



IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

INSURANCE CORE PRINCIPLES, STANDARDS, GUIDANCE AND ASSESSMENT METHODOLOGY

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(Clean final version)

ICP 25 Supervisory Cooperation and Coordination

The supervisor cooperates and coordinates with other relevant supervisors and authorities subject to confidentiality requirements.

25.1 The supervisor takes steps to put in place adequate coordination arrangements with involved supervisors on cross-border issues on a legal entity and a group-wide basis in order to facilitate the comprehensive oversight of these legal entities and groups. Insurance supervisors cooperate and coordinate with relevant supervisors from other sectors, as well as with central banks and government ministries.

25.1.1 The main benefits of increased coordination and cooperation among involved supervisors are:

- It facilitates all involved supervisors in holistically reviewing international groups through regular face-to-face discussions and other processes;
- It provides an efficient platform for information sharing across the group and for contribution of involved supervisors to group-wide decisions;
- Broader exposure and greater influence for involved supervisors in examining group-wide situations than would be the case under legal entity reviews;
- It facilitates comparison of supervisory methodologies and assumptions across the group;
- Ability to share the application of group-wide methodologies and assumptions among involved supervisors; and
- It facilitates the application of coordinated decisions when appropriate.

25.1.2 There are various mechanisms for fostering cooperation, promoting communication and information exchange and facilitating enhanced coordination of group-wide supervision. The benefits of designating a group-wide supervisor can be further enhanced through mechanisms such as a memorandum of understanding (MoU) between involved supervisors and establishment of a “supervisory college” of involved supervisors. In fact the work of a supervisory college is usually based on the conclusion of a MoU between all parties involved.

25.1.3 Coordination arrangements may include supervisory recognition of involved supervisors and how their various supervisory roles interrelate within group-wide supervision.

- 25.1.4 Coordination arrangements for group-wide supervision include supervisory colleges and/or other coordination mechanisms intended to foster cooperation, promote common understanding, communication and information exchange, and facilitate enhanced coordination for group-wide supervision. These arrangements are organised in accordance with the nature, scale and complexity of the group and of the risks the group poses to supervisory objectives and are commensurate with the legal and organisational structure and business activities of the group. They also have due regard to the legislative frameworks applicable and authorities of the various supervisors involved.
- 25.1.5 Coordination mechanisms provide added value in terms of prudential supervision of the group. The arrangement enhances the quality of supervision of legal entities within the group.
- 25.1.6 Supervisory colleges and other coordination mechanisms should be established on the basis of common agreements of all involved supervisors, taking into consideration the nature, scale and complexity of the group including its legal and organisational structure and business activities of the group and the risks the group poses to supervisory objectives.

Memorandum of Understanding (MoU)

- 25.1.7 An MoU could take the form of a bilateral (between two jurisdictions) or multilateral (between more than two jurisdictions) agreement. The scope of an MoU could also vary, to reflect the circumstances of the particular group and involved supervisors. An MoU may relate to the exchange of information, based on formal request and/or in particular circumstances, such as emergency circumstances. In order for an MoU to work effectively, it is important that a strict confidentiality regime is ensured among all involved jurisdictions.
- 25.1.8 An MoU may extend to the allocation of identified aspects of group-wide assessment to particular involved supervisors or the allocation of all aspects of group-wide assessment to the designated group-wide supervisor. An MoU may indicate a level of accepted reliance by one supervisor on the work of another supervisor (a limited form of supervisory recognition). Such an arrangement may be an initial stage in the negotiation of a more formal supervisory recognition arrangement, as the level of cooperation and trust between involved supervisors grows. (Refer to ICP 13 Reinsurance and Other Forms of Risk Transfer, and Guidance 25.1.15 to 25.1.71 on criteria for supervisory recognition in group-wide supervision.) In particular, an MoU may indicate a level of accepted reliance on the part of other involved supervisors on the work of the group-wide supervisor. Such an arrangement contributes to the objectives of streamlined group-wide supervision and avoidance of unwarranted supervisory duplication.

Supervisory college

- 25.1.9 A mechanism for coordination of activities and cooperation among involved supervisors is through the establishment of a supervisory college. A supervisory college could take various forms, depending on the structure and organisation of the group, the activities of the group and the jurisdictions involved in its supervision.
- 25.1.10 Members of the supervisory college would comprise supervisors involved in the supervision of insurers which are part of the group. Where relevant, other sector supervisors could be invited.
- 25.1.11 Where designated, the group-wide supervisor would normally act as the chair or key coordinator of the supervisory college. The group-wide supervisor could be responsible for initiating a supervisory college, inviting the involved supervisors to be members and arranging supervisory college meetings. Members of the supervisory college could agree on procedures for the allocation of responsibilities among the group-wide supervisor and other involved supervisors in relation to group-wide supervision.
- 25.1.12 Through regular supervisory college meetings, greater interaction and exchange of relevant information among involved supervisors can be facilitated. The supervisory college also provides an opportunity for supervisors from different jurisdictions to meet and build contacts that might not otherwise be readily available. In times of stress, when the effectiveness of supervisory collaboration is most likely to be tested, the contacts that have been built through participation in a supervisory college may be of great benefit.
- 25.1.13 The primary purpose of a supervisory college would be to discuss supervisory issues and exchange information that is relevant to a group. Typically a supervisory college would focus on the following:
- Agree on the cooperation and coordination process including the planning and setting of procedures for supervisory cooperation during emergency situations;
 - Produce an overview of the group setting out its formal and operational structure;
 - Carry out a risk analysis on a group-wide basis, identifying the most relevant entities and the most important relationships in the group;
 - Discuss issues supervisors have found within the entities they supervise that they believe could be systemic throughout the group;
 - Where practicable, agree on areas of supervisory work to avoid unnecessary duplication; possible joint inspections could also be decided;

- Agree on the information supervisors should gather from the group and exchange with other members of the supervisory college, including the form and the frequency with which this happens; and
- Agree on whether the supervisory college should set out any arrangements in respect of group-wide supervision in written form (bilateral or multilateral agreements).

25.1.14 On request, the members of a supervisory college should communicate to one another all relevant information which may allow or facilitate supervision on a group-wide basis. Members of a supervisory college should also consider whether to communicate, on their own initiative, information which appears to be essential for other involved supervisors. The information that can be exchanged is facilitated by cooperation agreements concluded between the involved supervisors, including for instance whether the supervisors involved in the supervisory college have signed the IAIS Multilateral MoU (MMoU).

Guidance on criteria for supervisory recognition in group-wide supervision

25.1.15 Guidance 25.1.15 to 25.1.71 are collectively called *Guidance on criteria for supervisory recognition in group-wide supervision* and they are meant to support ICP 25 Supervisory Cooperation and Coordination directly. Supervisory recognition is a tool that can be used to enhance cross-border cooperation and coordination. The guidance presents criteria that insurance supervisors can use to assess the extent to which another supervisory regime can be recognised and relied upon for the purpose of group-wide supervision. Supervisory recognition could also be relevant for the supervision of insurance legal entities.

25.1.16 In providing guidance on criteria for supervisory recognition in group-wide supervision, it is not the intention to lessen the importance of legal entity supervision or to replace the role of the legal entity supervisor in respect of insurers within its jurisdiction. Nor is it the intention of this guidance to imply that supervisory recognition is compulsory.

25.1.17 This guidance does not modify or supersede any legal or regulatory requirements in force in, or applying to, the respective jurisdictions of involved supervisors.

25.1.18 This guidance considers the approaches by which an insurance supervisor could assess the extent to which to recognise another supervisory regime and consequently, the level of reliance that could be placed on the other supervisor. It is not the intention of this guidance to prescribe one specific approach, as the form of

recognition and the criteria used for assessment will vary depending on its purpose.

Basis of supervisory recognition

- 25.1.19 A key element of assessment and recognition is that the regime being assessed can, at a minimum, demonstrate compliance with relevant IAIS ICPs and standards. However, this does not exclude the possibility of an assessment of equivalence with the assessor's own regime.
- 25.1.20 When establishing the recognition of another jurisdiction's supervisory regime, analysis should focus more on the outcomes that are achieved, than on the process to achieve them.
- 25.1.21 Supervisory recognition is not designed to necessarily grant an open passport for any insurance company from the recognised jurisdiction to establish an operation or activity in the assessing jurisdiction. Depending on the purpose of the recognition, and the level of reliance and cooperation between the parties, recognition might allow certain types of insurance activity or products, but not others, or allow a limited threshold of activity.
- 25.1.22 The different perspectives (and any different issues to take into account) of home-host supervisors should be considered - a home supervisor would be concerned with assessing whether to recognise the supervision of host supervisors of entities within the group; while a host supervisor would be concerned with assessing whether to recognise the supervision of the home supervisor as group-wide supervisor.
- 25.1.23 Also, it should not be assumed that once recognition has been achieved that reliance can be automatically continued without further review. Recurring review, in respect of the jurisdiction or on an individual case basis, may be required.
- 25.1.24 Again, it should not be assumed that once recognition, and even a degree of reliance, has been achieved there can be an automatic delegation of tasks. If supervisory recognition is achieved, the supervisor may decide to delegate certain tasks but not its responsibilities.
- 25.1.25 Supervisory recognition can be achieved through unilateral, bilateral or multilateral agreement.
- Unilateral recognition refers to a situation where a supervisor recognises the supervision exercised by another, without requiring that the latter recognise the supervision exercised by the former.

- Bilateral recognition refers to a situation where two supervisors recognise each other's supervision.
- Multilateral recognition refers to a situation where several supervisors (3 or more) recognise the supervision exercised by the others.

Objective and purpose of supervisory recognition

- 25.1.26 The primary purpose of making an assessment for supervisory recognition is to provide insurance supervisors with sufficient confidence that the corresponding supervisory regimes have the necessary regulatory and supervisory framework, as well as sufficient quality of resource and expertise, to achieve supervisory outcomes at an acceptable level in order for them to place reliance on one another if required.
- 25.1.27 Effective supervisory recognition should assist in reducing redundancy of work in cross-border supervision of insurance groups. The supervisory recognition approach should be organised in a manner that minimises unwarranted duplication of regulatory and supervisory requirements to the extent possible, thereby reducing burdens on both supervisors and insurance groups alike.
- 25.1.28 Supervisory recognition between jurisdictions may also assist in greater consistency in the approaches taken by each jurisdiction, thus removing the potential for gaps and misunderstandings between jurisdictions.
- 25.1.29 Supervisors looking to recognise another supervisory regime should carry out an assessment of the acceptability of the counterpart's regime based on the specific level or objective of supervisory recognition sought.
- 25.1.30 The form of supervisory recognition sought will vary according to the outcomes that are expected and should therefore be aligned accordingly.
- 25.1.31 Types of recognition along with illustrations that may assist in their consideration could include:
- An elementary form of supervisory recognition focused primarily on fostering the exchange of information and thereby providing the ability to rely sufficiently on the information being exchanged. Examples may include memorandum of understanding (MoU) or multilateral memorandum of understanding (MMoU).
 - Recognition of host supervisors by the home supervisor. For the supervision of insurance legal entities, this degree of supervisory recognition would identify the degree of

reliance by a home supervisor on the supervision of affiliates in another jurisdiction. Successful supervisory recognition of host supervisors may provide the home supervisor with sufficient confidence in the supervision conducted at an insurance legal entity level, reducing redundancy of processes and operations by the involved jurisdictions and a lower burden on the insurance group. This may include a wide range of qualitative and quantitative requirements, such as suitability of persons, or solvency assessments.

- Recognition of the home supervisor by host supervisors. For group-wide supervision, this degree of supervisory recognition would identify the ability of the host supervisor to rely on the home supervisor at the insurance group level. For example, this would enable the host supervisor to rely on the qualitative and quantitative assessments made by the home supervisor at the level of the insurance group. Effective supervisory recognition here could assist the host supervisor in deciding whether the level of capital held in the insurance legal entity is sufficient for their local requirements.
- For supervision at the level of a financial conglomerate, supervisory recognition would be expected to follow that of group-wide supervision but extend even further to allow for the recognition of cross-sector authorities that perform oversight on non-insurance activities of the financial conglomerate in question. Supervisory recognition in this form should assist insurance supervisors in appreciating further cross-sectoral issues and risks as well as gaining comfort from the abilities of supervisors from the other financial sectors. In turn, when mapping against the scope of group-wide supervision in its own jurisdiction, an insurance supervisor may gain greater awareness of the appropriateness of this scope.

25.1.32 It would also be possible for one jurisdiction to fully recognise another supervisory regime. This could extend insofar that authorisation is granted by which the insurer from another jurisdiction is able to operate in the local jurisdiction with reduced local supervision. This does not remove the obligation on insurers to continue to meet local regulatory requirements such as market conduct rules.

25.1.33 The above classifications of levels in which recognition may be applied are by no means limited and other variations may be appropriate, subject to the individual needs of the jurisdictions seeking to identify and apply supervisory recognition.

Criteria for supervisory recognition

- 25.1.34 The assessment of another supervisory regime should seek to establish the acceptability of that regime by an analysis of the outcomes it achieves and not necessarily by an analysis of the process by which it achieves them.
- 25.1.35 The expected outcomes will vary according to the level of supervisory recognition sought and should therefore be aligned accordingly.
- 25.1.36 Assessment should not only cover the regulatory and/or supervisory framework but also cover supervisory practice.
- 25.1.37 The other supervisory regime should be able to demonstrate appropriate adherence to the relevant IAIS ICPs and standards. Supervisors should also take into consideration adherence with, and relevance of, other legal statutes.
- 25.1.38 While the precise form of a supervisory recognition assessment is a matter of individual jurisdictional discretion, supervisors should take into account the criteria described in the following paragraphs.

Criteria for supervisory recognition - pre-requisites

- 25.1.39 The supervisor should assess certain pre-requisites that might be considered mandatory requirements to be met before continuing with further assessment of other criteria.
- 25.1.40 Pre-requisite conditions include the other supervisory regime's legal framework and the application of supervisory powers and resources.
- 25.1.41 The supervisor may look to verify that the other supervisory regime has:
- a sound legal basis and transparent legal regime that clearly specifies appropriate supervisory responsibilities and powers, including enforcement powers;
 - appropriate protection for the supervisor against liability arising from actions within its mandate;
 - freedom from any undue political, governmental and industry interference in the performance of supervisory responsibilities;
 - adequate number and quality of resources; and
 - the ability to perform suitability assessments at insurance legal entity and insurance group (on both a national and cross-border) level.
- 25.1.42 Upon satisfactory review of the pre-requisites, further assessment of additional elements may need to be considered depending upon the outcomes sought. These could include:

- Licensing requirements
- Regulatory requirements
- Intervention and enforcement powers of supervisor
- Winding-up requirements
- Supervisory cooperation and exchange of information requirements.

Criteria for supervisory recognition - licensing requirements

- 25.1.43 The other supervisory regime should be able to demonstrate:
- the necessary regulatory requirements to ensure the insurer meets basic standards, both prior to licensing and on a continuous basis including the ability to supervise the suitability of persons, adequacy of internal control and risk management systems as well as the robustness of accounting and audit frameworks; and
 - sufficient powers over licensing to either refuse or withdraw the licence on appropriate grounds (including as result of shareholder requirements or when close links may impede supervision).

Criteria for supervisory recognition - regulatory requirements

- 25.1.44 The other supervisory regime has the ability:
- to sufficiently identify the adequacy of capital and put in place requirements on investments; and
 - to verify the state of solvency of the insurer, the effectiveness and properness of administrative and accounting procedures and the appropriateness of the internal controls including risk management and governance.

Criteria for supervisory recognition - intervention and enforcement powers of supervisor

- 25.1.45 The other supervisory regime has sufficient powers to pursue enforcement, if necessary, and:
- is able to ensure the adherence with laws, regulations and administrative provisions through enforcement action if required;
 - in the event of non-compliance with legal provisions can impose measures to prevent further infringements from occurring; and

- is able to cooperate with other relevant authorities when taking enforcement actions.

Criteria for supervisory recognition - winding-up requirements

- 25.1.46 For insurers that are experiencing difficulties, the other supervisory regime is able to take appropriate measures, including imposing requirements that will lead to an orderly winding-up to protect policyholders in an appropriate manner. These measures may include:
- prohibition of the disposal of assets
 - implementation of a recovery plan
 - withdrawal of authorisation
 - imposition of actions directly on individual directors, managers or controllers.

Criteria for supervisory recognition - supervisory cooperation and exchange of information requirements

- 25.1.47 The other supervisor should have the ability to enter into confidentiality and information sharing agreements and observe the appropriate treatment of confidential information; and identify the terms of any existing memorandum of understanding (MoU) or multilateral memorandum of understanding (MMoU).
- 25.1.48 The other supervisor should be able to ensure secure communication channels exist and jurisdictional confidentiality rules are respected.
- 25.1.49 The other supervisor should be able to demonstrate that it is able to obtain a sufficient degree of information in a timely fashion from its insurers in order to exercise effective supervision. This may be at both the insurance legal entity and insurance group (cross-border) level.

Process for establishing supervisory recognition - basis for undertaking assessment

- 25.1.50 The first stage of establishing supervisory recognition involves confirmation of the underlying rationale for the assessment and the form and purpose of supervisory recognition. In particular the supervisor undertaking the assessment needs to be identified as does the supervisory regime being assessed. If recognition is only being considered for part of a supervisory regime, the part being assessed needs to be confirmed and documented.

- 25.1.51 The reason or reasons for undertaking the assessment should be agreed between the parties concerned and documented.

Process for establishing supervisory recognition - identification of existing agreements

- 25.1.52 Before undertaking the assessment, any existing agreements which may influence the outcome of the assessment should be identified. These may include an existing bilateral MoU between the jurisdiction being assessed and the assessor and whether either party is a signatory to a relevant MMoU.
- 25.1.53 The existence of any other formal or informal unilateral agreements to exchange information should be identified together with any special conditions that may be attached to such an agreement.
- 25.1.54 The existence of any supervisory recognition agreements in place between the jurisdiction being assessed and any other jurisdictions should be noted.

Process for establishing supervisory recognition - other information

- 25.1.55 Any other relevant background information should be obtained, for example whether the jurisdiction has been subject to an IMF FSAP or other assessment, including a self-assessment. If there has been an IMF FSAP, details of the assessment report should be obtained and analysed.
- 25.1.56 Other background information could include the existence of recognition agreements with other jurisdictions, such as for part or all of the supervisory regimes of the European Union.

Process for establishing supervisory recognition - obtaining information

- 25.1.57 Prior to undertaking the assessment, information regarding the regulatory and supervisory frameworks should be obtained regarding the supervisory regime being assessed. This can be obtained directly from the other supervisor or through other sources.
- 25.1.58 Information can also be obtained through carrying out visits to the other supervisor's jurisdiction and talking to the supervisory authorities and other relevant parties.
- 25.1.59 Consideration should be given to any need to verify the information obtained.

Process for establishing supervisory recognition - carrying out the assessment

- 25.1.60 The next stage of assessing the supervisory regime is to consider the relevant assessment criteria by specifying the specific areas to be assessed. Once the areas are confirmed, the assessment can be carried out against the criteria and fully documented.
- 25.1.61 Consideration ought to be given to a quality check on the assessment, ideally by persons who are independent from the assessors who carried out the initial assessment.
- 25.1.62 Once the assessment is complete a decision has to be made as to whether or not to recognise the supervisory regime in the jurisdiction being assessed. The decision should ideally be based on a pre-determined set of rules, such as meeting the required criteria in all cases or a certain percentage of cases. It may also be acceptable for some of the criteria to be partially satisfied.
- 25.1.63 It may be necessary to apply subjective judgment in determining whether or not a jurisdiction should be recognised, particularly if some criteria are deemed to carry more weight than others.

Process for establishing supervisory recognition - due process and communicating the decision

- 25.1.64 Feedback should be provided to the supervisory regime being assessed during the assessment process and an opportunity should be provided for the supervisor to provide additional clarification. Supervisors should resolve any differences between them in an efficient way.
- 25.1.65 When the assessment has been finalised, the decision as to whether the supervisory regime should be recognised should be communicated. If recognition is not possible, the areas where the criteria were not met should be communicated. In the case of an adverse decision the jurisdiction being assessed should be given the opportunity to explain how it may meet the criteria in future. A process for reassessment could then be established.

Process for establishing supervisory recognition - format of recognition agreements

- 25.1.66 A formal agreement is not a pre-requisite to any form of supervisory recognition, but written agreements have a number of benefits, including clarification of terms and obligations and facilitating cooperation between jurisdictions. If a written agreement is entered into, the following points may be considered.

- 25.1.67 The agreement should set out the commencement date and specify the roles and responsibilities of the respective parties. If the agreement is for a finite term, the end date of the recognition agreement should be specified together with details of the process for renewal which may involve reassessment.
- 25.1.68 The agreement should contain a confidentiality agreement between the respective parties together with requirements for the provision of information.
- 25.1.69 The agreement should include provisions for the respective parties to regularly exchange information in respect of changes to their regulatory regime.
- 25.1.70 The agreement may include details of the process for resolving disputes, for example in the case of a refusal to respond to a valid request for information.
- 25.1.71 The parties should consider whether and to what extent details of any agreement in respect of supervisory recognition ought be publicised.

25.2 Coordination agreements include establishing effective procedures for:

- **information flows between involved supervisors;**
- **communication with the head of the group;**
- **convening periodic meetings of involved supervisors; and**
- **conduct of a comprehensive assessment of the group.**

25.3 Supervisors cooperate and coordinate in the supervision of an insurance legal entity with a branch in another jurisdiction in accordance with their authorities and powers.

25.4 Supervisors cooperate and coordinate in the supervision of insurance groups and insurance legal entities that are parts of insurance groups in accordance with their authorities and powers.

25.5 Supervisors establish a process to identify a Group-wide supervisor for all cross-border insurance groups.

Identification of a group-wide supervisor

- 25.5.1 A group-wide supervisor would ultimately be responsible for ensuring effective and efficient group-wide supervision. The group-wide supervisor should coordinate and disseminate essential information needed for reviewing and evaluating risks and assessing solvency on a group-wide basis. If a group-wide

supervisor is to achieve this, there needs to be open and constructive relationships among the involved supervisors. Therefore, there needs to be coordination of, and collaboration by, supervisors to avoid unnecessary duplication.

25.5.2 Experience has shown that it is generally clear who should take the role of group-wide supervisor for a particular group. However, depending on the structure of a particular group, the case may arise where several supervisors fulfil the conditions to be considered as a group-wide supervisor. In such cases it is necessary to have a clear and transparent process for identifying and agreeing an appropriate group-wide supervisor.

25.5.3 In some jurisdictions, the legal or regulatory system may include provisions which allow or require the designation of a group-wide supervisor. However, this formal designation may not be recognised in all jurisdictions in which a particular group operates. The absence of a formal mechanism should not limit the extension of the group-wide supervisor to those other jurisdictions, on a de facto basis, given the agreement and cooperation of the involved supervisors.

25.5.4 In principle the supervisor in the jurisdiction where the group is based and where that supervisor has the statutory responsibility to supervise the head of the group should be first considered to take the role of the group-wide supervisor.

Other factors to consider in determining the group-wide supervisor would include, but not limited to:

- the location of the group's head office, given that this is where the group's Board and Senior Management is most likely to meet, and ready access of the group-wide supervisor to the group's Board and Senior Management is an important factor.
- where the registered head office is not the operational head of the group, the location where:
 - o the main business activities of the group are undertaken; and/or
 - o the main business decisions are taken; and/or
 - o the main risks are underwritten; and/or
 - o the group has its largest balance sheet total.

25.5.5 Ultimately the involved supervisors would be expected to determine the need for a group-wide supervisor and agree the supervisor to take that role. The emphasis should be on a joint decision between all involved supervisors to reach an acceptable outcome.

25.5.6 However, regardless of the approach in the jurisdiction of the group-wide supervisor, this formal designation may not be recognised in all jurisdictions in which a particular group operates and reliance is placed on non legislative means - through agreements and/or other coordination activity among the involved supervisors.

25.5.7 At present, it is not generally possible to consider or establish international legislation which grants legal power and authority to a group-wide supervisor across jurisdictional borders. It is important, therefore, that there are clear agreements (formal or otherwise) between all involved supervisors in order to allow the group-wide supervisor to fulfil its tasks and to ensure support from involved supervisors.

25.6 The designated group-wide supervisor takes responsibility for initiating discussions on suitable coordination arrangements, including establishing a supervisory college, and acts as the key coordinator or chairman of the supervisory college, where it is established. Other involved supervisors participate with the Group-wide supervisor in coordination discussions and in the supervisory college.

25.6.1 The tasks of the group-wide supervisor would be expected to include the assessment of:

- group structure and interrelationships, including ownership and management structure;
- capital adequacy at group level including approval of the use of a group-wide internal model for group-wide regulatory capital purposes (where applicable);
- reinsurance and other forms of risk transfer from the group and risk concentration;
- the group's own risk and solvency assessment;
- intra-group transactions and exposures, including intra-group guarantees and possible legal liabilities and any other capital or risk transfer instruments; and
- internal control mechanisms and risk management processes, including reporting lines and fit-and-proper assessment of the Board, Senior Management as well as the propriety of significant owners.

Interrelationship between group-wide supervisor and supervisory college

25.6.2 The operational effectiveness of a group-wide supervisor may be enhanced considerably through the establishment of a supervisory college as a mechanism for enhancing cooperation and information exchange among involved supervisors. Also, effectiveness and efficiency of the supervisory college may be improved further

through awareness and understanding of the quality of relationship possible between the group-wide supervisor and other members.

25.6.3 The group-wide supervisor is expected to take an important role in a number of areas in the operation of a supervisory college. These can be summarised as follows:

- initiating the establishment of a supervisory college;
- clarifying the membership/participation of involved supervisors in the supervisory college, including considering the establishment of subgroup colleges to enhance the overall effectiveness of the college;
- clarifying the functions of the supervisory college and the role of involved supervisors, including of the group-wide supervisor, which may be formalised in a terms of reference;
- coordinating the ongoing activities of the supervisory college, including planning meetings, supervisory activities, processes of information exchange; and
- establishing a crisis management plan.

25.6.4 In all of these areas, while the group-wide supervisor would be expected to take the initiative as the coordinator or chair of the supervisory college, the group-wide supervisor should necessarily work in collaboration with involved supervisors and seek, to the extent possible, agreement among involved supervisors. In this respect, establishing early agreement and clarity of understanding on the operational aspects of the college will contribute to establishing good relationships among the involved supervisors from the commencement.

25.6.5 An important role of the group-wide supervisor will be the continued management of these relationships with and among supervisory college members. The group-wide supervisor should be mindful of the expectations of involved supervisors from the supervisory college and their expectations of the role of the group-wide supervisor. Awareness of these expectations could play a pivotal role, especially in times of a crisis. This awareness should also include legal and internationally relevant facts and relationships, which may be critical to the supervisory actions taken in particular circumstances including crisis.

25.6.6 An efficient and harmonious relationship may only be possible when a mutual respect and trust is established and observed among involved supervisors. The group-wide supervisor should regularly consider opportunities to improve relationships and to reinforce mutual trust.

- 25.6.7 Access to relevant information for involved supervisors will be one important measure of the effectiveness of the supervisory college. While the group-wide supervisor will have a clear role in the gathering of relevant information, an equally important consideration will be the appropriate and timely dissemination of that information consistent with applicable confidentiality requirements. Interim information that has been received and may be of importance to the supervisory work of the other involved supervisors should be made available to those supervisors. This will encourage mutual trust, sharing of information, and further collaboration and cooperation among all involved supervisors.
- 25.6.8 While the management of internal relationships is important, the group-wide supervisor should also play a role in establishing appropriate contacts with other associated participants who may be of assistance to the supervisory college, for example other sector participants in the case of a financial conglomerate. When identifying such participants the group-wide supervisor should take into consideration the impact and/or influence that they may have on the existing relationship between college members and should weigh these issues against the value of information and wealth of experience these additional members may be able to provide.

Coordination and chairmanship

- 25.6.9 There may be various circumstances in which the establishment of a supervisory college is initiated, and depending on purpose and membership, various ways in which the roles of involved supervisors – including chairmanship – are determined. In general, the group-wide supervisor, where designated, would be expected to take the responsibility for initiating a supervisory college and to act as the key coordinator or chairman of the supervisory college, to the extent practicable.
- 25.6.10 A supervisory college is expected to meet on a regular basis appropriate to the nature, scale and complexity of the group. In the case of a group which is relevant to overall financial stability, the supervisory college should meet at least annually to be most effective. The chairman should ensure the prerequisites for the effective operation of a supervisory college exist, such as coordinating meeting schedules, confidentiality agreements, etc.
- 25.6.11 The chairman should propose the agenda for supervisory college meetings, but should incorporate the views and opinions of other members. The agenda may be set to discuss specific issues or wide ranging issues depending on what is happening globally and/or in respect of a particular group.

- 25.6.12 Supervisory college meetings should be planned with clarity of the outcomes that are being sought and, based on this, should clearly record the outcomes that are achieved, including :
- action points arising from any meeting(s);
 - the individual(s) to whom a task has been assigned; and
 - the deadline when an action should be complete.

It will be the responsibility of the supervisory college to track individual items to make sure that the necessary action has been carried out.

25.7 There is appropriate flexibility in the establishment of a supervisory college – both when to establish and the form of its establishment – and other coordination mechanisms to reflect their particular role and functions.

Whether and when to establish a supervisory college

- 25.7.1 Supervisory colleges, where established, can be structured in different ways. They should, however, be operated in such a way that allows members of the college to fully understand the major risks to which the group is subject.
- 25.7.2 There is a high level of divergence in the insurance industry regarding the nature of organisations, the nature of regulation and supervision, and the development of markets and supervisory regimes in different jurisdictions. While enhanced convergence of supervisory practice is expected over time, there is currently a need for flexibility in the considerations of both whether, and when, to establish a supervisory college.
- 25.7.3 As a general premise, the establishment of a supervisory college should be considered where it is necessary to improve the effectiveness and efficiency of supervision – for example, when significant cross-border activities and/or intra-group transactions are conducted; where effective group-wide supervision is essential to the protection of policyholders; and/or where effective group-wide supervision is essential to the financial stability of the financial market as a whole.
- 25.7.4 Consideration should be given to the circumstances and/or other factors that could be considered in determining whether and when to establish a supervisory college. Also the principle of materiality and proportionality should be applied in this determination. Further, a jurisdiction may determine that there are particular circumstances or minimum criteria which suggest that the establishment of a supervisory college should be a requirement.

25.7.5 The factors which are relevant in this context include the following (it is noted that these factors are also relevant to considerations on the form and operational structure of a supervisory college):

- Relevance of the group to overall financial stability
 - o where effective group-wide supervision of a particular insurance group is relevant to overall financial stability, the establishment of a supervisory college is expected.
 - o the relevance of a group to overall financial stability would be highly dependent on the nature, scale and complexity of the cross-border activities and/or intra-group transactions and associated risks of the group.
- The nature and complexity of the business undertaken by the group
 - o where the cross-border activities of the group are highly complex - through intra-group transactions, etc. - the effectiveness of pure legal entity supervision can be limited without appropriate cooperation and information exchange with related supervisors. Therefore, the establishment of a supervisory college is expected.
- Relevance of the group in a specific insurance market
 - o where a particular group has significant market share in one or more specific jurisdictions, the establishment of a supervisory college may be expected.
- Similarity of supervisory practices (such as risk and capital assessment, governance assessment and other key supervisory practices) among the involved supervisors
 - o where the group operates mainly in jurisdictions with similar supervisory frameworks and practices (e.g. the EEA), the establishment of a supervisory college would be more practicable, and therefore may be expected.
- The operational and management approach of the group:
 - o where the group functions - risk management, capital management, corporate governance and internal controls - are centralised, the establishment of a supervisory college should be encouraged to facilitate dialogue between the involved supervisors and management of the group.
- Legal constraints limiting the effectiveness of supervisory college in the involved jurisdictions

- o Ensuring professional secrecy and confidentiality are vital elements in allowing supervisors to share and exchange relevant information. Where there are legal constraints to information exchange, the effectiveness of a supervisory college would be limited. In such a case, in considering the establishment of a supervisory college, supervisors should be encouraged to address any such legal constraints.

25.7.6 As a general point, where a supervisory college already exists in practice, but may not be comprehensive in its coverage (e.g. a regional college), that college may be adapted to meet the needs of the wider number of involved supervisors to the extent practicable. Involved supervisors should seek to avoid establishing duplicate supervisory colleges.

Form and operational structure of a supervisory college

25.7.7 The criteria discussed here are important considerations not only in determining whether and when to establish a supervisory college, but also where a college is established, in informing the definition of the form and operational structure of that college, its membership and the focus of its work.

Overall approach

25.7.8 The legal and regulatory frameworks that exist in jurisdictions where the group operates may vary considerably. This will place limitations on how each supervisor carries out its supervision of legal entities and the scope of its authority. This in turn will have an impact on any work that a supervisory college agrees to carry out. In particular, a supervisory college will need to ensure that any work planned does not go beyond the authority of a supervisor or exceed the legal framework that exists in a jurisdiction.

25.7.9 The resources and capabilities of each supervisor involved in a supervisory college may vary considerably. As such the supervisory college will need to ensure that the activities agreed to are appropriate and realistic for all of the involved supervisors. This may require that:

- any tasks allocated are achievable for the supervisor carrying out the work; and
- the supervisory college focuses on the areas of greatest risk.

25.7.10 Supervisory approaches may differ by jurisdiction, for example some have adopted a principles-based approach to supervision

while others use a rules-based approach. These differences will need to be considered and appropriately reflected in the form and operations of a supervisory college.

- 25.7.11 As already stated, supervisory colleges would generally be expected to be established on a permanent basis. However, there may be circumstances where a supervisory college is established on an ad-hoc basis in order to coordinate a particular issue with regard to the group in question (e.g. crisis management).

Membership of, and participation in, a supervisory college

- 25.7.12 The membership of a supervisory college would be expected to comprise representatives of each of the supervisors responsible for the day-to-day supervision of the insurers which are part of the group. While participation in a supervisory college is generally voluntary, broad involvement by the supervisors of the more significant entities is critical to the effective operation of that college. The terms, membership and participation should be interpreted in the context of these sections and in terms of every day usage. It is recognised that within the regulatory regimes of certain jurisdictions the terms may be defined for particular purposes and so take different meanings.
- 25.7.13 To facilitate effectiveness and efficiency, careful consideration should be given as to how to approach the participation of members at meetings and in other activities of the supervisory college. There is a need to balance the desire for an inclusive membership approach with the need to maintain manageable operational structures and to avoid the supervisory college becoming unwieldy and unworkable.
- 25.7.14 The basis of participation should be agreed among involved supervisors having due regard for the particular circumstances of the group. However, pragmatic solutions should be found to facilitate the operational functioning of the supervisory college in an effective and efficient manner.
- 25.7.15 In the case of a large group with entities operating in many jurisdictions, the number of involved supervisors may make it impracticable to involve all members in supervisory college meetings. A structured approach to participation could be considered where for example, participation in the supervisory college meeting is on the basis of regional representatives, where that representative is responsible for communication to and from other regional supervisors. Another option may be to adopt a multiple tier structure of supervisory colleges, with subgroups of members identified and meetings organised to facilitate discussions at the subgroup levels (refer to below section on supervisory colleges at subgroup level).

- 25.7.16 Where participation in supervisory college meetings is limited, it is vital that other mechanisms, such as a secure members-only website be adopted to ensure the flow of information to and from all involved supervisors.
- 25.7.17 Further, clear criteria should be established for defining the basis of participation. Issues which should be considered in establishing these criteria include:
- the relative size and/or materiality of the entities relative to the group as a whole
 - the relative size or materiality of the entity relative to its local market
 - the level of risk in a particular entity
 - the role of the supervisory college and its relevance to the particular entity.
- 25.7.18 Regardless of the approach to participation in a supervisory college, each involved supervisor is expected to make every reasonable effort to cooperate and coordinate in a spirit of mutual trust to ensure the protection of confidential information shared and to avoid unwarranted supervisory duplication and unnecessary supervisory burden for both the insurers and supervisors involved.
- 25.7.19 The membership and participation approach of a supervisory college should be reviewed on a regular basis, to reflect changing circumstances in the group and the effectiveness of the operational structures.

Supervisory colleges at subgroup level

- 25.7.20 Within a group, it is recognised that subgroups may be, or are required to be, identified to reflect various structural, operational or supervisory objectives. Such subgroups may exist within a jurisdiction or on a cross-border basis.
- 25.7.21 There may be circumstances where it is appropriate to establish a supervisory college at the level of such a subgroup (for example on a regional basis or sectoral basis, as in the case of an insurance group within a financial conglomerate). In the case of large groups, with many involved supervisors, such an approach may bring benefits in facilitating the involvement of all supervisors at an appropriate level.
- 25.7.22 When it is considered necessary to establish colleges at a subgroup level, supervisors should carefully consider the appropriate form and operational structure of the subgroup college, having regard to the circumstances of the group and supervisory structure, to facilitate its

effective operation. In particular, supervisors may consider the following practical aspects of implementation:

- whether the subgroup college is established on a temporary or a permanent basis
- the interrelationships between the various supervisory colleges for a group, as well as the interrelationship with a designated group-wide supervisor
- mechanisms to facilitate effective and efficient information sharing and coordination between the various colleges
- ensuring the best dialogue with the industry without unnecessarily duplicating regulatory intervention (e.g. a dialogue at subgroup level).

25.7.23 Further, in these considerations supervisors should be aware of establishing mechanisms or processes to avoid the potential inefficiencies that may arise in a structure of subgroup colleges, such as:

- not providing material information at the subgroup level
- insufficient coordinated action/interventions at the subgroup level
- potential conflicts of interest between the subgroup and whole group
- duplication of supervision, by adding another layer.

25.7.24 Where supervisory colleges at subgroup level are implemented, regular assessment of their effectiveness and, in particular, the effectiveness of coordination between the various supervisory colleges for the group should be conducted.

Terms of reference of a supervisory college

25.7.25 When a supervisory college is first established, the involved supervisors may seek to underpin its establishment with a formal document - terms of reference - which sets out the agreed terms of operation of the supervisory college. While recognising the need to allow for flexibility in the operation of a supervisory college, the terms of reference could generally cover the following matters (this is not an exhaustive list):

- The membership of the supervisory college – including the approach to participation of members in the college.
- The process for appointing a supervisor for chairing the college. (This would typically but not necessarily be the group-wide supervisor, where designated.)

- Roles and functions of the supervisory college and of the members of the supervisory college, including expectations of the chair/designated group-wide supervisor.
- Frequency and locations of meetings – The supervisory college should agree locations that are likely to ensure the participation of as many of the members as possible. Where it is not feasible for supervisors to be present at a meeting, best endeavours should be made with the arrangements, so that where possible, people can participate by other means – for example, by a conference call or electronic means.
- Scope of the activities of the supervisory college – It is likely that the supervisory college will focus on the following issues at a group level:
 - o the solvency and financial stability of the insurance group;
 - o the assessment of intra-group transactions and exposures;
 - o internal control and risk management within the insurance group; and
 - o appropriate actions to mitigate risks identified.

To be most effective in considering these issues, the supervisory college may develop a shared view of risk, including:

- the regular information collected by the supervisory college and any notifications that should be made to it (from both supervisors and the group). The supervisory college should agree the frequency at which information is provided. This should be coordinated in a way so as to avoid duplicative requests and to reduce the burden on a group. The supervisory college should have an overview of an insurance group's strategic plans;
- procedures for dealing with emergencies (including breaches of solvency positions or the crystallising of risk); and
- procedures for facilitating crisis management.

25.8 The designated group-wide supervisor establishes the key tasks of the supervisory college and other coordination mechanisms. Other involved supervisors undertake the functions of the Supervisory college as agreed.

25.8.1 A supervisory college is generally established for the fundamental purpose of facilitating the effectiveness of supervision of entities which belong to a group; both facilitating supervision of the group as a whole on a group-wide basis and improving the supervision of the legal entities within the group. A supervisory college serves this

purpose by providing a permanent forum for cooperation and communication between the involved supervisors. Through the sharing of information and discussion of supervisory issues, involved supervisors gain an improved mutual understanding of supervisory practices, which may contribute to enhanced convergence of supervisory practice on a global basis.

25.8.2 The form, membership and operations of a particular supervisory college can be expected to vary according to the circumstances of the group and of the jurisdictions in which it operates. Appropriate flexibility in the establishment of a supervisory college, and the determination of its functions and operational structure, to reflect its particular circumstances is therefore important. A supervisory college should be organised in accordance with the nature, scale and complexity of the group; its form should be commensurate with the legal and organisational structure, business activities of the group and the risks the group poses to supervisory objectives.

25.8.3 Although a supervisory college has no legal or binding authority as a decision making body, in establishing the role and functions of a supervisory college, consideration should be given to the facilitation of coordinated supervisory activities. To the extent agreed among involved supervisors, and to the extent possible given any legal constraints in particular jurisdictions, this could include the delegation of tasks (but not legal responsibilities) and, where necessary, consistent and coordinated supervisory interventions. Ultimately any supervisory activity (including delegation of tasks) and coordinated supervisory interventions undertaken by a supervisory college will rely on cooperation among involved supervisors and does not override the various individual jurisdictions' legal responsibilities or existing supervisory relationships.

To facilitate group supervision

25.8.4 A supervisory college contributes to the coordinated supervision of the group and facilitates discussion and action on a collaborative approach to supervising a group, subject to any restrictions or requirements under each jurisdiction's legal framework.

25.8.5 A supervisory college supports the role of a group-wide supervisor, where designated, and assists the group-wide supervisor in undertaking its functions. A supervisory college facilitates information collection and analysis at the group level, including compiling and analysing information available on risk exposures, financial soundness and governance of group entities. With access to such aggregated information, a supervisory college may also enhance supervisory assessment of systemic risks.

To improve legal entity supervision

- 25.8.6 Through information collection and sharing, analysis and discussion, a supervisory college facilitates the transfer of knowledge and expertise among involved supervisors, and hence can contribute to improved supervision of the individual entities within the group. For example, effective cooperation may provide additional knowledge of the intra-group risks affecting an entity as a result of being a member of the group and may precipitate pre-emptive supervisory activities at the legal entity level.

As a permanent forum for cooperation

- 25.8.7 Where a supervisory college is established, to be most effective it should generally be established as a permanent, integral part of the group-wide supervision process. A supervisory college would generally be an ongoing mechanism, contributing to the ongoing protection of policyholders' interests. As such, an effectively operating supervisory college should contribute to the prevention of financial loss or crisis (as well as being an important mechanism to foster better crisis management in the circumstances of financial crisis).

- 25.8.8 A supervisory college provides a formal and effective permanent forum for supervisors to build relationships and engender greater cohesiveness in cooperating with each other and coordinating supervisory activities in relation to the group and the entities within the group both on a going-concern basis and in situations of crisis management.

To facilitate improved understanding of supervisory practices and effectiveness of supervision

- 25.8.9 There may be significant variances in supervisory practices across jurisdictions, caused by the diversity of market environments and the specific features of a market which are better understood by the local supervisor. As supervisors work together through a supervisory college, they gain a greater understanding of the nature of the group and its risks. A supervisory college facilitates the transfer of knowledge and expertise to other supervisors allowing involved supervisors to become aware of different supervisory tools and approaches.

- 25.8.10 An important consequence of improving the understanding of supervisory practices among involved supervisors is the potential for enhanced supervisory convergence on a global basis. Also more effective and efficient group-wide supervision should result, with enhanced policyholder protection and a possible consequence of minimising regulatory burden on the industry.

The range of functions of a supervisory college

- 25.8.11 There is a range of functions which a supervisory college may undertake, depending on its role and the reasons for its establishment. The circumstances of the particular group and the legal and supervisory structures in the involved jurisdictions can also influence the range of functions of a supervisory college.
- 25.8.12 Ultimately, the involved supervisors should establish among themselves the appropriate functions of the supervisory college given its role, and the allocation of those functions among the involved supervisors. Where there is a designated group-wide supervisor for the group, that group-wide supervisor would be expected to play an integral and transparent role in the establishment and ongoing operation of the supervisory college, including taking the initiative in establishing and coordinating the functions of the supervisory college, in consensus with other involved supervisors.
- 25.8.13 The roles and functions of the supervisory college and the respective roles of the involved supervisors should be agreed and clearly defined to avoid unnecessary duplication of supervisory tasks and to ensure no gaps exist in the supervision of the group. For example, at its establishment the functions of a supervisory college may be set out in its terms of reference and the ongoing operations and activities of the supervisory college detailed in a supervisory plan. Where agreed among involved supervisors, delegation of supervisory tasks can be an appropriate means to increase efficiency of the work of a supervisory college.
- 25.8.14 In establishing the functions of a supervisory college, some of the key activities which should be considered include:
- information sharing;
 - assessment of risk exposures, financial soundness and capital adequacy and group governance, including risk management, internal control and intra-group relationships;
 - coordinated supervisory activities (for example, joint inspections);
 - specialisation, special focus teams;
 - liaison with insurer management; and
 - regular assessment of effectiveness.
- 25.8.15 The key functions of supervisory colleges and other coordination mechanisms include an assessment, on a group-wide basis, of major risk exposures (including large external exposures). This includes, for example, supervisory review of the group's own risk and solvency assessment, transparency of the group structure and suitability of Senior Management and the Board. The supervisory review may also cover capital adequacy including approval of the use of a group-wide internal model for group-wide regulatory capital

purposes (where applicable), large intra-group transactions and exposures, governance including risk management and internal controls, group crisis management arrangements and review of the effectiveness of these functions.

Information sharing

- 25.8.16 A main function of a supervisory college will be to facilitate enhanced supervision of the group and the legal entities within the group by providing greater access for involved supervisors to information and knowledge about the group and the environment in which it operates. Adequate information sharing arrangements are intended to provide supervisors with a vehicle to achieving a comprehensive understanding of the group and its risks while also protecting confidential information so that the group can be appropriately supervised.
- 25.8.17 The effective operation of a supervisory college is based on mutual trust and confidence among the involved supervisors. This is particularly the case in terms of sharing and exchanging information. As information is shared and exchanged in a secure and controlled environment, it both requires and encourages mutual trust. The supervisory college facilitates this relationship ultimately leading to greater cooperation.
- 25.8.18 The ability of each supervisor to share information should be determined to ensure that information remains confidential. The need to establish information sharing agreements should be considered to ensure confidentiality and define the parameters in which the information can be used. Supervisors are encouraged to initiate dialogue among themselves in order to identify ways in which they can foster an environment of cooperation and trust. Establishment of MoUs among involved supervisors could enhance the effectiveness of the supervisory college. Jurisdictions that are part of the IAIS MMoU will have had their legislative regimes assessed to ensure strict confidentiality requirements are met as a precondition for effective cooperation and coordination of joint supervisory activity.

Assessment of risks exposures, financial soundness and group governance

- 25.8.19 The range of functions of a group-wide supervisor could include consideration of the following issues on a group-wide basis: risk analysis and capital adequacy assessment (including review of the group's own risk and solvency assessment and the sufficiency and adequacy of allocation of capital across the group), fit and proper requirements and corporate governance and internal controls. As a mechanism for cooperation and coordination among involved

supervisors and a forum for information exchange, an effective supervisory college may allow involved supervisors to gain an enhanced understanding of the group, its inherent risks, financial position and its business activities.

- 25.8.20 It is important for the involved supervisors to have a group-wide understanding of how management decisions are taken and how ERM frameworks and internal models are established and operated to complement their legal entity supervision of the entities within the group. The supervisory college provides a forum for involved supervisors to focus on risk assessment and capital management from a group-wide perspective.
- 25.8.21 A group-wide review and assessment of risks to which the group and its entities are or might be exposed can ensure a prospective focus of supervision and foster early warning of major risks to the extent possible. It can facilitate consideration of the impact of a group on the insurance industry, on other sectors of an economy, and any systemic risks which a group may present.

Coordinated supervisory activities

- 25.8.22 Through a supervisory college, joint activities among involved supervisors may be organised and coordinated where appropriate and as agreed on a voluntary basis between the involved supervisors, subject to any legislative requirements/restrictions. An example of a joint supervisory activity may be joint inspections of one or more group entities, or joint inspection of a particular aspect of the group's functions such as internal audit, actuarial function or risk management processes. Through joint activities, all involved supervisors can benefit from the shared information and expertise, and use this to enhance the supervision of their local insurer. The undertaking of joint activities should not be taken to imply joint decision making or any delegation of an individual supervisor's responsibilities.

Specialisation, special focus teams

- 25.8.23 A supervisory college may facilitate the formation of special focus teams to evaluate areas of particular concern or importance to the supervisors, or to bring together the requisite expertise to examine a specialised aspect of the group's operations. As an example, a specialised focus team may be established through the supervisory college to assess a group's internal model and to share that information with all involved supervisors.

Liaison with insurer management

- 25.8.24 The supervisory college provides involved supervisors an opportunity for discussion of issues with management at the group level. The supervisory college provides a forum for the supervisors and the insurer to engage in face-to-face dialogue. The insurer is afforded the opportunity to provide clarity with respect to its operations and its business strategies at a group-wide level. For the supervisors, the opportunity to discuss issues with management at the group level, and with a group-wide focus is valuable.

Regular assessment of effectiveness

- 25.8.25 Where a supervisory college is established, regular assessment of the effectiveness of the supervisory college in achieving its agreed role and functions should be conducted. Where a group-wide supervisor is designated, it would be expected that the group-wide supervisor would organise the assessment, ensuring input from all involved supervisors as well as considering the benefit of seeking input from the supervised insurers, to the extent appropriate.

Crisis management

- 25.8.26 Supervisory colleges can be an effective tool in reducing the likelihood of crises and averting them. In fact, they are a tool for crisis prevention that contributes to the safeguarding of overall financial stability. While, there may be circumstances where a supervisory college is established purely or exclusively as a vehicle for crisis management this would be expected to be the exception. Nevertheless, a high level of cooperation between supervisors is necessary for good crisis management which could be facilitated by the establishment of a supervisory college.
- 25.8.27 Since a supervisory college is a forum to engender cooperation and mutual trust among supervisors, an effectively operating supervisory college would result in established relationships which would be beneficial particularly in times of financial distress or a crisis. Regular cooperation and communication can, in fact, facilitate efficient action in times of crisis. Where a crisis situation arises, an existing supervisory college could function, and should be well positioned, to contribute to the management of that situation and to finding coordinated and agreed solutions.
- 25.8.28 It is important to be flexible in the use of a supervisory college with regards to crisis management. In fact the approach chosen needs to be able to adapt to the particular and individual situation. Other mechanisms of coordination might also be considered or needed.
- 25.8.29 To be effective in crisis management, it is essential for a supervisory college to provide mechanisms to exchange and communicate important information effectively and efficiently. The timely

exchange of information is crucial, while always preserving confidentiality requirements. This may mean that, under very exceptional circumstances, highly sensitive information is only exchanged on a “need to know” basis. In addition, requirements to consult widely on supervisory actions which may be appropriate in normal times may need to be limited in crisis situations to ensure necessary timely responses.

- 25.8.30 A supervisory college can also be used for the sharing of experiences and lessons learnt about crisis management i.e. more from the retrospective view. This way it can provide members with examples of good practices of crisis management.

Infrastructure in case of emergency/crisis management

- 25.8.31 While it is not expected to be the ultimate focus of a supervisory college, a crisis management plan should be discussed. In establishing the role and functions of any supervisory college it is important to consider the scenario of a crisis and the expected role of the college in that situation.
- 25.8.32 A supervisory college should consider, in advance, the due process of cooperation and coordination during emergency situations in order to benefit from well established information and cooperation channels and procedures once the crisis occurs. 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, where designated, should establish close liaison channels with group management and the Board of Directors as well as the owners of the group.
- 25.8.33 The supervisory college should have procedures in place which help involved supervisors to provide and receive all necessary information in a timely manner to facilitate well informed decisions within their own jurisdictions. Furthermore, there should be mechanisms in place related to the sharing of information on a voluntary basis.
- 25.8.34 The supervisory college may assist in performing and sharing crisis assessments as well as contribute to the management of a crisis. Therefore, comprehensive and up-to-date contact lists as well as realistic simulation exercises should be developed to increase crisis-resilience.
- 25.8.35 The approach to a crisis situation should appropriately reflect the nature, scale and complexity of the group and the particular crisis situation. It may be the supervisory college, as a whole, which responds to a crisis or a crisis management team. Alternatively, the supervisory college may establish a subgroup whose focus would

be on crisis management aspects and, therefore, may be better capable to assess systemic risks.

25.8.36 The supervisory college should remain aware of the important role it will play in supporting the group-wide supervisor, especially in times of financial stress or crisis. Also the benefit of such a holistic approach is to provide the supervisory college with solutions for the best overall result for all jurisdictions and not just some. Members of the supervisory college should proactively identify, where possible, any conflicts of interest that may occur between their own jurisdictions and the relevant objectives of the supervisory college, and agree upon processes within the college to minimise any adverse and biased effect that may arise.

25.8.37 A supervisory college could also be a means for involved supervisors to coordinate on the timing and content of information that could be disclosed to/communicated with third parties (such as local supervisory/regulatory bodies, international organisations or the public where appropriate) and the insurance group, both on an ongoing basis and/or in a crisis situation and in particular, where systemic risks exist taking into account confidentiality requirements. The supervisory college should identify any potential areas where the interests of third parties, in a crisis situation, may be in conflict with the relevant objectives of the college. As an example, confidentiality rules which determine the ability of individual authorities to communicate firm specific information may be a conflict.

25.9 The designated group-wide supervisor understands the structure and operations of the group. Other involved supervisors understand the structure and operations of parts of the group at least to the extent of how operations in their jurisdictions could be affected and how operations in their jurisdictions may affect the group.

25.10 The designated group-wide supervisor takes the appropriate lead in carrying out the responsibilities for group-wide supervision. A group-wide supervisor takes into account the assessment made by the legal entity supervisors as far as relevant.

Overall responsibilities of a group-wide supervisor

25.10.1 The group-wide supervisor, where designated, should be responsible for coordinating the input of legal entity supervisors in undertaking the supervision of a group on a group-wide basis, as a supplement to the legal entity supervision. However, all involved supervisors should recognise that group-wide supervision, and the designation of a group-wide supervisor, should not lessen the importance of legal entity supervision or replace the role of legal entity supervision in respect of the insurance entities in its own jurisdiction.

- 25.10.2 The group-wide supervisor should be responsible for producing an overall assessment of the risk and solvency of the group on a group-wide basis, taking into account the input of legal entity supervisors.
- 25.10.3 Group-wide supervision relies on substantial exchange of information. The exchange of detailed relevant supervisory information/data between the group-wide supervisor and the legal entity supervisors involved may be facilitated by the establishment of formal agreements (MoU/ IAIS MMoU) which should, necessarily, comprise compliance with a strict confidentiality regime. In establishing such agreements, involved supervisors should acknowledge that each supervisor may only provide information under the agreement to the extent permitted or not otherwise prevented under their respective jurisdictional laws, regulations and requirements.

The range of functions of a group-wide supervisor

- 25.10.4 There is a wide variety of roles and functions which a group-wide supervisor could take in meeting its overall responsibilities to coordinate and streamline group-wide supervision, depending on the circumstances of the group and the legal and supervisory structures in the involved jurisdictions.
- 25.10.5 Ultimately, the involved supervisors should establish among themselves the role and responsibilities of the designated group-wide supervisor and of the other involved supervisors at group level. The respective roles and responsibilities should be clearly defined to avoid unnecessary duplication of supervisory tasks.
- 25.10.6 The designated group-wide supervisor is expected to take the initiative in coordinating the roles of, and facilitating communication between, the involved supervisors. The group-wide supervisor should establish a supervisory plan in agreement with the involved supervisors. In carrying out its agreed functions, the group-wide supervisor should ensure that it acts in consensus with other involved supervisors.
- 25.10.7 In establishing the responsibilities of a particular group-wide supervisor, the key functions of a group-wide supervisor which should be considered include:
- Suitability of persons issues;
 - Corporate governance;
 - Internal control;
 - Group-wide risk analysis;
 - Capital adequacy on a group-wide basis; and

- Information sharing and key contact point function.

Suitability of persons issues

- 25.10.8 The group-wide supervisor assesses the propriety of significant owners at the group level.
- 25.10.9 The group-wide supervisor assesses the fitness and suitability of persons with managing or key control functions on group level. In doing this, the group-wide supervisor relies as much as possible on the suitability assessment carried out by the legal entity supervisors involved.

Corporate governance

- 25.10.10 The group-wide supervisor assesses the overall standard and compliance of corporate governance of the group. In cases where the parent company is not itself a supervised entity (e.g. holding company), the group-wide supervisor should assess the compliance with corporate governance requirements at the head of the group.

Internal control

- 25.10.11 The group-wide supervisor monitors whether the group provides internal control mechanisms, including sound reporting and accounting procedures, to monitor and to manage the intra-group transactions and the risk concentration.
- 25.10.12 In assessing the group's risk and capital management, the group-wide supervisor reviews the group's own risks assessment as required by Standard 16.16.
- 25.10.13 The group-wide supervisor assesses whether an insurance group has robust:
- risk management systems;
 - internal control systems; and
 - reporting processes

which are implemented and functioning consistently on a group-wide basis.

This will also include an assessment of the controls a group has in place around its proper and sound business practices with respect to the complexity of financial products sold to retail customers.

- 25.10.14 The group-wide supervisor monitors whether the group provides internal control mechanisms including adequate mechanisms with regard to group-wide solvency:
- to identify and measure all material risks incurred on a group-wide basis; and
 - to appropriately allocate sufficient capital to risks.
- 25.10.15 The group-wide supervisor monitors whether policies on risk management within the group are laid down by written procedures and reviewed at least on an annual basis.

Group-wide risk analysis

- 25.10.16 The group-wide supervisor monitors the risk assessment, risk reporting as well as risk management on a group-wide basis. For this purpose, the group-wide supervisor should carry out a risk analysis of the group and its operating environment. This supervisor should be attentive to any sign for risk concentration and contagion. If the group has a centralised risk management function, the group-wide supervisor should monitor its proper functioning and implementation.

Capital adequacy on a group-wide basis

- 25.10.17 The group-wide supervisor takes the responsibility to assess and react to, as necessary, the prudential situation and solvency on a group-wide basis.
- 25.10.18 The group-wide supervisor assesses the sufficiency and adequacy of allocation of capital on a group-wide basis in order to gain a balanced view of the risk-based and financial situation of the group as a whole. Further elaboration on this can be found under ICP 17 Capital Adequacy.

Information sharing and key contact point function

- 25.10.19 To operate most effectively, the group-wide supervisor should receive from involved supervisors, on a timely basis, all information needed in order to form a comprehensive view of the overall group business strategy, financial situation, legal and regulatory position, and the risk exposure on a group-wide basis, in the most efficient way.
- 25.10.20 All involved supervisors have a responsibility to keep the group-wide supervisor updated in relation to the significant changes in the group structure and main operations.

25.10.21 In particular the involved supervisors should be encouraged to provide the group-wide supervisor with relevant key information in relation to:

- the legal structure of the entities belonging to the insurance group;
- any granting and withdrawal of licence for a company forming part of the group;
- changes on the Board or Senior Management of any insurer forming part of the group;
- changes in organisation or senior management;
- changes in risk management and internal control system;
- significant developments in the financial position of the insurance group or entities belonging to the insurance group;
- location of significant business;
- significant investments in group entities;
- significant financial links;
- transfer of risks to/from non-regulated entities;
- events which may endanger the going concern of the insurance group or major entities belonging to the insurance group;
- potential high risk factors for contagion; and
- operational risk including misselling claims and frauds.

25.10.22 The group-wide supervisor may at any time request further information needed for the assessment on a group-wide basis.

25.10.23 An involved legal entity supervisor may require information in relation to the group which proves necessary for a timely legal entity assessment of the insurer, or part thereof, located in its jurisdiction. The group-wide supervisor should make information available to the involved legal entity supervisors:

- on a proactive basis;
- without delay; and
- in a full and detailed manner.

25.10.24 The group-wide supervisor has a key contact point function for all legal entity supervisors involved. The key contact point function is of importance both in situations of going concern and in emergency situations.