



IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

IAIS Public discussion and background sessions

21 November 2018, Teleconference



INTRODUCTORY REMARKS

Elise Liebers, Chair of the Policy Development Committee

Scope of the IAIS public call

- **Public discussion session** on comments received during 2018 public consultations:
 - Revised ICP 6 (Change of Control and Portfolio Transfers)
 - Draft revised ICPs published for information purposes:
 - ICP 8 (Risk Management and Internal Controls)
 - ICP 15 (Investments)
 - ICP 16 (Enterprise Risk Management for Solvency Purposes)
 - Proposed definitions of ERM-related terms
 - ICP 20 (Public Disclosure)
 - Application Paper on the Composition and the Role of the Board
 - Application Paper on Supervision of Insurer Cybersecurity
 - Issues Paper on Increasing Digitalisation in Insurance and its Potential Impact on Consumer Outcomes
- **Public background session** on the draft Application Paper on Recovery Planning for public consultation.

ICP Revisions: Background information

- Revisions to ICPs being a foundation for ComFrame material to be adopted at the 2019 Annual General Meeting (AGM), even if completed before 2019
- Revisions of ICPs completed before 2019 and endorsed by the Executive Committee (ExCo)
 - Published on the IAIS website as drafts for information purposes only
 - May be subject to further changes, before adoption at the 2019 AGM (given ongoing work on other ICPs and ComFrame)
 - Not expected to be implemented until adopted at the 2019 AGM

ICP Revisions: Steps taken in 2017

- Revised ICPs adopted at the AGM in November 2017:
 - ICP 13 (Reinsurance and Other Forms of Risk Transfer)
 - ICP 18 (Intermediaries)
 - ICP 19 (Conduct of Business)
- Revised ICPs endorsed by the ExCo as drafts in November 2017:
 - Introduction and Assessment Methodology
 - ICP 1 (Objectives, Powers and Responsibilities of the Supervisor)
 - ICP 2 (Supervisor)
 - ICP 3 (Information Sharing and Confidentiality Requirements)
 - ICP 9 (Supervisory Review and Reporting)
 - ICP 10 (Preventive Measures, Corrective Measures and Sanctions) (with ICPs 10 and 11 (Enforcement) combined into one ICP, i.e. ICP 10)
 - ICP 12 (Exit from the Market and Resolution)*
 - ICP 25 (Supervisory Cooperation and Coordination)*.

* ICP 26 (Cross-border cooperation and coordination on crisis management) was restructured and, consequently, part of it was moved to ICP 25 and the rest to ICP 12.

ICP revisions: Steps taken in 2018

- Revised **ICP 6** (Change of Control and Portfolio Transfer) – adopted at the AGM in November 2018
- Revised ICPs endorsed by the ExCo in November 2018 as drafts before their adoption at the end of 2019:
 - **ICP 8** (Risk Management and Internal Controls)
 - **ICP 15** (Investments)
 - **ICP 16** (Enterprise Risk Management for Solvency Purposes)
 - **ICP 20** (Public Disclosure)
- Revised ERM-related Glossary terms endorsed by the ExCo in November 2018 as drafts before their adoption at the end of 2019

Next steps

- First half of 2019:
 - Reviewing 2018 public consultation comments on overall ComFrame
 - Revisions to ICPs where necessary for consistency with ComFrame and other ICPs
 - Revisions to ICPs and ComFrame as part of the development of the Holistic Framework to mitigate systemic risk in the insurance sector
- June 2019 – publication of the summary of main comments on overall ComFrame and their resolution
- June-August 2019 – public consultation on further revision to ICPs/ComFrame (60 days)
- November 2019 – adoption at the AGM of revised ICPs and ComFrame including ICS Version 2.0 (as a stand-alone document)

QUESTIONS?

ICP 6 (CHANGE OF CONTROL AND PORTFOLIO TRANSFERS)

Ryan Workman, Chair of the Supervisory Material Review Task Force

ICP 6: Change of Control and Portfolio Transfers

Process

- **June 2018:** Draft revised ICP 6 was published for public consultation
 - Draft revisions have focused on streamlining and updating the ICP to be more coherent and consistent with other ICPs as well as to provide more helpful guidance
 - Introductory guidance was added to assist in understanding the content of the ICP and to introduce some of the terminology used
 - Around 50 comments received from 12 organisations (mostly stakeholders)

- **November 2018:** Revised ICP 6 adopted by the AGM

ICP 6: Change of Control and Portfolio Transfers

Outcome of public consultation

Main comments received related to:

- General support for the revised ICP
- Emphasis on cross-border issues being relevant more broadly
- Questions for clarification on different thresholds for initial notification (for information purposes), versus those that require approval
- Stronger link to ICP 4 (Licensing) and ICP 5 (Suitability of Persons)

In response, changes were made by moving some of the material, and by adding clarifications to particular guidance material.

QUESTIONS?

ICP 8 (RISK MANAGEMENT AND INTERNAL CONTROLS)

Annick Teubner, Chair of the Governance Working Group

Background information

- ICP 8 already revised on 2015 together with other governance-related ICPs.
- Aims of the 2018 revision: to ensure consistency and remove overlaps between ICP 8 and ICP 16.
- Main changes in draft revised ICP 8:
 - Standard ICP 8.1 capturing the outcome-focused content of material removed from ICP 16 (ICP 16.2, 16.3, 16.8 (2nd and 3rd bullets), 16.9 and 16.10)
 - Additional explanations provided in new guidance material
 - Some guidance text added to cover text removed from ComFrame guidance (applicable not only to IAIGs), based on the outcome of the 2017 published consultation on ComFrame material
 - Some guidance text deleted (redundant or duplication)

Main public consultation comments

Comments on revised standards ICP 8.1 and ICP 8.2

- Responses to changes in the risk profile in a timely manner (third bullet in ICP 8.1)
 - To delete 'in a timely manner' - wording kept as it provides sufficient flexibility
 - To refer to material changes – not agreed as the insurer should be able to respond to any change. The materiality of the change is relevant for how the insurer responds
- To remove a requirement to have a risk management policy
 - In the IAIS view the insurer should have such a policy
 - Policies or policy: singular used across the ICP (there should be one policy)
- “Appropriately documented”
 - To delete “appropriately” – agreed
 - The requirements to document the risk management system and the system of internal controls kept

QUESTIONS?

ICP 15 (INVESTMENTS)
ICP 16 (ENTERPRISE RISK MANAGEMENT FOR
SOLVENCY PURPOSES)
PROPOSED DEFINITIONS OF ERM-RELATED TERMS

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

Background information

- ICP 15 and 16 last adopted in 2011
- Purpose of 2017 revisions that were subject to public consultation November 2017 – January 2018:
 - update and harmonise language with the integration of ComFrame
 - add ERM-related terms to the IAIS glossary for clarity
 - remove overlaps between ICP 8 and ICP 16
- Purpose of 2018 revisions:
 - reflect feedback from member and stakeholder comments
 - improve the clarity and consistency with other ICPs

Main public consultation comments

Comments on revised ICP 15 and ICP 16 and ERM-related terms

- ICP standards and guidance are in some cases too prescriptive and limit the necessary flexibility for supervisors and insurers
- Investments should not be considered in isolation in ICP 15, but take into account the specifics of the insurer's liabilities and asset/liability management strategy (ALM)
- ICP 15 should not have overlap with other ICPs (ICP 17 in particular, regarding fungibility) nor should it contradict them.
- Inconsistencies in terminology used in ICP 15 and 16 should be resolved.

Examples of draft revisions

ICP 15

- ICP 15.1.9 and 15.1.10 were revised to ensure a balance of pros and cons between principles or rules based approaches
- Reference to repurchase agreements was added to ICP 15.2.7
- ICP 15.2.8 was revised to not require a supervisor to limit investments in assets that are not secure, but rather closely monitor
- An example was included in ICP 15.2.10 to consider the liquidity of an insurer may be adversely impacted by significant shifts in market conditions
- Revisions were made to ICP 15.4.5 to emphasise that investments are the responsibility of the insurer
- Guidance was revised to ICP 15.5.4 to place focus on off-balance sheet structures rather than SPEs

Examples of draft revisions

ICP 16

- ICP 16.5.1 was revised to recognise that some short-duration non-life products may not need to be detailed in an explicit ALM policy; only to the extent appropriate.
- ICP 16.7.1 was revised to recognise that claim settlement practices may be dictated by statute and be reflected in the underwriting policy, not set by the underwriting policy.
- Guidance was added as new ICP 16.9.1 to clarify the expectations between the Board and Senior Management in regard the ORSA.
- Recovery planning text was moved into ICP 16.13. Revisions were made to ICP 16.0.3, and ICP 16.0.9 to reflect this change.
- ICP 16.14.14 was added to provide guidance on how supervisors should review the output of an insurer's economic capital model against regulatory requirements.

Examples of draft revisions

ERM-related IAIS glossary terms

- A number of 'risk' related terms used in ICP 15 and 16 were added to the IAIS Glossary or revised
- The definition of Internal model was revised to reflect its use is wider than just the calculation of regulatory capital.
- Deletion of ERM for solvency purposes and ERM framework for solvency purposes from the IAIS glossary

QUESTIONS?

ICP 20 (PUBLIC DISCLOSURE)

Markus Grund, Chair of the Accounting and Auditing Working Group

Background information

- ICP 20 was adopted in 2011.
- The 2018 revisions, subject to a Public Consultation (June to August), were initiated to address ICP 20 clarity and consistency issues noted within the IAIS Self Assessment and Peer Review (SAPR) findings.
- One new substantive material is a short section to cover practices for non-GAAP disclosures an ICP 20 enhancement following discussion with IOSCO.

Main comments and their resolution

- In many jurisdictions, Supervisors do not have the authority to prescribe the disclosure requirements for general purpose financial statements.
 - Revised draft ICP 20 to remove language in the ICP standards, where the Supervisor may lack legal authority.
- Some of the disclosure requirements would require the publication of proprietary and confidential information.
 - ICP 20 includes guidance on proprietary and confidential information, which discusses the need for the supervisor to strike a balance between the need for meaningful disclosure and the protection of proprietary and confidential information.
- The guidance in revised ICP 20 is overly-prescriptive and detailed. In fact, parts of ICP 20 go beyond information relevant to give policyholders and market participants insights into insurers' business activities, risks, performance, and financial position
 - With the revisions made based on the consultation, and outside of the addition of one requirement on non-GAAP measures, the substance of the revised ICP 20 is unchanged. The IAIS has not received feedback to date that ICP 20 is overly-prescriptive and detailed, and notes that the substance of ICP 20 is consistent with a general purpose financial statement requirements in many jurisdictions.

Main comments and their resolution

- ICP 20 should explicitly recognise that applicable jurisdictional disclosure requirements, which serve the same objective, should be considered as an appropriate implementation of this ICP.
 - ICP 20 includes a statement in the guidance that “public general purpose financial reports may largely comply with jurisdictional disclosure standards that are reflective of this ICP.”

QUESTIONS?

APPLICATION PAPER ON THE COMPOSITION AND THE ROLE OF THE BOARD

Annick Teubner, Chair of the Governance Working Group

Background information

- Follow up on the outcome of the 2014 Self-Assessment and Peer Review: the need for more proactive supervision of governance by the insurance supervisors
- Scope of the paper: formal and behavioural aspects of the functioning of the Board
- Nature of the Application Papers:
 - Provide further advice, illustrations, recommendations or examples of good practice to supervisors on how supervisory material could be implemented
 - Do not include new requirements (in addition to those set out in the ICPs)
 - “Should” used as an indication of a good practice
- Public consultation (29 June – 13 August 2018)
 - 15 participants
 - 260 comments

Main comments and their resolution

- The principle of proportionality
 - The explanation of the role of the proportionality principle added to the Introduction
- Need for legislative changes
 - If supervisors decide to implement a suggested supervisory practice, it is up to them to take the appropriate steps, including legislative changes
- Prescriptiveness and intrusiveness of proposed supervisory practices
 - Supervisors should apply suggested practices as needed and relevant.
 - Proposed practices kept, but the wording clarified or the purpose explained.
- Supervision of behavioural aspects (Section 9)
 - Consideration of behavioural aspects necessary for proactive supervision of corporate governance.

QUESTIONS?

APPLICATION PAPER ON SUPERVISION OF INSURER CYBERSECURITY

Philip J. Goodman, Chair of the Financial Crime Task Force

Background information

Items to be Addressed:

- What is this Document?
- What is its Purpose?
- What is its Role?
- What Comments were Submitted and How were they Resolved?

Main comments and their resolution

- Prescriptiveness
- Risk-Based Implementation
- Roles of Board and Senior Management
- “Should” vs “May,” “Shall” etc.
- Scope of Topics Covered in this Paper

QUESTIONS?

ISSUES PAPER ON INCREASING DIGITALISATION IN INSURANCE AND ITS POTENTIAL IMPACT ON CONSUMER OUTCOMES

Myungshin Yoo, Policy Advisor, IAIS Secretariat

Objective of the Issues Paper

- The Issues Paper addresses digitalisation from a conduct of business perspective focusing on the product design and underwriting along with marketing, sales and distribution aspects of the insurance value chain (specific attention is given to robo advice and price comparisons websites).
- Digitalisation can be of benefit to consumers. It could also give rise to risks that impact fair consumer outcomes (as promoted by the Conduct of Business requirements in ICP 19).

Structure of the Paper

- Section 2 considers the impacts of digitalisation on product design and underwriting;
- In section 3, robo advice and price comparison websites are considered to illustrate digitalisations impact on the marketing, sale and distribution of those products;
- In section 4, the paper assesses the challenges supervisors face in responding to these changes.
- Section 5 contains conclusions and recommendations:
 - Digital innovations can potentially improve the customer experience and reduce insurers' operating cost.
 - Due attention needs to be given to achieving fair customer outcomes in terms of suitability of products and soundness of IT processes including design and use of algorithms and use of customer data.
 - Supervisors need to balance risks of innovations against the benefits for policyholders and the insurance sector.

Development process

- Public Consultation: 1 August – 5 September
- Public background session on 1 August
- Adoption: 7 November 2018 (ExCo Luxemburg)
- Publication : 12 November 2018 (IAIS website)
- Stakeholder Feedback Session: today

Feedback on the Public Consultation

- Comments received: 224 from 13 organisations
- Resolutions of comments – refer to document on the website (next slide)
 - General support for the Paper
 - Some concerns with negative tone towards innovation: the IAIS does not share this perception - it supports a balanced approach fostering innovation while maintaining adequate consumer protection; nevertheless concerns were considered and in some instances text revised
 - Suggestion to include more about use of data: for separate MCWG paper (exp. end 2019)
 - Detailed editorial suggestions for change by the Center for Economic Justice: all considered and a significant number included (sometimes partially or with some tweaks)

QUESTIONS?

DRAFT APPLICATION PAPER ON RECOVERY PLANNING FOR PUBLIC CONSULTATION

Alex Hart, Chair of the Resolution Working Group

Development of the Application Paper

Background and objectives

- The material on recovery and resolution is new to the ICPs and ComFrame.
- Therefore, the IAIS will develop a set of Application Papers to provide more background and address issues raised during the 2017 consultation.
- The 1st Application Paper is on Recovery Planning. It provides guidance with respect to draft (revised) supervisory material on recovery planning in ICP 16.13 and ComFrame 16.13.a/.b.

Development of the Application Paper

Milestones and next steps

- The development of the Application Paper benefited from inputs from both IAIS Members and Stakeholders:
 - In Q1 2018, a survey was conducted amongst relevant members on experiences and good practice with recovery planning
 - On 12 September 2018, IAIS organised a stakeholder event in Basel
- Consultation period on Application Paper: 12 November 2018 – 7 January 2019.
- During 2019: finalise the Paper, taking into account public consultation comments and ensuring alignment with ICP and ComFrame.
- November 2019: expected adoption, together with revised ICPs and ComFrame.

Contents of the Application Paper

Themes developed

- Concepts of Recovery Planning: relationship between recovery plans, other ERM tools (including ORSA and contingency plans), and other preventive or corrective measures.
- Proportionality of Recovery Planning
- Governance of Recovery Planning
- Elements of recovery plan:
 - Executive abstract & description of the group
 - Trigger framework
 - Recovery options
 - Communication strategy
 - Stress scenarios
- Role of the supervisor
 - Assessment
 - Cooperation

QUESTIONS?

Annex: Links to relevant documents

- Revised ICP 6 (Change of Control and Portfolio Transfers) available [here](#) (consultation comments received and their resolution are available [here](#))
- Draft revised ICPs published for information purposes [here](#) (in the section “Draft Revised ICPs Released for Information”):
 - ICP 8 (Risk Management and Internal Controls) (summary of main public consultation comments and their resolution are available [here](#))
 - ICP 15 (Investments) (summary of main public consultation comments and their resolution are available [here](#))
 - ICP 16 (Enterprise Risk Management for Solvency Purposes) (summary of main public consultation comments and their resolution are available [here](#))
 - Proposed definitions of ERM-related terms (summary of main public consultation comments and their resolution are available [here](#))
 - ICP 20 (Public Disclosure) (summary of main public consultation comments and their resolution are available [here](#))
- Application Paper on the Composition and the Role of the Board, available [here](#) (public consultation comments and their resolution are available [here](#))
- Application Paper on Supervision of Insurer Cybersecurity, available [here](#) (public consultation comments and their resolution are available [here](#))
- Issues Paper on Increasing Digitalisation in Insurance and its Potential Impact on Consumer Outcomes, available [here](#) (public consultation comments and their resolution are available [here](#)).
- Draft Application Paper on Recovery Planning released for public consultation on 12 November 2018 and available [here](#).