the values provided by non-insurance legal entities.

16.8 The supervisor requires the insurer's ERM framework to address liquidity risk and to contain strategies, policies and processes to maintain adequate liquidity to meet its liabilities as they fall due in normal and stressed conditions.

16.8.1 When analysing its liquidity profile, the insurer should assess the liquidity of both its assets and liabilities and report such analysis, including any assumptions used in the analysis, to the supervisor. The insurer should consider, where applicable, issues such as:

- market liquidity in normal and stressed conditions, quality of assets and its ability to monetise assets in each situation;
- characteristics of insurance contracts that may affect policyholder behaviour around lapse, withdrawal or renewal;
- adverse insurance events that may trigger short-term liquidity needs, including catastrophes;
- non-insurance activities such as margining or posting collateral for derivatives contracts, securities lending or repurchase agreements; and
- contingent sources of liquidity (including committed lines of credit or future premium income) and whether these would be available in stressed conditions.

16.8.2 An insurer should have well-defined processes and metrics in place, which may be simple or more advanced depending on its activities, to assess its liquidity position at different time horizons on a regular basis. An insurer's liquidity analysis should cover both normal and stressed market conditions. The insurer should assess the results of such analysis in light of its risk appetite.

Group perspectives

16.8.3 An insurance group's assessment should result in a coherent view of liquidity risk across legal entities within the group. For example, where an individual legal entity relies on the head of the group for funding, this should be accounted for in both the individual legal entity's and the head of the group's liquidity analysis.

16.8.4 When analysing its liquidity position, an insurance group may use different scenarios and analyses on a legal entity level and group-wide level where appropriate. Such scenarios should take into account that circumstances may differ between individual legal entities and the group as a whole.

16.9 The supervisor requires, as necessary, the insurer to establish more detailed liquidity risk management processes, as part of its ERM framework, that include:

- **liquidity stress testing;**
- **maintenance of a portfolio of unencumbered high quality liquid assets;**
- **a contingency funding plan; and**
- **the submission of a liquidity risk management report to the supervisor.**

16.9.1 Liquidity risk is triggered as a result of an imbalance between liquidity sources and needs, for instance due to liquidity transformation. Examples of activities that could generate unexpected liquidity needs include:

- derivatives, particularly any collateral or margin that needs to be posted for mark-to-market declines in the value of the contract;
- securities financing transactions, including repurchase agreements and securities lending; and
- insurance products that contain provisions that allow a policyholder to withdraw cash from the policy with little notice or penalty.

These activities may contribute to systemic risk when not properly managed, for instance when funds received from short-term securities lending or repurchase agreements or balances from more liquid insurance products are invested in illiquid assets.

16.9.2 The more detailed liquidity risk management processes to address liquidity risk are intended to help the insurer with its risk management. Liquidity stress testing is a forward looking risk management tool to reveal vulnerabilities in the insurer's liquidity profile and provide information on its ability to meet liabilities as they fall due. A portfolio of unencumbered high quality liquid assets may provide a source of liquidity for the insurer to meet its liabilities as they fall due. A contingency funding plan may assist the insurer in addressing an unforeseen stress situation, where its liquid assets are insufficient or unexpectedly become illiquid. A liquidity management report could assist the insurer and the supervisor to address shortcomings in the insurer's risk management by laying out details of its liquidity risk management in an accessible format. Additionally, the measures may provide the supervisor with a view on vulnerabilities that may cause funding shortfalls in stress.

16.9.3 In deciding whether it is necessary to require more detailed liquidity risk management processes, and the intensity of such processes, the supervisor should take into account the nature, scale and complexity of the insurer's activities that lead to increased liquidity risk exposure as well as the risk amplification effects related to the size of the insurer. Increased liquidity risk exposure may depend on, for example, the magnitude of potential collateral or margin calls from derivatives or other transactions, the use of securities financing transactions or the characteristics of insurance contracts that may affect policyholder behaviour around lapse, withdrawal or renewal .

16.9.4 The supervisor may increase or decrease the intensity of these requirements by, for example, varying the frequency, scope and granularity of liquidity stress testing, the proportion of various types of high quality liquid assets allowed in the portfolio or the form and level of detail in the contingency funding plan and liquidity risk management report.

16.9.5 Where an insurer is required to establish more detailed liquidity risk management processes, the supervisor should assess the effectiveness of their implementation, including the interaction with existing control mechanisms. Additionally, the supervisor should evaluate the quality and quantity of the assets that the insurer includes in its portfolio of high quality liquid assets in light of the liquidity characteristics of its activities. The supervisor may develop its own, general, criteria for high quality liquid assets.

CF 16.9.a. The group-wide supervisor requires the Head of the IAIG to assess the IAIG's resilience against severe but plausible liquidity stresses to determine whether current exposures are within the IAIG's liquidity risk appetite.

CF 16.9.a.1 Forward looking risk assessments should be done through scenario analysis or stress testing to reveal vulnerabilities in an IAIG's liquidity profile and should be performed for material legal entities and the IAIG as a whole.

CF 16.9.a.2 Depending on its business model, an IAIG may be vulnerable to different liquidity stresses than other insurers. Certain activities may contribute to larger or less predictable liquidity needs. The group-wide supervisor should therefore consider the nature, scale, and complexity of the IAIG's activities that lead to increased liquidity risk exposure as well as the risk amplification effects related to the size of the IAIG when setting its expectations of the IAIG's stress testing. The group-wide supervisor may, based on these considerations, vary the frequency, scope and granularity of liquidity stress testing.

CF 16.9.a.3 The group-wide supervisor may suggest the IAIG include in its assessment certain stresses that have been informed by the group-wide supervisor's macroprudential surveillance (ICP 24 Macroprudential Supervision).

CF 16.9.a.4 The IAIG may consider the following when designing stresses:

- exposure to insurable events;
- withdrawals from, and run-offs of, insurance policies;
- contingent off-balance sheet exposures;
- the impact of a deterioration in the IAIG's credit rating;
- the ability to transfer liquidity between legal entities and between jurisdictions;
- currency convertibility and access to foreign exchange markets;
- reductions in the ability to access secured and unsecured wholesale funding; and
- the correlation and concentration of funding sources.

CF 16.9.a.5 The IAIG may consider the impact of chosen stresses on the appropriateness of its assumptions relating to:

- correlations between funding markets;
- the effectiveness of diversification across its chosen sources of funding;
- additional margin calls and collateral requirements;
- reliance on committed lines of credit;
- estimates of future balance sheet growth and premium income;
- the continued availability of market liquidity, including in currently highly liquid markets;
- ability to access secured and unsecured funding; and
- currency convertibility.

CF 16.9.a.6 The IAIG should evaluate its cash inflows (sources) and cash outflows (needs) under stress scenarios and determine its stressed liquidity position, i.e. its net stressed cash outflows.

CF 16.9.b. The group-wide supervisor requires the Head of the IAIG to establish and maintain an adequate level of unencumbered high quality liquid assets in appropriate locations.

CF 16.9.b.1 The IAIG should maintain adequate liquidity to meet its liabilities as they fall due in normal and stressed conditions. Where stress scenarios reveal stressed cash outflows that exceed stressed cash inflows, the IAIG should hold unencumbered high quality liquid assets, with appropriate haircuts, of sufficient value to meet excess stressed cash outflows.

CF 16.9.b.2 The group-wide supervisor should consider the results of the IAIG's stress testing or scenario analysis when assessing the quality and quantity of the assets that the IAIG considers to be high quality liquid assets. Where an IAIG is subject to significant short-term liquidity needs (for example daily or weekly) the supervisor may require higher quality assets than an IAIG subject to longer-term needs. The group-wide supervisor may also require an IAIG with larger or less predictable stressed liquidity needs to hold a larger amount of high quality liquid assets than an IAIG with smaller and more consistent liquidity needs.

CF 16.9.b.3 The IAIG should be able to demonstrate to the group-wide supervisor the liquidity of any assets it considers high quality liquid assets in its liquidity risk management report.

CF 16.9.b.4 To promote their usability, assets that the IAIG relies on for liquidity should be free of legal, regulatory, contractual or other restrictions on the ability of the IAIG to liquidate, sell, transfer, or assign the assets (i.e. unencumbered).

CF 16.9.b.5 The Head of the IAIG should ensure that its portfolio of high quality liquid assets is sufficiently diversified. This may include looking through to the underlying assets to determine the extent of concentration risk. The Head of the IAIG should also consider whether it holds a substantial share of the market for a particular instrument, counterparty or asset class to assess if the market would be able to bear the IAIG's sales and whether market reaction would not adversely impact the IAIG's ability to monetise its assets as planned.

CF 16.9.b.6 The Head of the IAIG should consider the marketability and realisability, including as acceptable collateral, of its high quality liquid assets by taking into account factors such as market depth and access, monetisation timelines (for example delays in finding a willing buyer, time to settlement) and the likelihood and extent of forced-sale losses. In stressed market conditions, it may not be feasible to value properly or sell some types of assets or to do so without a significant loss in value.

CF 16.9.b.7 Liquidity is not always freely transferable within a group when needed. The Head of the IAIG should ensure that liquidity is available to legal entities within the group when needed, subject to any applicable legal, regulatory or operational constraints, including cross-border constraints.

CF 16.9.b.8 The minimum criteria for determining asset liquidity may be addressed in the group-wide investment policy or a separate liquidity policy.

CF 16.9.c. The group-wide supervisor requires the Head of the IAIG to maintain a contingency funding plan to respond to liquidity stress events.

CF 16.9.c.1 The group-wide supervisor should consider the nature, scale, and complexity of the IAIG's activities that lead to increased liquidity risk exposure, as well as the risk amplification effects related to the size of the IAIG, when setting its expectations of the IAIG's contingency funding plan requirements This includes the form and level of detail of the contingency funding plan and the frequency for reviewing and updating the plan. The group-wide supervisor's expectations may be informed by the IAIG's liquidity stress testing or scenario analysis, which may reveal funding sources most likely to be impacted during stress and those on which the IAIG is most reliant. The group-wide supervisor may consider requiring a more detailed or frequently updated plan from an IAIG with more unpredictable cash inflows and outflows or where cash inflows and outflows are more significantly impacted by the IAIG's liquidity stress tests or scenario analysis.

CF 16.9.c.2 A contingency funding plan should detail the strategies for addressing liquidity shortfalls in stress situations, including the methods that the IAIG would use to access alternative sources of funding.

CF 16.9.c.3 A contingency funding plan should include quantitative metrics that the IAIG would use to identify a liquidity stress event, including the level and nature of the effect it would have on the IAIG's liquidity position and on sources of available funding.

CF 16.9.c.4 A contingency funding plan should outline the strategies, policies and processes to manage a range of stresses. The plan should establish a clear allocation of roles and clear lines of management responsibility. The plan should define procedures for identifying early warning indicators for potential liquidity stress events that are based on the features of the IAIG's business.

CF 16.9.c.5 The supervisor may allow the IAIG's contingency funding plan to be developed as part of a recovery plan.

CF 16.9.d. The group-wide supervisor requires the Head of the IAIG to report, at least annually, on its management of liquidity risk. The report includes at least the following:

- **a liquidity risk appetite statement;**
- **established liquidity risk limits;**
- **a discussion of the current liquidity position of the IAIG in relation to its liquidity risk appetite and limits;**
- **a summary of strategies, policies and processes that the IAIG has in place to manage liquidity risk;**
- **a discussion of potential vulnerabilities in the IAIG's liabilities as well as the means of enhancing the liquidity position; and**
- **the IAIG's approach to, and results of, liquidity stress testing.**

CF 16.9.d.1 The group-wide supervisor should consider the nature, scale, and complexity of the IAIG's activities that lead to increased liquidity risk exposure as well as the risk amplification effects related to the size of the IAIG when setting liquidity reporting requirements, including the level of detail of the report and the frequency for reviewing and updating the report. The supervisor may determine that the reporting requirement is satisfied by reference to other risk management policies and/or the ORSA report.

CF 16.9.d.2 The summary of strategies, policies and processes should discuss any metrics the IAIG uses to identify, measure, monitor, and control liquidity risk as well as how the results from the liquidity stress testing are incorporated into day-to-day management of the IAIG. The Head of the IAIG should have a process in place to discuss the results and take the necessary actions.

Own risk and solvency assessment (ORSA)

16.10 The supervisor requires the insurer to perform regularly its own risk and solvency assessment (ORSA) to assess the adequacy of its risk management and current, and likely future, solvency position.

16.10.1 The insurer should document the main outcomes, rationale, calculations and action plans arising from its ORSA.

16.10.2 ORSAs should be largely driven by how an insurer is structured and how it manages itself. The performance of an ORSA at the insurance legal entity level does not exempt the group from conducting a group-wide ORSA.

16.11 The supervisor requires the insurer's Board and Senior Management to be responsible for the ORSA.

16.11.1 The Board should adopt a rigorous process for setting, approving, and overseeing the effective implementation by Senior Management of the insurer's ORSA.

16.11.2 Where appropriate, the effectiveness of the ORSA should be validated through internal or external independent overall review by a suitably experienced individual.

16.12 The supervisor requires the insurer's ORSA to:

- **encompass all reasonably foreseeable and relevant material risks including, at a minimum, insurance, credit, market, concentration, operational and liquidity risks and (if applicable) group risk; and**
- **identify the relationship between risk management and the level and quality of financial resources needed and available;**

and, as necessary:

- **assess the insurer's resilience against severe but plausible macroeconomic stresses through scenario analysis or stress testing; and**
- **assess aggregate counterparty exposures and analyse the effect of stress events on material counterparty exposures through scenario analysis or stress testing.**

16.12.1 The insurer should consider in its ORSA all material risks that may have an impact on its ability to meet its obligations to policyholders, including in that assessment a consideration of the impact of future changes in economic conditions or other external factors. The insurer should undertake an ORSA on a regular basis so that it continues to provide relevant information for its management and decision making processes. The insurer should regularly reassess the sources of risk and the extent to which particular risks are material. Significant changes in the risk profile of the insurer should prompt it to undertake a new ORSA. Risk assessment should be done in conjunction with consideration of the effectiveness of applicable controls to mitigate the risks.

16.12.2 The ORSA should explicitly state which risks are quantifiable and which are non-quantifiable.

16.12.3 In deciding whether it is necessary to require scenario analysis or stress testing as part of the ORSA, and the frequency, scope and type of such scenario analysis or stress testing, the supervisor should take into account, for example, the nature, scale and complexity of the insurer, its business model and products and the size of the insurer's exposures, both in absolute terms and relative to the insurer's portfolio. For macroeconomic exposure, relevant factors may include the characteristics of the guarantees the insurer provides and the extent to which such guarantees are matched or hedged, the characteristics of any automatic asset reallocation mechanisms, the use of dynamic hedging, and the insurer's activity in derivatives markets. For counterparty exposure, particular attention should be paid to financial sector counterparties, as these may be more likely to contribute to the build-up systemic risk, and to off-balance sheet exposures or commitments, as these may be more likely to materialise during stress.

Group perspectives

16.12.4 An insurance group's ORSA should:

- include all reasonably foreseeable and relevant material risks arising from every legal entity within the insurance group and from the widest group of which the insurance group is part;
- take into account the fungibility of capital and the transferability of assets within the group; and
- ensure capital is not double counted.

16.12.5 Similarly, an insurance legal entity's ORSA should include all additional risks arising from the widest group to the extent that they impact the insurance legal entity.

16.12.6 In the insurance legal entity's ORSA and the insurance group's ORSA, it may be appropriate to consider scenarios in which a group splits or changes its structure in other ways. Assessment of current capital adequacy and continuity analysis should include consideration of relevant possible changes in group structure and integrity in adverse circumstances and the implications this could have for group risks, the existence of the group and the support or demands from the group to or on its insurance legal entities.

16.12.7 Given the level of complexity at insurance group level compared with that at an insurance legal entity level, additional analysis and information is likely to be needed for the group's ORSA in order to address comprehensively the range of insurance group level risks. For example, it may be appropriate to apply a contagion test by using stress testing to assess the impact of difficulties in each legal entity within the insurance group on the other insurance group entities.

16.12.8 In conducting its group-wide ORSA, the group should be able to account for diversification in the group. Moreover, the group should be able to demonstrate how much of the diversification benefit would be maintained in a stress situation.

CF 16.12.a The group-wide supervisor requires the Head of the IAIG to perform a group-wide ORSA, using both quantitative and qualitative approaches, which takes into account at least:

- **the legal and management structures of the group;**
- **group-wide economic capital models;**
- **risk aggregation;**
- **the fungibility of capital and the transferability of assets within the group; and**
- **the outputs of the economic capital model and the regulatory capital requirements.**

CF 16.12.a.1 In conducting its group-wide ORSA, the IAIG should consider all material risks arising from its legal entities including non-regulated ones. In particular, political and reputational risks should be considered.

CF 16.12.b The group-wide supervisor requires the Head of the IAIG, as part of the group-wide ORSA, to:

- **assess the IAIG's resilience against severe but plausible macroeconomic stresses through scenario analysis or stress testing; and**
- **assess aggregate counterparty exposures and analyse the effect of stress events on material counterparty exposures through scenario analysis or stress testing.**

CF 16.12.b.1 Scenario analysis on material counterparty exposures should assess the potential impact on the IAIG's financial position of the deterioration of the credit-worthiness or of the default of individual legal entities, sectors or geographic areas.

ORSA - economic and regulatory capital

16.13 The supervisor requires the insurer to:

- **determine, as part of its ORSA, the overall financial resources it needs to manage its business given its risk appetite and business plans;**
- **base its risk management actions on consideration of its economic capital, regulatory capital requirements, financial resources, and its ORSA; and**
- **assess the quality and adequacy of its capital resources to meet regulatory capital requirements and any additional capital needs.**

16.13.1 It is important that an insurer has regard for how risk management and capital management relate to and interact with each other. Therefore, an insurer should determine the overall financial resources it needs, taking into account its risk appetite, risk limits structure and business plans, based on an assessment of its risks, the relationship between them and the risk mitigation in place. Determining economic capital may help an insurer to assess how best to optimise its capital base, whether to retain or transfer risk and how to allow for risks in its pricing.

16.13.2 Although the amounts of economic capital and regulatory capital requirements and the methods used to determine them may differ, an insurer should be aware of, and be able to analyse and explain, these differences. Such analysis helps to embed supervisory requirements into an insurer's ORSA and risk and capital management, so as to ensure that obligations to policyholders continue to be met as they fall due.

16.13.3 As part of the ORSA, the insurer should perform its own assessment of the quality and adequacy of capital resources both in the context of determining its economic capital and in demonstrating that regulatory capital requirements are met having regard to the quality criteria established by the supervisor and other factors which the insurer considers relevant.

Re-capitalisation

16.13.4 If an insurer suffers losses that are absorbed by its available capital resources, it may need to raise new capital to meet ongoing regulatory capital requirements and to maintain its business strategies. It cannot be assumed that capital will be readily available at the time it is needed. Therefore, an insurer’s own assessment of the quality of capital should also consider the issue of re-capitalisation, especially the ability of capital to absorb losses on a going-concern basis and the extent to which the capital instruments or structures that the insurer uses may facilitate or hinder future re-capitalisation. For example, if an insurer enters into a funding arrangement where future profits are cashed immediately, the reduced future earnings potential of the insurer may make it more difficult to raise capital resources in the future.

16.13.5 For an insurer to be able to recapitalise in times of financial stress, it is critical to maintain market confidence at all times, through its solvency and capital management, investor relationships, robust governance structure/practices and fair conduct of business practices. For example, where an insurer issues preferred stock without voting rights, this may affect the robustness of the governance structure and practice of that insurer. The voting rights attached to common stock can provide an important source of market discipline over an insurer's management. Other insurers may issue capital instruments with lower coupons and fees, sacrificing the economic value of the existing shareholders and bondholders.

16.13.6 When market conditions are good, many insurers should be readily able to issue sufficient volumes of high quality capital instruments at reasonable levels of cost. However, when market conditions are stressed, it is likely that only well capitalised insurers, in terms of both the quality and quantity of capital resources held, will be able to issue high quality capital instruments. Other insurers may only be able to issue limited amounts of lower quality capital and at higher cost. Therefore, the supervisor should make sure that insurers have regard for such variations in market conditions and manage the quality and quantity of their capital resources in a forward looking manner. In this regard, it is expected that high quality capital instruments (such as common shares) should form the substantial part of capital resources in normal market conditions as that would enable insurers to issue capital instruments even in stressed situations. Such capital management approaches also help to address the procyclicality issues that may arise, particularly in risk-based solvency requirements.

Group perspectives

16.13.7 An insurance group should determine, as part of its ORSA, the overall financial resources it needs to manage its business given its risk appetite and business plans and demonstrate that its supervisory requirements are met. The insurance group's risk management actions should be based on appropriate risk limits and consideration of its economic capital, regulatory capital requirements and financial resources. Economic capital should thus be determined by the insurance group as well as its insurance legal entities, and appropriate risk limits and management actions should be identified for both the insurance group and the insurance legal entities.

16.13.8 Key group-wide factors to be addressed in the insurer's assessment of group-wide capital resources include multiple gearing, intra-group creation of capital and reciprocal financing, leverage of the quality of capital and fungibility of capital and free transferability of assets across group entities.

ORSA - continuity analysis

16.14 The supervisor requires:

- **the insurer, as part of its ORSA, to analyse its ability to continue in business, and the risk management and financial resources required to do so over a longer time horizon than typically used to determine regulatory capital requirements; and**
- **the insurer's continuity analysis to address a combination of quantitative and qualitative elements in the medium and longer-term business strategy of the insurer and include projections of its future financial position and analysis of its ability to meet future regulatory capital requirements.**

Capital planning and forward-looking perspectives

16.14.1 An insurer should be able to demonstrate an ability to manage its risk over the longer term under a range of plausible adverse scenarios. An insurer's capital management plans and capital projections are therefore key to its overall risk management strategy. These should allow the insurer to determine how it could respond to unexpected changes in market and economic conditions, innovations in the industry and other factors such as demographic, legal and regulatory, medical and social developments.

16.14.2 Where appropriate, the supervisor should require an insurer to undertake periodic, forward-looking continuity analysis and modelling of its future financial position including its ability to continue to meet its regulatory capital requirements in future under various conditions. Insurers should ensure that the capital and cash flow projections (before and after stress) and the management actions included in their forecasts are approved at a sufficiently senior level.

16.14.3 In carrying out its continuity analysis, the insurer should also apply reverse stress testing to identify scenarios that would be the likely cause of business failure (e.g. where business would become unviable or the market would lose confidence in it) and the actions necessary to manage this risk.

16.14.4 As a result of continuity analysis, the supervisor should encourage insurers to maintain contingency plans and procedures for use in a going and gone concern situation. Such plans should identify relevant countervailing measures and off-setting actions they could realistically take to restore/improve the insurer's capital adequacy or cash flow position after some future stress event and assess whether actions should be taken by the insurer in advance as precautionary measures.

Projections

16.14.5 A clear distinction should be made between the assessment of the current financial position and the projections, stress testing and scenario analyses used to assess an insurer's financial condition for the purposes of strategic risk management, including maintaining solvency. The insurer's continuity analysis should help to ensure sound, effective and complete risk management processes, strategies and systems. It should also help to assess and maintain on an ongoing basis the amounts, types and distribution of financial resources needed to cover the nature and level of the risks to which the insurer is or might be exposed and to enable the insurer to identify and manage all reasonably foreseeable and relevant material risks. In doing so, the insurer assesses the impact of possible changes in business or risk strategy on the level of economic capital needed as well as the level of regulatory capital requirements.

16.14.6 Such continuity analysis should have a time horizon needed for effective business planning (for example, 3 to 5 years), which is longer than typically used to determine regulatory capital requirements. It should also place greater emphasis than may be considered in regulatory requirements on new business plans and product design and pricing, including embedded guarantees and options, and the assumptions appropriate given the way in which products are sold. The insurer's current premium levels and strategy for future premium levels are a key element in its continuity analysis. In order for continuity analysis to remain meaningful, the insurer should also consider changes in external factors such as possible future events including changes in the political or economic situation.

Link with business strategy

16.14.7 Through the use of continuity analysis an insurer should be better able to link its current financial position with future business plan projections and ensure its ability to maintain its financial condition in the future. This may help the insurer to further embed its ERM framework into its ongoing and future operations.

16.14.8 An internal model may also be used for the continuity analysis, allowing the insurer to assess the capital consequences of strategic business decisions in respect of its risk profile. For example, the insurer may decide to reduce its capital requirement through diversification by writing different types of business in order to reduce the capital that is needed to be held against such risks, potentially freeing up resources for use elsewhere. This process of capital management may enable the insurer to change its capital exposure as part of its long-term strategic decision making.

16.14.9 As a result of such strategic changes, the risk profile of an insurer may alter, so that different risks should be assessed and quantified within its internal model. In this way, an internal model may sit within a cycle of strategic risk and capital management and provide the link between these two processes.

Group perspectives

16.14.10 An insurance group should analyse its ability to continue in business and the risk management and financial resources it requires to do so. The insurance group's analysis should consider its ability to continue to exist as an insurance group, potential changes in group structure and the ability of its legal entities to continue in business.

16.14.11 An insurance legal entity's continuity analysis should assess the ongoing support from the group including the availability of financial support in adverse circumstances as well as the risks that may flow from the group to the insurance legal entity. The insurance legal entity and the insurance group should both take into account the business risks they face including the potential impact of changes in the economic, political and regulatory environment.

16.14.12 In their continuity analysis, insurance groups should pay particular attention to whether the insurance group will have available cash flows (e.g. from surpluses released from long-term funds or dividends from other subsidiaries) and whether they will be transferable among legal entities within the group to cover any payments of interest or capital on loans, to finance new business and to meet any other anticipated liabilities as they fall due. Insurance groups should outline what management actions they would take to manage the potential cash flow implications in stressed conditions (e.g. reducing new business or cutting dividends).

16.14.13 The insurance group's continuity analysis should also consider the distribution of capital in the insurance group after stress and the possibility that subsidiaries within the insurance group may require re-capitalisation (either due to breaches of local regulatory requirements, a shortfall in economic capital, or for other business reasons). The assessment should consider whether sufficient sources of surplus and transferable capital would exist elsewhere in the insurance group and identify what management actions might need to be taken (e.g. intra-group movements of resources, other intra-group transactions or group restructuring).

16.14.14 The insurance group should also apply reverse stress testing to identify scenarios that could result in failure or cause the financial position of the insurance group to fall below a predefined level and the actions necessary to manage this risk.

Recovery Planning

16.15 The supervisor requires, as necessary, insurers to evaluate in advance their specific risks and options in possible recovery scenarios.

16.15.1 The supervisor may require an insurer to produce a recovery plan that identifies in advance options to restore the financial position and viability if the insurer comes under severe stress (See Application Paper on Recovery Planning). The decision to require a recovery plan, and its form, content and level of detail, should be proportionate, taking into account, for example, the insurer's complexity, systemic importance, risk profile and business model. A recovery plan is intended to serve the insurer as an aid to sound risk management. Additionally, if the insurer comes under severe stress, a plan may serve the supervisor as valuable input to any necessary supervisory measures.

16.15.2 The supervisor should require the insurer to provide the necessary information to enable the supervisor to assess the robustness and credibility of any recovery plan required. If the supervisor identifies material deficiencies in the plan, it should provide feedback and require the insurer to address these deficiencies.

16.15.3 The supervisor should require the insurer to review any recovery plan required on a regular basis, or when there are material changes to the insurer's business, risk profile or structure, or any other change that could have a material impact on the recovery plan, and to update it when necessary.

CF 16.15.a The group-wide supervisor requires the Head of the IAIG to:

- **develop a recovery plan that identifies in advance options to restore the financial position and viability;**
- **review and update the recovery plan on a regular basis, or when there are material changes; and**
- **take actions for recovery if the IAIG comes under severe stress.**

CF 16.15.a.1 The group-wide supervisor should consider the IAIG's nature, scale, and complexity when setting recovery plan requirements, including the form, content and detail of the recovery plan and the frequency for reviewing and updating the plan.

CF 16.15.a.2 Recovery planning is the responsibility of the IAIG. The IAIG should be able to take timely actions for recovery, in particular when any pre-defined criteria are met that trigger the activation of the recovery plan.

CF 16.15.a.3 A recovery plan developed by the IAIG should cover all material legal entities within the group.

CF 16.15.a.4 A recovery plan should serve as a guide for the IAIG to plan and manage severe stress scenarios, although the actual nature and timing of recovery actions will depend on the circumstances.

CF 16.15.a.5 The IAIG should ensure that:

- it has a robust governance structure and sufficient resources to support the recovery planning process, which includes clear allocation of responsibilities; and
- recovery planning is integrated into the IAIG's overall governance processes.

CF 16.15.a.6 A recovery plan is an integral part of the risk management process of an IAIG, aimed at identifying actions to be taken in severe stress scenarios that pose a serious risk to the viability of the IAIG, or any material part of its insurance business. A recovery plan describes if and how the IAIG would:

- discontinue or divest certain portfolios, business lines, legal entities, or other services; and/or
- continue operating certain lines of insurance business while restructuring or running off its discontinued business lines in an orderly fashion.

CF 16.15.a.7 A recovery plan should include:

- a description of the legal entities covered by the plan, including their legal structures, interdependencies, core business lines and main risks;

- a description of functions and/or services that are significant for the continuation of the IAIG (for example, shared services, such as information technology services and outsourced functions);
- pre-defined criteria with quantitative and qualitative trigger points, governance, escalation mechanisms and supporting processes;
- a range of severe stress scenarios, including both idiosyncratic and market-wide stress;
- credible options to respond to severe stress scenarios, including actions to address capital shortfalls and liquidity pressures, and to restore the financial condition of the IAIG, taking into account intra-group transactions;
- assessment of the necessary steps, costs, resources and time needed to implement the recovery actions, including the risks associated with the implementation of the actions; and
- strategies for communication with stakeholders.

CF 16.15.a.8 Pre-defined criteria should be well-defined and aligned with contingency plans. They should include qualitative and quantitative criteria, such as a potential breach of a prescribed capital requirement (PCR). Criteria may also include triggers based on: liquidity, market conditions, macro-economic conditions, and the insurer's operational conditions.

CF 16.15.a.9 Possible actions for recovery include:

- strengthening the IAIG's capital position, such as recapitalisations;
- capital conservation, such as cost containment and suspension of dividends and of payments of variable remuneration;
- reorganisation of corporate structure and divestitures, such as sales of legal entities or portfolios;
- voluntary restructuring of liabilities, such as debt-to-equity conversion; and
- securing sufficient diversified funding and adequate availability of collateral in terms of volume, location and quality.

CF 16.15.a.10 As a recovery plan may not be able to cover every possible scenario, the IAIG may take, or the group-wide supervisor may require the IAIG to take, measures for recovery other than those contemplated in the IAIG's recovery plan.

CF 16.15.a.11 The group-wide supervisor should regularly review the recovery plan, including the predefined criteria, the assumptions and severe stress scenarios underlying the plan, to assess its credibility and likely effectiveness. Where necessary, the group-wide supervisor should provide feedback and require the IAIG to address any material deficiencies.

CF 16.15.b The group-wide supervisor requires the Head of the IAIG to have and maintain group-wide management information systems that are able to produce information relevant to the recovery plan on a timely basis.

CF 16.15.b.1 The IAIG may rely on an existing information system, so long as it fulfils the objectives of producing information relevant to the recovery plan on a timely basis.

CF 16.15.b.2 It is important that the IAIG has available the information necessary for executing recovery actions when needed. Some of this information may be similar to the information needed for resolution; however, recovery may also require other information (see ComFrame material under ICP 12 Exit from the Market and Resolution).

Role of supervision in ERM for solvency purposes

16.16 The supervisor undertakes reviews of the insurer's ERM framework, including the ORSA. Where necessary, the supervisor requires strengthening of the insurer's ERM framework, solvency assessment and capital management processes.

16.16.1 The output of an insurer's ORSA should serve as an important tool in the supervisory review process by helping the supervisor to understand the risk exposure and solvency position of the insurer.

16.16.2 The insurer's ERM framework and risk management processes (including internal controls) are critical to solvency assessment. The supervisor should therefore assess the adequacy and soundness of an insurer's framework and processes by receiving regularly the appropriate information, including the ORSA report.

16.16.3 In assessing the soundness, appropriateness and strengths and weaknesses of the insurer's ERM framework, the supervisor should consider questions such as:

- What are the roles and responsibilities within the ERM framework?
- Is the insurer within its stated risk appetite?
- What governance has been established for the oversight of outsourced elements of the ERM framework?
- What modelling and stress testing (including reverse stress testing) is done?
- Has the model risk management been applied in the ERM framework?
- How does the insurer maintain a robust risk culture that ensures active support and adjustment of the insurer's ERM framework in response to changing conditions?

16.16.4 The supervisor should review an insurer's internal controls and monitor its capital adequacy, requiring strengthening where necessary. Where internal models are used to calculate the regulatory capital requirements, particularly close interaction between the supervisor and insurer is important. In these circumstances, the supervisor may consider the insurer's internal model, its inputs and outputs and the validation processes, as a source of insight into the risk exposure and solvency position of the insurer.

16.16.5 The supervisor should monitor the techniques employed by the insurer for risk management and capital adequacy assessment and take supervisory measures where weaknesses are identified. The supervisor should not take a one-size-fits-all approach to insurers' risk management but rather base their expectations on the nature, scale and complexity of its business and risks. In order to do this, the supervisor should have sufficient and appropriate resources and capabilities. For example, the supervisor may have a risk assessment model or programme with which it can assess insurers' overall condition (e.g. risk management, capital adequacy and solvency position) and ascertain the likelihood of insurers breaching supervisory requirements. The supervisor may also prescribe minimum aspects that an ERM framework should address.

16.16.6 The supervisor should require the insurer to provide appropriate information on the ERM framework and risk and solvency assessments. This should provide the supervisor with a long-term assessment of capital adequacy to aid in the assessment of insurers, as well as encourage insurers to have an effective ERM framework. This may be achieved also by, the supervisor requiring or encouraging insurers to provide a solvency and financial condition report. Such a report may include information such as:

- a description of the relevant material categories of risk that the insurer faces;
- the insurer's risk appetite and risk limits structure;
- the insurer's overall financial resource needs, including its economic capital and regulatory capital requirements, as well as the capital available to meet these requirements; and
- projections of how such factors will develop in future.

16.16.7 The supervisor should be flexible and apply their skills, experience and knowledge of the insurer in assessing the adequacy of the risk appetite statement. The supervisor may be able to assess the quality of a particular risk appetite statement by discussing with the Board and Senior Management how the insurer's business strategy is related to the risk appetite statement, as well as how the risk appetite had an impact on the insurer's decisions. This includes reviewing other material, such as strategy and planning documents and Board reports in the context of how the Board determines, implements, and monitors its risk appetite so as to ensure that risk-taking is aligned with the Board-approved risk appetite statement.

16.16.8 The supervisor should be provided access to the material results of stress testing, scenario analysis and risk modelling and their key underlying assumptions to be reported to them and have access to other results, if requested. Where the supervisor considers that the calculations conducted by an insurer should be supplemented with additional calculations, it should be able to require the insurer to carry out those additional calculations. The supervisor should also consider available reverse stress tests performed by insurers where they wish to assess whether appropriate action is being taken to manage the risk of business failure.

16.16.9 While insurers should carry out stress testing, scenario analysis and risk modelling that are appropriate for their businesses, the supervisor may also develop prescribed or standard tests and require insurers to perform them when warranted. One purpose of such testing may be to improve consistency of testing among a group of similar insurers. Another purpose may be to assess the financial condition of the insurance sector to economic, market or other stresses that apply to a number of insurers simultaneously (such as pandemics or major catastrophes). Such tests may be directed to be performed by selected insurers or all insurers. The criteria the supervisor uses for scenarios for standard tests should reflect the jurisdiction's risk environment.

16.16.10 Forward-looking stress testing, scenario analysis and risk modelling of future capital positions and cash flows whether provided by the insurer's own continuity analysis or in response to supervisory requirements is a valuable tool for the supervisor in assessing the financial condition of insurers. Such testing informs the discussion between the supervisor and insurers on appropriate planning, comparing risk assessments against stress test outcomes, risk management and management actions. The supervisor should consider the dynamic position of insurers and form a high-level assessment of whether the insurer is adequately capitalised to withstand a range of standardised and bespoke stresses.

16.16.11 Where an internal model, including an economic capital model, is used in an insurer's ORSA, the supervisor should obtain an understanding of the underlying assumptions used. The supervisor should review the outputs of the internal model, at a minimum, from the following viewpoints:

- scope of risk categories of the internal model;
- the insurer's prioritisation of risks in its risk appetite; and
- the insurer's use of the outputs in making major management decisions on capital planning for meeting regulatory capital requirements.

16.16.12 By reviewing the insurer's ORSA continuity analysis, the supervisor may be able to learn about the robustness of an insurer's future financial condition and the information on which the insurer bases decisions and its contingency planning. Such information should enable the supervisor to assess whether an insurer should improve its ERM framework by taking additional countervailing measures and off-setting actions, either immediately, as a preventive measure, or including them in future plans.

Objectives of such supervisory measures may be to reduce any projected financial inadequacies, improve cash flows and/or increase an insurer's ability to restore its capital adequacy after stress events.

16.16.13 Publicly disclosing information on risk management may improve the transparency and comparability of existing solvency requirements. There should be an appropriate balance regarding the level of information to disclose about an insurer's risk management against the level of sufficient information for external and internal stakeholders which is useful and meaningful. Therefore, the requirements for public disclosure of information on risk management, including possible disclosure of elements of a solvency and financial condition report, should be carefully considered by the supervisor taking into account the proprietary nature of the information.

16.16.14 Where an insurer's risk management and solvency assessment are not considered adequate by the supervisor, the supervisor should take appropriate measures. This could be in the form of further supervisory reporting or additional qualitative and quantitative requirements arising from the supervisor's assessment. Additional quantitative requirements should only be applied in appropriate circumstances and be subject to a transparent supervisory framework. Otherwise, if routinely applied, such measures may undermine a consistent application of standardised approaches to regulatory capital requirements.

Group perspectives

16.16.15 In assessing the soundness, appropriateness and strengths and weaknesses of the group's ERM framework, the group-wide supervisor should consider questions such as:

- How well is the group's ERM framework tailored to the group?
- Are decisions influenced appropriately by the group's ERM framework outputs?
- How responsive is the group's ERM framework to changes in individual businesses and to the group structure?
- How does the framework bring into account intra-group transactions; risk mitigation; and constraints on fungibility of capital, transferability of assets, and liquidity?

16.16.16 The group-wide supervisor should review the risk management and financial condition of the insurance group. Where necessary, the group-wide supervisor should require strengthening of the insurance group's risk management, solvency assessment and capital management processes, as appropriate to the nature, scale and complexity of risks at group level. The group-wide supervisor should inform the other involved supervisors of any action required.

16.16.17 The group-wide supervisory review and assessment of the insurance group's ERM framework should consider the framework's suitability as a basis for group-wide solvency assessment. The arrangements for managing conflicts of interest across an insurance group should be a particular focus in the supervisory review and assessment of an insurance group's ERM framework.

16.16.18 The supervisory assessment of the group's ERM framework may affect the level of capital that the insurance group is required to hold for regulatory purposes and any regulatory restrictions that are applied. For example, the group-wide supervisor may require changes to the recognition of diversification across the insurance group, the allowances made for operational risk and the allocation of capital within the insurance group.

16.16.19 Although it is not a requirement in general for an insurance legal entity or an insurance group to use internal models to carry out its ORSA, the supervisor may consider it appropriate in particular cases that the ORSA should use internal models in order to achieve a sound ERM framework. The quality of an insurance group's ORSA is dependent on how well integrated its internal capital models, the extent to which it takes into account constraints on fungibility of capital and its ability to model changes in its structure, the transfer of risks around the insurance group and insurance group risk mitigation. These factors should be taken into account by the group-wide supervisor in its review of the insurance group's ORSA.

16.16.20 The supervisor may wish to specify criteria or analyses as part of the supervisory risk assessments to achieve effective supervision and consistency across insurance groups. This may, for example, include prescribed stress tests that apply to insurance groups.

ICP 20 Public Disclosure

The supervisor requires insurers to disclose relevant and comprehensive information on a timely basis in order to give policyholders and market participants a clear view of their business activities, risks, performance and financial position.

Introductory Guidance

20.0.1 Public disclosure of material information is expected to enhance market discipline by providing meaningful and useful information to policyholders to make decisions on insuring risks with the insurer, and to market participants (which includes existing and potential investors, lenders and other creditors) to make decisions about providing resources to the insurer.

20.0.2 So far as practicable, information should be presented in accordance with any applicable jurisdictional, international standards or generally accepted practices so as to aid comparisons between insurers.

20.0.3 In setting public disclosure requirements, the supervisor should take into account the information provided in general purpose financial statements and complement it as appropriate. The supervisor should note that insurers which provide public general purpose financial reports may largely comply with jurisdictional disclosure standards that are reflective of this ICP. Where a supervisor publishes on a regular and timely basis information received from insurers, the supervisor may decide that those insurers do not need to publicly disclose that same information.

20.0.4 To the extent that there are differences between the methodologies used in regulatory reporting, general purpose financial reporting and any other items for public disclosure, such differences should be explained and reconciled where possible.

20.0.5 The supervisor's application of disclosure requirements will depend on the nature, scale and complexity of insurers. For example, it may be overly burdensome for a small, private insurer to meet the same requirements developed for large, publicly traded insurers. While disclosure requirements may vary, the outcome should promote market discipline and provide policyholders and market participants with adequate information for their needs.

20.0.6 Additionally, the supervisor may decide not to apply disclosure requirements if there is no potential threat to the financial system, no public interest need for disclosure, and no legitimately interested party is prevented from receiving information. It is expected that such situations would be exceptional, but could be more relevant for certain types of insurers (for example, captive insurers).

20.0.7 Public disclosure may include a description of how information is prepared, including methods applied and assumptions used. Disclosure of methods and assumptions may assist policyholders and market participants in making comparisons between insurers. Accounting and actuarial policies, practices and procedures differ not only between jurisdictions but also between insurers within the same jurisdiction. Meaningful comparisons can be made only where there is adequate disclosure of how information is prepared.

20.0.8 Similarly, meaningful comparisons from one reporting period to another can be made only if the reader is informed how the methods and assumptions of preparation have changed and, if practicable, the impact of that change. Changes over time may not be seen as arbitrary if the reasons for changes in methods and assumptions are explained. If an insurer uses methods and assumptions in the preparation of information which are consistent from period to period, and discloses these, it will assist in the understanding of trends over time.

20.0.9 Where changes in methods and assumptions are made, the nature of such changes, the reason for them and their effects, where material, should be disclosed. It may be helpful if information is presented in a manner that facilitates the identification of patterns over time, including providing comparative or corresponding figures from previous periods (e.g. by presenting loss triangulations).

20.0.10 In establishing disclosure requirements for its jurisdiction, the supervisor should consider the need for disclosures that deliver key information rather than unnecessary volumes of data. Excessive disclosure requirements will not lead to effective disclosures for policyholders and market participants and will be burdensome for insurers.

20.0.11 In establishing disclosure requirements, the supervisor should take into account proprietary and confidential information. Proprietary information comprises information on characteristics and details of, for example, insurance products, markets, distribution and internal models and systems that could negatively influence the competitive position of an insurer if made available to competitors. Information about policyholders and insured parties is usually confidential under privacy legislation or contractual arrangements.

20.0.12 Proprietary and confidential information affects the scope of the required disclosure of information by insurers about their customer base and details on internal arrangements (for example, methodologies used or parameter estimates data). The supervisor should strike an appropriate balance between the need for meaningful disclosure and the protection of proprietary and confidential information.

20.0.13 A consolidated group as determined under applicable accounting standards might differ from a group for the purposes of insurance supervision (see ICP 23 Group-wide Supervision). In circumstances where this is the case, the supervisor may require disclosures based on the scope of the group for supervisory purposes. Where an insurer's scope of the group is different under applicable accounting standards and solvency standards, it may be appropriate if reasons are provided and an explanation given about the basis on which disclosures have been provided.

20.0.14 Disclosures by insurance legal entities may cross-refer to existing public disclosures to avoid duplication.

20.1 Subject to their nature, scale and complexity, insurers make audited financial statements available at least annually.

20.1.1 Where audited financial statements are not required by the supervisor given the nature, scale and complexity of an insurer (for example, for a small local branch office of a foreign insurer), the supervisor may require that similar information is made publicly available by other means.

20.2 Insurers disclose, at least annually and in a way that is publicly accessible, appropriately detailed information on their:

- **company profile;**
- **corporate governance framework;**
- **technical provisions;**
- **insurance risk exposure;**
- **financial instruments and other investments;**
- **investment risk exposure;**
- **asset-liability management;**
- **capital adequacy;**
- **liquidity risk; and**
- **financial performance.**

20.2.1 In developing disclosure requirements, the supervisor may consider whether such disclosures are:

- easily accessible and up-to-date;
- comprehensive, reliable and meaningful;
- comparable between different insurers operating in the same market;
- consistent over time so as to enable relevant trends to be discerned; and
- aggregated or disaggregated so that useful information is not obscured.

20.2.2 Information should be disseminated in ways best designed to bring it to the attention of policyholders and market participants, but taking into account the relative effectiveness and costs of different methods of dissemination (for example, printed versus digital methods).

20.2.3 Information should be provided with sufficient frequency and timeliness to give a meaningful picture of the insurer to policyholders and market participants. The need for timeliness will need to be balanced against that for reliability.

20.2.4 Disclosure requirements may also have to balance the interests of reliability against those of relevance or usefulness. For example, in some long-tail classes of insurance, realistic projections as to the ultimate cost of incurred claims are highly relevant. However, due to uncertainties, such projections are subject to a high degree of inherent errors of estimation. Qualitative or quantitative information can be used to convey to users an understanding of the relevance and reliability of the information disclosed.

20.2.5 Information should be sufficiently comprehensive to enable policyholders and market participants to form a well-rounded view of an insurer's financial condition and performance, business activities, and the risks related to those activities. In order to achieve this, information should be:

- well-explained so that it is meaningful;
- complete so that it covers all material circumstances of an insurer and, where relevant, those of the group of which it is a member; and
- both appropriately aggregated so that a proper overall picture of the insurer is presented and sufficiently disaggregated so that the effect of distinct material items may be separately identified.

20.2.6 Information should, so far as practicable, reflect the economic substance of events and transactions as well as their legal form. The information should be neutral (i.e., free from material error or bias) and complete in all material respects.

Company Profile

20.3 Disclosures include information about the insurer's company profile such as:

- **the nature of its business;**
- **its corporate structure;**
- **key business segments;**
- **the external environment in which it operates; and**
- **its objectives and the strategies for achieving those objectives.**

20.3.1 The overall aim for the company profile disclosure is for insurers to provide a contextual framework for the other information required to be made public.

20.3.2 Disclosures on the nature of the insurer's business and its external environment should assist policyholders and market participants in assessing the strategies adopted by the insurer.

20.3.3 Disclosures may include information about the insurer's corporate structure, which should include any material changes that have taken place during the year. For insurance groups, where provided, such disclosures should focus on material aspects, both in terms of the legal entities within the corporate structure and the business functions undertaken within the group. In the event of differences in the composition of a group for supervisory purposes and for public reporting purposes, it would be useful if a description of the entities constituting those differences was also provided.

20.3.4 Disclosures may include information on the key business segments, main trends, factors and events that have contributed positively or negatively to the development, performance and position of the firm.

20.3.5 Disclosures may include information on the insurer's competitive position and its business models (such as its approach to dealing and settling claims or to acquiring new business) as well as significant features of regulatory and legal issues affecting its business.

20.3.6 Disclosures may include information about company objectives, strategies and timeframes for achieving those objectives, including the approach to risk appetite, methods used to manage risks, and key resources available. To enable policyholders and market participants to assess these objectives, and the insurer's ability to achieve them, it may be appropriate if the insurer also explains significant changes in strategy compared to prior years.

20.3.7 Key resources available may include both financial and non-financial resources. For non-financial resources the insurer may, for example, provide information about its human and intellectual capital.

Corporate Governance Framework

20.4 The supervisor requires that disclosures about the insurer's corporate governance framework provide information on the key features of the framework, including its internal controls and risk management, and how they are implemented.

20.4.1 Disclosures should include the manner in which key business activities and control functions are organised, and the mechanism used by the Board to oversee these activities and functions, including for changes to key personnel and management committees. Such disclosures should demonstrate how the key activities and control functions fit into an insurer's overall risk management framework.

20.4.2 Where a material activity or function of an insurer is outsourced, in part or in whole, disclosures may include the insurer's outsourcing policy and how it maintains oversight of, and accountability for, the outsourced activity or function.

Technical Provisions

20.5 The supervisor requires that disclosures about the insurer's technical provisions are presented by material insurance business segment and include, where relevant, information on:

- **the future cash flow assumptions;**
- **the rationale for the choice of discount rates;**
- **the risk adjustment methodology where used; and**
- **other information as appropriate to provide a description of the method used.**

20.5.1 Disclosures related to technical provisions should provide information on how those technical provisions are determined. As such, disclosures may include information about the level of aggregation used and the amount, timing and uncertainty of future cash flows in respect of insurance obligations.

20.5.2 Disclosures should include a presentation of technical provisions and reinsurance assets on a gross basis. However, it may be useful to have information about technical provisions presented on both a net and gross basis.

20.5.3 Information may be disclosed about the method used to derive the assumptions for calculating technical provisions, including the discount rate used. Disclosures may also include information about significant changes in assumptions and the rationale for the changes.

20.5.4 When applicable, information about the current estimate and margin over the current estimate may include the methods used to calculate them, whether or not these components of technical provisions are determined separately. . If the methodology has changed since the last reporting period, it would be useful to include the reasons for the change and any material quantitative impact.

20.5.5 It may be useful if the insurer provides an outline of any model(s) used and describe how any range of scenarios regarding future experience has been derived.

20.5.6 Disclosures may include a description of any method used to treat acquisition costs and whether future profits on existing business have been recognised.

20.5.7 Where surrender values are material, disclosures may include the insurer's surrender values payable.

20.5.8 Disclosure of a reconciliation of technical provisions from the end of the previous year to the end of the current year may be particularly useful.

20.5.9 Disclosure of technical provisions may be presented in two parts:

- one part that covers claims from insurance events which have already taken place at the date of reporting (claims provisions including incurred but not reported (IBNR) and incurred but not enough reported (IBNER) provisions) and for which there is an actual or potential liability; and
- another part that covers losses from insurance events which will take place in the future (for example, the sum of provision for unearned premiums and provision for unexpired risks (also termed premium deficiency reserve)).

20.5.10 Providing this disclosure in two parts is particularly important for lines of insurance business where claims may take many years to settle.

Life insurers

20.5.11 It may be useful if the disclosures include key information on the assumed rates, the method of deriving future mortality and disability rates, and whether customised tables are applied. Disclosures may include a life insurer's significant assumptions about future changes of mortality and disability rates.

20.5.12 It may enhance policyholder and market participant understanding if disclosures include information on the conditions for the amount and timing of the allocation of participation features and how such features are valued in technical provisions. Required disclosures could include whether participation features are based on: the performance of a group of contracts; the realised/unrealised investment returns from a pool of assets; the profit or loss of the company; or any other element. Disclosures could also be required on the extent to which such features are contractual and/or discretionary.

20.5.13 Disclosures may include quantitative information on the life insurer's minimum participation features and actual distributions to policyholders. For example, the following quantitative information may be shown by segment:

- guaranteed policyholder benefits paid; and
- additional policyholder benefits paid which arise from profit sharing clauses.

20.5.14 Disclosures may include the assumptions and methodologies employed to value significant guarantees and options, including the assumptions concerning policyholder behaviour.

Non-life insurers

20.5.15 In order to enable policyholders and market participants to evaluate trends, disclosures for non-life insurers may include historical data about earned premiums compared to technical provisions by class of business. To assess the appropriateness of assumptions and methodology used for determining technical provisions, historical data on the run off result and claims development could be disclosed.

20.5.16 To facilitate the evaluation of a non-life insurer's ability to assess the size of the commitments to indemnify losses covered by the insurance contracts issued, disclosures for non-life insurers may include the run off results over many years, to enable policyholders and market participants to evaluate long-term patterns (for example, how well the insurer estimates the technical provisions). The length of the time period should reflect how long-tailed the distribution of losses is for the insurance classes in question.

20.5.17 Non-life insurers may disclose information on the run off results for incurred losses and for the provisions for future losses.

20.5.18 Disclosures for non-life insurers may include the run off results as a ratio of the initial provisions for the losses in question. When discounting is used, disclosures should include the effect of discounting.

20.5.19 Except for short-tail business, the supervisor may require non-life insurers to disclose information on the development of claims in a claims development triangle. A claims development triangle shows the insurer's estimate of the cost of claims (claims provisions and claims paid), as of the end of each year, and how this estimate develops over time. This information should be reported consistently on an accident year or underwriting year basis and reconciled to amounts reported in the balance sheet.

Insurance Risk Exposures

20.6 The supervisor requires that disclosures about the insurer's reasonably foreseeable and material insurance risk exposures, and their management, include information on:

- **the nature, scale and complexity of risks arising from its insurance contracts;**
- **the insurer's risk management objectives and policies;**
- **models and techniques for managing insurance risks (including underwriting processes);**
- **its use of reinsurance or other forms of risk transfer; and**
- **its insurance risk concentrations.**

20.6.1 Disclosures may include a quantitative analysis of the insurer's sensitivity to changes in key factors both on a gross basis and taking into account the effect of reinsurance, derivatives and other forms of risk mitigation on that sensitivity. For example, disclosures may include a sensitivity analysis by life insurers to the changes in mortality and disability assumptions or sensitivities to increased claim inflation by non-life insurers.

20.6.2 Where an insurance group includes legal entities in other sectors, disclosures may include the risk exposure of the insurance legal entities to those other entities and procedures in place to mitigate those risks.

20.6.3 Disclosures may include a description of the insurer's risk appetite and its policies for identifying, measuring, monitoring and controlling insurance risks, including information on the models and techniques used.

20.6.4 Disclosures may include information on the insurer's use of derivatives to hedge risks arising from insurance contracts. This information may include a summary of internal policies on the use of derivatives.

20.6.5 Disclosure of how an insurer uses reinsurance and other forms of risk transfer may enable policyholders and market participants to understand how the insurer controls its exposure to insurance risks.

20.6.6 Quantitative data on an insurer's reinsurance Disclosure may include the insurer's overall reinsurance programme to explain the net risk retained and the types of reinsurance arrangements made (treaty, facultative, proportional or non-proportional) as well as any risk mitigating devices that reduce the risks arising out of the reinsurance cover.

20.6.7 It may be beneficial if disclosures separately detail the reinsurers' share of technical provisions and receivables from reinsurers on settled claims. Further quantitative disclosures on reinsurance may include:

- the credit quality of the reinsurers (for example, by grouping reinsurance assets by credit rating);

- credit risk concentration of reinsurance assets;
- the nature and amount of collateral held against reinsurance assets;
- the development of reinsurance assets over time; and
- the ageing of receivables from reinsurers on settled claims.

20.6.8 It may be useful if disclosures include the impact and planned action when the expected level or scope of cover from a reinsurance/risk transfer contract is not obtained.

20.6.9 Description of the insurer's risk concentrations may include, at a minimum, information on the geographical concentration of insurance risk, the economic sector concentration of insurance risk, the extent to which the risk is reduced by reinsurance and other risk mitigating elements and, if material, the risk concentration inherent in the reinsurance cover.

20.6.10 Disclosures may include the geographical concentration of premiums. The geographical concentration may be based on where the insured risk is located, rather than where the business is written.

20.6.11 If material, disclosures may include the number of reinsurers that it engages, as well as the highest concentration ratios. For example, it would be appropriate to expect an insurer to disclose its highest premium concentration ratios, which shows the premiums ceded to an insurer’s largest reinsurers in aggregate, as a ratio of the total reinsurance premium ceded.

Financial Instruments and Other Investments

20.7 **The supervisor requires that disclosures about the insurer’s financial instruments and other investments include information on:**

- **instruments and investments by class;**
- **investment management objectives, policies and processes; and**
- **values, assumptions and methods used for general purpose financial reporting and solvency purposes, as well as an explanation of any differences, where applicable.**

20.7.1 For the purposes of disclosure, an insurer may group assets and liabilities with similar characteristics and/or risks into classes and then disclose information segregated by those classes.

20.7.2 Where investment management objectives, policies and processes differ between segments of an insurer’s investment portfolio, disclosures should be sufficient to provide an understanding of those differences.

20.7.3 When providing disclosures around the uncertainty of reported values of financial instruments and other investments, it may be useful if the effect of derivatives on that uncertainty is also disclosed.

Investment Risk Exposures

20.8 The supervisor requires disclosures about the insurer's material investment risk exposures, and their management.

20.8.1 Disclosures may include quantitative information, about its exposure to:

- currency risk;
- market risk;
- credit risk; and
- concentration risk.

20.8.2 The risks listed above may affect both assets and liabilities. For example, market risk arising from interest rate movement may be reflected in changes in the valuation of an insurer's fixed income investments as well as changes in the valuation of insurance liabilities if they are discounted using market interest rates. Changes in interest rates may also change the amounts that an insurer has to pay for its variable rate borrowings. Therefore, required disclosure may include the risk exposure arising from both an insurer's assets and its liabilities.

20.8.3 Disclosures may include the investment return achieved together with the risk exposure and investment objective. Disclosure of risk exposures can provide policyholders and market participants with valuable insight into both the level of variability in performance that one can expect when economic or market conditions change, and the ability of an insurer to achieve its desired investment outcome.

20.8.4 For investment risk exposures, disclosures may include the intra-period high, median and low exposures where there have been significant changes in exposure since the last reporting date. Disclosures may also include the amount bought and sold during a reporting period as a proxy for turnover. Such disclosure of risk exposures may also be required for each asset class.

20.8.5 In jurisdictions that require investment disclosures to be grouped by risk exposure, the disclosures should provide information about the risk management techniques used to measure the economic effect of risk exposure. Such disclosure may include an analysis by type of asset class.

20.8.6 Disclosures may include information on its use of derivatives to hedge investment risks, including a summary of internal policies on the use of derivatives.

20.8.7 Disclosures may include information on whether or not the insurer it carries out stress tests or sensitivity analysis on its investment risk exposures (for example, the change in capital resources as a percentage of total assets corresponding to a 100 basis point change in interest rates), and, if so, disclose the model, process and types of assumptions used and the manner in which the results are used as part of its investment risk management practices.

20.8.8 For debt securities, disclosures on the sensitivity of values to market variables including credit spreads may include breakdowns by credit rating of issue, type of issuer (e.g. government, corporate) and by period to maturity.

20.8.9 In addition to breakdowns on ratings and types of credit issuers, the insurer should disclose the aggregate credit risk arising from off-balance sheet exposures.

Asset-Liability Management

20.9 Disclosures about the insurer's asset-liability management (ALM) include information on:

- **ALM in total and, where appropriate, at a segmented level;**
- **the methodology used and the key assumptions employed in measuring assets and liabilities for ALM purposes; and**
- **any capital and/or provisions held as a consequence of a mismatch between assets and liabilities.**

20.9.1 To provide information on its ALM approach, disclosures may include qualitative information explaining how the insurer manages assets and liabilities in a co-ordinated manner. The explanation could take into account the ability to realise its investments quickly, if necessary, without substantial loss, and sensitivities to fluctuations in key market variables (including interest rate, exchange rate, and equity price indices) and credit risks.

20.9.2 Where an insurer's ALM is segmented (e.g. by different lines of business), disclosures may include information on ALM at a segmented level.

20.9.3 Where derivatives are used, it may be useful if the disclosures include a description of both the nature and effect of their use.

20.9.4 Disclosures may include the insurer's sensitivity of regulatory capital resources and provisions for mismatching to:

- changes in the value of assets; and
- changes in the discount rate or rates used to calculate the value of the liabilities.

Capital Adequacy

20.10 Disclosures about the insurer's capital adequacy include information on:

- **its objectives, policies and processes for managing capital and assessing capital adequacy;**
- **the solvency requirements of the jurisdiction(s) in which the insurer operates; and**
- **the capital available to cover regulatory capital requirements. If the insurer uses an internal model to determine capital resources and requirements, information about the model is disclosed.**

20.10.1 Information about objectives, policies and processes for managing capital adequacy assist in promoting the understanding of risks and measures which influence the capital calculation and the risk appetite that is applied.

20.10.2 It may be useful if the insurer discloses information to allow market participants to assess the quantity and quality of its capital in relation to regulatory capital requirements.

20.10.3 Disclosures may include qualitative information about its management of capital regarding:

- instruments regarded as available capital;
- key risks and measures which influence the capital calculation; and
- the insurer's risk appetite.

20.10.4 It may be useful if the disclosures include a description of any variation in the group as defined for capital adequacy purposes from the composition of the group used for general purpose financial reporting purposes.

Liquidity Risk

20.11 The supervisor requires that disclosures about the insurer's liquidity risk include sufficient quantitative and qualitative information to allow a meaningful assessment by market participants of the insurer's material liquidity risk exposures.

20.11.1 Disclosures on liquidity risk should include:

- quantitative information on the insurer's sources and uses of liquidity, including the surrender value of insurance policies; and
- qualitative information on the insurer's liquidity risk management strategies, policies, and processes.

20.11.2 Disclosures should discuss known trends, significant commitments and significant demands. Disclosures should also discuss reasonably foreseeable events that could result in the insurer's liquidity position improving or deteriorating in a material way.

Financial Performance

20.12 Disclosures about the insurer's financial performance, in total and at a segmented level include information on:

- **earnings analysis;**
- **claims statistics including claims development;**
- **pricing adequacy; and**
- **investment performance.**

General financial performance

20.12.1 Disclosures should help policyholders and market participants better understand how profit emerges over time from new and in-force insurance contracts.

20.12.2 Disclosure may include a statement of changes in equity showing gains and losses recognised directly in equity as well as capital transactions with, and distributions to, shareholders, and profit sharing with policyholders.

20.12.3 Disclosures may include information on its operating segments and how they were determined.

20.12.4 An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses and whose operating results are regularly reviewed by the entity's management to make decisions about resources to be allocated. Examples of features by which business is segmented are:

- type of business: life insurance, non-life insurance, investment management; and
- mix of organisational and geographic approach: e.g. Insurance Country X, Insurance Country Y, Insurance (other), asset management Country Z.

20.12.5 Disclosures may include the impact of amortisation and impairment of intangible assets on financial performance.

Technical performance

20.12.6 The insurer may provide statements of profit and loss that include the results, both gross and net of reinsurance, of their underwriting by broad lines of business.

20.12.7 , If the insurer is a ceding insurer, disclosures may include gains and losses recognised in profit or loss on buying reinsurance.

Technical performance for non-life insurers

20.12.8 In order to judge how well insurance premiums cover the underlying risk of the insurance contracts and the administration expenses (pricing adequacy), disclosures may include data on:

- loss ratio;
- expense ratio;
- combined ratio; and
- operating ratio.

20.12.9 These ratios should be calculated from the profit and loss account of the reporting year and be gross of reinsurance in order to neutralise the effect of mitigation tools on the technical performance of the direct business. Gains on reinsurance cannot be expected to continue indefinitely without price adjustments from reinsurers. If the net ratios are materially different from the gross ratios, then both ratios should be disclosed. The ratios should be measured either on an accident year or an underwriting year basis.

20.12.10 When discounting is used, disclosures may include information on the discount rates used and method of discounting to be disclosed. The discount rates should be disclosed at an appropriate level of aggregation by duration, for example, for each of the next five years and the average rate for claims expected to be paid after five years.

20.12.11 Such disclosure should be accompanied by supporting narrative, covering an appropriate period, to enable policyholders and market participants to evaluate long-term trends better. Information relating to previous years should not be recalculated to take into account present information. The length of the period may reflect the historical volatility of the particular class of insurance business.

20.12.12 It may be appropriate in the case of high volume, homogeneous classes, for the supervisor to require insurers to disclose statistical information on claims. For instance, the insurer could describe the trend in the number of claims and the average size of claims. To be relevant, this information should be linked to the level of business (e.g. number of policies or earned premiums).

20.12.13 In principle, the trend in claims may reflect the development in insurance risks. As it is difficult to point to one good measurement method of insurance risk, several can be considered. However, at a minimum, it would be normal for non-life insurers to be required to disclose historical data accompanied by supporting narrative on:

- the mean cost of claims incurred (i.e., the ratio of the total cost of claims incurred to the number of claims) in the accounting period by class of business; and
- claims frequency (for example, the ratio of the number of claims incurred in the reporting period to the average number of insurance contracts in existence during the period).

Source of earnings analysis for life insurers

20.12.14 Where an applicable jurisdictional standard does not require a similar analysis to be disclosed, it may be useful for disclosures to include expected earnings on in-force business. This represents the earnings on the in-force business that were expected to be realised during the reporting period. Examples of this include expected release of risk margins, net management fees, and earnings on deposits.

20.12.15 Life insurers may disclose the impact of new business. This represents the point-of-sale impact on net income of writing new business during the reporting period. This is the difference between the premium received and the sum of the expenses incurred as a result of the sale and the new technical provisions established at the point of sale. This is also affected by any methodology used to defer and amortise acquisition expenses.

20.12.16 It may be useful for life insurers to disclose experience gains and losses. This represents gains and losses that are due to differences between the actual experience during the reporting period and the technical provisions at the start of the year, based on the assumptions at that date.

20.12.17 Life insurers may disclose the impact on earnings of management actions and changes in assumptions.

20.12.18 An example of a Source of Earnings analysis table for a life insurer is provided below.

Example: Source of Earnings						
	Segment A		**Segment B**		**Total**	
	Current Year	**Previous Year**	**Current Year**	**Previous Year**	**Current Year**	**Previous Year**
Expected earnings on in-force business						
Impact of new business						
Experienced gains and losses:						
Investment						
Mortality						
Expenses						
Other						
Additional items:						
Changes in assumptions						
Earnings on surplus						
Other						
Income taxes						
= Net income						

Investment performance

20.12.19 Investment performance is one of the key determinants of an insurer's profitability. For many life insurance policies, returns that policyholders receive are either directly or indirectly influenced by the performance of an insurer's investments. Disclosure of investment performance is, therefore, essential to policyholders and market participants.

20.12.20 Disclosure of investment performance may be made on appropriate subsets of an insurer's assets (for example, assets belonging to the insurer's life insurance business, assets belonging to statutory or notionally segregated portfolios, assets backing a group of investment-linked contracts, assets grouped as the same asset class).

20.12.21 For investment performance related to equity securities, debt securities, properties and loans, the disclosures may include a breakdown of income (e.g. dividend receipts, interest income, rental income), realised gains/losses, unrealised gains/losses, impairments including changes in loan loss provisions and investment expenses.

Non-GAAP Financial Measures

20.13 **Insurers that publicly disclose non-GAAP financial measures are required to adhere to the specified practices regarding those measures, where applicable.**

20.13.1 In many jurisdictions, publicly-listed insurers are expected to adhere to specific practices, for disclosure of non-GAAP financial measures, which have been promulgated by the domestic securities supervisor. The supervisor could consider standards promulgated by the domestic securities supervisor appropriate.

20.13.2 If no such requirements exist from the domestic securities supervisor for non-GAAP financial measures, the supervisor may promulgate requirements for insurers based on considerations of best practices and existing international guidance from key standard setting bodies dealing with financial disclosures.

ICP 22 Anti-Money Laundering and Combating the Financing of Terrorism

The supervisor requires insurers and intermediaries to take effective measures to combat money laundering and terrorist financing. The supervisor takes effective measures to combat money laundering and terrorist financing.

Introductory Guidance

22.0.1 The insurance sector is potentially at risk of being misused, knowingly or unknowingly, for money laundering and terrorist financing This exposes the insurance sector to legal, operational and reputational risks.

22.0.2 Money laundering (ML) is the processing of criminal proceeds to disguise their illegal origin. When criminal activity generates substantial profits, the individual or group involved must find a way to control and "legitimize" funds without attracting attention to the underlying activity or the persons involved. Criminals do this by disguising the sources, changing the form, or moving the funds to a place where they are less likely to attract attention, and therefore may use the financial sector, including the insurance sector, to do so. Examples of criminal activity which may generate large profits and lead to money laundering include, but are not limited to, embezzlement, tax evasion, insider trading, bribery, cyber crimes, illegal arms sales, smuggling, drug trafficking, prostitution, human trafficking, as well as corruption and organized crime.

22.0.3 Terrorist financing (TF) is the financing of terrorist acts, and of terrorists and terrorist organisations. It refers to the wilful provision or collection of funds by any means, directly or indirectly, with the unlawful intention that they should be used, or in the knowledge that they are to be used, in full or in part to carry out a terrorist act by a terrorist organisation or by an individual terrorist, or to support terrorists or terrorist organisations. Terrorist financing offenses may constitute predicate offenses for the crime of money laundering, in accordance with applicable law.

22.0.4 The Financial Action Task Force (FATF) is an inter-governmental body, established to set international standards for anti-money laundering (AML) and combating the financing of terrorism (CFT). The FATF standards are comprised of its individual recommendations together with interpretive notes and the applicable definitions in the FATF glossary. In this ICP the term FATF Recommendations encompasses all of these components of the FATF standards. The FATF Recommendations are directed at jurisdictions, and supervisors should therefore reference their own national risk assessment, relevant laws and regulations with respect to AML/CFT.

22.0.5 The IAIS is a FATF Observer Organization and, accordingly, has endorsed the FATF Recommendations. This ICP is intended to be consistent with the FATF Recommendations; however, compliance with the FATF Recommendations does not necessarily imply observance of ICP 22 nor does observance of ICP 22 necessarily imply compliance with the FATF Recommendations.

22.0.6 According to the FATF:

- the ML/TF risks associated with the insurance sector are generally lower than those associated with other financial products (such as loans or payment services) or other sectors (such as banking); and
- many life insurance products are not sufficiently flexible to be the first vehicle of choice for money launderers.

However, as with other financial services products, there is a risk that the funds used to purchase life insurance may be the proceeds of crime. The FATF Recommendations and this ICP apply at a minimum to the underwriting and placement of life insurance and other investment-related insurance. Depending upon its assessment of the ML/TF risk posed by the non-life sector, the jurisdiction should consider applying the FATF Recommendations and this ICP to that sector as well.

22.0.7 The FATF Recommendations require jurisdictions to designate a “competent authority” or authorities to have responsibility for ensuring that financial institutions (including insurers and intermediaries) adequately comply with the jurisdictions’ approach to implementing the FATF Recommendations to combat ML/TF. The AML/CFT competent authority is often designated by a jurisdiction’s legislation. There may be jurisdictions where several authorities have AML/CFT responsibilities for the insurance sector. Competent authorities may include supervisors, law enforcement agencies and a financial intelligence unit (FIU) which serves as a national centre for receiving and analysing information (such as suspicious transaction reports) and disseminating information regarding potential ML/TF.

22.0.8 In some jurisdictions, the supervisor may not be designated as an AML/CFT competent authority, but nevertheless all supervisors must understand the risk of ML/TF to the insurance sector and take steps to help combat such risk.

22.0.9 The standards and guidance related to ICP 22 are divided into two parts. Part A applies where the insurance supervisor is a designated AML/CFT competent authority for insurers or intermediaries or both, or acts on behalf of such designated competent authority. Part B applies where the insurance supervisor is not a designated AML/CFT competent authority for the insurance sector. To demonstrate observance of this ICP the supervisor must meet the requirements of the standards in either Part A or Part B according to the circumstances of the jurisdiction.

22.0.10 In implementing this ICP, the supervisor may consider as relevant various guidance available from the FATF, including its “Guidance for a Risk-Based Approach for the Life Insurance Sector” (FATF Guidance). The FATF Guidance, which is non-binding, aims to support the design and implementation of a Risk-Based Approach (RBA) to AML/CFT for the life insurance sector, taking into account applicable ML/TF risk assessments and legal and regulatory frameworks to combat money laundering and terrorist financing.

22.0.11 Part A of the standards for ICP 22 describes how the RBA is used by supervisors, insurers and intermediaries in applying the FATF

Recommendations. The RBA concept is related to, but distinct from, the overarching concept of risk-based supervision that applies to all ICPs.

22.0.12 As described in the ICP Introduction, this ICP applies to the supervision of insurance legal entities and, unless otherwise specified, to insurance groups and insurance-led financial conglomerates. The supervisors may also consider FATF Guidance concerning supervision and mitigation of ML/TF risks at the group-level.

22.0.13 Certain FATF Recommendations require that supervision be applied to the implementation of targeted financial sanctions (TFS) related to terrorism, terrorist financing and financing of proliferation of weapons of mass destruction. Adherence to TFS is not subject to the RBA described in this ICP and TFS is not further addressed in this ICP. Whether insurance supervisors have responsibilities for TFS will depend upon the particular jurisdictional arrangements in place.

Part A: Where the insurance supervisor is a designated AML/CFT competent authority for insurers or intermediaries or both

22.1 The supervisor:

- **has a thorough and comprehensive understanding of the ML/TF risks to which insurers and intermediaries are exposed;**
- **uses available information to assess the ML/TF risks to the insurance sector in its jurisdiction on a regular basis; and**
- **applies a Risk-Based Approach (RBA) consistent with FATF Recommendations.**

22.1.1 Consistent with the FATF Recommendations, RBA refers to:

- the general process by which a supervisor, according to its identification, understanding and assessment of risks, allocates its resources to AML/CFT supervision; and
- the specific process of supervising institutions (ie insurers and intermediaries, as applicable) that apply an AML/CFT RBA.

Understanding ML/TF risks

22.1.2 The supervisor should have a thorough and comprehensive understanding of the ML/TF risks to which insurers and intermediaries are exposed arising from the activities undertaken and products and services offered by insurers and intermediaries.

22.1.3 In the context of ML/TF, “risk” encompasses threats, vulnerabilities, and consequences in relation to products, markets and delivery channels.

22.1.4 Some of the examples of attributes included below can be expected over the course of a long-term insurance contract and are not necessarily inherently suspicious, but rather should be viewed as factors to consider with respect to AML/CFT RBA.

22.1.5 Product risk refers to the vulnerability of a product or service to ML/TF based on their design. Product risk also encompasses service and transaction risk. The following are examples of product attributes which may tend to increase the ML/TF risk profile:

- acceptance of very high value or unlimited value payments or large volumes of lower value payments;
- acceptance of non-traceable payments such as cash, money orders, cashier cheques, or virtual assets.
- acceptance of frequent payments outside a normal premium policy or payment schedule;
- allowance of withdrawals at any time or early surrender, with limited charges or fees;
- products that allow for high cash values;
- products that accept high amount lump sum payments, coupled with liquidity features;
- products with provisions that allow a policy to be cancelled within a stipulated timeframe and the premiums paid to be refunded; and
- products that allow for assignment without the insurer being aware that the beneficiary of the contract has been changed until such time as a claim is made.

22.1.6 Service and transaction risk refers to the vulnerability of a product to use by a third party or to unintended use based on the methods of transactions available. The following are examples of service and transaction attributes which may tend to increase the risk profile:

- products with features or services which make it possible for customers to use the product in a way that is inconsistent with its purpose (for example, an insurance policy intended to provide long term investment opportunity but which allows frequent or low fee deposit / withdrawal transactions);
- customer is not the payer or recipient of the funds;
- products with features that allow loans to be taken against the policy (particularly if frequent loans can be taken and/or repaid with cash);
- acceptance to be used as collateral for a loan and/or written in a discretionary or other increased risk trust;
- payment source or recipient of funds are outside of the jurisdiction; and
- significant, unexpected, or unexplained change in customer's pattern of payment, withdrawal, or surrender.

22.1.7 Market risk encompasses geographic and customer identity risk factors (ie the risk that a market's or customer's geographic location or connections will enhance vulnerability to ML/TF) or that the insurer is doing business with a customer who is not adequately identified or may be involved with ML/TF.

22.1.8 The following are examples of geographic attributes which may tend to increase the risk profile:

- jurisdictions identified by credible sources as having weak governance, law enforcement, and regulatory regimes, including jurisdictions identified by FATF statements as having weak AML/CFT regimes;
- jurisdictions identified by credible sources as having significant levels of organized crime, corruption, or other criminal activity, including source or transit countries for illegal drugs, human trafficking, smuggling, and illegal gambling; and
- jurisdictions subject to sanctions, embargoes, or similar measures issued by international organizations (such as the United Nations).

22.1.9 Customer risk factors include: customer identity; third-party involvement; customer source of wealth and funds; politically exposed customers; and known criminals or terrorists. The following are examples of customer attributes which may tend to increase the risk profile:

- structure of a legal entity that is a customer, policyholder, or beneficiary obscures or makes it difficult to identify the ultimate beneficial owner or controlling interests;
- customer is reluctant to provide identification; exhibits difficulty producing identification; or provides identification documents of questionable authenticity;
- customer is controlled by a third party;
- higher risk business or occupation (such as those that are cash-intensive);
- high premium, deposits, or policy limits for a customer in occupation or business typically associated with lower income (without confirmation of the source of wealth or funds); and
- customer is associated with negative events; has ties to or is on a designated sanctions list; or is considered a politically exposed person.

22.1.10 Delivery channel refers to the method offered to or used by a customer to open a new policy or account. Delivery channel risk refers to the vulnerability of the delivery channel to ML/TF based on attributes that may make it easier to obscure customer identity or the source of funds. The following are examples of delivery channel attributes which may tend to increase the ML/TF risk profile:

- non face-to-face sales without adequate mitigating safeguards;
- long chain of intermediaries; and

- payments via intermediary that obscures the source of payment.

Assessing ML/TF risks

22.1.11 The supervisor should assess the main ML/TF risks to the insurance sector in its jurisdiction. Such risk assessments may provide for recommendations on the allocation of responsibilities and resources at the jurisdictional level based on a comprehensive and up-to-date understanding of the risks. These assessments will change over time, depending on how circumstances develop, and how risks evolve. For this reason risk assessments should be undertaken on a regular basis and kept up to date.

22.1.12 The supervisor should consider the potential ML/TF risks alongside other risk assessments (for example, governance and market conduct) arising from its wider duties.

22.1.13 When a jurisdiction-wide risk assessment has been conducted (for example, during a National Risk Assessment (NRA) process as contemplated in FATF Recommendations, if applicable), the supervisor should have access to the results and take account of them. The supervisor should participate in such an assessment to inform the assessment and also to improve its understanding of the risks.

22.2 The supervisor:

- **issues to insurers and intermediaries enforceable means on AML/CFT obligations consistent with the FATF Recommendations, for matters which are not in primary legislation;**
- **establishes guidance that will assist insurers and intermediaries to implement and comply with their respective AML/CFT requirements; and**
- **provides insurers and intermediaries with adequate and appropriate feedback to promote AML/CFT compliance.**

22.2.1 While the FATF Recommendations require the basic obligations of customer due diligence (CDD), record keeping and the reporting of suspicion to be set in primary legislation, the more detailed elements for technical compliance may be set in primary legislation or enforceable means (ie regulations, guidelines, instructions or other documents or mechanisms) that set out enforceable requirements in mandatory language with sanctions for non-compliance.

22.2.2 In some jurisdictions the supervisor, while an AML/CFT competent authority, may not be empowered to issue enforceable means; in that case the supervisor should cooperate and coordinate with the relevant authority holding such power.

22.2.3 The supervisor should require insurers and intermediaries to take appropriate steps to identify, assess and understand their ML/TF risks in relation to products, markets, and delivery channels. The supervisor should also require insurers and intermediaries to manage and mitigate the ML/TF risks that have been identified.

22.2.4 The supervisor should promote a clear understanding by insurers and intermediaries of their AML/CFT obligations and ML/TF risks. This may be achieved by engaging with insurers and intermediaries and by providing information on supervision. For example, the supervisor may provide guidance on issues covered under the relevant FATF Recommendations (as implemented in primary legislation or enforceable means) including possible techniques and methods to combat ML/TF and any additional measures that insurers and intermediaries could take to ensure that their AML/CFT measures are effective. Such guidance may not necessarily be enforceable but will assist insurers and intermediaries to implement and comply with AML/CFT requirements.

22.2.5 Examples of appropriate feedback mechanisms used by the supervisor may include information on current ML/TF techniques, methods and trends (typologies), sanitised examples of actual ML/TF cases, examples of failures or weaknesses in AML/CFT systems by insurers and intermediaries and lessons to be learned. It may be appropriate for the supervisor to refer to guidance or contribute to feedback from other sources, for example industry guidance and resources made available by the FATF.

22.3 The supervisor has an effective supervisory framework to monitor and enforce compliance by insurers and intermediaries with AML/CFT requirements.

22.3.1 The supervisor should take account of the risk of ML/TF at each stage of the supervisory process, where relevant, including the licensing stage.

22.3.2 The supervisor should have adequate financial, human and technical resources to combat ML/TF. Staff of the supervisor should be appropriately skilled and provided with adequate and relevant training for assessing and combating ML/TF risks, including the necessary skills and knowledge to assess the quality and effectiveness of an insurer's and intermediary's AML/CFT systems and controls.

22.3.3 The supervisor should subject insurers and intermediaries to supervisory review (off-site monitoring and/or on-site inspection) of their compliance with the AML/CFT requirements and, on the basis of the information arising from such monitoring and any other information acquired, assess the ML/TF risk profile of the insurer or intermediary.

22.3.4 The frequency and intensity of supervisory review should be based on:

- the ML/TF risks present in the jurisdiction including as identified in an NRA, if applicable, or other jurisdiction-wide risk assessment;
- the characteristics of insurers or intermediaries, in particular their number and diversity and the degree of discretion allowed to them under the RBA;

- the ML/TF risks and the policies, internal controls and procedures of each insurer and intermediary, as identified by the supervisor's assessment of their risk profile; and
- the inherent and residual risks in relation to the particular insurer or intermediary based on the firm's own RBA of its ML/TF risks.

22.3.5 The supervisor should require insurers and intermediaries to undertake AML/CFT assessments on a regular basis, develop risk profiles of their products and services, customers, and business relationships (including where relevant third party service providers), and to put in place risk management and control measures to effectively address identified risks.

22.3.6 The supervisor should have the power and resources to take proportionate, dissuasive, and effective measures (including sanctions and other remedial and corrective measures) where insurers and intermediaries do not implement AML/CFT requirements effectively.

22.3.7 The supervisor should also require insurers and intermediaries to provide regular and timely training in AML/CFT to Board Members, Senior Management and other staff as appropriate, which is supported by a communication strategy which ensures that notification of significant changes in AML/CFT policies are regularly and timely provided.

22.4 The supervisor regularly reviews the effectiveness of the measures that insurers and intermediaries and the supervisor itself are taking on AML/CFT. The supervisor takes any necessary action to improve effectiveness.

22.4.1 Reviews should include regular assessment by the supervisor of the effectiveness of implementation by insurers and intermediaries of AML/CFT requirements and of its supervisory approach, including but not limited to the extent to which the supervisor's actions have an effect on compliance by insurers and intermediaries.

22.4.2 These reviews may cover aspects such as:

- the ML/TF risks of a particular insurer and intermediary and whether these are adequately addressed by the firm's RBA;
- the adequacy of resources and training of both the supervisor and the insurance sector;
- whether AML/CFT off-site monitoring is adequate;
- whether the number and content of on-site inspections relating to AML/CFT measures is adequate;
- the findings of off-site monitoring and on-site inspections, including the effectiveness of training and implementation by insurers and intermediaries of AML/CFT measures;
- measures and sanctions taken by the supervisor against insurers and intermediaries;

- input from other AML/CFT authorities and the FIU on the insurance sector, such as the number and pattern of suspicious transaction reports made by insurers and intermediaries;
- the number and nature of requests for information from other authorities concerning AML/CFT matters;
- the adequacy of the requirements, guidance and other information provided by the supervisor to the insurance sector and feedback received from the insurance sector; and
- the number and type of ML/TF prosecutions and convictions in the insurance sector.

Such reviews should enable the supervisor to identify any necessary actions which need to be taken to improve effectiveness of the AML/CFT measures being taken by insurers, intermediaries and the supervisor itself.

22.4.3 The supervisor should maintain records on the frequency of off-site monitoring and number of on-site inspections relating to AML/CFT and on any measures it has taken or sanctions it has issued against insurers and intermediaries with regard to inadequate AML/CFT measures or non-compliance with AML/CFT requirements.

22.5 The supervisor has effective mechanisms in place which enable it to cooperate, coordinate and exchange information for AML/CFT purposes with other domestic authorities as well as with supervisors in other jurisdictions.

22.5.1 Effective prevention and mitigation of ML/TF is enhanced by close cooperation within a supervisor's organisation and among supervisors, the FIU, law enforcement agencies, other relevant authorities, and insurers and intermediaries.

22.5.2 Mechanisms of cooperation, coordination and exchange of information should be documented and normally address where relevant:

- operational cooperation and, where appropriate, coordination between the FIU, law enforcement agencies and other relevant authorities; and
- policy cooperation and, where appropriate, coordination across all relevant AML/CFT competent authorities.

22.5.3 Where the supervisor identifies suspected ML/TF in insurers or intermediaries, it should ensure that relevant information is provided in a timely manner to the FIU, any appropriate law enforcement agency and other relevant authorities.

22.5.4 The supervisor should take all necessary steps to cooperate, coordinate and exchange information with the other relevant authorities. The supervisor should communicate with the FIU and appropriate law enforcement agency to ascertain any concerns it has and any concerns expressed on AML/CFT compliance by insurers and intermediaries, to obtain feedback on trends in reported cases and to obtain information regarding potential ML/TF risks to the insurance sector.

22.5.5 The supervisor should consider appointing within its office a contact for AML/CFT issues and to liaise with other AML/CFT competent authorities to promote an efficient exchange of information.

22.5.6 The exchange of information for AML/CFT purposes is subject to confidentiality considerations (see ICP 3 Information Exchange and Confidentiality Requirements).

Part B: Where the insurance supervisor is not a designated AML/CFT competent authority

22.6 The supervisor is aware of and has an understanding of ML/TF risks to which insurers and intermediaries are exposed. The supervisor liaises with and seeks to obtain information from the designated competent authority relating to AML/CFT by insurers and intermediaries.

22.6.1 The supervisor should have an understanding of the ML/TF risks to which insurers and intermediaries are exposed arising from activities undertaken in relation to products, markets and delivery channels, and the jurisdiction's approach to assessing and mitigating them.

22.6.2 To enhance such understanding, it is helpful if the supervisor has access to the NRA, if applicable, or other jurisdiction-wide risk assessment.

22.6.3 The supervisor should be able to make a more informed evaluation and judgment on the soundness of insurers and intermediaries by receiving information from the designated AML/CFT competent authority. Such information may be relevant to the risk profile of or to the effectiveness of risk management by an insurer or intermediary. The contents of this information may include the level of ML/TF risks to which insurers and intermediaries are exposed, and the designated competent authority's views on the corporate governance, risk management and internal control measures of supervised entities relevant to AML/CFT.

22.6.4 The designated AML/CFT competent authority may have information on breaches of AML/CFT requirements that should be taken into consideration by the supervisor in its supervisory activities, such as when evaluating the suitability of the Board, Senior Management and Key Persons in Control Functions, including when reviewing licence applications.

22.7 The supervisor has effective mechanisms in place which enable it to cooperate, coordinate and exchange information for AML/CFT purposes with relevant domestic authorities as well as with supervisors in other jurisdictions.

22.7.1 Mechanisms of cooperation, coordination and exchange of information should normally address operational cooperation and, where appropriate, coordination among the FIU, law enforcement agencies and other supervisors. Effective prevention and mitigation of ML/TF is enhanced by close cooperation within a supervisor's organisation and among supervisors, the FIU, law enforcement agencies, relevant AML/CFT competent authorities, and insurers and intermediaries.

22.7.2 When the supervisor becomes aware of information on ML/TF risks, it should provide relevant information to the designated AML/CFT competent authority. When the supervisor identifies suspected ML/TF in insurers and intermediaries, it should ensure that relevant information is provided to the FIU, appropriate law enforcement agencies and any relevant supervisors.

22.7.3 As part of its cooperation with the designated AML/CFT competent authority, the supervisor should provide input into the effectiveness of the AML/CFT framework. This may help the designated competent authority in its consideration of the framework's effectiveness.

22.7.4 The exchange of information for AML/CFT purposes is subject to confidentiality considerations (see ICP 3 Information Exchange and Confidentiality Requirements).

ICP 23 Group-wide Supervision

The group-wide supervisor, in cooperation and coordination with other involved supervisors, identifies the insurance group and determines the scope of group supervision.

Introductory Guidance

23.0.1 Involved supervisors should seek agreement amongst themselves on the identification of the insurance group, including the head of the insurance group, and the scope of group-wide supervision to ensure that gaps or duplication in regulatory oversight between jurisdictions do not occur. If agreement cannot be reached in a timely manner, the ultimate responsibility for determining the identification of the insurance group and scope of group-wide supervision rests with the group-wide supervisor. Decisions should be undertaken on a case-by-case basis and may include discussion with the insurance group.

23.0.2 The group-wide supervisor cooperates and coordinates with other involved supervisors, and should be accountable for the appropriateness of the identification of the insurance group and the determination of the scope of group supervision. In particular, in the case of insurance groups that operate on a cross-border basis, the group-wide supervisor should be able to explain the appropriateness of the identification of the insurance group and the determination of the scope of group supervision to involved supervisors in other jurisdictions. The identification of the insurance group and scope of group supervision should be reviewed regularly by the group-wide supervisor, in cooperation and coordination with other involved supervisors.

23.0.3 The group-wide supervisor should require the head of the insurance group to provide information needed on an ongoing basis to identify the insurance group and to determine the scope of group-wide supervision. The head of the insurance group provides the information to the group-wide supervisor, who disseminates it to the other involved supervisors as needed.

CF 23.0.a The group-wide supervisor, in cooperation with other involved supervisors, determines whether an insurance group or an insurance legal entity operating through branches, is an IAIG after considering whether it meets both the following criteria:

- **Internationally active:**
  - **Premiums are written in three or more jurisdictions; and**
  - **Gross written premiums outside of the home jurisdiction are 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**
- ○ **Total gross written premiums are at least USD 10 billion.**

CF 23.0.a.1 The criteria should be assessed based on the insurance group's reported financial statements, either on a consolidated basis when available or as otherwise submitted to the group-wide supervisor. Intra-group transactions should be eliminated when calculating the amount of insurance business written in each jurisdiction and total insurance business written, and when calculating the total assets of the group.

CF 23.0.a.2 "Total assets" are, at least, group assets related to the insurance business of the group.

CF 23.0.a.3 "Gross written premiums" represent a measure of the volume of insurance business being written. Where alternative but similar volume measures are required under the accounting framework applicable to the group, then these alternative measures may be used as a more practical way of deciding if a group meets the criterion for an IAIG. An example of an alternative measure may be "premiums received" as required for disclosure purposes under International Financial Reporting Standard 17.

CF 23.0.a.4 Although an insurance legal entity that has no parent or subsidiaries is not an insurance group, it should be regarded as an IAIG if it operates on a branch basis in foreign jurisdictions and meets the criteria. The supervisor of this entity, in cooperation with other involved supervisors, would determine whether the IAIG criteria are met. References to a 'group' in this context would include such entities operating through branches which are identified as IAIGs.

CF 23.0.a.5 For the purposes of assessing groups against the internationally active criterion, the United States of America should be regarded as a single jurisdiction and member states of the European Union should be regarded as separate jurisdictions.

CF 23.0.a.6 Any involved supervisor may prompt the process of identifying an IAIG. If no group-wide supervisor has been determined, the supervisor most demonstrating the characteristics of a group-wide supervisor should invite involved supervisors to participate in the process of determining whether a group is an IAIG.

CF 23.0.a.7 The scope of an insurance group should be determined before considering whether the criteria for determining whether the group is an IAIG are met.

CF 23.0.a.8 If there is already a supervisory college for a group, it should be used to facilitate the determination as to whether the group is an IAIG.

CF 23.0.b In limited circumstances the group-wide supervisor has discretion to determine that a group is not an IAIG even if it meets the criteria or that a group is an IAIG even if it does not meet the criteria.

CF 23.0.b.1 If discretion has been used, then the reasons for exercising such discretion should be based on verifiable and documented quantitative and qualitative information.

CF 23.0.b.2 Examples of situations where a group-wide supervisor may exercise discretion to determine that a group is an IAIG despite not meeting all the criteria are where:

- a host supervisor requests that the group be treated as an IAIG owing to the materiality of its operations in the host jurisdiction;
- the group is expected to meet the criteria in the near future owing to mergers or acquisitions;
- the group's international activity or size have decreased owing to some temporary or transitory effect such as an economic shock or exchange rate fluctuations and it would not be reasonable to alter the group's identification as an IAIG for a short period;
- the group has related entities which are not included in the consolidated financial statements, but which are relevant to the risks of the group;
- the group has significant off-balance sheet assets (such as funds under management held on behalf of investors) which arise from insurance operations and so are more appropriately included in the total assets when assessing the group against the size criterion;
- the group changes or rearranges its business activities to avoid meeting the IAIG criteria including by splitting the insurance business into multiple sub-groups with separate operational controllers.

CF 23.0.b.3 Examples of situations where a group-wide supervisor may exercise discretion to determine that a group is not an IAIG despite meeting the criteria are where:

- the group will cease to meet the criteria in the near future owing to, for example, disposals of some or all of its insurance business;
- the group's international activity or size have increased owing to some temporary or transitory effect such as an economic shock or exchange rate fluctuations and it would be unreasonable to identify the group as an IAIG for a short period;
- the group's business outside of the home jurisdiction exceeds 10% in aggregate but its business in any one jurisdiction outside the home jurisdiction is negligible.

CF 23.0.c The group-wide supervisor notifies the group of its decision to identify it as an IAIG and reasons for that decision.

CF 23.0.d The group-wide supervisor, in cooperation with other involved supervisors, regularly reviews previously made determinations concerning whether a group is an IAIG.

CF 23.0.d.1 Such reviews should take place at least once every three years.

CF 23.0.d.2 An ad-hoc assessment should take place in circumstance where a significant change or event may impact the identification of a group as an IAIG.

23.1 The group-wide supervisor, in cooperation and coordination with other involved supervisors, identifies all legal entities that are part of the insurance group.

23.1.1 To ascertain the identity of an insurance group, supervisors should first identify all insurance legal entities within the corporate structure.

23.1.2 Supervisors should then identify all entities which have control over those insurance legal entities in the meaning provided for in the definition in ICP 6 (Changes in Control and Portfolio Transfers). If this results in only one identified entity, this entity is the head of the insurance group. If there is more than one entity with control over the insurance legal entities, supervisors should identify the head of the insurance group such as the entity which has the greatest level of control over the insurance business.

23.1.3 A practical method for determining the entities within the insurance group is often to start with entities included in the consolidated accounts. The head of an insurance group including an insurance-led financial conglomerate is at least one of the following:

- an insurance legal entity
- a holding company

The identified insurance group includes the head of the insurance group and all the legal entities controlled by the head of the insurance group. Legal entities within a group could include:

- operating and non-operating holding companies (including intermediate holding companies);
- other regulated entities such as banks and/or securities companies;
- non-regulated entities; and
- special purpose entities.

In addition to considering the consolidated accounts, the supervisor should consider other relationships such as

- common Directors;
- membership rights in a mutual or similar entity;
- involvement in the policy-making process; and
- material transactions.

The insurance group may be

- a subset/part of a bank-led or securities-led financial conglomerate; or
- a subset of a wider group, such as a larger diversified conglomerate with both financial and non-financial entities.

23.1.4 Examples of the types of group structures that could be captured by the definition of insurance groups are provided in the diagrams below (Figure 23.1, 23.2, 23.3 and 23.4). These examples are for purposes of illustration only, and are not intended to set forth all possible forms of insurance groups.

23.1.5 The ICPs' definition of "insurance group" may be different from the definitions used in other contexts, such as accounting or tax purposes.

CF 23.1.a The group-wide supervisor identifies the Head of the IAIG as the legal entity which controls all of the insurance legal entities within the group and non-insurance legal entities which pose risk to the insurance operations.

CF 23.1.b When identifying the Head of the IAIG, the group-wide supervisor considers both control as defined in ICP 6 (Changes in control and portfolio transfers) and operational control.

CF 23.1.b.1 Operational control means the ability in practice, whether or not a legal right exists, to do some or all of the following:

- select, appoint, or remove Board Members of related entities;
- determine remuneration of Board Members of related entities;
- set or influence capital expenditure and investment plans;
- set a dividend strategy and levels of surplus capital to be retained;
- determine new lines of business to be undertaken;
- set risk-management policies and procedures; and
- require reporting of management information.

CF 23.1.c When identifying the Head of the IAIG, if there is more than one entity which controls all of the insurance legal entities, the group-wide supervisor determines the Head of the IAIG to be the entity that exercises the greatest level of control over all the insurance legal entities by considering the following factors:

- **the proportion of the insurance business relative to other businesses it controls;**
- **the degree of operational control; and**
- **the degree of shareholder control.**

CF 23.1.c.1 Considering the above factors is particularly relevant when an IAIG has a vertical structure with several intermediate holding companies, is a financial or industrial conglomerate, or has several insurance sub-groups.

CF 23.1.c.2 Consideration of which entity controls the greatest proportion of insurance business relative to other business may lead the group-wide supervisor to determine that the Head of the IAIG is an intermediate holding company rather than the ultimate parent of the group.

CF 23.1.c.3 Consideration of where operational control is greatest may lead the group-wide supervisor to determine that the Head of the IAIG is an intermediate holding company rather than the ultimate parent of the group. It may also lead the group-wide supervisor to determine that one insurance legal entity is the Head of the IAIG by virtue of its operational control over another insurance legal entity even where it does not own that entity.

CF 23.1.c.4 Consideration of where shareholder control is greatest may lead the group-wide supervisor to determine that the ultimate parent in a conglomerate is the Head of the IAIG rather than an intermediate holding company.

CF 23.1.d The group-wide supervisor considers that a non-insurance legal entity within the group poses risk to the insurance operations where there is:

- **a linkage between the insurance operations and the non-insurance legal entity (other than an investment in or from the non-insurance legal entities) that could adversely affect the insurance operations; and**
- **a lack of adequate safeguards, including additional capital, to mitigate risks arising from any such linkages.**

CF 23.1.d.1 Consideration of the control exerted over non-insurance legal entities within the group may lead the group-wide supervisor to determine that the Head of the IAIG is the ultimate parent of the group rather than an intermediate holding company.

CF 23.1.d.2 A parent of the insurance legal entities is less likely to pose a risk to the insurance operations if the only linkage between it and the insurance legal entities is of the nature of a passive investment and so no operational control is being exerted.

CF 23.1.d.3 The group-wide supervisor should be able to require preventive or corrective measures at the same level at which all the risks to insurance operations in the group (including funding risks) are mitigated by capital.

CF 23.1.e Where a legal entity controls all insurance legal entities within the group and non-insurance legal entities which pose risks to the insurance operations, the group-wide supervisor has discretion to identify a subsidiary of that entity as the Head of the IAIG if:

- **prudential supervision is exercised by another financial sector supervisor over that entity; and**

- **the group-wide supervisor can rely on the other financial sector supervisor to provide sufficient information concerning risk that this entity and the legal entities it controls pose to the insurance operations.**

CF 23.1.e.1 The Head of an IAIG should not be a bank when:

- that bank is subject to prudential supervision exercised by another financial supervisor; and
- the group-wide supervisor is able to rely on this other financial sector supervisor to obtain information on the wider group and to ensure that the group is adequately capitalised.

CF 23.1.e.2 If this precludes there being a single Head of the IAIG which controls all the insurance legal entities, then the group may be supervised as two or more separate IAIGs even if separately those IAIGs would not meet the size and international activity criteria.

CF 23.1.f The group-wide supervisor provides the supervisory college with the main reasons and judgements it made when identifying the Head of the IAIG.

CF 23.1.f.1 As the supervisory college may qualify as a crisis management group for the IAIG ('IAIG CMG'), when identifying the Head of the IAIG, the group-wide supervisor should understand where resolution powers are applicable. The Head of the IAIG identified for prudential supervision purposes may not be the same as the entity at the level of which resolution powers will apply.

23.2 The group-wide supervisor, in cooperation and coordination with other involved supervisors, determines the scope of group-wide supervision.

23.2.1 Involved supervisors should consult and agree on the scope of group-wide supervision of the insurance group to ensure that there are no gaps and no unnecessary duplication in supervision among jurisdictions.

23.2.2 A practical method to determine the entities to capture within the scope of group-wide supervision is to start with entities included in the consolidated accounts. Entities that are not included in consolidated accounts should be included if they are relevant from the perspective of risk (non-consolidated entities also subject to supervision) or control. The entities that may be captured within the scope of group-wide supervision may either be incorporated or unincorporated.

23.2.3 In considering the risks to which the insurance group is exposed it is important to take account of those risks that emanate from the wider group within which the insurance group operates.

23.2.4 Individual entities within the insurance group may be excluded from the scope of group-wide supervision if the risks from those entities are negligible or group-wide supervision is impractical.

23.2.5 The exclusion or inclusion of entities within the scope of group-wide supervision should be regularly re-assessed.

23.2.6 It should be noted that the supervisory approach to entities/activities within the insurance group may vary depending on factors such as their types of business, legal status and/or nature, scale and complexity of risks. Although an insurance group as a whole should be subject to group-wide supervision, not all quantitative and qualitative supervisory requirements applied to an insurance legal entity should necessarily be applied to other entities within the group, to the insurance group as a whole, or to a sub-group collectively.

CF 23.2.a In conducting group-wide supervision, the group-wide supervisor obtains information necessary to apply standards to the Head of the IAIG concerning all the legal entities controlled by the Head of the IAIG (the IAIG) including from:

- **the Head of the IAIG;**
- **with the cooperation of other involved supervisors, insurance legal entities controlled by the Head of the IAIG; and**
- **other non-insurance legal entities, whether or not controlled by the Head of the IAIG.**

The group-wide supervisor decides from which legal entities information should be sought.

CF 23.2.a.1 The group-wide supervisor may need to obtain information about related group entities, such as:

- any intermediate holding company or ultimate parent of the Head of the IAIG;
- any significant owner of the IAIG;
- any person exerting significant influence over the IAIG;
- any financial entity which is subject to supervision by an authority other than an insurance supervisor; or
- entities excluded from the consolidated data used to assess group solvency.

CF 23.2.a.2 Where there are entities related to the Head of the IAIG from which information is necessary for supervisory purposes, then the group-wide supervisor should obtain that information from those entities or from other sources, for example:

- the Head of the IAIG (insofar as the Head of the IAIG can legally procure that information);
- any supervisor of a related non-insurance financial entity; or
- the members of the Board, Senior Management and Key Persons in Control Functions involved in the insurance business, irrespective of the entity employing those persons.

CF 23.2.a.3 The group-wide supervisor should understand how risks in non-regulated related group entities affect, for example, the risk management and capital adequacy of the IAIG. However this does not require the group-wide supervisor to supervise directly such entities.

23.3 The group-wide supervisor and other involved supervisors do not narrow the identification of the insurance group or the scope of group-wide supervision due to lack of legal authority or supervisory power over particular legal entities.

23.3.1 In some jurisdictions, the supervisor may not be granted legal authority or supervisory power for the direct supervision of some entities within the identified insurance group or the scope of group-wide supervision. These may include legal entities regulated in another sector or non-regulated entities within the same jurisdiction.

23.3.2 Where a supervisor has no direct legal power over certain legal entities in the scope of the group-wide supervision, the supervisor will use its power over regulated entities and/or consult with other involved supervisors to obtain similar supervisory outcomes.

ICP 24 Macroprudential Supervision

The supervisor identifies, monitors and analyses market and financial developments and other environmental factors that may impact insurers and the insurance sector, uses this information to identify vulnerabilities and address, where necessary, the build-up of systemic risk at the individual insurer and at the sector-wide level.

24.0

Introductory guidance

24.0.1 This ICP focuses on the general processes and procedures supervisors should have in place with respect to macroprudential supervision, as part of the overall supervisory framework (see ICP 9 Supervisory Review and Reporting).

24.0.2 Macroprudential supervision consists of data collection, market and trend analysis, systemic risk assessment, supervisory response and transparency. It identifies and, where necessary, addresses both vulnerabilities of individual insurers and the insurance sector to shocks (inward risks) and the build-up of systemic risk at the individual insurer level or the sector as a whole (outward risks). Inward risks include insurance and financial market developments, which may impact the insurance sector. Outward risks refer to the risks that individual insurers or the insurance sector may pose to the financial system and/or the real economy. Macroprudential supervision contributes to financial stability by minimising the incidence and impact of externalities on the financial system and real economy generated or amplified through the distress or default of individual insurers or common behaviours.

24.0.3 Macroprudential supervision involves the identification, monitoring and assessment of:

- sector-wide vulnerabilities and common exposures in the insurance sector; and
- the risk of amplification and transmission of shocks to the financial system and real economy caused by:
  - the size, complexity, lack of substitutability and/or interconnectedness of a distressed or failing insurer; or
  - collective actions or distress of a sufficiently large group of insurers undertaking similar activities and thus exposed to common risks.

24.0.4 Systemic risk may be defined as the risk of disruption to financial services that is caused by an impairment of all or parts of the financial system and has the potential to have serious negative consequences for the real economy. Systemic impact may originate from individual or sector-wide exposures to liquidity risk, interconnectedness (macroeconomic and counterparty exposure) or lack of substitutability as well as from other risks. These may spread to other parts of the financial system via asset liquidation, exposures or critical functions.

24.0.5 Macroprudential supervision can help identify the need for supervisory measures. Supervisory measures based on macroprudential concerns should be proportionate to the nature, scale and complexity of the identified exposures or activities. In its macroprudential supervision, the supervisor should also take into account the risks that non-insurance legal entities and activities may pose to insurance legal entities, insurance groups and the wider financial system.

24.0.6 The supervisory framework should allow the supervisor to respond in a timely manner to findings from the analysis performed as part of its macroprudential supervision.

Data collection for macroprudential purposes

24.1 The supervisor collects data necessary for its macroprudential supervision.

24.1.1 Data collection for macroprudential purposes should take into account the following general aspects:

- Efficiency of data collection: the supervisor should examine costs and benefits when considering data collection. Data collections should be aligned with their respective usage. Therefore, the supervisor should make use of all available data sources and calibrate its data requests and data processing capabilities so that the data requests are proportionate to the nature, scale and complexity of insurers and of the financial system;
- Data validation: before analysing data and providing recommendations on the findings, the supervisor should validate data used in its assessment;
- Data quality assurance: the supervisor should regularly evaluate the appropriateness of data collected and data needs to capture market developments and address deficiencies in:
    - the type of data collected;
    - its ability to process data in a timely and/or complete way and;
    - its ability to collect ad hoc data in a timely manner.
- Scope: for sector-wide assessments, data collection should cover a representative sample of the respective market or risk;
- Consistency: regular data collections of a standardised set of information should remain consistent over time in order to analyse trends. The supervisor should, however, consider the evolving nature of the relevant exposures; and
- Ad hoc data collection: in order to address emerging risks, the supervisor should have processes in place that allow for ad hoc data collections.

24.1.2 To support the assessment of liquidity risk, the supervisor should collect data that provide sufficient indications on possible liquidity mismatch between assets and liabilities both at individual and sector-wide level. Reporting requirements on liabilities should include, but not be limited to, information on the surrender value of insurance products, product features that increase or decrease the propensity for early pay outs under certain circumstances (such as penalties or delays in the ability to access the cash value of a policy), and the maturity or redemption structure of non-insurance liabilities. On the asset side information on the degree of liquidity of the assets and on the potential margin call on derivatives should be collected.

24.1.3 To support the assessment of macroeconomic exposure, the supervisor should collect data that is sufficiently granular to enable an analysis of an insurer's, as well as the insurance sector's vulnerability to macroeconomic shocks (such as sensitivity to interest rate movements) and general market movements (such as sensitivity to equities and fixed income asset movements).

24.1.4 To support the assessment of counterparty risk, the supervisor should collect data that includes the concentration of the assets and liabilities, with regard to counterparties, markets (such as equity or debt), sectors (such as financial or real estate), and geographical areas.

24.1.5 The supervisor should collect microeconomic data, such as insurance pricing, underwriting, expenses, claims inflation, reinsurance, intra-group transactions, and general developments in the insurance sector (for example, the development of claims, earned and guaranteed interest rates, reserves, pandemics, and changes in morbidity and mortality, longevity, changes in the frequency and severity of catastrophes changes in medical expense inflation and changes in law). In addition, the supervisor may collect data on both the asset and the liability structure of insurers, including those that are related to non-insurance activities. The supervisor should consider having established processes and communication channels on microeconomic data collection with other involved supervisors when an insurer operates in multiple jurisdictions.

24.1.6 The supervisor should collect macroeconomic data to complement information mainly gathered as a result of supervisory reporting. Data may include general domestic and international macroeconomic variables (such as interest rates, exchange rates, inflation or balance of payments, as well as data on market structure and competitiveness) which could identify macroeconomic instabilities and sources of risk both in the domestic and the global economy. Macroeconomic data may be used to assess the exposure of insurers' portfolios of both assets and liabilities to economy-wide factors. For insurers operating in multiple jurisdictions, the supervisor should consider collecting relevant macroeconomic data for material jurisdictions.

Insurance sector analysis

24.2 The supervisor, as part of its macroprudential supervision, performs analysis of financial markets and the insurance sector that:

- **is both quantitative and qualitative;**
- **considers historical trends as well as the current risk environment; and**
- **considers both inward and outward risks.**

24.2.1 To enable macroprudential supervision, the supervisor should have a structure and processes in place that allow for analysis, to identify data on insurance sector trends that could potentially result in externalities to the wider financial system and/or adversely impact the insurance sector. Such a structure and processes should recognise that changes in the exposures of insurers can potentially have macroprudential risk implications.

Quantitative and qualitative analysis

24.2.2 Quantitative analysis includes, but is not limited to, identifying trends, outliers, interconnectedness and/or risk concentrations of existing or newly identified vulnerabilities. Typical methods of quantitative analysis may include

- horizontal reviews;
- descriptive statistics;
- trend analysis; and
- statistical modelling using past data.

24.2.3 Qualitative analysis includes, but it is not limited to, performing assessments based on judgment, experience, information and any other factors that either cannot be measured or quantified with typical methods. Qualitative analysis may be particularly relevant for the assessment of low probability high impact type of events with limited quantifiable data available.

24.2.4 The supervisor should conduct horizontal reviews to reveal the range of practices among insurers relevant to a common subject (for example, the assessment of the appropriateness of insurer’s assumptions used for reserving). A horizontal review may provide a relative ranking to determine which insurers are outliers, and as such provides the supervisor with a reference for potential further actions. A horizontal review may provide an aggregated view of the risks linked to certain exposures and/or activities and may also help determine whether industry practice as a whole is effective enough to address the risks embedded in the activity.

24.2.5 To make horizontal reviews effective, the following may be taken into account:

- where peer groups are used, the choice of the peer group can have an impact on the outcome of the review. The supervisor should carefully consider the criteria for including insurers in a peer group;
- when reviewing an insurer operating in multiple jurisdictions, the group-wide supervisor should form a global perspective. Such a

perspective can build on analyses performed by a peer authority or a third party (including international organisations such as the IAIS, IMF and World Bank);

- the results of horizontal reviews performed within a single jurisdiction can be beneficial to the supervisory community as a whole, especially as they may relate to systemic risk to the insurance sector. The supervisor may also consider suitable fora for the communication of information that is not necessarily insurance or insurer specific; and
- horizontal reviews need not always be complex exercises. Simple horizontal outlier analysis on readily available insurer reports can often provide helpful supervisory insight. Simple analysis of some of these reports, including trends and peer comparisons, may help the supervisor to identify areas of potential risk and help it to target future work.

Historic trends and current risk environment

24.2.6 The supervisor should have in place an appropriate form of stress testing, which is applied to the insurance sector as a whole or to a significant sub-sample of insurers, selected according to the exposures to specific risks to be assessed. Outcomes of insurance sector and financial market analysis should be considered in the development of severe but still plausible scenarios to be tested in such exercises. Scenarios should reflect the current market environment and potential unfavourable evolutions in terms of changes in markets and insurance specific risk exposures. In order to contextualise the results, the supervisor should take into account the characteristics of the supervisory framework and the structure of the insurer’s assets and liabilities. Following a stress test exercise, the supervisor should discuss potential vulnerabilities and potential mitigating actions with the relevant insurers.

24.2.7 While many data items are backward looking, insurance sector analysis should be forward looking, to the extent possible, when developing scenarios to capture potential future developments. Stress scenarios should take into account ways that market dynamics have changed, which may make historical data less relevant.

24.2.8 The supervisor should use stress tests to identify vulnerabilities and risks and assess the impacts to the insurance sector and for individual insurers. Additionally, stress scenarios should be used to identify how those potential impacts may spread .

Inward and outward risks

24.2.9 When assessing both inward and outward risks, the supervisor should assess insurers’ exposures to liquidity risk, interconnectedness (macroeconomic and counterparty exposure), lack of substitutability and other risks Assessing inward risks refers to the extent insurers may be exposed to, or vulnerable to, a certain risk within the insurance sector, whereas the outward risk refers to the situation in which these vulnerabilities would generate externalities which may then propagate to other financial markets or the real economy.

24.2.10 The supervisor should monitor the liquidity of an insurer's invested assets relative to its insurance liabilities based on their characteristics and analyse the potential that a large insurer's operations could require it, or a sufficiently large number of insurers, to engage in asset sales of a significant size. The supervisor should assess the funding structure of insurers and their reliance on short term funding.

24.2.11 The supervisor should monitor interconnectedness with the financial system (for example, via intra-financial assets and liabilities or derivatives). As these exposures can be on a cross-jurisdictional basis, the supervisor should cooperate with supervisors in other relevant jurisdictions.

24.2.12 Macroeconomic exposure in insurance liabilities depends on the characteristics of applicable investment guarantees as well as the complexity of the underlying risk/legal environment. Monitoring of macroeconomic exposure should recognise the relationship between the assets and liabilities of the insurer. Stress tests can be used to support monitoring of this exposure.

Assessing systemic importance

24.3 The supervisor has an established process to assess the potential systemic importance of individual insurers and the insurance sector.

24.3.1 The supervisor should take a total balance sheet approach when considering the potential systemic importance of an insurer. When analysing systemic risk stemming from the insurance sector, the supervisor should at least consider common exposures and activities.

24.3.2 The supervisor should consider the policies underwritten by insurers and other activities insurers are engaged in, such as the degree of engagement in derivatives activity and reliance on short-term market activity. The supervisor should also consider the interconnectedness with other financial institutions, and the role of the insurance sector within the broader financial system.

24.3.3 As part of its assessment, the supervisor should consider recent developments, such as changes in economic conditions or technological change that may affect the insurance sector's risk exposures. Additionally, the supervisor should cooperate and coordinate with other financial sector supervisors (such as banking, securities and pension supervisors, central banks and government ministries) to gain additional perspectives on the potential change in the risk exposures of insurers stemming from evolutions of other markets.

24.3.4 The supervisor should communicate the findings of its assessment, as appropriate, to either individual insurers or the sector. The supervisor should require insurers to take action necessary to mitigate any particular vulnerabilities that have the potential to affect financial stability.

Supervisory response

24.4 The supervisor uses the results of its macroprudential supervision, and considers the potential systemic importance of insurers and the insurance sector, when developing and applying supervisory requirements.

24.4.1 A macroprudential perspective in the development and application of supervisory requirements may help limit the build-up of systemic risks and contribute to the resilience of the financial system. The supervisor should ensure that there is an appropriate interaction between its macroprudential analysis and assessment activities, on the one hand, and microprudential supervision, on the other hand.

24.4.2 As part of introducing supervisory requirements into its supervisory framework, the supervisor should therefore consider implementing supervisory measures based on macroprudential concerns. Many macroprudential tools are, in effect, microprudential instruments developed or applied with a macroprudential perspective in mind. By mitigating certain risk exposures, measures that are primarily intended to protect policyholders may also contribute to financial stability by decreasing the probability and magnitude of any negative systemic impact.

24.4.3 The supervisor should determine the depth and level of supervision based on its assessment of the systemic importance of individual insurers or the insurance sector (see ICP 9 Supervisory Review and Reporting). The supervisor should act to reduce systemic risk when identified within its jurisdiction through an appropriate supervisory response. In jurisdictions where one or more insurers have been identified as systemically important, or a group of insurers is contributing to systemic risk, the supervisor should have supervisory requirements targeted at those insurers to mitigate systemic risk. The supervisor should extend certain requirements as necessary to insurers and/or a group of insurers that it has determined to be systemically important based on its assessment of the nature, scale and complexity of the activities.

24.4.4 Specific supervisory responses may relate to:

- requirements on insurers:
    - enterprise risk management (see ICP 16 Enterprise Risk Management for Solvency Purposes);
    - disclosures (see ICP 20 Public Disclosure);
- preventive or corrective measures (see ICP 10 Preventive Measures, Corrective Measures, and Sanctions); and
- crisis management and planning:
    - crisis management, including crisis management groups (see ICP 25 Supervisory Cooperation and Coordination); and
    - recovery and resolution planning (see ICP 12 Exit from the Market and Resolution and ICP 16 Enterprise Risk Management for Solvency Purposes).

24.4.5 Supervisory requirements may be intended to mitigate the potential spill-over effects from the distress or disorderly failure of an individual insurer or from the common exposures or behaviours of a group of insurers or across the sector. In the latter case, supervisory requirements may have different effects during different phases of the economic, underwriting or credit cycle. Therefore, the supervisor may develop requirements that are time-varying in nature, depending on the economic environment. The activation of such time-varying requirements could be rules-based (for example triggered automatically given a pre-defined condition) or discretionary (i.e. upon explicit decision by the supervisor). A rules-based approach may be more transparent but requires regular assessments of its adequacy under changing conditions affecting the insurance business.

Transparency

24.5 The supervisor publishes relevant data and statistics on the insurance sector.

24.5.1 The publication of aggregated data and statistics by the supervisor may enhance market efficiency by allowing market participants to make more informed decisions and reducing the cost to the public of acquiring insurance sector information. Moreover, the publication of data may serve as a market disciplining mechanism by facilitating comparisons of an individual insurer to the sector as a whole.

24.5.2 The supervisor may provide access to sufficiently detailed aggregate data either by publishing data itself or by providing others with adequate means for publishing data. This could be achieved by engaging a government statistical office or cooperating with the local insurance sector; provided the supervisor is satisfied with the accuracy, completeness, frequency and timeliness of such publication.

ICP 25 Supervisory Cooperation and Coordination

The supervisor cooperates and coordinates with involved supervisors and relevant authorities to ensure effective supervision of insurers operating on a cross-border basis.

Introductory Guidance

25.0.1 Supervisors of the different insurance legal entities within an insurance group with cross-border activities should coordinate and cooperate in the supervision of the insurance group as a whole. Supervisors of different insurance legal entities which are not part of the same group may also need to cooperate and coordinate particularly where the insurers are connected through reinsurance treaties or when difficulties in one insurer may affect the market more generally, such as in resolution situations (see ICP 12 Exit from the Market and Resolution).

25.0.2 Supervisors may draw upon several supervisory practices to facilitate cross-border cooperation and coordination. These practices include the identification of a group-wide supervisor and the use of coordination arrangements, including supervisory colleges.

25.0.3 The group-wide supervisor is one of the involved supervisors and is chosen to lead group-wide supervision of an insurance group. The group-wide supervisor should facilitate and lead the cooperation and coordination between the other involved supervisors and engage them in the relevant supervisory decisions regarding the insurance group. The group-wide supervisor is ultimately responsible for delivering effective and efficient group-wide supervision. The other involved supervisors should provide the group-wide supervisor with information regarding insurance legal entities they supervise and otherwise participate in group-wide supervision. The procedures for systematic or ad-hoc information exchange should be agreed with the other involved supervisors. The sharing of information by the group-wide supervisor and the other involved supervisors should be subject to confidentiality requirements (see ICP 3 Information Sharing and Confidentiality Requirements).

25.0.4 The undertaking of cooperation and coordination should not be taken to imply joint decision making authority or any delegation of an individual supervisor's responsibilities. Supervisory decisions remain within the responsibility of each of the involved supervisors.

Supervisory Recognition

25.0.5 Supervisors wishing to determine whether they can recognise and rely upon another supervisory regime for the purpose of group-wide supervision and designation of supervisory tasks should carry out an assessment of the acceptability of the counterpart's regime reflecting the level or objective of supervisory recognition sought. Supervisors may use different processes to conduct a supervisory recognition assessment.

The form of recognition and the criteria used for assessment will vary depending on its purpose.

25.0.6 When the assessment has been finalised, the decision as to whether to recognise the supervisor should be communicated to the subject of the assessment. If recognition is not possible, the areas where the criteria were not met should be communicated and the supervisors should discuss how recognition may be achieved in future. A process for reassessment could then be established.

25.0.7 Following recognition, the supervisor should periodically assess whether a recognised supervisor continues to meet the criteria for recognition.

25.0.8 The terms of supervisory recognition, as well as specific roles and responsibilities, may be set out in unilateral statements, bilateral agreements, or multilateral agreements.

25.1 The supervisor discusses and agrees with the involved supervisors which of them is the group-wide supervisor for cross-border insurance groups operating in its jurisdiction.

25.1.1 In principle, the home supervisor of the head of the insurance group should be considered first to take the role of the group-wide supervisor in accordance with its authority and powers in its jurisdiction. In some jurisdictions, the legal or regulatory system may include provisions which allow or require the designation of a group-wide supervisor.

25.1.2 In case a different or several involved supervisors fulfil the conditions to be considered as a group-wide supervisor, factors to consider regarding the identification of a group-wide supervisor should include:

- the location of the insurance group's head office, given that this is where the group's Board and Senior Management is most likely to meet;
- where the registered head office is not the operational head of the insurance group, the location where:
  - the main business activities are undertaken;
  - the main business decisions are taken;
  - the main risks are underwritten; and/or
  - the largest balance sheet total is located; and
- the involved supervisors' resources, skills, authorities and powers in their jurisdictions.

CF 25.0.a.1 When determining the group-wide supervisor of an IAIG, the involved supervisors should consider which supervisor would have direct powers over the Head of the IAIG (see ComFrame material under ICP 10 Preventive Measures, Corrective Measures and Sanctions).

25.2 As a group-wide supervisor, the supervisor:

- **understands the structure and operations of the insurance group; and**
- **leads group-wide supervision, taking into account assessments made by the other involved supervisors.**

Overall responsibilities of a group-wide supervisor

25.2.1 Once identified, the group-wide supervisor should be responsible for coordinating the input of insurance legal entity supervisors in undertaking group-wide supervision as a supplement to the existing insurance legal entity supervision.

25.2.2 Responsibilities of the group-wide supervisor should include:

- chairing of the supervisory college (where one exists), or consider establishing one if not in place yet;
- determination of the scope of group supervision;
- leadership, planning and coordination of group-wide supervisory activities;
- aggregation of group-wide information and dissemination of the relevant information to the other involved supervisors;
- preparation and discussion of group-wide supervisory analysis;
- performing a group-wide supervisory assessment, including assessing group capital management, risk and solvency, risk concentration, intragroup transactions and group governance;
- coordination of information sharing procedures amongst other involved supervisors;
- decision making on group-wide issues in consultation with other involved supervisors, where relevant;
- implementation and coordination of decisions on group-wide issues including preventive and corrective measures and sanctions; and
- identification of gaps in supervision.

25.2.3 The group-wide supervisor should take the initiative in coordinating the roles and responsibilities of, and facilitating communication between, the other involved supervisors. In carrying out its agreed functions, the group-wide supervisor should strive to act with the consensus of the other involved supervisors.

Information sharing and key contact point function

25.2.4 The group-wide supervisor should request information from other involved supervisors needed to fulfil its role.

25.2.5 The group-wide supervisor should make relevant information available to the other involved supervisors on a proactive basis and in a timely manner.

25.2.6 The group-wide supervisor functions as a key contact point for all other involved supervisors, which is of importance both in going concern situations and in crisis situations.

25.3 **As an other involved supervisor, the supervisor understands:**

- **the structure and operations of the group insofar as it concerns the insurance legal entities in its jurisdiction; and**
- **the way that operations of insurance legal entities of the group in its jurisdiction may affect the rest of the group.**

Responsibilities

25.3.1 Responsibilities of other involved supervisors should include:

- actively participating in the group supervision process, such as that facilitated by a supervisory college;
- informing the group-wide supervisor and, if necessary, other involved supervisors, of material findings affecting their insurance legal entity that could affect entities in other jurisdictions;
- sharing all relevant information with the group-wide supervisor to assist with supervision at the group-wide level and discussing findings and concerns at the group level with the group-wide supervisor;
- analysing information received from the group-wide supervisor;
- cooperating in the analysis and decision making as well as implementation and enforcement;
- assisting the group-wide supervisor in carrying out the supervisory process at the group level; and
- identifying gaps in supervision.

Information sharing

25.3.2 Other involved supervisors should provide the group-wide supervisor with relevant information, regarding insurance legal entities within the insurance group, including:

- any granting and withdrawal of a licence;
- location of significant business;
- developments in the legal structure of the insurance group;
- changes in business model;
- changes to the Board or Senior Management;
- changes in the systems of risk management and internal controls;

- significant developments or material changes in the business operations;
- significant developments in the financial position and regulatory capital adequacy;
- significant investments in group entities;
- significant financial links;
- the transfer of risks to and from non–regulated entities;
- operational risk as well as conduct risk, including mis-selling claims and fraud;
- potential high-risk factors for contagion; and
- events which may endanger the viability of the insurance group or major entities belonging to the insurance group.

25.3.3 Other involved supervisors should request information in relation to the group for a timely assessment of an insurance legal entity located in its jurisdiction.

25.4 The group-wide supervisor discusses and agrees with other involved supervisors to establish suitable coordination arrangements for cross-border insurance groups operating in its jurisdiction.

25.4.1 Coordination arrangements, including supervisory colleges, are mechanisms to foster cooperation and coordination between involved supervisors with regard to the supervision of insurance groups, as well as to promote common understanding, communication and information exchange.

25.4.2 The group-wide supervisor should initiate discussions with other involved supervisors about suitable coordination arrangements. Involved supervisors should seek a consensus on the most appropriate form of coordination arrangements.

25.5 The group-wide supervisor sets out the coordination arrangements in a written coordination agreement and puts such arrangements in place.

25.5.1 The scope of coordination arrangements will vary and should reflect the circumstances of the particular insurance group and involved supervisors.

25.5.2 A written coordination agreement should cover activities including:

- information flows between involved supervisors;
- communication with the head of the group;
- convening periodic meetings of involved supervisors;
- the conduct of a comprehensive assessment of the group, including the objectives and process used for such an assessment; and
- supervisory cooperation during a crisis.

25.6 The supervisor discusses and agrees with involved supervisors whether to establish a supervisory college for cross-border insurance groups operating in its jurisdiction, and if so, how to structure and operate the supervisory college.

Establishing a supervisory college

25.6.1 The group-wide supervisor, in cooperation and coordination with other involved supervisors, should consider establishing a supervisory college where, for instance:

- the nature, scale and complexity of the cross-border activities or intra-group transactions are significant and associated risks are high;
- group activities or their cessation could have an impact on the overall stability of the insurance markets in which the insurer operates; and
- the insurance group has significant market share in more than one jurisdiction;
- (see Application Paper on Supervisory Colleges).

Structure and membership of a supervisory college

25.6.2 The group-wide supervisor, in cooperation and coordination with the involved supervisors, should carefully consider the structure of the supervisory college (for example, inclusive, tiered, or regional).

25.6.3 A supervisory college is typically comprised of representatives of each of the supervisors responsible for the day-to-day supervision of the insurance legal entities, including material or relevant branches, which are part of the group and, as appropriate, any supervisors of other material non-insurance entities.

25.6.4 Clear criteria should be established for defining the basis of membership in the supervisory college. Issues which should be considered in establishing these criteria include:

- the relative size and materiality of the insurance legal entity relative to the insurance group as a whole;
- the relative size or materiality of the insurance legal entity relative to its local market;
- the level of risk in a particular insurance legal entity.

25.6.5 The structure of and membership in the supervisory college should be reviewed on a regular basis to reflect changing circumstances in the insurance group.

Coordination agreement for a supervisory college

25.6.6 The purpose of a supervisory college coordination agreement is to establish a framework for the operations of a supervisory college. The agreement is not legally binding and does not create enforceable obligations from one supervisor to another. However, jurisdictions may be subject to an obligation to establish such an agreement.

25.6.7 While recognising the need to allow for flexibility in the operation of a supervisory college, matters covered by the coordination agreement generally should include:

- membership of the supervisory college – including the approach to participation of members in the college;
- the process for appointing a supervisor to chair the college (typically, but not necessarily, the group-wide supervisor);
- roles and functions of the supervisory college and of the members of the supervisory college, including expectations of the chair;
- frequency and locations of meetings (meetings should take place by telephone conference call or other means where an in-person meeting is not practical); and
- scope of the activities of the supervisory college, including ongoing information exchange.

25.6.8 Members of a supervisory college who are not signatories to the IAIS MMoU should enter into a similar long-term agreement covering information exchange and confidentiality, which could be included in the college coordination agreement.

Functions and activities of a supervisory college

25.6.9 The group-wide supervisor, in cooperation and coordination with the other involved supervisors, should establish the appropriate ongoing functions of the supervisory college and clearly allocate those functions among the involved supervisors to avoid unnecessary duplication of supervisory tasks and to ensure no gaps exist in the supervision of the group.

25.6.10 In establishing the functions of a supervisory college, the key activities which should be considered include:

- providing access for involved supervisors to information and knowledge about the group and the environment in which it operates through information sharing;
- assessing group-wide risk exposures, financial position and regulatory capital adequacy and group corporate governance, including risk management, internal control and intra-group relationships such as intra-group transactions and exposures;
- understanding the material operations, solvency and liquidity needs of the material legal entities within the group;
- coordinating supervisory activities such as joint off-site monitoring or on-site inspections or review of one or more entities within the group or of a particular aspect of the group's functions such as internal audit, actuarial, risk management or compliance;

- coordinating appropriate actions to ensure that the group and relevant entities within the group mitigate identified risks;
- forming special focus teams to evaluate areas of particular concern or importance to the involved supervisors, or to bring together the requisite expertise to examine an aspect of the group's operations;
- providing a forum for involved supervisors to interact with the insurer's group-wide Senior Management in order to, for example, inform Senior Management of an identified issue at an insurance legal entity that affects the whole insurance group; and
- regularly assessing the effectiveness of the supervisory college in fulfilling its agreed role and functions. The assessment should be organised by the group-wide supervisor and take into account input from the other involved supervisors and, as appropriate, legal entities.

25.6.11 Aside from group-level issues, supervisory colleges may also focus on issues specific to insurance legal entities within the insurance group.

CF 25.6.a The group-wide supervisor establishes a supervisory college for the IAIG, which meets at least annually.

CF 25.6.a.1 If a supervisory college does not already exist, one should be formed and its first meeting should take place in a timely manner after the identification of the IAIG.

CF 25.6.a.2 Priorities for the initial supervisory college meeting should include, at least:

- confirming the group-wide supervisor and the structure of the supervisory college;
- describing the scope of group-wide supervision including, where applicable, an explanation from the group-wide supervisor of its decision to exclude an entity from the scope of group supervision; and
- discussing proposed coordination agreements.

CF 25.6.a.3 When an in-person meeting is not practicable, the meeting should take place by teleconference or other means.

CF 25.6.a.4 The group-wide supervisor should ensure that the IAIG's supervisory college discusses the most relevant elements of the group-wide supervisory process and the supervisory plan. The agenda set by the group-wide supervisor should provide for discussion of at least the IAIG's:

- group-wide corporate governance framework;
- enterprise risk management;
- main risks and intra-group transactions;

- financial position; and
- regulatory capital adequacy and compliance with supervisory requirements.

CF 25.6.a.5 When deciding on the topics to be covered in the IAIG's supervisory college meetings, the group-wide supervisor should cooperate and coordinate with involved supervisors to ensure that matters pertinent at a legal entity level are appropriately raised.

CF 25.6.b The members of the IAIG's supervisory college communicate and exchange information on an ongoing basis.

CF 25.6.c The 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 related to the ICS that has been reported at the option of the group-wide supervisor.

CF 25.6.c.1 The assessment of the reference ICS and, if applicable, any additional reporting should include:

- a comparison with existing group capital standards or calculations that are in development;
- the extent to which material risks of the IAIG are captured;
- the appropriateness and practicality of the calculations required; and
- any difficulties in implementing the measure by the IAIG.

CF 25.6.c.2 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.

Supervisory cooperation in planning for crisis management

25.7 The group-wide supervisor coordinates crisis management preparations with other involved supervisors and relevant authorities.

Objectives of crisis preparation planning

25.7.1 The main objectives of supervisory crisis management planning should be:

- to protect policyholders; and
- to contribute to domestic or international financial stability in order to avoid a potential adverse impact on the real economy.

25.7.2 In planning for crisis management the group-wide supervisor and other involved supervisors should seek to:

- promote private sector solutions such as portfolio transfers and run-offs;
- minimise the need to use public support to protect policyholders;

- minimise disruptions to the efficient operation of the insurance sector across jurisdictions; and
- achieve an orderly supervisory response.

Process for crisis management planning

25.7.3 Supervisory actions in planning for crisis management should seek to secure early communication between involved supervisors and relevant authorities in order to maximise time for coordination and cooperation.

25.7.4 The group-wide supervisor should meet regularly with the other involved supervisors and relevant authorities to share and evaluate information relating to the insurance group and to analyse and assess specific issues (including whether there are systemic implications). These meetings may be held in conjunction with the supervisory college meetings or separately if no supervisory college is in place.

25.7.5 Supervisors should remain aware of potential contagion channels, conflicts of interest and possible barriers to coordinated action in a crisis situation within a specific cross-border insurance group (such as legally required transparency rules in the case of publicly listed companies or particular legislative requirements across jurisdictions).

25.7.6 Effective crisis management should ensure that preparations for and management of a cross-border crisis – including policy measures, crisis response decisions and matters of external communication – are coordinated, timely and consistent. Supervisors and other relevant authorities (e.g. ministries of finance, central banks, other financial sector supervisors, and policyholder protection schemes) should exchange information to facilitate effective crisis management.

25.7.7 The group-wide supervisor should share with the other involved supervisors and relevant authorities information relevant to crisis management, including:

- group structure (focusing on legal, financial and operational intragroup dependencies, which may not be always available to the other authorities);
- inter-linkages between the insurance group and the financial system in each jurisdiction where it operates; and
- potential impediments to a coordinated solution to a crisis.

25.7.8 A supervisory college should plan in advance the process for cooperation and coordination during crisis situations in order to benefit from well-established information and cooperation channels and procedures should a crisis occur. The channels for communication with the head of the group, as well as other parts of the group, should be clearly established in case a crisis emerges. The group-wide supervisor should establish close communication channels with group Board and Senior Management as well as Significant Owners.

CF 25.7.a The group-wide supervisor establishes a crisis management group for the IAIG with the objective of enhancing preparedness for, and facilitating the recovery and resolution of the IAIG.

CF 25.7.a.1 A crisis management group may be established under a different name so long as it fulfils the objectives of a crisis management group for the IAIG ('IAIG CMG').

CF 25.7.a.2 There should be clear conditions as to the membership of the IAIG CMG. Membership of the IAIG CMG should include:

- the group-wide supervisor;
- the other relevant involved supervisors; and
- to the extent possible, relevant resolution authorities.

CF 25.7.a.3 The supervisory college may qualify as an IAIG CMG if:

- the supervisory college's coordination arrangements address recovery and resolution; and
- membership includes those authorities which would otherwise be members of the IAIG CMG.

CF 25.7.a.4 The IAIG CMG should keep under active review the:

- progress in coordination and information sharing within the IAIG CMG and with host resolution authorities that are not represented in the IAIG CMG;
- processes for recovery planning and resolution planning (where required) for the IAIG; and
- resolvability of the IAIG.

CF 25.7.b The group-wide supervisor puts in place a written coordination agreement between the members of the IAIG CMG.

CF 25.7.b.1 The coordination agreement should describe, at least:

- roles and responsibilities of the respective members of the IAIG CMG; and
- the process for coordination and cooperation, including information sharing, among members of the IAIG CMG.

CF 25.7.b.2 The coordination agreement may take the form of a memorandum of understanding.

Supervisory cooperation during a crisis

25.8 The supervisor:

- **Informs the involved supervisors as soon as it becomes aware of a crisis;**
- **cooperates and coordinates with the involved supervisors and relevant authorities to analyse and assess the crisis situation and its implications to reach a common understanding of the situation; and**

- **identifies coordinated, timely and effective solutions to a crisis situation.**

25.8.1 The group-wide supervisor should coordinate the gathering and analysis of information, as well as coordinate supervisory activities to respond to the crisis.

25.8.2 Such analysis should include:

- implications for policyholder protection in each relevant jurisdiction;
- whether the crisis is of systemic relevance and, if so, the identification of possible sources of systemic risk; and
- processes through which involved supervisors and relevant authorities can respond in a coordinated way.

25.8.3 Such cooperation and coordination takes account of the impact of the crisis on policyholders, financial systems and real economies of all relevant jurisdictions, drawing on information, arrangements and crisis management plans developed beforehand.

25.9 The group-wide supervisor coordinates with other involved supervisors and relevant authorities on public communication and communication with the insurance group during the crisis.

25.9.1 The group-wide supervisor and other involved supervisors, where practicable, share their plans for public communication among themselves and with other authorities to ensure that communication is handled in a coordinated and timely way.

25.9.2 The group-wide supervisor considers when, and to what extent, to communicate with the insurance group and the insurance legal entities that are part of the group, through their respective insurance legal entity supervisors.