

INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS



Working Draft of the Common Framework for the Supervision of Internationally Active Insurance Groups

Invitation for Comments

2 July 2012



About the IAIS

The IAIS was established in 1994. Its membership includes insurance regulators and supervisors from over 190 jurisdictions in some 140 countries. More than 120 organisations and individuals representing professional associations, insurance and reinsurance companies, international financial institutions, consultants and other professionals are Observers. The IAIS' mission is to:

- Promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders; and to
- Contribute to global financial stability.

The IAIS provides an effective forum for standard setting and implementation activities by providing opportunities for supervisors to share their expertise, experience and understanding.

The IAIS coordinates its work with other international financial institutions and international associations of supervisors or regulators, and assists in shaping financial systems globally. In particular, the IAIS is one of the parent bodies of the Joint Forum together with the Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissions (IOSCO). It is also represented on the Financial Stability Board (FSB).

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Draft Common Framework for the Supervision of Internationally Active Insurance Groups – Invitation for Comments

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Introductory remarks

Invitation for Comments

The IAIS is pleased to invite comments from Members and Observers, by 31 August 2012, on the working draft of the Common Framework for the Supervision of Internationally Active Insurance Groups dated 2 July 2012 (“The 2012 ComFrame Draft”).

With ComFrame the IAIS aims to:

- **Develop methods of operating group-wide supervision of Internationally Active Insurance Groups (IAIGs)** in order to make group-wide supervision more effective and more reflective of actual business practices
- **Establish a comprehensive framework for supervisors to address group-wide activities and risks and also set grounds for better supervisory cooperation** in order to allow for a more integrated and international approach
- **Foster global convergence** of regulatory and supervisory measures and approaches.

The 2012 ComFrame Draft reflects the work performed during the first two years of building ComFrame since 1 July 2010, including the responses to comments received on the Concept Paper which was released for public consultation on 1 July 2011.

Please note that this is a working draft that the IAIS acknowledges needs to be more integrated for its final version. The invitation for comment on a draft largely developed by separate working parties within the IAIS prior to an integrated editing process is for the purpose of obtaining feedback on the substance of the draft rather than obtaining feedback on matters of editing or for specific drafting proposals.

During the comment period, the IAIS will be undertaking a process of creating a more integrated draft. This more integrated draft will be available to working parties for comment at the same time the compilation of comments is made available to them.

1. Background and resulting drivers of ComFrame

a) Background

IAIGs have been and will continue to become more relevant in the global insurance marketplace. This will demand closer and more coordinated supervision. IAIGs engage in activities in and across several countries and markets and aim at achieving synergies in many regards including by the pooling of risks and by optimising financial efficiency. This may include the transferring of risks from one part of the IAIG to another, often on a cross-border basis.

In 2010, the IAIS acknowledged that – despite national and supranational-regional initiatives – no internationally coherent framework for the supervision of IAIGs was available. In light of this, the IAIS took stock and looked at some of the on-going work and experiences on IAIG supervision amongst its Members and around the world. It was agreed that there is still room



for improvement on how IAIS members supervise IAIGs, and how IAIGs manage their risks, many of which were magnified during the recent and former financial crises. It also became clear that supervisors needed better approaches to understand how IAIGs actually organise themselves and operate. Similarly, IAIGs would benefit from the establishment of a more concrete point of reference for the purpose of further building confidence amongst their various supervisors. It was also recognised that only a few IAIS Members are primarily home jurisdictions whereas a large number of IAIS Members are host jurisdictions for smaller or larger parts of IAIGs. A better structured approach to increase cooperation and information sharing between home and host supervisors is crucial to get a holistic picture of an IAIG.

A more integrated, multilateral framework for group-wide supervision is clearly needed. The IAIS decided to develop ComFrame to address this need. This document marks the end of the second year of the development of ComFrame. The Development Phase of ComFrame began on 1 July 2010 with a three-year Building Phase.

b) Resulting drivers of ComFrame

The resulting drivers of ComFrame can be summarised as:

- Customisation of supervision to the complexities of IAIGs (requirements)
- Convergence fostering (requirements)
- Complexity reduction (less cost, less hassle)
- Coordination and cooperation (implementation)

Customisation to IAIGs

The **nature, scale and complexity** of all types of insurance entity must be taken into account in their supervision. IAIGs are the largest, most complex insurance entities and hence there is a need to customise the requirements applicable to them. Customisation to IAIGs will ensure that IAIGs are provided with a greater level of certainty as to how the principles set out in the ICPs will be applied in relation to their highly complex nature. Supervisors benefit from customisation in ComFrame in knowing how the ICPs should be interpreted in the complex case of IAIGs and also additional considerations in the requirements applicable to IAIGs.

ComFrame will **become a multidisciplinary comprehensive framework**. It will **not only cover that which is unique and specific to IAIGs but also that which is relevant to IAIGs**. Some issues may be relevant to non-IAIGs as well.

Convergence fostering

ComFrame will be the practical operationalisation, elaboration and application of ICPs with regard to IAIGs. ComFrame is designed to create more commonality and comparability of approaches without being rules-based.

In ComFrame, the implementation of the ICPs in relation to IAIGs aims to achieve as much consistency as possible across the supervisory jurisdictions. This will benefit IAIGs in terms of greater certainty on the requirements applicable to them at the group-wide level. IAIGs compete with each other in numerous markets around the world and reduction of differences in prudential supervision at the group-wide level should also level the playing field among these entities in the global insurance market, regardless of where they are located.



Complexity reduction

Under ComFrame, relevant supervisory activities and information about IAIGs will be coordinated at the group-wide level and between group-wide and host supervisors. This will help to reduce duplicative effort amongst the supervisors and consequently reduce their demands on the IAIG. Coordinated supervision of the IAIG as a whole will bring many benefits for both the IAIGs and supervisors.

Groups derive synergies from shared services across the IAIG and from individual entities relying on the financial strength of the IAIG. Hence, both group-wide supervisors and host supervisors of individual entities within the IAIG have a legitimate interest in group-wide activities with regard to the IAIG as a whole. However, if each individual host supervisor seeks to understand these group-wide activities on its own, then both host supervisors and IAIGs can incur large costs in respectively obtaining and providing the appropriate level of information and reassurance about group-wide activities.

Coordination and cooperation

Supervisors can supervise the IAIG and individual legal entities more effectively when they work together to understand and supervise how IAIGs operate. The implementation of ComFrame should result in a streamlining of supervisory processes that will benefit both supervisors and IAIGs and reduce multiple uncoordinated regulatory processes for an IAIG.

Cooperation has many benefits, among them the ability to share the burden of supervising complex cross-border IAIGs. Supervisors have limited resources and in pooling these limited resources they can achieve more collectively. From cooperating, supervisors will also be able to learn from each other. ComFrame will provide a platform for that cooperation through convergence of both regulatory requirements and supervisory practices.

c) Resulting benefits

The benefits expected from the implementation of ComFrame for both supervisors and IAIGs can thus largely be seen in customised approach to the complexities of IAIGs, benefitting from converged requirements. This reduces complexities. The process can further be streamlined by effective coordination and cooperation among supervisors.

2. What progress was made in the Second Year of ComFrame Development?

Criteria for determining IAIGs

In the year leading up to the publication of the 2012 ComFrame Draft, the criteria for identifying IAIGs was refined.

The intention is that at least those groups which meet the criteria to be an IAIG will be supervised according to ComFrame. The intention is that only (re)insurance groups that operate in multiple jurisdictions and are of significant size will be supervised by national supervisors according to ComFrame. These may be groups which are involved in only insurance business or they may be conglomerates. The current proposed criteria are set out in Module 1 Element.

The IAIS does not intend to develop a definitive list of IAIGs. The IAIS will provide criteria that IAIS members will apply to assess whether a particular insurance group or financial conglomerate should be supervised according to ComFrame.



Restructuring of ComFrame

A change to the structure of ComFrame has occurred since the ComFrame Concept Paper was released. The new structure of ComFrame set out in the 2012 ComFrame Draft is:

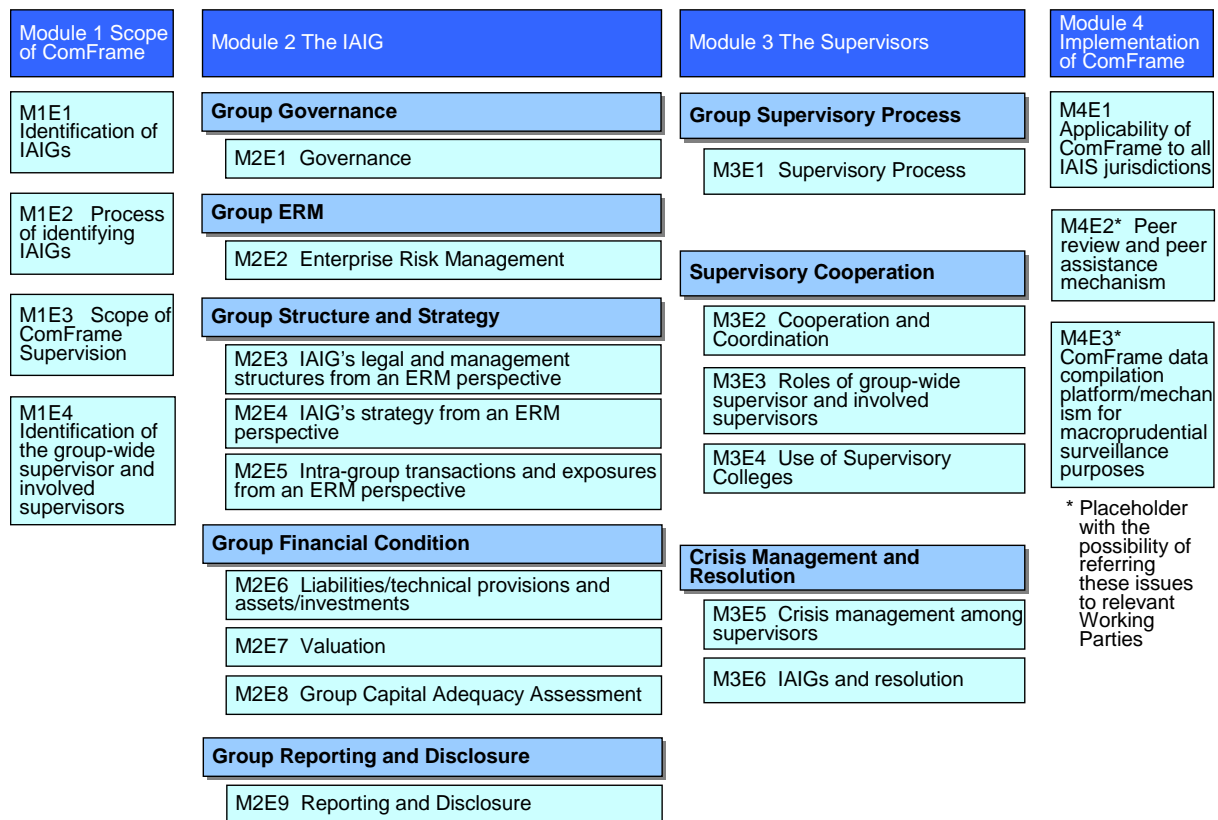
- Module 1: The Scope of ComFrame
- Module 2: The IAIG
- Module 3: The Supervisors
- Module 4: Implementation of ComFrame.

This new structure replaced the five Modules of the previous structure which were:

- Module 1: Scope of Application
- Module 2: Group structure and business from a risk management perspective
- Module 3: Qualitative and quantitative requirements
- Module 4: Supervisory process
- Module 5: Jurisdictional issues

The restructuring is intended to enhance readability by putting requirements for IAIGs and those for supervisors into separate Modules. In the structure, Module 2 “The IAIG” will contain requirements that an IAIG will need to meet that will have to be reflected in national or regional jurisdictions. Module 3 will contain requirements for supervisors to implement; in particular, the supervisory process component of ComFrame

The new structure of ComFrame is set out in the figure below:

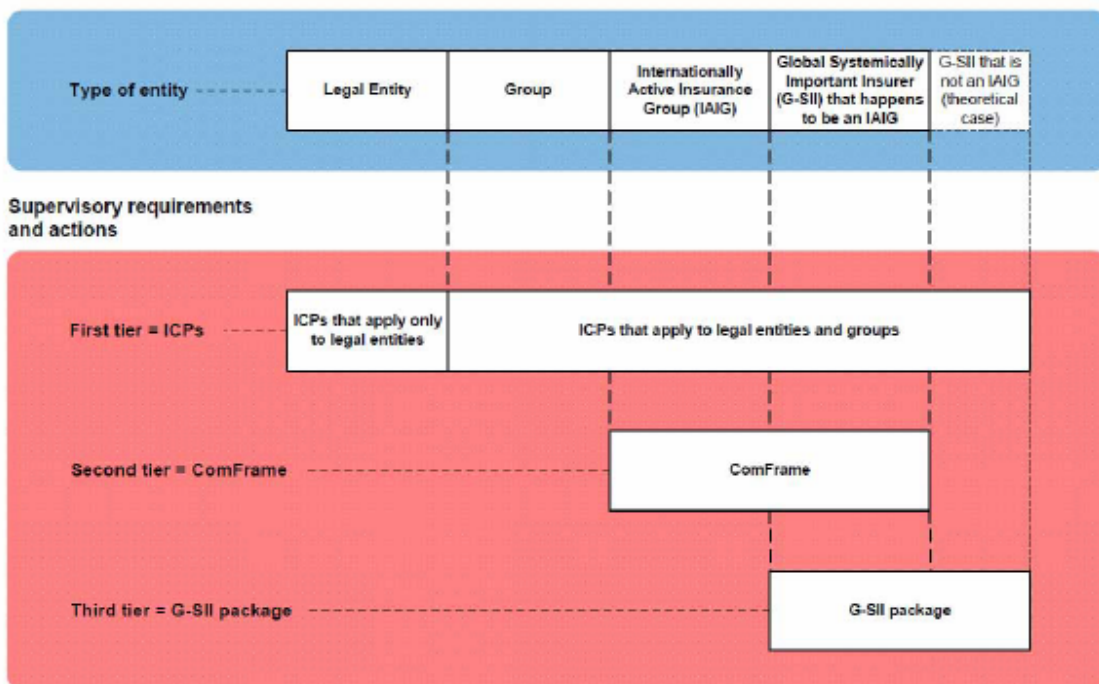


ComFrame and G-SII Package – Clarified relationship

ComFrame does not address systemic risks. Specific ways of addressing systemic risk of potential Global Systemically Important Insurers (G-SIIs) are included in the IAIS G-SII Package which was released on 31 May 2012 and is available at <https://extranet.iaisweb.org/index.cfm?pageID=153>.

The diagram below sets out the relationship between ICPs, ComFrame and the G-SII package.

Architecture of IAIS standard setting activities



Strategic Directions

The Technical Committee and Executive Committee had two strategic discussions during the course of the last year. In November 2011, it was decided that ComFrame shall develop a partially harmonised approach to group capital for solvency assessment purposes. Details of the specific directions are set out in Appendix 2 Strategic Directions.

In February 2012, the Technical Committee considered the supervisory process in ComFrame at a strategic level and developed some directions which are now reflected in Module 3. Details of the directions are set out in Appendix 2 Strategic Directions.

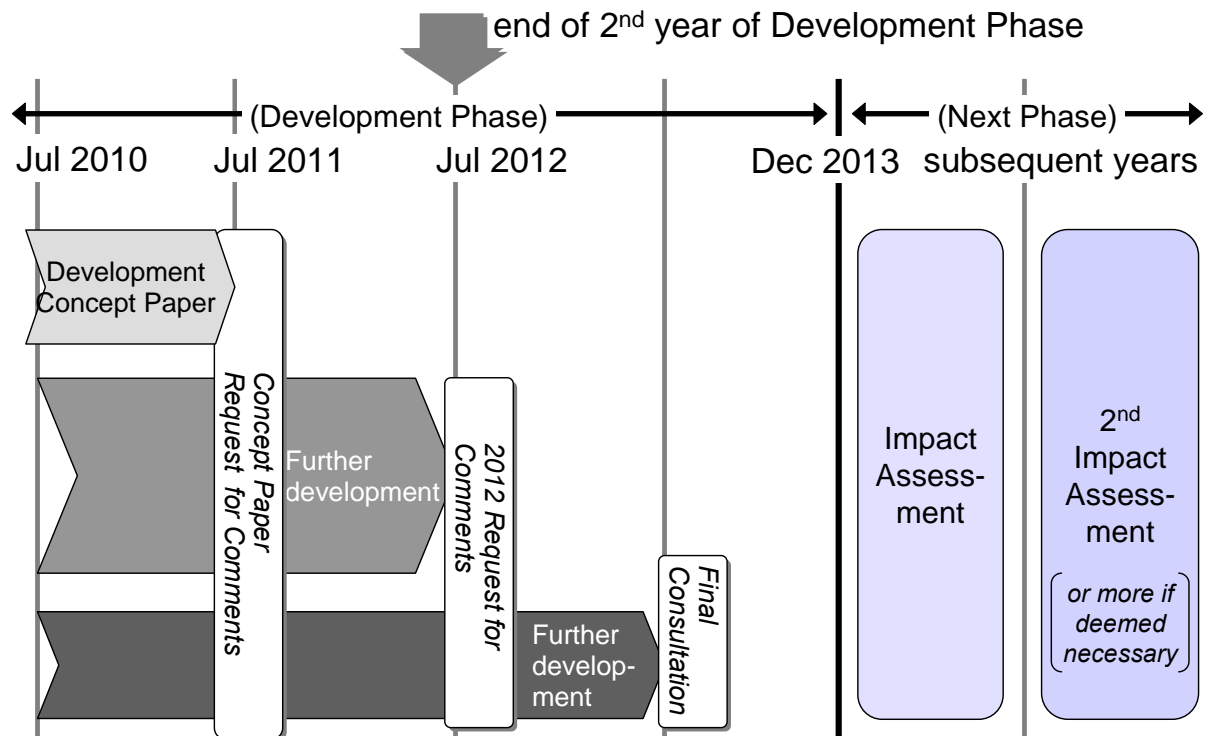
3. Characteristics of ComFrame

ComFrame has three levels of text. ComFrame Standards set out the specific actions or requirements that IAIGs or supervisors need to meet (or comply with). ComFrame Parameters complement the Standards by providing a specific list or criteria that one can work off in complying with the Standard. Specifications illustrate or provide details and

definitions to Parameters in terms of *specific numbers and/or items*. Where appropriate, Specifications alternatively illustrate approaches to implementing Parameters in practice.

4. ComFrame Timeline

Immediately following the three-year Development Phase, impact assessments including those on calibrations (particularly for quantitative requirements) will be undertaken. See the figure below.



The 2012 ComFrame Draft is essentially a 'snapshot' of the current state of development of ComFrame. The IAIS has deliberately embarked on a process of seeking formal input from Members, Observers and other public stakeholders at the end of each year of the development phase. This process ensures that all stakeholders have the opportunity to review progress on ComFrame holistically and assist the IAIS in setting the direction for the development of ComFrame.

The Concept Paper and this 2012 ComFrame Draft are both, in essence, working drafts. These are not intended to be considered highly polished, near complete final drafts. The purpose of the invitation for comment is to obtain views on the substance of the text in the draft rather than seeking editorial comments. The IAIS acknowledges that a final editing process will have to be undertaken in the next year to produce a more integrated drafting style. It will begin this process during the comment period with the first version to be made available to working parties at the same time as the compilation of comments in early September.

Members and Observers have also had the opportunity to contribute through participation in working parties of the IAIS Technical Committee. Observers have been asked to participate in ComFrame Dialogues preceding Technical Committee meetings to ensure their views are taken into account in Technical Committee discussions.



5. Comments on ComFrame Concept Paper dated 1 July 2011

On 1 July 2011, the ComFrame Concept Paper was issued for a period of public comment which ended on 31 August 2011. The IAIS wishes to thank those Members and Observers who provided comments on the ComFrame Concept Paper in 2011.

We ask Members, Observers and other interested public parties to take into account how the IAIS has addressed these points in the 2012 ComFrame Draft. The key themes of the comments are set out in Appendix 1 Results of Prior Consultation

6. Request for Comment on current draft dated 2 July 2012

Members and Observers are invited to provide input on:

- a. response to the General Questions below
- b. General comments on the 2012 ComFrame Draft (where comments are overarching across multiple Modules)
- c. Comments on each Module (where comments are overarching across multiple Elements in a particular Module) and
- d. Comments on each Element (please provide detailed Standard, Parameter and Specification references in your comments)

The deadline for comments is 31 August 2012.

In order to facilitate an efficient compilation process, comments must be submitted through the IAIS website and not by any other means. Any comments submitted in a different format (whether by e-mail or letter) will not be a part of reports compiling comments and therefore may not be taken into account by IAIS Committees or Sub-committees..

For Members and Observers, please use the following link to the Members and Observers section of the IAIS website: <https://extranet.iaisweb.org/index.cfm?pageID=940>.

For other stakeholders, please use the following link to the public section of the IAIS website: <http://www.iaisweb.org/ComFrame-938>.

Please note that, in principle, your comments will be made available on the public IAIS website.

7. General Questions where feedback is sought

When responding to the General Questions, we invite suggestions, with explanation, both on areas of possible additions and deletions to the overall structure of ComFrame.

General Question

1. Are the criteria and process for identifying IAIGs appropriate?
2. Are the qualitative requirements for IAIGs set out in Module 2 Elements 1 to 7 reflective of actual practices within large, internationally active insurance groups?



3. Are the Group Governance requirements sufficiently flexible to accommodate different ways of structuring IAIGs and different governance models in use? Are there any areas relating to governance of IAIGs which are not adequately covered, and if so how should they be covered?
4. Does the approach to ERM in Module 2 Element 2 provide an adequate and comprehensive platform for the supervision of ERM processes in IAIGs?
5. Is the Group Structure and Strategy section sufficiently comprehensive to address the risks from the highly complex structures and business combinations evident in many internationally active insurance groups?
6. The IAIS envisages creating a partly harmonised approach to capital requirements for IAIGs (see Appendix 2). The current draft of Module 2 Element 8 is not yet fully reflective of that strategic direction as it is a work-in-progress. Please comment on the progress made so far and provide input on the steps that should be taken in achieving the strategic direction.
7. Does Module 3 provide a sufficient basis for more effective and more coordinated supervision of IAIGs? Where could improvements be made? Where is there a need for greater specificity?
8. Do the Base Prerequisites or Group-Wide Supervisor Prerequisites capture the important attributes of supervisors to ensure a successful implementation of ComFrame?

8. Timeline

| | |
|---------------------------|-------------------------------------------------------------------------------------------------------------------|
| 1 July 2012 | Invitation to comment on the ComFrame Concept Paper |
| 31 August 2012 | Comments and/or feedback due |
| September 2012 | Working party meetings discussion of comments received |
| 7 to 9 October 2012 | Discussion of comments received |
| October 2012 to June 2013 | Further development of ComFrame with Technical Committee managing the development of the contents of the ComFrame |
| 1 July 2013 | Invitation to comment on the completed ComFrame Paper |
| End 2013 | Freezing of ComFrame subject to outcomes of the Next Phase Next Phase Begins |



Appendix 1 Comments on ComFrame Concept Paper

This section sets out the key themes of comments received on the ComFrame Concept Paper along with how the IAIS resolved these comments.

Relationship of ComFrame to the ICPs

Both Members and Observers noted a need for greater clarity of the relationship between ICPs and ComFrame. This was the most frequently raised issue in general Member comments. The issue was high on the list of general themes from Observers

IAIS Resolution:

ComFrame is based on the ICPs, but adds to them and reduces the options allowed within the ICPs for IAIG supervision by being more specific in some instances, thus complementing them with a view to the supervision of IAIGs. Since IAIGs are the most complex insurance groups supervised by insurance supervisors, proportionality applies.

Relationship of ComFrame with existing regulatory/legal systems

The issue raised was how ComFrame will be implemented in existing regulatory/legal systems and what its implementation will mean for existing regulatory/legal systems. This was the most significant issue for Observers and was also high on the list of general comments from Members. There were a few Observers calling for no change to existing national/regional regulatory/legal systems.

IAIS Resolution:

The IAIS sets standards in the expectation of a common basis of supervision for IAIGs that are translated as needed by national/regional regulators into national/regional regulation and supervision. In this way, it is essentially no different from ICPs needing to be translated into national/regional systems as needed. To the extent national/regional systems embody these standards and best practices, there is no need to change.

Level of prescription in Modules and Elements

The level of prescription in Modules and Elements was a significant issue for both Members and Observers. However, prescriptiveness is often used as a general term, no clear distinction made between administrative burden, lack of focus, intrusiveness. Perhaps some parts of ComFrame are more susceptible to a true outcomes focused approach. One Observer in commenting on solvency elements noted a need for more prescription of these elements globally than other parts of ComFrame in order to achieve a level playing field across jurisdictions.

IAIS Resolution

The level of detail should be determined in relation to the risks in scope and/or level of commonality aspired to and ComFrame should focus more on streamlining the supervisory process.



Focus on IAIG specific issues and criteria

The view that was a notable theme of comments from Observers is that rather than try to create comprehensive framework for supervision of IAIGs, the IAIS should concentrate on unique challenges of supervising IAIGs. This view appeared linked to the view that existing regulatory/legal systems should remain untouched and the IAIS' focus should be on gaps created between existing regulatory/legal systems. There was also a view that there should be a focus on interconnectedness among parts of an IAIG.

A related concern was that identification of IAIGs was not possible at the time of the publication of the Concept Paper. Respondents expressed the desire that criteria for identifying IAIGs should be clearly spelt out to avoid ambiguity, but reserving constrained discretion for supervisors.

IAIS Resolution

ComFrame should remain focused on IAIGs and the criteria for determining IAIGs should go out for consultation in mid-2012. The IAIS is seeking to establish a risk-based and risk-commensurate approach to the supervision of IAIGs, not a two-tiered approach. The nature of the risks embodied in an IAIG calls for more intensive supervision.

Solvency and Valuation in ComFrame

Some Members have called for a greater emphasis on solvency requirements in ComFrame. A few Observers seek greater harmonisation of solvency requirements in order to have a level playing field across jurisdictions. Respondents expressed general but not universal support for solvency requirements to be covered in ComFrame but with some comments that it should allow for existing systems to operate.

It was noted by respondents that the basis of Valuation in the Concept Paper relies on International Financial Reporting Standards (IFRS). It was noted that there is uncertainty as to the timing of completion of IFRS projects on insurance contracts and financial instruments.

Observers and a few Members raised concerns about basing requirements on IFRS to the possible exclusion of other accounting frameworks. Observers in particular noted that there is a lack of international convergence on accounting for insurance contracts and put forward a view about waiting for that to occur before IAIS moves forward. There was also uncertainty about whether valuation in ComFrame is for comparability or about consistency across a group for individual group analysis.

IAIS Resolution

ComFrame has been set up from the beginning as a multidisciplinary approach whereby capital is only one aspect of solvency and solvency is only one aspect of ComFrame. The IAIS had a specific strategic discussion about the capital component of solvency assessment and valuation the results of which can be seen in section VI.



Resolution Plans

Observers commented that recovery plans should only be required where solvency is an issue. Some Observers thought that the requirement to have resolution plans is an issue only for Globally Systemically Important Financial Institutions (G-SIFIs). There was also a range of views on whether resolution plans would generally be useful for IAIGs.

IAIS Resolution

Rather than requiring specific resolution plans, ComFrame should include an analysis of scenarios and the flexibility of IAIGs to reposition when under stress.



Appendix 2 Strategic Directions

This section sets out the results of the strategic discussions held by the Technical Committee.

A. Capital component of solvency assessment

The Technical Committee decided that the capital component of the solvency assessment of in ComFrame should have the following features, among others:

- Enterprise Risk Management (ERM) and the Total Balance Sheet approach would form the common foundation for development of the capital component of solvency assessment.
- Valuation is to be based on IFRS (or a reconciliation to IFRS) as a working assumption with filters and complements to be built where needed as IFRS develops
- Valuation within ComFrame is both about comparability among IAIGs and about consistency of application across IAIGs for solvency analysis of those IAIGs.
- An approach regarding a range of similar means to address the risks for IAIGs as set out in the Concept Paper is to be developed.
- A partly harmonised set of standards and parameters which sets out a narrow range of target criteria and time horizons for measurement of those risks is to be developed. Implicit target criteria would be allowed providing that the underlying rationale is evidenced.
- A system which allows for various standardised approaches (factor or stochastic) with internal models accepted is to be built. Basic principles of internal models and disclosures to allow comparison between various jurisdictions are to be spelt out.
- Basic requirements and common terminology for capital resources along with mapping of capital resources requirements in key jurisdictions is to occur by June 2012. A common definition of capital resources is to be established by 2013.
- There is to be further elaboration on stress testing in ERM processes and on stress testing by the group-wide supervisor. Further elaboration on stress testing on an industry-wide basis is to be deferred to future development as part of the Macroprudential Surveillance work of the IAIS.

B. Supervisory Process

In February 2012, the Technical Committee conducted a strategic discussion about the supervisory process in ComFrame. Observers provided input in the preceding ComFrame Dialogue on the issue of the effectiveness of the supervisory process in general and the assessment of risk management in particular with regard to IAIGs. The results of the strategic discussion are set out in this section. This will help stakeholders to understand the background to Module 3.

Objectives of ComFrame Supervisory Process

The ComFrame Supervisory Process forms the basis for the involved supervisors to:

- Identify potential or developing material risks which potentially could have an adverse impact on the IAIG and individual insurers and its policyholders and
- Holistically and with a focus on substance address those risks through application of supervisory measures in a coordinated, appropriate and proportionate manner in the group.



Key orientation of the ComFrame Supervisory Process

The ComFrame Supervisory Process should:

- Be commensurate with risks and complexities inherent in IAIGs
- Use all available information
- Be a pro-active, thorough and, where necessary, challenging, assessment
- Provide a holistic assessment on a multidisciplinary basis
- Follow up on implementation of supervisory measures
- Be based on cooperation among supervisors involved in an international context and
- Consider the economic environment.

Components of Supervisory Process

Supervisory Process is an ongoing process based on the following underlying components that can be addressed in a flexible fashion:

- Input
- Risk assessment
- Supervisory planning
- Analysis by the supervisor (off-site and on-site)
- Decision making
- Implementation of supervisory decisions and enforcement

These components are a basis for structuring material in Module 3 Element 1 on supervisory process but these components can be included differently in every jurisdiction.

Communication with IAIGs during the supervisory process is important but the IAIS will need to consider the extent of communication necessary at each stage of the supervisory process. It was also noted that cooperation among supervisors is required in all aspects of the supervisory process.

Input - Risk Assessment

A wide range of inputs is to be used in the risk assessment. Risk assessment determines the level of supervisory intensity. The group-wide supervisor has responsibility for driving the group risk assessment but cooperates with other involved supervisors through the supervisory college process. Risk assessment should have a commonly understood approach across jurisdictions so that involved supervisors can easily cooperate on risk assessment by reference to the same terms.

Planning

Supervisory planning should consist of a long-term strategic supervisory plan (3 to 5 years) and a supervisory program (1 year) as part of that strategic supervisory plan. Priority should be given to the assessment of those risks considered most significant. Flexibility is to be maintained to ensure particular risks and complexity that warrant specific examination are addressed if there are immediate concerns.

Off-site monitoring



Off-site monitoring is to be based on periodic and ad hoc supervisory reporting. Off-site monitoring should have minimum standards to cover in-depth strategic and business review, financial analysis, governance analysis including change events on a holistic basis. The outcomes of off-site monitoring and analysis by the group-wide supervisor should be shared with other involved supervisors. The results of off-site monitoring, not the detailed analysis, are to be communicated to IAIGs and where necessary discussed with IAIGs.

On-site interactions and activities related to group-wide supervision

A kernel of common practices for on-site interactions and activities is to be developed but ComFrame should allow for practices to be tailor-made for different IAIG structures. Access to key persons and functions of the IAIG should be ensured. The group-wide supervisor should provide high-level coordination of group-level on-site interactions and activities including cooperation with relevant involved supervisors. The group-wide supervisor must respect local mandatory legal requirements. On-site interactions and activities include on-site inspection activities.

Supervisory Analysis

The approach to supervisory analysis in ComFrame should not be prescriptive but should focus on substance. The group-wide supervisor must undertake supervisory analysis at the group level but work with other involved supervisors in doing so. The group-wide supervisor and other involved supervisors should combine their perspectives. Material results of the supervisory analysis should be discussed during supervisory college meetings. The results of the supervisory analysis should be communicated with the IAIG where appropriate.

Horizontal reviews

Horizontal reviews should provide a point of comparison so that risk assessment of each IAIG is not made in isolation. Horizontal reviews should provide a platform for continuous improvement. Horizontal reviews will result in the comparison of risk assessment of IAIGs headquartered in different jurisdictions. Horizontal reviews will also be used to assess market-wide risks and will be helpful in the context of macroprudential surveillance.

Decision Making

Supervisory decision making must be based on supervisory analysis. Where appropriate, there should be communication of issues to Board members, senior management, key persons in control functions before actions/decisions are finalised. There must be a due process for decision making. ComFrame needs to elaborate decision making in a group-wide context is needed in ComFrame.

Implementation and Enforcement

The group-wide supervisor and involved supervisors should monitor the implementation of supervisory decisions. The group-wide supervisor should consult with involved supervisors regarding cross-border implementation and enforcement. It is important that no supervisor pre-empts the actions of others and that national responsibilities are not overruled. Enforcement is to be based on a clear escalation of preventive and corrective measures or a very significant identified issue.

Supervisory reporting and disclosure in ComFrame



The principle for the development of supervisory reporting and disclosure is that certain information must be available to supervisors regularly but there should be flexibility in how this is to be achieved. Supervisory reporting requirements should be no more than needed. The need for external audit of certain elements of supervisory reporting should be considered. Where existing systems meet ComFrame reporting requirements then no changes will be needed but some systems may need to make new arrangements to obtain information regularly.

Timely public disclosure requirements for IAIGs, including for mutuals, should build on disclosures required by securities laws and accounting standards. ComFrame is not to set out an additional level of reporting requirements if the general level of information available to supervisors is fit for group supervisory purposes. Event driven supervisory reporting should also be set out.

Supervisory cooperation

ComFrame should include an overall or general commitment to cooperation, coordination and interaction. The group-wide supervisor should be able to rely on work of other involved supervisors and vice versa. Some material on information exchange and confidentiality needs to be developed. Confidentiality should not to be used as an alleged barrier and workable solutions should be found within the legal limits of each jurisdiction. The basic duties and responsibilities of supervisors to cooperate and exchange information are to be set out but details will be developed over time. There should be a readiness to recognise actions of other involved supervisors.

Identification of Group-wide Supervisor in ComFrame

All IAIGs are to have a group-wide supervisor. In principle only one group-wide supervisor is to be identified. However, in exceptional circumstances two or more group-wide supervisors may be identified but with a duty of seamless cooperation. The duty of seamless cooperation is to be spelled out. Under certain circumstances, sub-group supervisors can be appointed if the structure of the IAIG makes that useful. The group-wide supervisor is usually the supervisor in the jurisdiction where the head office is located unless operations are centred elsewhere.

The group-wide supervisor should have access to Board members, senior management, key persons in control functions of the Head of the IAIG, and others, where business is outsourced.

Roles of the group-wide and the involved supervisors

General Principles for the allocation of roles to the group-wide supervisor and other involved supervisors are:

- Clear allocation of roles is key
- Duplication of work should be eliminated through supervisory cooperation and coordination
- The allocation of roles should be in line with the responsibilities for tasks, reporting lines and hierarchies and considering group structure
- The allocation of roles should also work in a non-insurance context
- All involved supervisors are to take responsibility for identifying regulatory gaps and
- Group-wide supervisor is to place particular emphasis on identifying regulatory gaps.



The group wide supervisor is typically tasked with activities relating to the group as a whole, e.g.:

- Launching and leading the Supervisory College
- Aggregating group-wide input
- Preparing supervisory planning
- Conducting/leading supervisory activities
- Preparing group-wide supervisory analysis
- Sharing information with involved supervisors
- Determining decision making in consultation with involved supervisors
- Launching implementation and enforcement
- Identifying gaps in supervision
- Overseeing group capital management.

The involved supervisors are typically tasked with activities relevant to their supervised entity and sharing information with other involved supervisors, e.g.:

- Supervising the local entity in a group context
- Sharing all information relevant with the group-wide supervisor and thus other involved supervisors
- Participating in the Supervisory College, including Sub Group College if so needed
- Cooperating in the Analysis and Decision Making as well as Implementation and Enforcement
- Identifying gaps in supervision

Use of Supervisory Colleges

Supervisory Colleges are to be established and used in a way commensurate with the complexity of IAIGs. ComFrame should set out typical agenda items or standing agenda items, including in particular the supervisory risk assessment of the IAIG. ComFrame should set out principles for meeting frequency, and allow for flexibility based on IAIG circumstances and market conditions. Criteria for communication between meetings (e.g. teleconferences) should be set out.

ComFrame should also consider coordinated supervisory activities. The involvement of the IAIG Board and Senior Management in Supervisory College activities should be considered in ComFrame. Reporting from Supervisory Colleges to IAIG Board and Senior Management should be considered.

Crisis management among supervisors and IAIGs and resolution

ICP 26 is the basis for crisis management among supervisors, but ComFrame will be more definitive on IAIG crisis management. ICP 12 only applies to individual legal entities so ComFrame should address resolution in a group context as well as cross-border resolution for IAIGs. Applicable parts of “FSB Key Attributes of Effective Resolution Regimes or Financial Institutions” are to be considered, however recovery and resolution plans are only required for G-SIFIs. The interaction between Module 3 and Module 2 regarding flexibility to restructure must be considered. Ring-fencing should be addressed, however this is a difficult issue and dealing with it should not delay completion of other material on crisis management.

Conglomerates

Coordination with other sector supervisors should be addressed throughout Module 3 as necessary. The role of the group-wide supervisor in a conglomerates context is to be



considered. Coordination of on-site interactions and activities of different sectors of conglomerates is to be specifically addressed.

Resulting structure of Introduction and Module 3

The structure of ComFrame relating to Supervisory Process is as follows:

- Introduction of ComFrame sets out the objective and key characteristics of the Supervisory Process and explains the organisation of the Supervisory Process material in ComFrame
- Module 3 contains 8 Elements which cover:
 - Element 1 Supervisory Process (key characteristics, stages, strategic supervisory plan, annual supervisory program etc)
 - Element 2 Reporting and disclosure
 - Element 3 Principle of cooperation, coordination and interaction between supervisors including reliance and recognition
 - Element 4 Identification of the group-wide supervisor and involved supervisors
 - Element 5 Roles of group-wide and involved supervisors
 - Element 6 Use of Supervisory Colleges
 - Element 7 Crisis management among supervisors
 - Element 8 IAIGs and resolution



Module 1

Scope of ComFrame

Module 1 Introductory Comments

In Module 1 the identification of IAIGs is done in several steps: As a first step, Element 1 covers the identification of IAIGs by supervisors based on their consolidated financial statements. Identification then applies the size and international activity criteria as well as constrained discretion, followed by Element 2 which describes the process including regular reviews. Element 3 addresses whether for supervisory purposes individual legal entities need to be added to the identified IAIGs and other considerations related to supervision. Element 4 addresses the identification of the group-wide supervisor.



Module 1, Element 1

Identification of internationally active insurance groups

| ComFrame Standard M1E1-1 | |
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| ComFrame provides a framework for the supervision of internationally active insurance groups, IAIGs. | |
| Parameter M1E1-1-1 An IAIG is a group which includes at least one insurance legal entity and which fulfils the ComFrame Criteria (see M1E1-1-2). However, constrained supervisory discretion may also be taken into account (see M1E1-1-3). | <i>Specification M1E1-1-1-1 An “insurer” includes both a primary insurer and a reinsurer.</i> |
| | <i>Specification M1E1-1-1-2 Although an insurance legal entity which has no parent or subsidiaries is legally not an insurance group, it is regarded as an IAIG if it operates through branch offices in foreign countries and meets the ComFrame Criteria in M1E1-1-2 for the purpose of ComFrame.</i> |
| | <i>Specification M1E1-1-1-3 Fulfilment of the ComFrame Criteria in M1E1-1-2 will be assessed on the basis of consolidated general purpose financial statements. If consolidated financial statements are prepared for supervisory purposes according to supervisory reporting requirements or national reporting standards, they will be applied in lieu of the consolidated general purpose financial statements.</i> |
| | <i>Specification M1E1-1-1-4 An IAIG may be a financial conglomerate or part of a financial</i> |



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| | <p><i>conglomerate.</i></p> <p><i>A “financial conglomerate” is any group of companies under common control or dominant influence, including any financial holding company, which conducts material financial activities in at least two of the regulated banking, securities or insurance sectors [taken from draft “Joint Forum Principles for the Supervision of Financial Conglomerates”]</i></p> |
| | <p><i>Specification M1E1-1-1-5</i></p> <p><i>The ComFrame criteria in M1E1-1-2 will be assessed at the level of Head which is a financial institution or a financial holding company.. For financial conglomerates, the “Head” or “Head of the financial conglomerate (or group)” unless otherwise specified means the entity which controls or exerts dominant influence over the financial conglomerate (the head of the financial conglomerate may be the ultimate parent, or may be the head of a financial conglomerate that is a subset of the wider group. [taken from draft “Joint Forum Principles for the Supervision of Financial Conglomerates”]</i></p> |
| | <p><i>Specification M1E1-1-1-6</i></p> <p><i>The group assets and operations outside of the insurance sector will not be taken into account for the assessment of the ComFrame Criteria. However, a parent non-financial holding company or non-financial operating company may fall within the scope of ComFrame supervision (see Element 3).</i></p> |
| <p>Parameter M1E1-1-2 The ComFrame Criteria referred to in M1E1-1-1 consist of the:</p> <p>(a) international activity criteria</p> <ul style="list-style-type: none"> • premiums are written in not less than 3 jurisdictions and | <p><i>Specification M1E1-1-2-1</i></p> <p><i>“Premiums are written” may be by the insurer, a subsidiary, a branch or on a cross border basis. Cross border premiums should be considered further under constrained supervisory discretion (M1E1-1-3).</i></p> |



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| <ul style="list-style-type: none"> percentage of gross premiums written outside the home jurisdiction is not less than 10% of the group's total gross written premium. <p>and</p> <p>(b) size criteria (based on a rolling three-year average)</p> <ul style="list-style-type: none"> total assets of not less than USD 50 Billion or gross written premiums of not less than USD 10 Billion. | <p><i>“Gross premiums written” are insurance premiums before ceded reinsurance on a consolidated basis.</i></p> <p><i>“Gross premiums written outside the home jurisdiction” are gross premiums written from subsidiaries, branch offices or on a cross border basis outside the home jurisdiction.</i></p> <p><i>“Home jurisdiction” is the jurisdiction in which an IAIG is headquartered.</i></p> <p><i>“Jurisdiction” is a jurisdiction subject to the International Monetary Fund’s (IMF) Financial Sector Assessment Programme (FSAP).</i></p> |
| | <p><i>Specification M1E1-1-1-2-2</i></p> <p><i>If an IAIG pursues insurance activities with an associate or through a joint venture or joint arrangement, these activities are taken into account to the extent provided for in accounting standards or regulatory reporting standards.</i></p> |
| <p>Parameter M1E1-1-3</p> <p>Under specific circumstances, insurance groups that meet the criteria set out in M1E1-1-1 may be excluded from ComFrame and insurance groups that do not meet the criteria may be included in ComFrame. This process is referred to as “constrained supervisory discretion”.</p> | <p><i>Specification M1E1-1-3-1</i></p> <p><i>The identification process for an IAIG is via a supervisory college (where it exists) – refer to M1E2-1.</i></p> |
| | <p><i>Specification M1E1-1-3-2</i></p> <p><i>Where involved supervisors identify an IAIG that predominantly writes premiums in multiple jurisdictions on a cross border basis, particular consideration should be given whether supervision following ComFrame principles, parameters and specifications would provide effective supervision of that group.</i></p> |



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| | <p><i>Specification M1E1-1-3-3</i> <i>Supervisory decisions must be clearly documented when a group (see M1E2-1-2):</i></p> <ul style="list-style-type: none">• <i>meets the ComFrame Criteria but is not classified as an IAIG due to the application of supervisory discretion or</i>• <i>does not meet the ComFrame Criteria but supervisory discretion is applied to classify a group as an IAIG.</i> |
| | <p><i>Specification M1E1-1-3-4</i> <i>The following examples show how the supervisory discretion process may be applied: (See Module 1, Element 2 and Annex I.)</i></p> <ul style="list-style-type: none">• <i>other involved supervisors request the group-wide supervisor to consider an insurance group as an IAIG if its business activities in the host countries are material, even if the group does not meet some of the criteria in M1E1-1-2.</i>• <i>a group will meet ComFrame Criteria in the near future, for example, through mergers and acquisitions.</i>• <i>a group will not meet ComFrame Criteria in the near future as a result of, for example, expected disposal of part of the group operations.</i> |

Module 1 Element 1 ComFrame Commentary

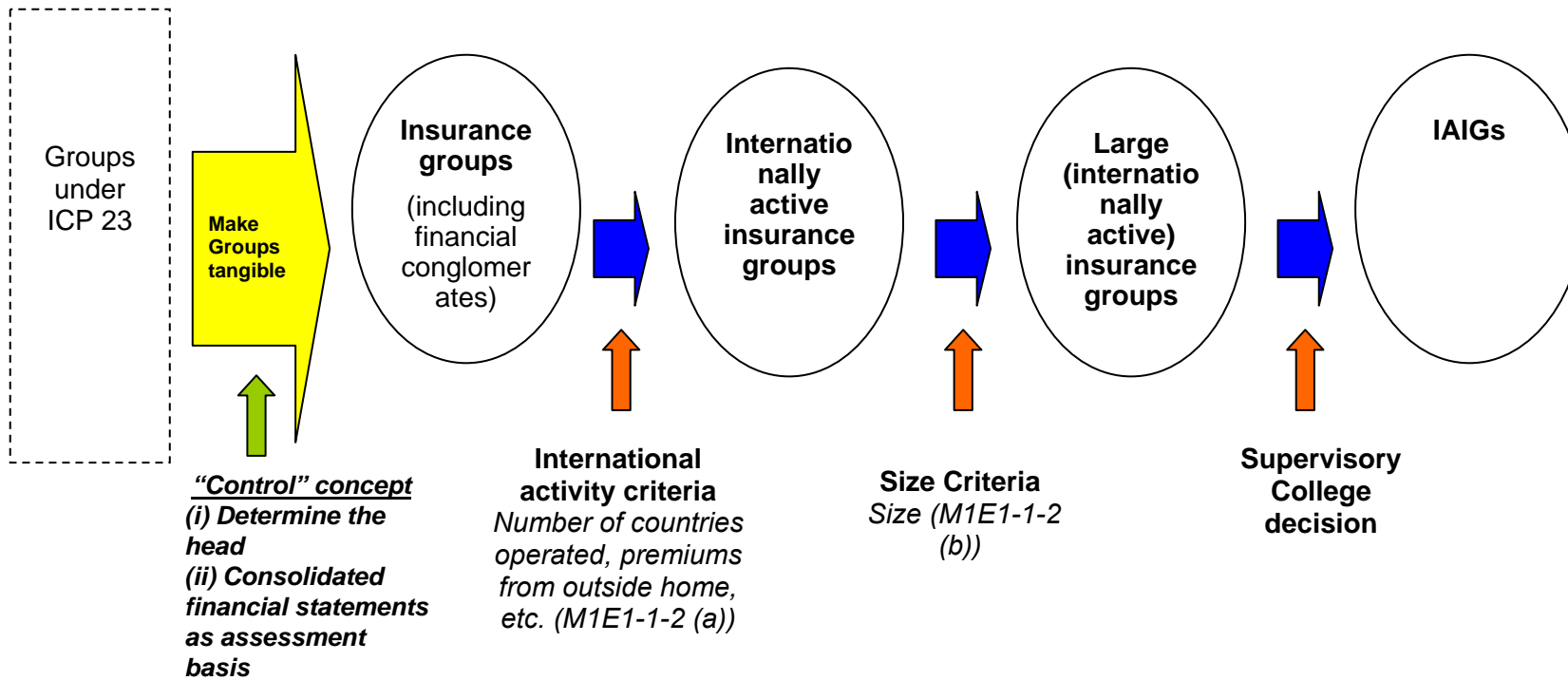
- The relationship between the group-wide supervisor of the IAIG and other involved supervisors will vary according to the structure of an IAIG. An IAIG may be:
 - An insurance group that only conducts insurance business
 - A financial conglomerate dominated by insurance business that also includes other financial business such as banking or securities related activities
 - Part of a wider financial conglomerate which is dominated by other financial business but the IAIG is a sub-group within the overall financial conglomerate



- Part of an industrial conglomerate
- The relationship between the group-wide supervisor of the IAIG and other involved supervisors will vary depending on the structure of the IAIG in the following ways:
 - Where the IAIG is an insurance group, this Element does not apply and the role of the group-wide supervisor and host supervisors is set out in Module 3.
 - Where the IAIG is a financial conglomerate dominated by the insurance business, Module 3 sets out the role of the group-wide supervisor which also encompasses the role of a conglomerate-wide supervisor.
- The criteria in Module 1, Element 1 should be interpreted as minimum benchmarks. However, it is not the intent of the criteria to distort the business operations of IAIGs. IAIGs should not change/rearrange their business activities in order not to meet the criteria because supervisory discretion will be applied appropriately and consistently.
- In ICP 23 (23.2.1), an insurance group is deemed to exist if there are two or more entities of which at least one has a significant influence on an insurer. Translating this into ComFrame, an insurance group is a group which directly or indirectly controls an insurer. However, the provisions of M1E1-1-1-2 should also be noted – a single insurance legal entity may be considered an IAIG if it meets the ComFrame criteria.
- From insurance groups defined generally under ICP 23, IAIGs are identified by applying the size and international activity criteria subject to supervisory college decision.
- A group headed by, for example, a bank or a bank holding company which owns an insurer may also be considered to be an insurance group for the purpose of group-wide supervision (under ComFrame as well as ICP 23).



IAIG Identification (Selection) Process





Module 1, Element 2

Process of identifying internationally active insurance groups

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| <p>ComFrame Standard M1E2-1 *reference ICP 23, Guidance 23.1.1, 23.1.3</p> <p>The group-wide supervisor of an IAIG leads the process of identifying an IAIG and has the responsibility to identify an IAIG in cooperation with other involved supervisors. Any involved supervisor may prompt the process.</p> | |
| <p>Parameter M1E2-1-1 The supervisory college will be the mechanism for the identification of an IAIG. The college facilitates decision-making among involved supervisors including the possible application of discretion as set out in M1E1-1-3.</p> | <p><i>Specification M1E2-1-1-1</i> <i>The group-wide supervisor and involved supervisors are defined in M3E3.</i></p> |
| <p>Parameter M1E2-1-2 Involved supervisors come to a joint decision on the identification of an Internationally Active Insurance Group (IAIG).</p> | <p><i>Specification M1E2-1-2-1</i> <i>When no group-wide supervisor has been formally identified and agreed upon by involved supervisors then the supervisor demonstrating the characteristics in M1E4-1-2-1 is responsible for coordination of the identification process.</i></p> |
| | <p><i>Specification M1E2-1-2-2</i> <i>When no supervisory college exists, any involved supervisor may request that an insurance group be analysed to determine whether it meets the ComFrame Criteria described in M1E1-1-2. Key involved supervisors are invited to participate in the identification process by the supervisor demonstrating the characteristics in Specification M1E4-1-2-1.</i></p> |



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| <p>Parameter M1E2-1-3 The involved supervisors (especially the group-wide supervisors) are accountable and are able to explain the appropriateness of the identification of the IAIG. This is particularly important where constrained discretion is applied by the supervisory college in accordance with M1E1-1-3.</p> | |
| <p>ComFrame Standard M1E2-2</p> <p>The group-wide supervisor, in cooperation with other involved supervisors, reviews the continued appropriateness of a group which qualifies as an IAIG.</p> | |
| <p>Parameter M1E2-2-1 The review is carried out at least on an annual basis to determine if:</p> <ul style="list-style-type: none"> • an IAIG continues to meet the ComFrame Criteria or • there are new insurance groups that meet the ComFrame Criteria. | <p><i>Specification M1E2-2-1-1</i> <i>Transitional arrangements should be taken into account as set out in M1E1-1-3-4.</i></p> |
| <p>Parameter M1E2-2-2 When an IAIG does not meet the ComFrame Criteria for three consecutive years, then it will no longer be considered as an IAIG for the purposes of ComFrame.</p> | <p><i>Specification M1E2-2-2-1</i> <i>When a group ceases to meet some of, or all the ComFrame Criteria due to certain temporary factors, for example a decrease in gross premium written due to a temporary shock to an economy(ies), but is expected to resume meeting the criteria within a few years, the group is still considered to be an IAIG.</i></p> |
| | <p><i>Specification M1E2-2-2-2</i> <i>When it is determined that a group will not meet some of the ComFrame Criteria because of, for example, the disposal of part of the group operations, the group will no longer be considered to be an IAIG.</i></p> |



Module 1, Element 3

Scope of ComFrame supervision

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| ComFrame Standard M1E3-1 *reference ICP 23, Standard 23.2 | |
| The scope of ComFrame supervision covers all the relevant entities of an IAIG. | |
| <p>Parameter M1E3-1-1 Entities within the scope of ComFrame supervision are determined in relation to the Head of the IAIG. Involved supervisors identify the Head of the IAIG and its Governing Body and the Senior Management.</p> | <p><i>Specification M1E3-1-1-1</i> <i>The Head of the IAIG is the legal entity which controls or exerts dominant influence over the other elements of the IAIG and can be the ultimate parent of the IAIG (or a subset of a wider Group).</i></p> <p><i>The Governing Body of the IAIG is generally the Board of Directors of the entity which is the Head of the IAIG (subject to the application of supervisory discretion).</i></p> <p><i>The IAIG's Senior Management is the Senior Management of the entity which is the Head of the IAIG.</i></p> <p><i>The IAIG should be able to demonstrate to the involved supervisors that the relevant responsibilities relating to the IAIG can be fully met by the Head of the IAIG, its Governing Body and Senior Management.</i></p> <p><i>Similarly, the involved supervisors may consider, subject to applicable jurisdictional legal requirements, individuals other than members of the Board or Senior Management of the Head of the IAIG to be members of the IAIG's Governing Body or Senior Management. For example, this may be relevant to ensure that appropriate expertise relating to insurance business is available at the Governing Body/Senior Management level where the Head of the IAIG is not an insurer.</i></p> |



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| <p>Parameter M1E3-1-2 When determining which entities to capture within the scope of ComFrame supervision, both “control” and “risk” aspects need to be taken into consideration. In this context, the relevant entities should include not only the entities which are accounted for on the consolidated basis (“consolidated entities”) but also other entities if they are relevant from the perspective of risk (“non-consolidated entities also subject to supervision”). The entities can either be incorporated or unincorporated.</p> | <p><i>Specification M1E3-1-2-1</i> “Control” is deemed to exist if the entity is included within the accounting consolidation of the IAIG. The control concepts are used to determine entities included in consolidated financial statements.</p> |
| <p>Parameter M1E3-1-3 The relevant consolidated entities include:</p> <ul style="list-style-type: none">• operating and non-operating holding companies (including intermediate holding companies)• insurers (including sister or subsidiary insurers)• other regulated entities such as banks and/or securities companies• non-regulated entities (including parent companies, their subsidiary companies and companies substantially controlled or managed by entities within the group)• special purpose entities and/or• branch offices etc. | <p><i>Specification M1E3-1-3-1</i> At a minimum, all the entities which are included in the Group Capital Adequacy Assessment under M2E8 should be included in the scope of ComFrame supervision.</p> |
| <p>Parameter M1E3-1-4 The relevant non-consolidated entities subject to supervision are identified by considering, at a minimum, the following elements:</p> <ul style="list-style-type: none">• direct or indirect participation (i.e. equity interest),• significant/dominant influence• other contractual rights and obligations• risk exposure• risk concentration | <p><i>Specification M1E3-1-4-1</i> All relevant non-consolidated entities subject to supervision should be identified to the extent they may have significant adverse impact on insurance legal entities within an IAIG or an IAIG as a whole.</p> |



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| <ul style="list-style-type: none"> • risk transfer • intra-group transactions and exposures and/or • governance structure. | |
| | <p><i>Specification M1E3-1-4-2</i> <i>Governance structure varies as set out in M3E1. An IAIG may centralise or decentralise its governance functions and structure. It is important for a supervisor to take into account the IAIG's governance structure, including allocation of responsibilities, to determine which entities are within the scope of supervision.</i></p> |
| <p>Parameter M1E3-1-5 Types of entities to which specific ComFrame requirements are applied or not applied are specified in the relevant Modules/Elements and Standards where necessary.</p> | <p><i>Specification M1E3-1-5-1</i> <i>The ComFrame requirements are not necessarily applied to all types of entities within the scope of ComFrame supervision. Supervisory approaches to and supervisory requirements for types of entities/activities within the scope may vary depending on, for example, the types of business, legal status of the entities and/or nature, scale and complexity of risks.</i></p> |
| <p>Parameter M1E3-1-6 The principle of proportionality applies in determining the scope of ComFrame supervision. Individual entities may also be excluded from the scope of ComFrame supervision if the risks of/from those entities are negligible.</p> | <p><i>Specification M1E3-1-6-1</i> <i>Any entities excluded from the scope of ComFrame supervision will be regularly reconsidered for inclusion.</i></p> |
| <p>ComFrame Standard M1E3-2 *reference ICP 23, Standard 23.1</p> <p>The group-wide supervisor leads the process of determining the scope of ComFrame supervision in cooperation with other involved supervisors.</p> | |



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| <p>Parameter M1E3-2-1 *reference ICP 23, Standard 23.3 The group-wide supervisor does not narrow the identified scope of ComFrame supervision due to lack of legal authority and/or supervisory power. In some countries, an insurance supervisor may not have the legal authority to supervise certain entities within the identified IAIG.</p> | <p><i>Specification M1E3-2-1-1</i> <i>The entities over which insurance supervisors may not have legal authority of supervisory power could include entities regulated in another sector (see M1E4-1-3) and non-regulated entities.</i></p> |
| <p>Parameter M1E3-2-2 The involved supervisors of an IAIG share any information needed for the identification of the scope of ComFrame supervision with the other relevant involved supervisors.</p> | <p><i>Specification M1E3-2-2-1</i> <i>An insurer and other entities within the IAIG should provide supervisors with any information needed for the determination of the scope of the IAIG.</i></p> |
| <p>Parameter M1E3-2-3 In determining the scope of ComFrame supervision, involved supervisors should capture all relevant material risks to which insurers within an IAIG are exposed.</p> | |
| <p>Parameter M1E3-2-4 All involved supervisors (especially the group-wide supervisor) should be able to explain the appropriateness of, and be accountable for, the determined scope of ComFrame supervision.</p> | |
| <p>Parameter M1E3-2-5 The involved supervisors should consult and agree amongst themselves on the scope of ComFrame supervision for the identified IAIG to ensure that there are no gaps and no unnecessary duplication in regulatory oversight among jurisdictions.</p> | |



Module 1 Element 3 ComFrame Commentary

- The scope of ComFrame supervision as set out in Element 3 should be no less than that provided for in ICP 23. The scope of group-wide supervision in ICP 23 covers not only consolidated entities but equally non-consolidated entities also subject to supervision. The same should apply to the scope of ComFrame supervision.
- When a decision is made to consider the sub-group of a financial conglomerate as an IAIG that decision has to be explainable to all involved supervisors.
- A Governing Body larger than the Board of Directors of the Head of the IAIG is needed where the Head of the IAIG is not an insurer, and hence does not have the necessary expertise at its Board level relating to insurers within the IAIG. For example, if an unregulated holding company at the top has substantive control over an IAIG, then it can be treated as the Head of the IAIG, subject to the provision that it has a Governing Body that imports necessary expertise relating to insurance by having individuals with relevant expertise in insurance.



Module 1, Element 4

Identification of group-wide supervisor and involved supervisors

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| <p>ComFrame Standard M1E4-1 *reference ICP 25, Standard 25.3</p> <p>Involved supervisors determine the group-wide supervisor and agree upon the supervisor to take on that role based upon clear and transparent criteria.</p> | |
| <p>Parameter M1E4-1-1 The group-wide supervisor is the supervisor who has the responsibility for supervising the IAIG as a whole in conjunction with the other involved supervisors.</p> <p>See Commentary</p> | <p><i>Specification M1E4-1-1-1</i> <i>In principle only one group-wide supervisor is to be identified but in exceptional circumstances two or more group-wide supervisors may be identified with the proviso that those supervisors identified work together seamlessly as a single body.</i></p> |
| | <p><i>Specification M1E4-1-1-2</i> <i>When more than one involved supervisor is identified as group-wide supervisors there must be clear allocation of roles between these identified group-wide supervisors.</i></p> |
| <p>Parameter M1E4-1-2 The involved supervisors come to a joint decision on the group-wide supervisor.</p> | <p><i>Specification M1E4-1-2-1</i> <i>In principle, role of group-wide supervisor is undertaken by the supervisor in the jurisdiction where:</i></p> <ul style="list-style-type: none"> • <i>the Head of the IAIG is based</i> • <i>the insurance operations of the IAIG are actually controlled</i> • <i>the supervisor has the statutory responsibility to supervise the Head of the IAIG.</i> |



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| | <p><i>Specification M1E4-1-2-2</i> <i>If a joint decision cannot be reached by involved supervisors, the group-wide supervisor is the supervisor of the jurisdiction where the Head of the IAIG of the IAIG (including if this is a non-operating holding company - NOHC) is located.</i></p> |
| | <p><i>Specification M1E4-1-2-3</i> <i>“Involved supervisors” are supervisors involved in the supervision of an IAIG and include the group-wide supervisor, host supervisors and other relevant sectoral supervisors. Involved supervisors may not necessarily be members of the IAIS.</i></p> <p><i>“Host supervisor” is any supervisor from a jurisdiction where the IAIG undertakes significant and/or relevant activities other than the jurisdiction of the group-wide supervisor of the IAIG. This will include those of major branches or branches relevant for the jurisdiction they are located in.</i></p> |
| | <p><i>Specification M1E4-1-2-4</i> <i>Other relevant involved supervisors may include, but are not limited to, other insurance supervisors inside and outside the jurisdiction, other sectoral supervisors inside and outside the jurisdiction, relevant authorities for AML/CFT matters, and/or law enforcement agencies.</i></p> |
| | <p><i>Specification M1E4-1-2-5</i> <i>“Other relevant sectoral supervisors” are banking and securities supervisors [consistent with Joint Forum Principles on the Supervision of Financial Conglomerates].</i></p> |
| | <p><i>Specification M1E4-1-2-6</i> <i>For banking dominated financial conglomerates, the banking activities are supervised by banking supervisors. Here, cooperation between insurance and banking supervisors is necessary.</i></p> |



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| <p>Parameter M1E4-1-3 Where the Head of the IAIG does not have operational control of the IAIG, then other factors need to be taken into consideration to identify an appropriate group-wide supervisor.</p> | <p><i>Specification M1E4-1-3-1</i> <i>Other factors that would be considered relevant to identify an appropriate group-wide supervisor include the location where:</i></p> <ul style="list-style-type: none"> • <i>the largest proportion of the IAIG’s balance sheet is located and/or</i> • <i>the main business activities of the IAIG are undertaken and/or</i> • <i>the main business decisions are taken and/or</i> • <i>the main risks are underwritten and/or</i> • <i>the supervisor who has statutory responsibility over the Head of the IAIG of the IAIG.</i> |
| <p>ComFrame Standard M1E4-2</p> <p>The group-wide supervisor has ready access to the IAIG’s governing body, senior management and key persons in control functions of the Head of the IAIG.</p> | |
| <p>Parameter M1E4-2-1 The group-wide supervisor has access to key persons in control functions no matter where they are physically or legally located.</p> | <p><i>Specification M1E4-2-1-1</i> <i>“Physical location” refers to the geographic location of the key persons in control functions.</i> <i>“Legal location” refers to the legal entity where key persons are directly employed. The legal entity may be within the IAIG structure or, in the case of outsourcing, outside of the structure of the IAIG.</i> <i>Location of the key persons in control must not be an impediment to supervision.</i></p> |
| <p>Parameter M1E4-2-2 The group-wide supervisor requires the IAIG’s Governing Body to demonstrate the adequacy and effectiveness of the IAIG’s governance framework and that the framework is working as intended.</p> | <p><i>Specification M1E4-2-2-1</i> <i>To ascertain that the IAIG’s group-wide governance framework is effective and operates as intended, the group-wide supervisor:</i></p> <ul style="list-style-type: none"> • <i>establishes effective channels of communication with the IAIG’s Governing Body and other involved supervisors of the legal entities within the IAIG</i> • <i>communicates with the IAIG’s Governing Body and the senior</i> |



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| | <p><i>management and the other involved supervisors of the legal entities within the IAIG, as appropriate</i></p> <ul style="list-style-type: none">• <i>assesses the effectiveness of the IAIG's Governing Body and the senior management, taking into account the nature, scale and complexity of the IAIG's business and structure, and the overall business objectives and strategies of the IAIG.</i> |
| | <p><i>Specification M1E4-2-2-2</i></p> <p><i>The group-wide supervisor may also undertake any one or more of the measures specified in ICP7.10.4 in order to assess the on-going effectiveness of the IAIG's Governing Body in the discharge of their responsibilities relating to the overall governance of the IAIG.</i></p> |

Module 1 Element 4 ComFrame Commentary

- Note the definition of a group-wide supervisor in M3E3-1 is intended to be wider than the definition provided in the IAIS glossary.



Module 2

The IAIG

Module 2 Introductory Comments

“Module 2 The IAIG” contains the requirements that an IAIG will need to meet. These requirements will need to be reflected in national/regional jurisdictions’ regulatory and supervisory regimes. This Module sets out the requirements that will form the basis for the supervisory process and other requirements of supervisors which are set out in Module 3 The Supervisors. Clear links are set out in Module 3 The Supervisors to show how supervisors assess an IAIG in light of the requirements set out in this Module.



Group Governance

Module 2, Element 1

Governance

Module 2 Element 1 Introductory Comments

The first Standard M2E1-1 is the overarching general standard. The subsequent standards contain standards which support achieving the objective of the overarching standard.

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| ComFrame Standard M2E1-1 *reference ICP 7 | |
| The IAIG establishes and implements a group-wide governance framework which is adequate to provide for the sound and prudent management and oversight of the IAIG's overall business, adequately recognising and protecting the interests of policyholders and other stakeholders of insurers within the IAIG. | |
| Parameter M2E1-1-1 The group-wide governance framework of the IAIG is well documented and: <ul style="list-style-type: none">clearly identifies the Head of the IAIG, its Governing Body and the Senior Managementclearly identifies all the legal entities within the IAIG and the jurisdictions in which they are established, domiciled or have operations, including through branchescontains adequate measures to promote the protection of the interests and fair treatment of policyholders and other stakeholders of insurers within the IAIG and | <i>Specification M2E1-1-1-1</i> <i>*reference Specification M1E3-1-1-1 for the relevant definitions</i> <i>The IAIG's Governing Body is responsible for ensuring that the IAIG as a whole is managed prudently and soundly.</i> <i>The IAIG's Senior Management is responsible for ensuring that the business objectives and strategies set by the IAIG's Governing Body are implemented effectively on a group-wide basis.</i> |



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| <ul style="list-style-type: none"> takes due account of the applicable jurisdictional requirements including legal and other obligations applicable to the legal entities within the IAIG, including any of their branches. | |
| <p>ComFrame Standard M2E1-2 *reference ICP 7, Standard 7.1</p> <p>The IAIG’s Governing Body sets the IAIG’s business objectives and oversees the implementation of strategies for achieving those objectives, taking due account of the IAIG’s overall risk strategy and risk appetite. (* reference ERM M2E2).</p> | |
| <p>Parameter M2E1-2-1 *reference ICP7, Standard 7.1 The IAIG’s Governing Body:</p> <ul style="list-style-type: none"> ensures that the IAIG’s group-wide business objectives and strategies do not conflict with jurisdictional requirements applicable to the entities within the IAIG in particular, any business objectives and strategies adopted by any insurer reviews the IAIG’s overall business objectives and strategies to ensure that they remain adequate and appropriate and establishes clear and objective performance goals and measures to be met by the IAIG’s Governing Body and Senior Management to promote the effective implementation of the IAIG’s group-wide business objectives and strategies. | <p><i>Specification M2E1-2-1-1</i> <i>The IAIG’s Governing Body, in setting the IAIG’s group-wide business objectives and strategies, takes into account:</i></p> <ul style="list-style-type: none"> <i>the matters set out in M2E2</i> <i>the matters specified in ICP Standard 7.1 (objectives and strategies of the insurer) so far as they apply to the IAIG as a whole</i> <i>applicable laws and regulations and risks which may arise from doing business in a particular jurisdiction</i> <i>legitimate interests and fair treatment of policyholders and other stakeholders and</i> <i>any material issues relating to the governance of entities within the IAIG, and measures to address such issues.</i> <p><i>The IAIG’s Governing Body undertakes at least annually:</i></p> <ul style="list-style-type: none"> <i>a review of the IAIG’s group-wide business objectives and strategies in light of any changes in internal or external conditions, such as legal, political or markets environment, in which the IAIG’s business operates and</i> <i>an assessment of how the IAIG, its Governing Body and</i> |



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| | <p><i>Senior Management meet the performance goals and measures adopted.</i></p> |
| <p>ComFrame Standard M2E1-3 *reference ICP 7, Standard 7.2</p> <p>The IAIG’s Governing Body ensures that the roles and responsibilities of the IAIG’s Governing Body vis-à-vis the Boards, Senior Management and Key Control Functions of the insurers and other legal entities within the IAIG as applicable are clearly defined to provide adequate oversight of the IAIG.</p> | |
| <p>Parameter M2E1-3-1 The IAIG’s Governing Body:</p> <ul style="list-style-type: none"> • identifies the respective Boards, Senior Management and Key Persons in Control Functions as applicable to the members of the IAIG, and whether any of the individuals holding such positions do so within more than one legal entity within the IAIG and • sets out well defined lines of reporting between the IAIG’s Governing Body and Senior Management, and the legal entities within the IAIG, and between and among the legal entities within the IAIG, as appropriate • establishes or approves policies and performance standards for key Control Functions and for other key control activities of the entities within the IAIG, including where such functions or activities are outsourced to entities within the IAIG (“intragroup” outsourcing) or to entities outside the IAIG (“external” outsourcing) and • sets out procedures to address conflicts of interests that may arise from internal or external sources, including in respect of any intragroup or external outsourcing. | <p><i>Specification M2E1-3-1-1</i> <i>An IAIG has a comprehensive organisational chart which identifies:</i></p> <ul style="list-style-type: none"> • <i>the Head of the IAIG, its Governing Body and Senior Management</i> • <i>insurers within the IAIG (i.e. locally incorporated insurers, and their subsidiaries and branches if any)</i> • <i>jurisdictions in which the legal entities and, in the case of insurers, their branches, are established, domiciled or have operations and</i> • <i>the Boards, Senior Management and Key Persons in Control Functions, as applicable, of the legal entities within the IAIG, and their respective roles and relationships with the other entities within the IAIG, including the IAIG’s Governing Body and Senior Management.</i> <p><i>The IAIG has a code of conduct/ethics which, among other things, covers conflicts of interest.</i> <i>With regard to conflicts of interest, the IAIG establishes appropriate policies and procedures which should apply at least to members of the IAIG’s Governing Body, Senior Management and Key Persons in Control Functions, and at a minimum include:</i></p> <ul style="list-style-type: none"> • <i>criteria for identifying when a material conflict of interest arises,</i> |



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| | <p><i>for example:</i></p> <ul style="list-style-type: none"> – <i>between the interests of legal entities within the IAIG</i> – <i>between the group-wide interests and those of a legal entity or entities within the IAIG</i> – <i>between the interests of the members of the IAIG’s Governing Body, Senior Management and Key Persons in Control Functions and any entities within the IAIG</i> – <i>any other material conflicting interests that may adversely affect the interests of the IAIG as a whole or any entity within the IAIG and</i> <ul style="list-style-type: none"> • <i>processes for resolving or otherwise addressing or mitigating such conflicts of interests (such as requiring pre-approvals, disclosures, and the conduct of transactions at arm’s length).</i> <p><i>With respect to outsourcing , refer to M2E1-9-1-1</i></p> |
| <p>ComFrame Standard M2E1-4 *reference ICP 5 and ICP 7, Standard 7.3</p> <p>The IAIG’s Governing Body collectively has competence as appropriate to the nature, scale and complexity of the IAIG</p> | |
| <p>Parameter M2E1-4-1 The IAIG’s Governing Body is comprised of an appropriate number and mix of individuals to ensure that there is an overall adequate level of knowledge, skills and expertise at the Governing Body level to effectively oversee the implementation of the IAIG’s group-wide objectives and strategies established in accordance with M2E1-2.</p> <p>A sufficient number of the members of the IAIG’s Governing Body are independent of the entities within the IAIG (e.g. non-executive directors or members of the supervisory board).</p> | <p><i>Specification M2E1-4-1-1</i> <i>In addition to the requirements in ICP 5, the members of the IAIG’s Governing Body collectively have:</i></p> <ul style="list-style-type: none"> • <i>knowledge about the structure of the IAIG and the business of the entities within the IAIG and the supervisory regimes applicable to insurers and other entities within the IAIG and</i> • <i>expertise relating to cross-border business and international transactions.</i> |



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| <p>The members of the IAIG’s Governing Body commit adequate time for the oversight of the IAIG’s business.</p> | |
| <p>ComFrame Standard M2E1-5 *reference ICP 7, Standard 7.3</p> <p>The IAIG’s Governing Body has appropriate internal structures, practices and procedures to support its work</p> | |
| <p>Parameter M2E1-5-1 The IAIG’s Governing Body has adequate internal governance procedures, structures and arrangements appropriate to the nature, scale and complexity of the IAIG’s business and operations.</p> | <p><i>Specification M2E1-5-1-1</i> <i>The IAIG’s Governing Body establishes:</i></p> <ul style="list-style-type: none"> • <i>committees of the Governing Body that exercise adequate oversight over the audit, compliance, risk management and remuneration structure, and policies and procedures of the IAIG and the legal entities within the IAIG and</i> • <i>procedures through which clear reporting lines are established between such committees and the IAIG’s Governing Body and its Senior Management, the respective legal entities within the IAIG and their respective Boards, Senior Management and Key Persons in Control Functions as appropriate.</i> <p><i>The IAIG’s Governing Body, to the extent appropriate, follows ICP Guidance 7.3.7 in establishing and implementing such committees.</i></p> |
| <p>ComFrame Standard M2E1-6 *reference ICP 7, Standard 7.6</p> <p>The IAIG Governing Body</p> <ul style="list-style-type: none"> • ensures that the IAIG has well-defined and clearly articulated group-wide remuneration policy and practices which are appropriate to the nature, scale and complexity of the IAIG and do not pose any risks to the long term viability of the IAIG as a whole or to the entities within the IAIG and | |



- **oversees the effective implementation of the same.**

Parameter M2E1-6-1

The remuneration policy adopted by the IAIG:

- is consistent with the group-wide business objectives and strategies, including identified risk tolerance levels and risk appetite (see M2E1-2) and any jurisdictional requirements applicable to legal entities within the IAIG
- identifies group-wide risks arising from remuneration policies and appropriate measures to address such risks
- does not contain incentives for excessive or inappropriate risk taking by staff of any legal entity within the IAIG
- has proper regard to the interests of stakeholders of insurers within the IAIG
- at a minimum covers the members of the IAIG's Governing Body and the Senior Management and the respective Boards, Senior Management, Key Persons in Control Functions and major risk-taking staff, as relevant, in entities within the IAIG and
- requires the remuneration policies and practices of entities within the IAIG not to conflict with the IAIG-wide policy or pose any threats to the long-term viability of the IAIG as a whole or to any entities within the IAIG.

Specification M2E1-6-1-1

The IAIG's Governing Body:

- *undertakes at least annually an assessment of the effectiveness and appropriateness of the group-wide remuneration policy to ensure that it is implemented effectively and operating as intended*
- *includes within its assessment any entity specific remuneration policy or practice where the group-wide policy permits the adoption of such remuneration structures or policies and*
- *where any gaps or deficiencies in the remuneration policies or practices are identified at the group-wide or entity specific level, addresses those promptly and effectively.*

ComFrame Standard M2E1-7

***reference ICP Standard 7.8**

The IAIG's Governing Body ensures that the IAIG has a group-wide communication strategy to promote appropriate, timely and effective communications with the group-wide supervisor, other relevant supervisors and relevant stakeholders on the governance of the IAIG as a whole.



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| <p>Parameter M2E1-7-1 The group-wide communication strategy of the IAIG:</p> <ul style="list-style-type: none"> • provides adequate information to promote effective engagement of the group-wide supervisor and other stakeholders relating to the governance of the IAIG as a whole • takes account of the jurisdictional legal, supervisory and other requirements applicable to legal entities within the IAIG as appropriate and • requires the legal entities within the IAIG to provide to the IAIG's Governing Body and group-wide Control Functions and any other centralised functions established by the IAIG any information required by the IAIG's Governing Body to ensure sound and prudent management of the IAIG. | <p><i>Specification M2E1-7-1-1</i> <i>The IAIG's group-wide communication strategy is expected to cover, on a group-wide basis, the type of matters specified in ICP Guidance 7.8.2 – 7.8.5.</i></p> |
| <p>ComFrame Standard M2E1-8 *reference ICP 8</p> <p>As part of its Group-wide Governance Framework, the IAIG has effective systems of risk management and internal controls, which address the key group-wide and local risks it faces and the legal and regulatory obligations that apply to it. The IAIG's systems of risk management and internal controls include having effective group-wide functions for risk management, compliance, actuarial matters and internal audit.</p> | |
| <p>Parameter M2E1-8-1 The IAIG's Governing Body oversees the effective group-wide implementation of the IAIG's risk management and internal control systems.</p> | <p><i>Specification M2E1-8-1-1</i> <i>The risk management and internal control systems have group-wide application taking into account the governance requirements of jurisdictions where the entities within the IAIG are active.</i></p> |
| <p>Parameter M2E1-8-2 The risk management system is integrated with the IAIG's organisational structure, decision making processes, business</p> | <p><i>Specification M2E1-8-2-1</i> <i>The IAIG's risk management system :</i></p> <ul style="list-style-type: none"> • <i>is clearly defined and well documented</i> • <i>takes into account the IAIG's overall business strategy,</i> |



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| <p>operations and culture. The risk management system includes the ERM Framework, which forms the basis for overall solvency assessment of the IAIG (M2E2 addresses the ERM Framework in detail).</p> | <p><i>including relevant objectives, key principles, and the proper allocation of responsibilities for risks across the activities and organisational units within the IAIG</i></p> <ul style="list-style-type: none"> • <i>contains a clearly defined procedure for taking risk into account in decision-making at the group level and local levels</i> • <i>contains appropriate written policies that include a definition and categorisation of the material risks, by type, to which the IAIG is exposed and the levels of acceptable risk for each type of risk, including internal risks arising from intra-group or related party pricing, transfers and transactions and taking into account relevant local business risks as well as group-wide risks</i> • <i>contains reporting procedures within the group to adequately monitor risks and the effectiveness of the risk management system and</i> • <i>is reviewed periodically and improved as necessary.</i> |
| <p>Parameter M2E1-8-3 The IAIG's internal controls system:</p> <ul style="list-style-type: none"> • is an integrated group-wide framework that takes into account the control environment across the IAIG • has controls in respect of risks from the process or transactional level to that of the entity level and to group level and • includes processes of review to ensure the totality of controls form a coherent system that is checked regularly to ensure that: (a) it works as intended; (b) fits properly within the group-wide governance structure of the IAIG; and (c) provides an element of risk control to complement the risk identification, assessment, and management activities of the IAIG | <p><i>Specification M2E1-8-3-1</i> <i>The internal controls system meets all the requirements in ICP 8, with particular focus on ensuring that appropriate controls are in place in respect of IAIG-wide risks and intra-group transactions.</i></p> |
| <p>Parameter M2E1-8-4 The IAIG's Governing Body establishes group-wide Control Functions</p> | <p><i>Specification M2E1-8-4-1</i> <i>An IAIG may locate the Control Functions at the level of the Head of</i></p> |



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| <p>for risk management, compliance, actuarial matters and internal audit and determines how to organise them, taking into account the independence and other requirements of ICP 8 and ensuring that such arrangements do not diminish each legal entity's responsibility and ability to fulfil its legal and regulatory obligations, including to policyholders. Control Functions are properly authorized, positioned, and resourced and have access and periodically report to the IAIG's Governing Body or one of its committees.</p> | <p><i>the IAIG, or in a separate legal entity within the IAIG (an internal "service centre", "competence centre", or similar).</i></p> <p><i>The positioning, organisation and operation of the group-wide Control Functions should be consistent with the principles of ICP 8.2 (Control Functions in general), ICP 8.3 (for the Risk Management function), ICP 8.4 (for the Compliance function), ICP 8.5 (for the Actuarial function), and IPC 8.6 (for the Internal Audit function). These include the provisions relating to independence, access, authority and reporting, and should be read as including both the local and group-wide dimension.</i></p> <p><i>The group-wide Control Functions possess sufficient knowledge regarding the markets where the IAIG is active. Their authority to access information includes all information on a group-wide and legal entity or local level as is necessary to carry out their respective group-wide duties. Control Functions are subject to periodic evaluations (by an external evaluator where appropriate) and engage in continuing improvement of their respective areas.</i></p> |
| | <p><i>Specification M2E1-8-4-2</i></p> <p><i>Given the nature, scale and complexity of the IAIG, an IAIG should not combine Control Functions except under very exceptional circumstances, such as on a temporary basis while a replacement is being arranged.</i></p> <p><i>The Governing Body approves and periodically reviews the effectiveness of any arrangement for combining Control Functions.</i></p> |
| <p>Parameter M2E1-8-5 The IAIG has an effective group-wide risk management function capable of assisting it to, in a timely way, identify, assess, monitor, manage, and report on its key risks.</p> | <p><i>Specification M2E1-8-5-1</i></p> <p><i>The risk management function of the IAIG is generally led by a Group Chief Risk Officer (Group CRO) (or a similar designation), who has direct access to the IAIG's Governing Body and who focuses on group-wide risks and the ERM framework.</i></p> |



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| <p>The IAIG's group-wide risk management function reports to the IAIG's Governing Body or one of its committees on matters such as:</p> <ul style="list-style-type: none"> • an assessment of the key risks of the IAIG. This assessment is performed at the group level, key entity level, and key business/unit/product level and involves the aggregation and correlation of risks • a group-wide operational plan on necessary steps being taken to manage the identified key risks of the IAIG • an assessment of the risk strategy to ensure that the risk strategy and policy are implemented at the level of the Head of the IAIG and at key entity level • a status update on how the group-wide function has met the action plans in the annual risk management plan and • an assessment of risks evolving from any risk issues involving Senior Management or persons occupying positions of major responsibility within a legal entity and any measures taken to manage such risks. | <p><i>The IAIG's risk management function encompasses:</i></p> <ul style="list-style-type: none"> • <i>the assessment of group-wide risks performed at least annually and as required by the IAIG's Governing Body and</i> • <i>the establishment of the group-wide risk management plan, which is to be established annually and approved by the IAIG's Governing Body.</i> <p><i>It may also be suitable for the Governing Body to arrange an external independent review, according to the nature, scale and complexity of the IAIG.</i></p> |
| | <p><i>Specification M2E1-8-5-2</i> <i>*reference ICP 16</i> <i>The separation of the risk management function from the risk taking function is crucial, whether implemented centrally or whether (some or all) individual legal entities have their own risk management function.</i></p> |
| <p>Parameter M2E1-8-6 *Reference ICP 8, Guidance 8.3.2 and 8.3.4</p> <p>At a minimum, the IAIG's group-wide risk management function:</p> <ul style="list-style-type: none"> • establishes the governance structure for the group-wide risk management function • coordinates and monitors consistent implementation of the | <p><i>Specification M2E1-8-6-1</i> <i>The group-wide risk management function:</i></p> <ul style="list-style-type: none"> • <i>contributes to the setting of the risk culture of the IAIG</i> • <i>provides guidance on the risk management methodologies and activities used group-wide</i> • <i>sets out the expectations relating to the responsibilities and reporting requirements of the risk management function of</i> |



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| <p>IAIG's risk management mechanisms and activities throughout the IAIG on the legal entity level and at the Head of the IAIG level</p> <ul style="list-style-type: none"> • provides the IAIG's Governing Body with all relevant risk information to enable it to manage the group risks and • assesses the risk strategy to ensure that the risk strategy and policy are implemented at the level of legal entity and the Head of the IAIG, as appropriate. | <p><i>each legal entity within the IAIG, as applicable and</i></p> <ul style="list-style-type: none"> • <i>sets procedures and processes for effective interaction between the risk management functions of the legal entities within the IAIG and that of the Head of the IAIG.</i> <p><i>The IAIG's group-wide risk management function ensures that limits in the IAIG are in line with the group risk appetite.</i></p> |
| <p>Parameter M2E1-8-7</p> <p>The IAIG has an effective group-wide compliance function capable of assisting it to meet its legal and regulatory obligations, and promote and sustain a corporate culture of compliance and integrity at the local levels and group-wide.</p> <p>The IAIG's group-wide compliance function reports to the IAIG's Governing Body or one of its committees on matters such as:</p> <ul style="list-style-type: none"> • an assessment of the key compliance risks of the IAIG, performed at the group level, key entity level, and key business/unit/product level • a group-wide compliance plan on steps being taken to address the key compliance risks identified • a status update on how the group-wide compliance function has met the action plans in the compliance plan • material compliance violations or concerns, or any compliance issues involving individuals undertaking senior management roles in Key Control Functions, and the status of any associated investigations or other actions being taken and • material fines or other disciplinary actions taken by any regulator or supervisor in respect of any entity or employee within the IAIG. | <p><i>Specification M2E1-8-7-1</i></p> <p><i>Within an IAIG, the compliance function is normally led by a Group Chief Compliance Officer (GCCO) (or a different designation) who has direct access to the IAIG's Governing Body and who focuses on group-wide compliance matters and risks. The IAIG's compliance function encompasses:</i></p> <ul style="list-style-type: none"> • <i>the assessment of key compliance risks performed at least annually and as required by the IAIG's Governing Body</i> • <i>the group-wide compliance plan which is to be established annually and approved by the IAIG's Governing Body</i> • <i>status updates to be reported to the IAIG's Governing Body at its meetings and as required by it and</i> • <i>reporting by the GCCO to the IAIG's Governing Body several times a year and as required by it.</i> |



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| <p>Parameter M2E1-8-8 *Reference ICP 8, Guidance 8.4.5 At a minimum, the IAIG's group-wide compliance function:</p> <ul style="list-style-type: none">• establishes the governance structure and framework for the group-wide compliance function• coordinates and monitors to ensure consistent implementation of the IAIG's group-wide compliance mechanisms and activities throughout the IAIG on the legal entity level and at the level of the Head of the IAIG. | <p><i>Specification M2E1-8-8-1</i> <i>The group-wide compliance function:</i></p> <ul style="list-style-type: none">• <i>contributes to the setting of the corporate culture and values and the expected employee conduct with respect to compliance with internal and external obligations and</i>• <i>provides guidance on the methodologies and activities undertaken by it, including the following:</i><ul style="list-style-type: none">– <i>the review of key compliance risks at the group level, key entity level and key business/unit/product level</i>– <i>the preparation of the annual compliance plan to address the key compliance risks identified</i>– <i>setting out the expectations on the responsibilities and reporting requirements of the compliance function of each entity within the IAIG. This includes reporting requirements by each entity within the IAIG to the group compliance function on matters such as material compliance violations, material fines or disciplinary actions taken by any supervisor in respect of any entity or employee within the IAIG</i>– <i>setting out the framework for confidential reporting by employees of concerns, shortcomings or potential or actual violations in respect of insurer internal policies, legal or regulatory obligations, or ethical considerations</i>– <i>addressing compliance shortcomings and violations, including ensuring that adequate disciplinary actions are taken where appropriate and any necessary reporting to the supervisor or other authorities is made and</i>– <i>requiring the conduct of regular assessments of the compliance function and compliance systems at the group and entity level and implement or monitor needed improvements.</i> |
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| <p>Parameter M2E1-8-9 The IAIG has an effective group-wide actuarial function capable of evaluating and providing advice to the IAIG's Governing Body regarding, at a minimum, technical provisions, premium and pricing activities, and compliance with related statutory and regulatory requirements of the insurers within the IAIG</p> | <p><i>Specification M2E1-8-9-1</i> <i>The IAIG's group-wide actuarial function aggregates and reviews actuarial information at the group level. The form and implementation of an IAIG actuarial function may vary but the outcome is to have an overview of the actuarial activities, functions, and risks of the insurers within the IAIG as a whole.</i> <i>The tasks and responsibilities of the IAIG's actuarial function are to be well defined and should not duplicate, limit or restrict the tasks and responsibilities of actuarial functions at a legal entity level.</i> <i>If the IAIG's actuarial function becomes aware of any matter that has or is likely to have a materially adverse effect on the solvency reserves or financial condition of one of the legal entities or the IAIG as a whole, or that one of the legal entities or the IAIG as a whole does not or is unlikely to comply with relevant requirements or legislation, it should inform the IAIG's Governing Body and/or the relevant Board or Key Persons in Control Functions as appropriate for suitable action.</i></p> |
| <p>Parameter M2E1-8-10 The IAIG's internal audit function is independent from management and is not engaged operationally in the IAIG's business. It has unrestricted access to the IAIG's Governing Body and the Boards of other entities within the IAIG. Its reporting obligations extend to reporting to the IAIG's Governing Body and that of the IAIG's legal entities.</p> | <p><i>Specification M2E1-8-10-1</i> <i>The IAIG's internal audit function is normally led by a Group Internal Auditor (or a different designation) who has direct access to the IAIG's Governing Body and who focuses on group-wide internal audit matters.</i></p> |
| <p>Parameter M2E1-8-11 The IAIG's internal audit function provides independent assurance – obtained through general and specific audits, reviews, testing and other techniques in respect of matters such as:</p> <ul style="list-style-type: none">• the overall means by which the IAIG preserves its assets, and those of its clients, and seeks to prevent fraud, misappropriation, or misapplication of such assets | <p><i>Specification M2E1-8-11-1</i> <i>The IAIG's internal audit function is expected to carry out such activities as are needed to fulfil its responsibilities, including:</i></p> <ul style="list-style-type: none">• <i>establishing, implementing and maintaining a risk-based audit plan to examine and evaluate general or specific areas, including on a preventive basis</i>• <i>reviewing and evaluating the adequacy and effectiveness of</i> |



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| <ul style="list-style-type: none">• the establishment of group-wide minimum requirements regarding internal audit,• the reliability, integrity and completeness of the accounting, financial reporting and management information systems• the information technology systems• the risk management and compliance systems• the design and operational effectiveness of the IAIG's individual controls in respect of the above matters, as well as of the totality of such controls (the internal controls system) and• other matters as may be requested by the IAIG's Governing Body or Senior Management or the Supervisor. | <p><i>the IAIG's group-wide policies and processes and the documentation and controls in respect of these, both at the legal entity and group-wide basis and on an individual subsidiary, business unit, business area, department or other organisational unit basis</i></p> <ul style="list-style-type: none">• <i>reviewing levels of compliance by employees and organisational units with established policies, processes, and controls, including those involving reporting</i>• <i>evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information</i>• <i>ensuring that the identified risks and the agreed actions to address them are accurate and current</i>• <i>evaluating the means of safeguarding company and client assets and, as appropriate, verifying the existence of such assets and the required level of segregation between company and client assets</i>• <i>monitoring and evaluating governance processes</i>• <i>monitoring and evaluating the effectiveness of the organisation's risk management, compliance, where applicable actuary and other control functions</i>• <i>coordinating with the external auditors and, to the extent this is requested by the IAIG's Governing Body and is not inconsistent with jurisdictional requirements, evaluating the quality of performance of external auditors</i>• <i>reporting to the IAIG's Governing Body on the above as well as any control failures or deficiencies and</i>• <i>conducting regular assessments of the internal audit function and audit systems and incorporate needed improvements.</i> |
| | <p><i>Specification M2E1-8-11-2</i> <i>In carrying out the above tasks, the IAIG's internal audit function</i></p> |



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| | <p><i>ensures all material areas of risk and obligation of the insurers within the IAIG are subject to appropriate audit or review over a reasonable period of time, including but not limited to:</i></p> <ul style="list-style-type: none"> • <i>market, credit, liquidity, operational, and reputational risk</i> • <i>accounting and financial policies and whether the records pertaining thereto are complete and accurate</i> • <i>extent of compliance by the insurer with applicable law, regulations, rules, and directives from all relevant jurisdictions</i> • <i>intra-group and related party transactions, including intra-group risk transfer and internal pricing</i> • <i>adherence by the insurer to the IAIG's remuneration policy</i> • <i>the reliability and timeliness of escalation processes and reporting systems, including whether there are confidential means for employees to report concerns or violations and whether these are properly communicated, offer the reporting employee adequate protection from retaliation, and resulting in appropriate follow up and</i> • <i>the extent that any non-compliance with internal policies or external obligations is documented and appropriate corrective or disciplinary measures are taken including in respect of individual employees involved</i> |
| <p>ComFrame Standard M2E1-9 *reference ICP 8, Standard 8.7</p> <p>The Head of the IAIG has oversight and clear accountability for any material function or activity including where those are outsourced.</p> | |
| <p>Parameter M2E1-9-1 The IAIG's Governing Body and Senior Management ensure that outsourcing arrangements do not diminish the IAIG's or the individual</p> | <p><i>Specification M2E1-9-1-1</i> <i>An IAIG which outsources any material functions or activities:</i></p> <ul style="list-style-type: none"> • <i>has in place adequate policies and procedures relating to its outsourcing, commensurate with the nature, scale and</i> |



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| <p>insurers' ability to fulfil their respective legal and regulatory obligations.</p> | <p><i>complexity of the IAIG's business and operations and the type of outsourcing arrangements it adopts and</i></p> <ul style="list-style-type: none">• <i>subjects such outsourcing arrangements to appropriate controls and periodic reviews by internal audit.</i> <p><i>See Parameter M2E2-2-2 and Specification M2E2-2-2-1 with regard to ERM.</i></p> |
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Group ERM

Module 2, Element 2

Enterprise Risk Management (ERM)

Module 2 Element 2 Introductory Comments

ERM forms the basis for overall solvency assessment. The ERM framework is different for each individual IAIG. However, all appropriate frameworks have a number of common features. These are identified in this element.

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| <p>ComFrame Standard M2E2-1 *reference ICP 16, Standard 16.1</p> <p>The IAIG has a group-wide ERM Framework that addresses all relevant and material risks and enables it to calculate its solvency requirements. It covers risks at both the legal entity and IAIG level, accordingly to their nature, scale and complexity.</p> | |
| <p>Parameter M2E2-1-1 Through its ERM Framework, the IAIG provides for:</p> <ul style="list-style-type: none"> • determination of the IAIG’s risk appetite and risk tolerance • risk management • capital management • an IAIG’s own risk and solvency assessment (ORSA) incorporating an assessment of economic and regulatory capital. (See M2E2-5 below.) | <p><i>Specification M2E2-1-1-1</i> <i>Depending on the complexity of the structure of the IAIG, it may decide to set up regional or decentralised ERM functions. If the IAIG’s ERM operations are not centralised, then they must comply with the broader ERM Framework of the IAIG.</i></p> |
| <p>Parameter M2E2-1-2 *reference ICP 16, Standard 16.2</p> | <p><i>Specification M2E2-1-2-1</i> <i>The ERM Framework contains appropriate written policies that include</i></p> |



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| <p>The IAIG comprehensively documents its group-wide ERM Framework, including its risk appetite and risk tolerance, its measurement of risks and how it manages risk. The IAIG supports its measurement of risk with accurate documentation providing appropriately detailed descriptions and explanations of the risks covered, the measurement approaches used and the key assumptions made, emphasising any differences that may apply to different entities within the IAIG, due to the nature, scale and complexity of the business conducted locally.</p> | <p><i>a definition and categorisation of the material risks, by type, to which the IAIG is exposed and the levels of acceptable risk for each type of risk; and taking into account relevant local business risks as well as group-wide risks.</i></p> |
| | <p><i>Specification M2E2-1-2-2</i> <i>The IAIG should be able to demonstrate its rationale for implementing centralised or decentralised operations of the ERM Framework. It also needs to be able to explain why certain approaches or assumptions may not apply to each and every entity within the IAIG.</i></p> |
| <p>Parameter M2E2-1-3 *reference ICP 16, Standards 16.9 and 16.10 The IAIG's ERM Framework is responsive to changes in the IAIG's risk profile and needs to take account of all material changes at a local level that may have an impact on how the IAIG measures and mitigates risk at a group level.</p> <p>The Framework incorporates a feedback loop, which enables the IAIG to take the necessary action, whether on a group-wide basis or at a local level, in a timely manner in response to changes in its risk profile.</p> | <p><i>Specification M2E2-1-3-1</i> <i>The IAIG should be aware that a change in one legal entity may have an impact only locally, or within the region, or on a selected few entities or on the IAIG as a whole.</i></p> <p><i>The IAIG needs to ensure that its communication and feedback loop is adequate for the size and complexity of the IAIG.</i></p> |
| <p>Parameter M2E2-1-4 The IAIG ensures that its group-wide ERM Framework is independently reviewed on an annual basis.</p> | <p><i>Specification M2E2-1-4-1</i> <i>The review may be done by an internal or external body, but independent of the function responsible for the ERM.</i></p> |
| <p>Parameter M2E2-1-5</p> | <p><i>Specification M2E2-1-5-1</i> <i>If the risk tolerance statement is different for individual legal entities,</i></p> |



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| <p>The IAIG articulates its risk appetite by establishing and maintaining a risk tolerance statement for the IAIG which:</p> <ul style="list-style-type: none"> • sets out its overall qualitative and quantitative risk tolerance and • defines risk tolerance limits which take into account all relevant and material categories of risk and the relationships between them, whether on a legal entity or group wide basis. | <p><i>the IAIG should provide appropriate explanations for the reasoning behind this.</i></p> <p><i>The IAIG Profile should assist in defining the qualitative and quantitative risk tolerance levels where warranted.</i></p> |
| <p>Parameter M2E2-1-6</p> <p>The IAIG must determine its risk appetite and make use of its risk tolerance levels in its business strategy, both on a legal entity basis and group-wide. Its defined risk tolerance limits should be embedded in its day-to-day operations via its risk management policies and procedures.</p> | <p><i>Specification M2E2-1-6-1</i></p> <p><i>The IAIG pays appropriate attention to the risks arising from non-regulated entities, and any inter-connectedness between primary and reinsurance entities.</i></p> |
| <p>ComFrame Standard M2E2-2 *reference ICP 16, Standard 16.3</p> <p>Within the group-wide ERM Framework, the IAIG develops a comprehensive risk management policy which outlines how all relevant and material categories of risk are managed, both on a legal entity and group-wide basis, taking into account the IAIG’s business strategy and its day-day operations.</p> <p>The IAIG will also describe any entity whose requirements or processes are deemed to be an outlier within the IAIG’s risk management policy.</p> | |
| <p>Parameter M2E2-2-1</p> <p>*reference ICP 16, Standards 16.3 and 16.7</p> <p>The IAIG implements its ERM Policy by establishing procedures and monitoring practices to ensure the sufficiency and quality of relevant data used in the underwriting, pricing and reserving processes. The IAIG also has adequate procedures, systems and controls for setting and monitoring pricing and managing claims which cover the overall</p> | <p><i>Specification M2E2-2-1-1</i></p> <p><i>In using the consolidation basis for setting its policy for managing risk, the IAIG may be able to account, and take credit for, diversification of risk. Conversely, using the aggregation method will enable a more granular recording of risk.</i></p> |



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| <p>underwriting cycle.</p> <p>The IAIG should clarify if the data used is based on an aggregation (i.e. bottom up) of the IAIG’s various entities, or on a consolidation (i.e. top down) basis. The implications and inherent risks, of the selected methodology need to be taken into consideration when developing the IAIG’s ERM policy.</p> | |
| <p>Parameter M2E2-2-2</p> <p>An IAIG may outsource activities or functions of the entities within the IAIG to entities outside the IAIG (“external” outsourcing) or to one or more legal entities within the IAIG (“intra-group” outsourcing). If so, it needs to centralise its outsourcing decision-making in order to provide consistency and control over the process and effectively aggregate the risks that such activities can represent.</p> | <p><i>Specification M2E2-2-2-1</i></p> <p><i>Where an IAIG outsources or centralises any activities or functions including Key Control Functions particularly of insurers within the IAIG, its policies and procedures relating to such outsourcing and centralising are expected to:</i></p> <ul style="list-style-type: none">• <i>distinguish clearly between intra-group and external outsourcing and, contain adequate safeguards to ensure a clear separation of the relevant roles and functions at the entity level and where relevant, at the group-wide level, to enable the effective performance of those roles and functions</i>• <i>require all material outsourcing arrangements to be governed by written contracts that clearly describe all material aspects of the outsourcing arrangement, including the rights, responsibilities and expectations of all parties</i>• <i>require, when entering into or varying an outsourcing arrangement, the relevant legal entities within the IAIG, or the IAIG’s Ultimate Controlling Entity, takes into consideration, among other things:</i><ul style="list-style-type: none">– <i>how the IAIG as a whole and the relevant legal entities within the IAIG will be affected in terms of the risk levels both at the entity level and IAIG as a whole</i>– <i>whether the applicable legal and other requirements, including jurisdictional requirements can be met with</i>• <i>require an assessment of:</i> |



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| | <ul style="list-style-type: none">– the service providers’ service capability and financial viability– risk concentrations and liquidity risk implications– risks arising from outsourcing multiple activities to the same outsourcing provider• require the provider of such outsourced functions to have particular experience in dealing with group-wide issues and cross-border matters• include procedures to ensure smooth transition when entering, ending or varying an outsourcing arrangement• provide for group-wide monitoring and oversight of the outsourced (intra-group or external) activities to ensure those functions and activities are performed effectively, taking into account risks arising from intra-group and external outsourcing, as applicable and• contains adequate guidance for the types of contractual and risk issues to consider, including in terms changing or terminating the outsourcing arrangement. |
| <p>Parameter M2E2-2-3 The IAIG’s ERM policy pays particular attention to the risk from operating in different countries and different regulatory environments and considers operations through subsidiaries, branches and cross border.</p> | <p><i>Specification M2E2-2-3-1</i> <i>In this context, cross border refers to business whereby a group entity may provide services to clients in another jurisdiction where it has no physical presence. This would most commonly be reinsurance Business.</i></p> |
| <p>Parameter M2E2-2-4 The IAIG’s ERM policy addresses the risks arising from intra-group transactions, and ensures there are appropriate qualitative restrictions on such exposures, including:</p> <ul style="list-style-type: none">• contagion and reputational risks• aggregation of exposures to external parties across the IAIG or concentration of risk, | <p><i>Specification M2E2-2-4-1</i> <i>The IAIG should be aware of, and take account of, the risk of support being withdrawn from one part of the IAIG due to adverse publicity, results or operational inefficiencies in another part of the IAIG.</i></p> |



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| <ul style="list-style-type: none"> • transferability of assets, and • fungibility of capital. | |
| | <p><i>Specification M2E2-2-4-2</i> <i>Particular note should be made by the IAIG of any securities lending being undertaken by individual entities, not least to ensure that high quality assets are not being swapped with low quality assets.</i></p> |
| <p>Parameter M2E2-2-5 Through its ERM Policy, the IAIG describes the relationship between the IAIG's tolerance limits, regulatory capital requirements, economic capital and the processes and methods for monitoring risk.</p> | <p><i>Specification M2E2-2-5-1</i> <i>Particular note should be made of the IAIG's reinsurance arrangements and how they:</i></p> <ul style="list-style-type: none"> • <i>reflect the IAIG's risk tolerance levels</i> • <i>play a role in mitigating risk</i> • <i>dictate the IAIG's regulatory capital requirements,</i> <p><i>The use of any non-traditional forms of reinsurance (e.g. finite reinsurance) should also be noted.</i></p> |
| | <p><i>Specification M2E2-2-5-2</i> <i>When dealing with intra-group reinsurance arrangements, the IAIG sets up and manages such transactions in the same way as external reinsurance arrangements. That is:</i></p> <ul style="list-style-type: none"> • <i>contract certainty is provided through the appropriate documentation, duly approved</i> • <i>the impact of any such transactions is reflected in the financial statements</i> |
| <p>Parameter M2E2-2-6 The IAIG reviews its ERM Policy at least annually. Those policies are subject to prior approval by the Governing Body of the IAIG and are to be adapted in response to significant changes in the system or area concerned.</p> | <p><i>Specification M2E2-2-6-1</i> <i>Notwithstanding the review of the ERM policy annually, the ERM policy should be reviewed if there are material changes to the IAIG's structure or strategy.</i></p> |



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| <p>Parameter M2E2-2-7 The IAIG includes in its ERM Policy an explicit asset-liability management policy (ALM Policy) which clearly specifies the nature, role and extent of ALM activities and their relationship with product development, pricing functions and investment management.</p> <p>Any differences in approach within different legal entities should be outlined.</p> | <p><i>Specification M2E2-2-7-1</i> <i>The IAIG will need to take account of any local legal restrictions that may apply to the treatment of assets and liabilities within different jurisdictions.</i></p> |
| <p>Parameter M2E2-2-8 The IAIG's reflects in its ERM Policy an explicit Investment Policy which:</p> <ul style="list-style-type: none"> • specifies the nature, role and extent of the IAIG's investment activities and how the IAIG complies with the regulatory investment requirements, at both a legal and group level (if applicable) • establishes explicit risk management procedures with regard to more complex and less transparent classes of asset and investment in markets or instruments that are subject to less governance or regulation. (See also M2E6) | |
| <p>ComFrame Standard M2E2-3</p> <p>The IAIG establishes, within its ERM Framework, effective means for identifying and measuring risk.</p> | |
| <p>Parameter M2E2-3-1 The IAIG's ERM Framework should cover at least the following risks and the management of these risks in a cross border context:</p> <ul style="list-style-type: none"> (a) insurance risk (b) market risk (c) credit risk | <p><i>Specification M2E2-3-1-1</i> <i>In this context, cross-border refers to the aggregation or consolidation of risks that may affect the IAIG due to its operations across various jurisdictions. The IAIG should take note of intra-group dependencies and diversifications, and adjust its risk tolerance limits accordingly. In particular, the materiality and concentration risk of any intra-group</i></p> |



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| <p>(d) asset–liability mismatch risk (e) liquidity and concentration risk (f) operational risk (g) reinsurance and other risk-mitigation techniques. (h) group risks including contagion risk (i) strategic and reputational risk (j) pensions obligation risk (k) currency (FX) risk (l) fraud risk</p> | <p><i>reinsurance arrangements will be of a different order than that of external facilities.</i></p> |
| | <p><i>Specification M2E2-3-1-2 These risks should also be considered with respect to any non-regulated entities within the IAIG.</i></p> |
| <p>Parameter M2E2-3-2 The IAIG’s ERM Framework comprises group-wide strategies, processes and reporting procedures necessary to manage and report on those risks and their interdependencies on a continuous basis, at both an individual and aggregated level.</p> | <p><i>Specification M2E2-3-1-2 The IAIG should make note of how reinsurers within the IAIG are used in the mitigation of risk. Of particular concern is the knock-on effect any failure of these reinsurers would have on the solvency position of the various group entities making use of their facilities and on the IAIG itself.</i></p> |
| <p>Parameter M2E2-3-3 According to the nature, scale and complexity of its business, the IAIG is required to use techniques to build an economic capital model, as a demonstration of sound risk management. This should take account of the risks the IAIG faces with group operations in distinctly different jurisdictions and economic environments.</p> <p>The economic capital model:</p> <ul style="list-style-type: none"> • demonstrates control processes with the input data • estimates capital needed in adverse situations that the IAIG is or might be exposed to, to the extent it is reasonably foreseeable | |



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| <ul style="list-style-type: none"> • can be used to drive or validate major management decisions • includes new business • enables deeper attention to owners' capital. | |
| <p>Parameter M2E2-3-4 The IAIG performs capital planning in respect of economic capital and regulatory capital requirements over (at least) the IAIG's business planning period.</p> | |
| <p>Parameter M2E2-3-5 The IAIG develops a system which enables it to rank and quantify risk in a consistent, reliable and valid manner. Such systems and processes provide for:</p> <ul style="list-style-type: none"> • a meaningful differentiation of risk and • accurate and consistent quantitative estimates of risk. | <p><i>Specification M2E2-3-5-1</i> <i>In particular, an IAIG would be expected to have an established process for assessing its (potential) reinsurance security, based on up-to-date, well-informed and comprehensive information.</i></p> |
| <p>Parameter M2E2-3-6 The IAIG's risk identification and measurement includes stress (and reverse stress) testing and scenario analysis using scenarios identified by the IAIG. It captures group risk, including risks from unregulated activities, and risk from international operations, taking note of differences in risk in the various countries in which it operates and any potential contagion risk.</p> | <p><i>Specification M2E2-3-6-1</i> <i>Stress and scenario testing should reflect and IAIG's own risk profile and are an important element of the ORSA (see M2E2-5 below), in assessing the financial strength of an entity/group, under exceptional circumstances. Although predominately quantitative in nature, stress tests are based on important qualitative components, such as key assumptions and (the limitations of) available data.</i></p> <p><i>The methodologies and key assumptions used in conducting stress and scenario testing should be documented and communicated internally as well as to the supervisor.</i></p> |
| | <p><i>Specification M2E2-3-6-2</i> <i>The group-wide supervisor may also prescribe some stress tests, on an ad-hoc or regular basis, or request the IAIG to test against specific scenarios (e.g. historical financial crisis).</i></p> |



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| | <p><i>(See also M2E2-9.)</i></p> <p><i>Stress and scenario tests may be applied to a portfolio, entity or region within the IAIG, based on particular identified risks, such as credit, market and the like, and using historical or hypothetical events.</i></p> |
| | <p><i>Specification M2E2-3-6-3</i> <i>*reference ICP 16</i> <i>The IAIG will need to identify stresses in the reinsurance or catastrophe markets that could have a systemic effect on its business model.</i></p> |
| <p>ComFrame Standard M2E2-4</p> <p>The risk management function required under M2E1 co-ordinates the ERM activity across the IAIG and is responsible for ensuring that the ERM policy is adhered to within the ERM Framework and that the ERM Framework is implemented and operational.</p> | |
| <p>Parameter M2E2-4-1 The IAIG's Group-wide Risk Management Function and risk management functions within entities or subgroups are independent from its risk-taking functions.</p> | <p><i>Specification M2E2-4-1-1</i> <i>The separation of the risk management function from the risk taking function is crucial, whether the IAIG ERM is implemented centrally or whether (some or all) individual legal entities have their own risk management function.</i></p> |
| <p>Parameter M2E2-4-2 The IAIG ensures that its group-wide ERM functions in a consistent manner and is compliant with the ERM Policy.</p> | |
| <p>Parameter M2E2-4-3 The IAIG's group-wide ERM Framework is effective and well integrated into the organisational structure and in the decision making processes</p> | <p><i>Specification M2E2-4-3-1</i> <i>The risk management function should report periodically to the IAIG's Governing Body or one of its committees on, for example:</i></p> <ul style="list-style-type: none"> • <i>an assessment of the key risks of the IAIG. This assessment</i> |



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| <p>of the IAIG. Proper considerations are made of the persons who effectively run the IAIG or have other key functions by:</p> <ul style="list-style-type: none"> • having a well defined operational and reporting structure so that information flows easily within the organisation • assigning sufficient resources to the formulation of group-wide ERM policy and systems • ensuring group-wide participation and peer reviews (internal within the IAIG). | <p><i>should be performed at the group level, key entity level, and key business/unit/product level and involve the aggregation and correlation of risks</i></p> <ul style="list-style-type: none"> • <i>a group-wide operational plan on necessary steps being taken to manage the identified key risks of the IAIG</i> • <i>an assessment of the risk strategy to ensure that the risk strategy and policy are implemented at the level of the Head of the IAIG and at key entity level</i> • <i>a status update on how the group-wide function has met the action plans in the annual risk management plan</i> • <i>an assessment of risks evolving from any risk issues involving senior management or persons occupying positions of major responsibility within a legal entity</i> • <i>a report which includes the measures taken to manage such risks.</i> |
| <p>ComFrame Standard M2E2-5 *reference ICP 16, Standard 16.11</p> <p>The IAIG regularly performs its ORSA to assess the adequacy of its risk management and current, and likely future, solvency position.</p> | |
| <p>Parameter M2E2-5-1 The IAIG performs a group-wide ORSA using both quantitative and qualitative approaches in which:</p> <ul style="list-style-type: none"> • changes in group structure are considered • takes into consideration legal restrictions on capital movements are taken into consideration • group-wide internal models are used where it is appropriate to do so. • risk aggregation takes into account the transferability of assets | <p><i>Specification M2E2-5-1-1</i> <i>The IAIG may elect to perform ORSAs at a legal entity level for internal management reasons. However, that should not preclude it from conducting a group-wide ORSA.</i></p> <p><i>The IAIG Profile should help in determining if the group structure represents a material and relevant risk. The complexity of the IAIG may be driven by tax, accounting and regulatory frameworks in various jurisdictions.</i></p> |



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| <p>between countries and the fungibility of capital.</p> <ul style="list-style-type: none"> • both economic capital and regulatory capital requirements are considered. | |
| | <p><i>Specification M2E2-5-1-2</i> <i>In conducting its group-wide ORSA, the IAIG should be able to account for diversification in the IAIG. If the IAIG elects to do so, then it should provide explanations of why such action was taken and the details thereof. Moreover, the IAIG should be able to demonstrate that the diversification will be maintained in a stress situation.</i></p> |
| <p>Parameter M2E2-5-2 Through its ORSA, the IAIG includes:</p> <ul style="list-style-type: none"> • a determination of the overall financial resources that the IAIG needs to manage its business for the IAIG as a whole, given its own risk tolerance levels and business plans, and to demonstrate that all supervisory requirements (applicable to any entity within the IAIG) are met on a continuous basis • a basis for its risk management actions on consideration of its economic capital, regulatory capital requirements and financial resources • an assessment of the quality and adequacy of its capital resources to meet current and future regulatory capital requirements and any additional capital needs, whether set by the group-wide supervisor/college or individual jurisdictions in which it operates • the IAIG's analysis of its ability to continue in business, and the financial resources required to do so over the planning horizon | <p><i>Specification M2E2-5-2-1</i> <i>The IAIG explains the assumptions that underlie its regulatory capital calculations.</i></p> |
| <p>Parameter M2E2-5-3 The IAIG's ORSA is an integral part of its business strategy and is</p> | <p><i>Specification M2E2-5-3-1</i> <i>The ORSA should also include an analysis of the IAIG's ability to</i></p> |



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| <p>taken into account on an ongoing basis in the strategic decisions of the IAIG.</p> | <p><i>continue in business, and the risk management and financial resources required to do so, over a longer period than that normally used to determine regulatory capital requirements (known as a continuity analysis).</i></p> |
| <p>Parameter M2E2-5-4 Through its ORSA, the IAIG encompasses all reasonably foreseeable and relevant material risks on a group-wide basis including, as a minimum:</p> <ul style="list-style-type: none"> • insurance • market • credit • group risks • operational • liquidity risks. | <p><i>Specification M2E2-5-4-1 Other risks that may be considered are:</i></p> <ul style="list-style-type: none"> • <i>concentration risk</i> • <i>contagion risk</i> • <i>interest rate risk.</i> |
| <p>Parameter M2E2-5-5 Through its ORSA, the IAIG identifies the relationship between (the enterprise) risk management and the level and quality of financial resources needed and available, on a group-wide basis.</p> | <p><i>Specification M2E2-5-5-1 Even if the IAIG decides to conduct ORSAs at a legal entity level, the correlations between risk management and available financial resources should be made, paying particular attention to any concentration of reinsurance cover and the existence of reinsurance cover provided by group entities.</i></p> |
| <p>ComFrame Standard M2E2-6</p> <p>The IAIG’s ERM Framework facilitates communication of its risk appetite and tolerance, and approach to risk management, within the IAIG and externally.</p> | |
| <p>Parameter M2E2-6-1 The IAIG’s culture supports the open communication of emerging risks that may be significant to the IAIG and its members.</p> | |



Group Structure and Strategy

Module 2, Element 3

IAIG’s legal and management structures from an ERM perspective

Module 2 Element 3 Introductory Comments

To achieve effective group-wide supervision, it is important that involved supervisors understand the IAIG’s structure adequately; a complex group structure could hinder effective group-wide supervision and give rise to risks. Cross border issues and complexity in legal and management structures can give rise to risks that might not exist in simpler insurance groups. Identification of group structure and risks arising from it is critical to effective supervision.

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| ComFrame Standard M2E3-1 *reference ICP 23, Guidance 23.5 | |
| The IAIG maintains a group structure that is sufficiently transparent to the involved supervisors so that supervision of the IAIG will not be hindered. | |
| Parameter M2E3-1-1 An IAIG makes and keeps its group structure transparent in order not to impede effective group-wide supervision. | |
| Parameter M2E3-1-2 The responsibility to have a transparent group structure rests with the Head of the IAIG (as defined in M1E3-1-1-1). | |
| ComFrame Standard M2E3-2 | |



The IAIG provides the group-wide supervisor with a clear identification of the legal and management structures and inter-relationships within the IAIG (IAIG Profile).

Parameter M2E3-2-1

The IAIG Profile provides sufficient information to enable the IAIG to complete the assessment in M2E3-3.

Specification M2E3-2-1-1

The IAIG Profile includes items such as:

- *legal structure including off-balance sheet entities*
- *interrelations/interlinkages (including financial and non-financial ties) with other entities*
- *place of incorporation and head office*
- *details of the share holding structure and internal or external controllers*
- *management structure including board and committee structure and their membership*
- *Senior Management structure and key responsibilities*
- *materiality of entities or business units within the structure.*

Where the number of legal entities in an IAIG renders a single IAIG Profile unwieldy, the group-wide supervisor in conjunction with the IAIG should consider appropriate sub-profiles.

ComFrame Standard M2E3-3

The IAIG considers whether the legal and management structures (refer to IAIG profile) give rise to any risks and must demonstrate how such risks are managed.

Parameter M2E3-3-1

The IAIG considers these risks as part of its ORSA or on a stand-alone basis.

Specification M2E3-3-1-1

Matters to be considered could include:

- *complexity of the IAIG*
- *domicile of group entities*
- *interrelationships and dependencies*



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| | <ul style="list-style-type: none">• <i>ability to take timely decisions</i>• <i>ability to understand and manage the IAIG as a whole and</i>• <i>the ability to restructure the IAIG in response to periods of stress.</i> |
| | <p><i>Specification M2E3-3-1-2</i></p> <p><i>Risks may arise where an IAIG establishes a management structure that does not mirror the legal structure of the group. For example where an IAIG establishes competence centres for certain lines of business or centralises certain functions in one location, the IAIG should consider issues such as:</i></p> <ul style="list-style-type: none">• <i>the respective authority and decision making between business line management and local management</i>• <i>technical skills required at business line and local level and</i>• <i>difficulties in repositioning or restructuring the group where legal entities do not have the skills and systems necessary to continue operating without centralised group support.</i> <p><i>There may be benefits in such structures from an efficiency and effectiveness perspective and this specification is not to be read as an indication that the IAIS believes that management and legal structures must be mirrored.</i></p> <p><i>It may be useful for an IAIG to map its management structure to its legal structure as an addition to its IAIG Profile to assist senior management of the IAIG to understand where risks from the matrix of management and legal structures may emerge and also to explain this to involved supervisors.</i></p> |



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| <p>ComFrame Standard M2E3-4</p> <p>The IAIG informs the group-wide supervisor of material changes in its legal and management structure, based on appropriate thresholds/guidance, with sufficient detail to enable supervisors to assess the impact of such changes.</p> | |
| <p>Parameter M2E3-4-1 The IAIG informs the group-wide supervisor of material changes in:</p> <ul style="list-style-type: none"> • legal structures • management structures and • domicile of entities <p>at a group and/or subgroup level where appropriate.</p> | <p><i>Specification M2E3-4-1-1</i> <i>Materiality for reporting purposes may be set quantitatively in terms of:</i></p> <ul style="list-style-type: none"> • <i>percentage of assets</i> • <i>percentage of gross premiums and</i> • <i>percentage of market share for a defined geographic market.</i> <p><i>Materiality for reporting purposes may be set qualitatively in terms of:</i></p> <ul style="list-style-type: none"> • <i>impact on risk management in terms of ease of identifying, monitoring and reporting of risks as well as ability to manage the risks and</i> • <i>impact on reinsurance capacity.</i> |
| <p>ComFrame Standard M2E3-5 *reference ICP 16, Standard 16.15</p> <p>As part of its group ORSA, the IAIG uses appropriate scenarios to analyse whether it has the risk management capability and financial resources to continue to operate in periods of stress.</p> | |
| <p>Parameter M2E3-5-1 The IAIG's analysis should consider its ability to continue to operate as an insurance group, potential changes in group structure and the ability of its members to continue in business.</p> | |
| <p>Parameter M2E3-5-2 The IAIG demonstrates its ability to manage its risk over the longer term</p> | <p><i>Specification M2E3-5-2-1</i> <i>The scenarios used for such assessments will be determined by the</i></p> |



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| <p>under a range of plausible adverse scenarios.</p> | <p><i>group-wide supervisor in conjunction with the IAIG, taking into account the structure and business mix as well as other characteristics of the IAIG.</i></p> |
| <p>Parameter M2E3-5-3 *reference ICP 26, Standard 26.6 The IAIG maintains contingency plans and procedures for use in going and gone concern situations.</p> | <p><i>Specification M2E3-5-3-1</i> <i>Such plans should identify relevant countervailing measures and off-setting actions the IAIG could realistically take to restore/improve its capital adequacy or cash flow position after some future stress event.</i></p> <p><i>Any plans need to consider the ability of the IAIG to reposition or restructure its operations.</i></p> <p><i>Such continuity analysis should have a time horizon appropriate to effective business planning.</i></p> |
| | <p><i>Specification M2E3-5-3-2</i> <i>Contingency plans set out how the IAIG could reposition its business strategy or restructure to achieve the following:</i></p> <ul style="list-style-type: none"><i>• acceptable financial condition according to M2E8 and</i><i>• protection of all policyholders no matter where they are domiciled.</i> <p><i>Contingency plans set out how the IAIG could reposition its business strategy. They describe how the IAIG would:</i></p> <ul style="list-style-type: none"><i>• continue operating its entire insurance business (i.e. consider non-insurance operations that could be discontinued) and/or</i><i>• continue operating certain profitable lines of insurance business while restructuring (see below) or running off its discontinued business lines in an orderly fashion</i> <p><i>Contingency plans include possible restructuring that could be carried out. They describe how:</i></p> |



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| | <ul style="list-style-type: none">• <i>the IAIG as a whole can continue in business with a varied legal structure and/or</i>• <i>some business/legal entities can be disposed of to free up resources to support retained businesses/legal entities</i> |
| <p>Parameter M2E3-5-4 The IAIG pays special attention to intra-group transactions and how they behave in stress situations and how they can be resolved.</p> | <p><i>Specification M2E3-5-4-1 The IAIG pays particular attention to intra-group cash flows, i.e. whether it will have available cash flows (e.g. from surpluses released from long-term funds, dividends from other subsidiaries, etc) and whether these cash flows will be transferable among group member entities to cover any payments of interest or capital on loans, to finance new business and to meet any other anticipated liabilities as they fall due. The IAIG outlines what management actions it would take to manage the potential cash flow implications of a stress scenario (e.g. reducing new business, cutting dividends, etc).</i></p> <p><i>The IAIG's continuity analysis also considers the distribution of capital in the IAIG after stress and the possibility that subsidiaries within the IAIG may require recapitalisation.</i></p> |
| <p>Parameter M2E3-5-5 The IAIG maintains up-to-date Business Continuity Plans in order to continue its operations in adverse circumstances.</p> | <p><i>Specification M2E3-5-5-1 The IAIG maintains Business Continuity Plans in order to be able to continue or quickly restore operations of its businesses after direct catastrophic events (such as fire, flood, power failure, etc) which would cause severe damage to an important location of the IAIG as well as indirect market events.</i></p> |
| <p>ComFrame Standard M2E3-6</p> <p>The IAIG is aware of which policyholder protection schemes apply to its legal entities, and how these schemes affect each of the members of the IAIG.</p> | |



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| Parameter M2E3-6-1 This applies at overall group level and at the level of each affected entity. | |
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Module 2 Element 3 ComFrame Commentary

- The development and maintenance of the IAIG Profile is expected to result in a dialogue between the group-wide supervisor and the IAIG as well as between the group-wide supervisor and involved supervisors (see Module 3).
- Defining the scope of supervision of the IAIG as per M1E3 will enable the group-wide supervisor to assess what type of information is required and from which entities and with frequency it should be reviewed.
- The IAIG Profile will assist in determining if the group structure and the risks arising there from, inhibit effective risk management and/or supervision of the IAIG.
- M3E2 addresses information sharing among involved supervisors.
- The dialogue between the group-wide supervisor and involved supervisors about the IAIG profile will assist in identifying entities for inclusion/exclusion from the scope of supervision as defined in M1E3 taking into account the legal and management structures of the IAIG and associated risk management structures.
- See M3E1-5-5 for the role of the group-wide supervisor in assessing these risks.
- The scope of ComFrame requirements is restricted to existing frameworks related to policyholder protection schemes. M2E3 does not make recommendations on whether or where such frameworks should exist or on the design of policyholder protection schemes.
- The Market Conduct Subcommittee is developing an Issues Paper on policyholder protection schemes.



Module 2, Element 4

IAIG's strategy from an ERM perspective

Module 2 Element 4 Introductory Comments

In addition to understanding the IAIG's overall structure, the group-wide supervisor needs to understand the strategy of the IAIG. Risks posed by the strategy and business activities of the IAIG need to be assessed and managed. Element 5 requires the IAIG to clearly identify the strategic issues faced by the IAIG and its members. Assessment of the risks is to be addressed in the IAIG's ERM.

ComFrame Standard M2E4-1

The IAIG provides the group-wide supervisor with a clear explanation of the IAIG's strategy.

Parameter M2E4-1-1

The IAIG strategy explanation will depend on the circumstances of the IAIG but is likely to include matters such as:

- the overall business model
- material lines of business and how they are likely to develop
- non-insurance business the IAIG is likely to pursue
- changes to geographic emphasis of the IAIG and
- likely changes in market share.

Specification M2E4-1-1-1

The IAIG will be expected to have considered and be able to discuss its strategy in sufficient detail to allow the group-wide supervisor to understand the direction of the IAIG and its key entities and business lines.

ComFrame Standard M2E4-2

The IAIG considers the risks arising from its strategy and is able to demonstrate how such risks will be managed.

Parameter M2E4-2-1

The IAIG identifies and considers risks arising from its strategy as part of its ORSA or on a stand-alone basis.

Specification M2E4-2-1-1

Risks to be considered will depend on the circumstances of the IAIG and its strategy may include:



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| | <ul style="list-style-type: none">• <i>the ability of the IAIG and entities to handle significant growth or shifts in business volumes</i>• <i>expertise and resources required to manage new lines of business and</i>• <i>expertise and resources if the IAIG is to open in new jurisdictions.</i> |
| ComFrame Standard M2E4-3 *reference ICP 16, Guidance 16.16.16 The IAIG notifies the group-wide supervisor of material changes to its strategy, business model and activities, and those of its material entities. | |
| <p>Parameter M2E4-3-1 Changes that need to be advised include material changes in:</p> <ul style="list-style-type: none">• strategy• risk tolerances• business activities <p>at a group and/or subgroup level where appropriate.</p> | <p><i>Specification M2E4-3-1-1</i> <i>Materiality for reporting purposes may be set quantitatively in terms of:</i></p> <ul style="list-style-type: none">• <i>percentage of assets</i>• <i>percentage of gross premiums</i>• <i>percentage of market share for a defined geographic market.</i> <p><i>Materiality for reporting purposes may be set qualitatively in terms of:</i></p> <ul style="list-style-type: none">• <i>impact on risk management in terms of ease of identifying, monitoring and reporting of risks as well as ability to manage the risks.</i>• <i>impact on reinsurance capacity.</i>• <i>impact on percentage of required capital.</i> |

Module 2 Element 4 ComFrame Commentary



- Changes in structures are typically subject to regulatory approvals, e.g. change of control type provisions. However changes in strategy might not give rise to a regulatory obligation to seek approval at an entity level. For an IAIG, material changes could affect the risk profile of the IAIG and should be subject to reporting. This may be more so the case where an insurer decides to stop doing business
- Changes in strategy and structure could result from expansion or reduction of business (in quantity and/or scope or geography) and can be organic or by design (i.e. via corporate/ contractual transactions).



Module 2, Element 5

Intra-group transactions and exposures from an ERM perspective

Module 2 Element 5 Introductory Comments

It is common for entities within an IAIG to engage with one another in a number of ways. Intra-group loans, guarantees, contracts and other transactions are sometimes subject to reporting and/or approval at an entity level. It is important that at a group level the group-wide supervisor has an understanding of material intra-group transactions in order to understand the risk profile across the IAIG.

ComFrame Standard M2E5-1

The IAIG identifies material intra-group transactions and exposures. All material transactions are reported to the group-wide supervisor.

Parameter M2E5-1-1

Material intra-group transactions may be subject to approval by host supervisors. In obtaining approval or in reporting to the group-wide supervisor, the IAIG considers the impact of the intra-group transaction on the financial condition and obligations of relevant entities.

Specification M2E5-1-1-1

The requirement to report intra-group transactions at the group level applies interfere with or replace reporting and approval requirements set by host supervisors at the entity level.

Parameter M2E5-1-2

The IAIG reports material intra-group transactions to the group-wide supervisor. The IAIG is expected to have considered and be able to explain the impact of the intra-group transactions on the IAIG as a whole.

Specification M2E5-1-2-1

The IAIG is able to explain the group-wide intra-group transactions policy and mechanisms to keep track of material intra-group transactions.



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| <p>Parameter M2E5-1-3 Material means “to be of substantial importance to and have a significant consequence on the IAIG”.</p> | <p><i>Specification M2E5-1-3-1</i> <i>Materiality for reporting purposes may be set quantitatively in terms of:</i></p> <ul style="list-style-type: none">• <i>percentage of assets</i>• <i>percentage of gross premiums</i>• <i>percentage of market share for a defined geographic market.</i> <p><i>Materiality for reporting purposes may be set qualitatively in terms of:</i></p> <ul style="list-style-type: none">• <i>impact on risk management in terms of ease of identifying, monitoring and reporting of risks as well as ability to manage the risks.</i>• <i>impact on reinsurance capacity.</i> <p><i>Material intra-group transactions and exposures include:</i></p> <ul style="list-style-type: none">• <i>loans</i>• <i>guarantees</i>• <i>issuance of contingent capital</i>• <i>payment of dividends</i>• <i>cost sharing structures</i>• <i>service contracts</i>• <i>management arrangements and outsourcing within the IAIG</i>• <i>reinsurance</i>• <i>transactions among financial services entities of different sectors within the IAIG</i>• <i>investments within the IAIG</i>• <i>other similar transactions.</i> |
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Group Financial Condition

Module 2, Element 6

Liabilities/technical provisions and assets/investments

Module 2 Element 6 Introductory Comments

The focus of this element is the means by which a discipline is established and maintained in measuring the IAIG's Total Balance Sheet.

This element also builds on the general ERM concepts set out in M2E2 about managing risks related to underwriting, claims management, reinsurance and investments. It sets out further details of an IAIG's internal policies to manage these risks and requires an actuarial opinion as to how all of these internal policies interact and result in the major balance sheet items.

ComFrame Standard M2E6a-1

An IAIG is required to develop and implement an Investment Policy that clearly defines the IAIG's investment objectives, ensuring that these are consistent with any legislative restrictions.

Parameter M2E6a-1-1

*reference ICP 15, Standards 15.4, 15.5 and 15.6

IAIG's investment policy sets requirements that are applicable to its investment activities, within the regulatory regimes in which it operates:

- for the IAIG's portfolio of investments as a whole
- for the investments of an IAIG to be appropriate to the nature of its liabilities (see M2E6a-3)
- for the IAIG to only invest in assets whose risks it can properly assess and manage (see M2E6a-4) and
- on the use of more complex and less transparent classes of



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| <p>assets and investment in markets or instruments that are subject to less governance or regulation (see M2E6a-5).</p> | |
| <p>Parameter M2E6a-1-2 *reference ICP 15, Standard 15.2 The regulatory investment requirements are open and transparent and the objectives of those requirements are explicit.</p> | |
| <p>ComFrame Standard M2E6a-2 *reference ICP 15, Standard 15.3</p> <p>The IAIG's Investment Policy address regulatory requirements covering at a minimum, the:</p> <ul style="list-style-type: none">• Security• Liquidity and• Diversification <p>of an IAIG's portfolio of investments as a whole.</p> | |
| <p>Parameter M2E6a-2-1 *reference ICP 15, Guidance 15.3.6 The IAIG's investment policy reflects supervisory requirements governing the selection of, and/or exposure to, investments that have low security or whose security is difficult to assess.</p> | |
| <p>Parameter M2E6a-2-2 The IAIG's investment policy respects supervisory requirements on investing in low-quality assets. The IAIG does not distribute such assets around the IAIG to avoid local investment restrictions.</p> | |



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| <p>Parameter M2E6a-2-3 *reference ICP 15, Guidance 15.3.26 The IAIG monitors investments on a group-wide basis to ensure that the Governing Body is aware of global exposures as well as the possibility of an inappropriate level of exposure to certain investments, which may create financial difficulties within the IAIG if the value or liquidity of these investments decreases.</p> | |
| <p>Parameter M2E6a-2-4 The IAIG sets minimum criteria for the liquidity of its investment portfolio to ensure payments to policyholders or creditors are able to be made as they fall due and that sufficient assets are held in the appropriate location for their availability.</p> | |
| <p>Parameter M2E6a-2-5 *reference ICP 15, Guidance 15.3.18 An IAIG investigates the nature of the potential legal and practical impediments to cross-border transfer of assets as well as any potential effect those impediments might have, particularly in a winding up.</p> | <p><i>Specification M2E6a-2-5-1</i> <i>The IAIG should keep a list of the different jurisdictional requirements to which its various entities are subject, recording specific legislative restrictions that may apply to the transfer of assets from one jurisdiction to another, and what, if any, additional restrictions may apply in the case of insolvency or the winding-up of an entity.</i></p> <p><i>The IAIG should also have documented procedures on actions to be taken to effect the cross-border transfer of assets in normal and stressed times.</i></p> |
| <p>Parameter M2E6a-2-6 *reference ICP 15, Guidance 15.3.25 An IAIG holds assets that are properly diversified in such a way as to avoid excessive concentration on any particular:</p> <ul style="list-style-type: none">• type of asset• issuer/counterparty or related entities of an issuer/counterparty• market | |



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| <ul style="list-style-type: none">• industry and/or• geographic area. | |
| ComFrame Standard M2E6a-3 *reference ICP 15, Standard 15.4 An IAIG invests in a manner that is appropriate to the nature of its liabilities. | |
| <p>Parameter M2E6a-3-1 *reference ICP 15, Guidance 15.4.1 Investments appropriate to the nature of an IAIG’s liabilities enable insurance legal entities within the IAIG to use the proceeds of these investments to pay the policyholders and other creditors, as and when the payments to them fall due.</p> | <p><i>Specification M2E6a-3-1-1</i> <i>*reference ICP 15</i> <i>Due attention should be paid to match currencies and duration of investments to the nature of the liabilities held by the IAIG so that assets can be liquidated in a timely manner and where they are required to make payments.</i></p> <p><i>Strict, one for one asset to liability matching may not be required, but the portfolio should have adequate scope and flexibility to enable an IAIG to meet its obligations.</i></p> |
| ComFrame Standard M2E6a-4 *reference ICP 15, Standard 15.5 An IAIG invests only in assets whose risks it can properly assess and manage. | |
| <p>Parameter M2E6a-4-1 *reference ICP 15, Guidance 15.5.5 Where an IAIG manages all or some investments centrally within the IAIG, it will need to ensure the investment management unit has the requisite knowledge and skills to assess and manage the risks of these investments. The unit will need to manage the investments with due regard to the needs of the individual insurance legal entities in addition</p> | |



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| to the needs of the IAIG as a whole. | |
| <p>Parameter M2E6a-4-2 *reference ICP 15, Guidance 15.3.8 The IAIG is aware of the limitations of using ratings from credit rating agencies and avoids placing undue reliance on them. The IAIG conducts its own due diligence.</p> | <p><i>Specification M2E6a-4-2-1</i> <i>The IAIG should develop a methodology for assessing investments, based on various sources of information and its own experience, in order to achieve a consistent approach.</i></p> |
| <p>ComFrame Standard M2E6a-5 *reference ICP 15, Standard 15.6</p> <p>The IAIG takes into account quantitative and/or qualitative investment requirements set by supervisors on the use of more complex and less transparent classes of assets and investment in markets or instruments that are normally subject to less governance or regulation on a local basis.</p> | |
| <p>Parameter M2E6a-5-1 *reference ICP 15, Guidance 15.5.1 Any IAIG investments, including those in collective investment funds, will need to be sufficiently transparent.</p> | |
| <p>Parameter M2E6a-5-2 *reference ICP 15, Guidance 15.6.9 The IAIG complies with the requirements on the use of structured investment products and derivatives.</p> | |
| <p>ComFrame Standard M2E6a-6 *reference ICP 15, Guidance 15.3.5</p> <p>The IAIG respects regulatory requirements on participations and investments in other entities within the IAIG, related counterparties or interest over which it has some influence.</p> | |



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| <p>Parameter M2E6a-6-1 The IAIG sets limits on the nature and total value of participations and investments between various entities within the IAIG. Such limits on participations and investments in these entities will have regard to:</p> <ul style="list-style-type: none">• their lack of liquidity• contagion or reputational risk limitation• valuation uncertainty and• potential reduction in quality of the entity's available assets. | <p><i>Specification M2E6a-6-1-1</i> <i>The IAIG needs to take due note of the extent and type of intra-group transactions, both with the 'head office' and between different entities, whether operating under the same jurisdiction or not.</i></p> <p><i>The requirements on participations are tailor made to the group supervisory framework in place and may differ whether an aggregation or consolidation approach is used.</i></p> |
| <p>ComFrame Standard M2E6b-1</p> <p>The IAIG maintains a group-wide underwriting policy.</p> | |
| <p>Parameter M2E6b-1-1 Building on the general ERM approach in M2E2-2-1 to managing underwriting, the IAIG underwriting policy addresses the following issues:</p> <ul style="list-style-type: none">• the IAIG's willingness to bear underwriting risk according to the IAIG's risk appetite and risk tolerance levels as required by Parameter M2E2-1-6• nature of risks to be underwritten• any particular risks that the IAIG is not willing to write according to its risk appetite and risk tolerance levels even if they would broadly fit into the nature of risks to be underwritten• a monitoring process for underwriting throughout the IAIG• aggregation limits on particular types of risk• the interaction of the underwriting policy with the IAIG's reinsurance strategy and• connectivity with risk pricing and premium setting functions. | <p><i>Specification M2E6b-1-1-1</i> <i>In addressing the nature of risks to be underwritten the underwriting policy of an IAIG should cover at least:</i></p> <ul style="list-style-type: none">• <i>product classes the IAIG and its legal entities are willing to write</i>• <i>geographical exposure limits and</i>• <i>a process for setting approval authorities for underwriting (this may be at the legal entity rather than individual underwriting manager level in an IAIG).</i> |



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| | <p><i>Specification M2E6b-1-1-2</i> <i>The monitoring process for underwriting included in an IAIG's underwriting policy should include at a minimum:</i></p> <ul style="list-style-type: none"><i>• a process to assess risks actually underwritten subject to clear criteria for that assessment</i><i>• analysis of emerging risk in the underwritten portfolio</i><i>• a feedback loop to ensure emerging risk is considered in modifying underwriting practices and</i><i>• methods for monitoring compliance with underwriting policies and procedures.</i> |
| | <p><i>Specification M2E6b-1-1-3</i> <i>In setting aggregation limits on particular types of risk, consideration should be given to the design of the IAIG's reinsurance program to ensure the balance sheet of the IAIG does not end up bearing risks beyond its own risk tolerance levels. Aggregation limits may be set having regard to geographical regions, classes of business and other factors considered relevant for both the IAIG's risk tolerance levels and limits in the IAIG's reinsurance program.</i></p> |
| | <p><i>Specification M2E6b-1-1-4</i> <i>In describing how the underwriting policy interacts with the reinsurance strategy, the IAIG should include details of the relationship of certain product classes or particular risks to the availability of reinsurance cover (i.e. are there some risks that an IAIG is more willing to bear on its own balance sheet, are there some risks it is willing to write only if it can lay off the risk to a reinsurer)</i></p> |
| <p>ComFrame Standard M2E6b-2</p> <p>The IAIG maintains a group-wide claims management policy.</p> | |



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| <p>Parameter M2E6b-2-1 Building on the general ERM approach in M2E2-2-1 to managing claims, the IAIG claims management policy addresses the following issues:</p> <ul style="list-style-type: none">• delegations of authority for claims settlement• claims settlement procedures• criteria for accepting or rejecting claims• dispute resolution procedures and• a monitoring process for claims estimation and settlement | <p><i>Specification M2E6b-2-1-1</i> <i>Delegations of authority for claims settlement may be at a high level within an IAIG. This may be at the level of senior management of legal entities or business units within the IAIG. Further delegation of authority is likely to be left to the discretion of those local senior managers but should be done within a framework to ensure appropriate control and responsibility for decisions made. A key issue to be considered is circumstances in which individual claims or related groups of claims need to be escalated to a group authority level.</i></p> |
| | <p><i>Specification M2E6b-2-1-2</i> <i>Claims settlement procedures should include loss estimation and investigation procedures at a general level to be implemented in a more detailed fashion at the individual legal entity or business unit level. A clear, consistent loss estimation process is a vital component in establishing the amount of claims incurred to be reported on the IAIG's balance sheet.</i></p> |
| | <p><i>Specification M2E6b-2-1-3</i> <i>Criteria for accepting or rejecting claims are likely to be heavily influenced by legal requirements in particular jurisdictions. However, the IAIG should have a general policy on accepting and rejecting claims with a view to managing its claims incurred and protecting its reputation in the markets in which it operates.</i></p> |
| | <p><i>Specification M2E6b-2-1-4</i> <i>Dispute resolution procedures are likely to be heavily influenced by legal requirements in particular jurisdictions. However, the IAIG should have a general policy on dispute resolution addressing in particular how to protect its reputation in all markets in which it operates.</i></p> |



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| | <p><i>Specification M2E6b-2-1-5</i> <i>A monitoring of process for claims estimates and settlement should include:</i></p> <ul style="list-style-type: none">• <i>analysis of trends in claims feedback into the underwriting policy and reinsurance/risk transfer strategy and</i>• <i>methods for monitoring compliance with claims management processes and procedures.</i> |
| <p>ComFrame Standard M2E6b-3 *reference ICP 13, Standard 13.1</p> <p>The IAIG maintains a group-wide reinsurance strategy.</p> | |
| <p>Parameter M2E6b-3-1 Building on the general ERM approach in M2E2-2-5-1 to managing the IAIG's reinsurance arrangements, the IAIG reinsurance strategy addresses the following issues:</p> <ul style="list-style-type: none">• the interaction of the IAIG's underwriting policy with the IAIG's reinsurance strategy and how the IAIG's risk appetite and risk tolerance levels (as required by M2E2-1-6) are addressed on both a gross limit and net retention basis through the reinsurance strategy• the interaction between the reinsurance strategy and claims management policy• levels of diversification in the IAIG's portfolio and how the benefits of that diversification are realised in the reinsurance market• the IAIG's appetite for reinsurer credit risk including approved security criteria for reinsurance transactions and aggregate exposure criteria to individual or related reinsurers• where individual legal entities are authorised to enter into some | <p><i>Specification M2E6b-3-1-1</i> <i>A significant issue to consider in the interaction of the IAIG's underwriting policy with the IAIG's reinsurance strategy is any material differences between risks underwritten and the provisions of reinsurance contracts covering those risks. In particular any material differences in exclusions between policies issued by the IAIG and reinsurance contracts covering those risks should be addressed. Where there are material differences in contractual terms these should be considered in the context of the IAIG's risk tolerance levels.</i></p> |



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| <p>reinsurance arrangements on their own account, the management of these exposures in the group-wide context</p> <ul style="list-style-type: none">• monitoring and control of the reinsurance strategy• procedures for managing reinsurance recoverables including required reporting from reinsurers and• procedures to ensure contract certainty for reinsurance contracts in a timely manner. | |
| | <p><i>Specification M2E6b-3-1-2</i> <i>In developing the approved security criteria for reinsurance transactions, the overall approach to credit risk set out in the IAIG's ERM Framework, as required by M2E2-3-1, should be referenced.</i></p> |
| | <p><i>Specification M2E6b-3-1-3</i> <i>Where individual legal entities are authorised to enter into reinsurance arrangements on their own account, the IAIG must consider the manner in which facultative reinsurance arrangements are managed locally and how that ties to the IAIG's reinsurance strategy particularly with regard to security criteria and aggregate exposure criteria to individual and related reinsurers.</i></p> |
| <p>Parameter M2E6b-3-2 The IAIG's reinsurance policy covers alternative risk transfer arrangements to the extent they are used or are contemplated to be used by the IAIG.</p> | <p><i>Specification M2E6b-3-2-1</i> <i>* reference ICP 13, Standard 13.6</i> <i>Use of capital markets risk transfer products is to be integrated into the reinsurance strategy. A particular focus for the use of capital markets risk transfer products are criteria for setting up/dealing with Special Purpose Entities (SPEs).</i></p> |



| ComFrame Standard M2E6b-4 | |
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| The IAIG maintains a group-wide insurance liability valuation policy which is consistent with the requirements of Element 7. | |
| <p>Parameter M2E6b-4-1 The IAIG's insurance liability valuation policy sets out standards for insurance liability valuation practices to be adhered to across the IAIG for the purposes of group-wide reporting. At a minimum the insurance liability valuation policy includes:</p> <ul style="list-style-type: none">• a framework for determining assumptions to be used in valuations• a framework for determining the methodologies to be used to model the current estimate and MOCE (see M2E7-1-5) at the legal entity level for group-wide reporting purposes• a methodology for aggregating the reporting of central estimates and MOCE for each legal entity taking into account diversification benefits but also considering risks to and impediments to realising those diversification benefits• a methodology for calculating the reinsurance recoverable asset at the group-wide level taking into account the design of the reinsurance program under the reinsurance strategy of the IAIG• data quality standards within the IAIG. | <p><i>Specification M2E6b-4-1-1</i> <i>The insurance liability valuation policy may form part of the Valuation Principles required under M2E7-1-2 or should at least form an input into those valuation principles.</i></p> |
| | <p><i>Specification M2E6b-4-1-2</i> <i>Differences may exist in reporting at a local legal entity level to comply with local requirements. The IAIG's insurance liability valuation policy focuses on group-wide reporting requirements for both internal management purposes and for reporting and disclosure purposes (see M2E9).</i></p> |



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| | <p><i>Specification M2E6b-4-1-3</i> <i>The framework for determining assumptions to be used in valuations should include:</i></p> <ul style="list-style-type: none"><i>• a process of incorporating the actual experience of the IAIG/legal entity in determining assumptions and</i><i>• a process of developing assumptions if the IAIG does not have enough direct experience in a particular business line or market to use its own experience to develop valuation assumptions.</i> |
| | <p><i>Specification M2E6b-4-1-4</i> <i>Legal entities within the IAIG may be required to use a framework for determining the methodologies to be used to model the current estimate and MOCE for the IAIG's internal and external reporting purposes that differs from the framework used for reporting to the local supervisor.</i></p> |
| <p>ComFrame Standard M2E6b-5</p> <p>The IAIG maintains a group-wide asset liability management policy.</p> | |
| <p>Parameter M2E6b-5-1 The IAIG's asset liability management policy sets out standards of management of the investments of the IAIG in a manner that addresses the risk profile of the liabilities by type and term. At a minimum the asset liability management policy includes a framework for determining matching and other management requirements.</p> | |
| <p>ComFrame Standard M2E6b-6</p> <p>The IAIG establishes a clear role for the group-wide actuarial function (see M2E1-8-9).</p> | |



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| <p>Parameter M2E6b-6-1 The group-wide actuarial function cooperates with local actuarial offices within the IAIG according to a policy established by the IAIG. The group-wide actuarial function focuses on group-wide reporting and disclosure as well as group-wide internal management reporting.</p> | |
| <p>Parameter M2E6b-6-2 The group-wide actuarial function must be in a position to provide full and frank independent advice to the Governing Body of the IAIG without that advice being subject to filtering by other members of the IAIG's senior management or other control functions.</p> | <p><i>Specification M2E6b-6-2-1</i> <i>The actuarial function's reporting line to the IAIG's Governing Body in particular must not be influenced by other functions of the IAIG responsible for financial reporting to the IAIG's Governing Body.</i></p> |
| <p>Parameter M2E6b-6-3 The duties of the actuarial function include at a minimum:</p> <ul style="list-style-type: none">• coordinating the calculation of technical provisions at the group-wide level• coordinating the calculation of reinsurance recoverable assets at the group-wide level• ensuring the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions• expressing an opinion as specified in M2E6b-6-4. | <p><i>Specification M2E6b-6-3-1</i> <i>The process of ensuring the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions may be achieved through a number of means including:</i></p> <ul style="list-style-type: none">• <i>providing advice on the insurance liability valuation policy set out in M2E6b-4</i>• <i>assessing compliance with the insurance liability valuation policy.</i> |
| | <p><i>Specification M2E6b-6-3-2</i> <i>Further examples of activities that could be carried out by the IAIG's actuarial function include providing advice and opinion on:</i></p> <ul style="list-style-type: none">• <i>the group-wide risks of the IAIG</i>• <i>the investment policies and the valuation of assets</i>• <i>the IAIG's solvency position, including a calculation of minimum capital required for regulatory purposes and liability and loss provisions</i> |



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| | <ul style="list-style-type: none"> • <i>the IAIG’s prospective solvency position, such as in utilising stress and scenario tests</i> • <i>risk assessment and management policies and controls</i> • <i>distribution of dividends or other benefits</i> • <i>underwriting policies</i> • <i>reinsurance arrangements and other forms of risk transfer</i> • <i>product development and design, including the terms and conditions of insurance contracts</i> • <i>the sufficiency and quality of data used in the calculation of technical provisions</i> • <i>risk modelling in a group ORSA and use of internal models and</i> • <i>compliance with regulatory solvency requirements in the jurisdictions in which insurers within the IAIG operate.</i> |
| <p>Parameter M2E6b-6-4 The group-wide actuarial function provides an annual actuarial opinion to the Governing Body of the IAIG. A copy is provided to the group-wide supervisor. The actuarial opinion is forward looking and goes beyond the current balance sheet of the IAIG. It covers at least the following subjects:</p> <ul style="list-style-type: none"> • the reliability and sufficiency of the technical provisions • the adequacy of reinsurance credit for technical provisions • analysis of the current and future financial condition of the IAIG given recent experience and the IAIG’s underwriting policy, claims management policy, reinsurance strategy and investment policy. | <p><i>Specification M2E6b-6-4-1</i> <i>Further examples of issues that could be addressed in the annual actuarial opinion include:</i></p> <ul style="list-style-type: none"> • <i>the assumptions used by all of the legal entities in the IAIG and the consolidation/aggregation method applied at the group level</i> • <i>the methodologies used to determine central estimates and MOCEs by each legal entity and the consolidation/ aggregation method applied at the group level</i> • <i>the availability and appropriateness of data used in valuations</i> • <i>recent experience in comparison with assumptions and valuations</i> • <i>uncertainty in central estimates used by both legal entities and the aggregated/consolidated IAIG level central estimate. This analysis should be undertaken in light of the MOCE at legal entity level and MOCE at the group-level. Such an assessment could be undertaken with sensitivity analysis.</i> • <i>the way in which the claims incurred item on the balance sheet</i> |



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| | <p><i>reconciles from the beginning of the year to the end of the year</i></p> <ul style="list-style-type: none">• <i>the adequacy of pricing at the appropriate unit level and at the group-wide level</i>• <i>the performance of the IAIG's insurance portfolios and analysis of any changes in business volumes, exposures, mix of business and pricing during the year</i>• <i>asset/liability management under the investment policy and</i>• <i>suitability and adequacy of reinsurance/risk transfer arrangements taking into account the strategies for underwriting and claims management as well as the overall financial condition of the IAIG and the Governing Body's risk tolerance.</i> |
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Module 2 Element 6 ComFrame Commentary

- The part of this Element relating to Liabilities/Technical Provisions is an early stage draft. The material has not had as much development and discussion as other Elements of ComFrame and indeed the investments/assets component of the Element. When providing comments, Members and Observers are requested to take this into consideration. Comments about the structure of the Element and the scope of its content would be appreciated.
- Adding in material on Liabilities/Technical Provisions is seen as necessary to balance the material that already exists on Investments/Assets. For IAIGs, managing both sides of the balance sheet and ensuring appropriate coordination of the management of both sides of the balance sheet through asset-liability management is vital.
- The IAIS acknowledges that the material on Liabilities/Technical Provisions is not based on existing ICPs, standards or guidance. As a separate matter, the IAIS will consider the extent to which the material on Liabilities/Technical Provisions developed here in ComFrame should be reflected in revised ICPs. The material developed here is focused particularly on the complex context of IAIGs.
- To understand the basis of the material developed on Liabilities/Technical Provisions one must look first at existing material on Investments. In the ICPs, the focus of ICP 15 is on investment requirements established by supervisors. Here in ComFrame, the focus is on IAIGs maintaining a policy which ensures that the requirements set out in ICP 15 are met. Effectively, the requirements on investment policy establish the way in which investments of the IAIG are to be acquired and managed. Similarly, there should be requirements on how Liabilities/Technical Provisions are acquired and managed.



- The build-up of technical provisions is based on the business written by the IAIG. Therefore, it is appropriate that there be an IAIG wide view on underwriting. The level of centralisation of this view will differ among IAIGs, however as IAIGs have to report their results to markets, supervisors and other stakeholders at the group-level it is expected that there would be a group-wide view of the risks that the IAIG is willing to underwrite which would inform policies and practices for underwriting at local legal entity levels. The underwriting policies in place will directly impact on the pre-claims technical provisions shown on the IAIG's balance sheet. It is important for an IAIG to manage the pre-claims technical provisions on its balance sheet and for all involved supervisors to understand how the group-wide view of appropriate risk underwriting informs how each entity or business unit of the IAIG goes about its business.
- Claims liabilities are another significant component of technical provisions. The estimate of claims liabilities will be directly impacted by how claims are managed within the IAIG. It is expected that in a diverse IAIG, responsibility for managing claims will be devolved throughout the IAIG but again due to the requirement for reporting at the group-wide level it is expected that there would be a group-wide view about managing claims which would inform local policies and procedures. It is important for the IAIG to manage this significant component of its balance sheet and for all involved supervisors to understand how the group-wide view of claims management informs how each entity or business unit of the IAIG goes about its business.
- Many IAIGs manage their access to reinsurance markets centrally. The benefits of diversification across the IAIG can then be obtained through pooling a diverse portfolio of risks and then obtaining reinsurance cover on that diverse portfolio of risks. Intra-group reinsurance arrangements are typical in such a centralised process. A central view on risk retention and risk management through reinsurance is also typical in such a centralised process. Reinsurance recoverables are a significant asset on most IAIG balance sheets or at least a significant contingent asset vital in understanding the financial condition of an IAIG. Therefore it is important that an IAIG closely manage their reinsurance programs and that supervisors understand group-wide reinsurance programs to understand the financial condition of the IAIG and individual entities within the IAIG.
- Pulling together a diverse range of inputs to estimate the group-level technical provisions of an IAIG is a significant task. It is expected that an IAIG have an actuarial function that plays a significant role in establishing those technical provisions. Also, as there are so many interlinked aspects to balance sheet management in an IAIG, it would be useful for the actuarial function to provide an independent view on the financial condition of the IAIG as a whole and processes affecting that financial condition. This is where the interaction of the underwriting policy, claims management policy, reinsurance strategy and insurance liability valuation policy are evaluated as a whole on an independent basis.



Module 2, Element 7

Valuation

Module 2 Element 7 Introductory Comments

The IAIS considers it most desirable that the methodologies for calculating items in the general purpose financial reports can be used for, or are substantially consistent with, the methodologies used for regulatory reporting purposes, with as few changes as possible to satisfy regulatory requirements.

The material on adjustments to IFRS included under M2E7-2 is a work in progress. The IAIS continues to discuss the nature of the adjustments to be made and whether the material on adjustments logically belongs in M2E7 or in M2E8c (Availability of Capital Resources).

| ComFrame Standard M2E7-1 | |
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| The IAIG values its assets and liabilities for solvency purposes using International Financial Reporting Standards (IFRS), or reconciliation to IFRS. | |
| Parameter M2E7-1-1 *reference ICP 14, Standards 14.2 to 14.5 The IAIG demonstrates that IFRS is consistently applied and that the valuation of assets and liabilities is: <ul style="list-style-type: none">• Undertaken on a consistent basis• Undertaken in a reliable, decision useful and transparent manner• An economic valuation that reflects the risk-adjusted present values of their cash flows. | <i>Specification M2E7-1-1-1</i> <i>Application would not be required prior to the mandatory adoption date of the IASB's insurance contracts and financial instruments standards.</i> |
| Parameter M2E7-1-2 An IAIG clearly sets out in a written statement its Valuation Principles, | |



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| its approach to measurement and recognition for determining when a transaction gives rise to an asset or liability. | |
| Parameter M2E7-1-3 The IAIG makes and discloses prescribed adjustments to consolidated group accounts where material differences exist in the composition of the consolidated group for financial reporting purposes and the IAIG for supervisory purposes. | <i>Specification M2E7-1-3-1</i> <i>The definition of a group for supervisory purposes is set out in Module 1 Element 3.</i> |
| Parameter M2E7-1-4 *reference ICP 14, Standard 14.6 Where IFRS allows the value of liabilities to reflect own credit standing, the IAIG applies prudential adjustments or filters to remove the effect of own credit standing on liabilities. | |
| Parameter M2E7-1-5 *reference ICP 14, Standard 14.7 The IAIG values its technical provisions by determining a Current Estimate and a Margin over the Current Estimate (MOCE.) | <i>Specification M2E7-1-5-1</i> <i>*reference ICP 14, Standard 14.8</i> <i>As set out in ICP 14.8, the Current Estimate reflects the expected present value of all relevant future cash flows that arise in fulfilling insurance obligations, using unbiased, current assumptions.</i> |
| | <i>Specification M2E7-1-5-2</i> <i>*reference ICP 14, Standard 14.9</i> <i>The MOCE reflects the inherent uncertainty related to all relevant future cash flows that arise in fulfilling insurance obligations over the full time horizon thereof.</i> |
| Parameter M2E7-1-6 *reference ICP 14, Standard 14.10 The IAIG applies criteria prescribed by the group-wide supervisor for the determination of appropriate rates to be used in the discounting of technical provisions. | |



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| <p>Parameter M2E8-1-7 *reference ICP 14, Standard 14.11 The IAIG makes appropriate allowance for embedded options and guarantees in the valuation of technical provisions.</p> | |
| <p>ComFrame Standard M2E7-2</p> <p>The IAIG applies appropriate adjustments to IFRS to ensure an economic basis for valuation.</p> | |
| <p>Parameter M2E7-2-1 The IAIG makes and discloses prescribed prudential adjustments and filters related to recognition and measurement where required, and discloses the application of prudential adjustments and filters.</p> | <p><i>Specification M2E8-7-1-1</i> <i>To the extent possible, supervisors base their assessment of prudential capital on the measures of retained earnings and reserves that are recognised in the IAIG's annual public financial statements.</i></p> |
| | <p><i>Specification M2E7-2-1-2</i> <i>The amount of capital resources available is dependent on both the recognition of, and the valuation basis used for, an IAIG's assets and liabilities. Supervisors assess the recognition and measurement of accounting assets and liabilities, and decide whether to accept, modify or reject those values.</i></p> |
| | <p><i>Specification M2E7-2-1-3</i> <i>The decision to modify or reject is made when the assets or liabilities are deemed:</i></p> <ul style="list-style-type: none"> • <i>Not to absorb losses because the assets do not have the potential to give rise to the flow of cash or cash equivalents to the entity</i> • <i>Not to be relevant for prudential purposes because the liabilities will not give rise to cash outflows</i> • <i>Not to be sufficiently reliable for prudential purposes</i> |



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| | <p><i>because the measures are based on valuation assumptions that cannot be externally verified or back tested, and are insufficiently prudent</i></p> |
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Module 2 Element 7 ComFrame Commentary

- Supervisors may allow for local practice in applying the adjustments set out in Specification M2E7-2-1-3, provided adequate disclosure is made.
- Examples where supervisors may choose to modify or reject include goodwill and intangible assets, deferred tax assets, and deferred benefit assets under IAS 19.
- The AAISC and SSC are currently discussing whether prudential adjustments and filters should be an aspect of Element 7 Valuation or Element 8 Group Capital Adequacy Assessment with regard to capital resources. There are placeholders for this in both Elements.



Module 2, Element 8

Group Capital Adequacy Assessment

Module 2 Element 8 Introductory Comments

This element builds on the requirements of ICP 17 and is being developed based on strategic directions set out by the IAIS' Executive Committee and Technical Committee in November 2011. The version presented here is a work in progress and is not yet fully reflective of the strategic decisions made which are set out below.

The drafting of this Element follows the convention for Module 2 in that all requirements are applicable to the IAIG. However, all of these requirements must be set by the group-wide supervisor. It is expected that the group-wide supervisor's jurisdiction will reflect the requirements set out below and will require all IAIGs in its jurisdiction to implement these requirements. As the IAIS is aiming for a partly harmonised approach to many of the components of capital adequacy, there is inherent flexibility in application. The group-wide supervisor has the ability to work with other involved supervisors to establish the requirements within a narrow range of a partly harmonised approach.

To be clear, the group capital assessment set out in this Element has three key components that will need to be prescribed in the group-wide supervisor's jurisdiction – the group regulatory capital requirement, allowable group capital resources and the capital adequacy assessment calculation and process. The prescription of these in the jurisdiction of the group-wide supervisor will follow the framework set out in this Element. To the extent needed, existing or proposed jurisdictional requirements for capital adequacy assessment will need to be adjusted to align with ComFrame once it is implemented.

In Module 3, the supervisory process that is used to examine the capital adequacy of the group is set out and will require application of the regulatory framework for group capital assessment set out here in Module 2. Group-wide and involved supervisors need to cooperate in that group capital assessment to ensure all material risks arising in the IAIG are taken into account.

The Technical Committee decided, and the Executive Committee endorsed the decision, to give direction to the Solvency and Actuarial Issues Subcommittee in building the capital component of the solvency assessment of IAIGs in the context of ComFrame including, among others, the following features:

- ERM and Total Balance Sheet approach as the common foundation
- Valuation based on IFRS (or reconciliation to IFRS) as a working assumption with filters and complements to be built where needed as IFRS develops



- Further develop an approach regarding a range of similar means to address the risks for IAIGs as set out in the Concept Paper.
- Develop a partly harmonised set of standards and parameters which sets out a narrow range of target criteria and time horizons for measurement of those risks. Implicit criteria would be allowed providing that the underlying rationale is evidenced.
- Build a system which allows for various standardised approaches (factor or stochastic) with internal models accepted. Basic principles of internal models and disclosures to allow comparison between various jurisdictions to be spelt out.
- Basic requirements and common terminology for capital resources along with mapping of capital resources requirements in key jurisdictions (members of SSC) – June 2012. Common definition of capital resources to be established by 2013
- Further elaborate on stress testing in ERM processes and on stress testing by the group-wide supervisor. The Macroprudential Surveillance Working Group, in consultation with the SSC, to further elaborate on stress testing on an industry-wide basis.

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| <p>ComFrame Standard M2E8a-1 *reference ICP 17, Standard 17.1</p> <p>The IAIG applies a total balance sheet approach to assess all the risks to which it is exposed.</p> | |
| <p>Parameter M2E8a-1-1 ERM requires all material risks to be identified and quantified, where appropriate, whether off or on balance sheet. This forms the basis of the total balance sheet approach which in turn provides a consistent valuation.</p> | <p><i>Specification M2E8a-1-1-1</i> <i>The total balance sheet approach adopted is to be documented and disclosed. The documentation is to include:</i></p> <ul style="list-style-type: none"> • <i>a description of the approach adopted</i> • <i>a justification of the approach adopted</i> • <i>a description of how the approach is to be implemented and</i> • <i>a description of any adjustments made for fungibility of capital, transferability of assets, risks from non-insurance members of the IAIG and other relevant issues.</i> |
| <p>Parameter M2E8a-1-2 *reference ICP 17, Standard 17.1, Guidance 17.1.1 The total balance sheet approach recognises the interdependence between assets, liabilities, regulatory capital requirements and capital resources and is referred to as the total balance sheet approach for</p> | |



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| <p>solvency purposes.</p> <p>The assets and liabilities are to be based on:</p> <ul style="list-style-type: none">• a consistent measurement of assets and liabilities• explicit identification and consistent measurement of risks and their potential impact on all components of the balance sheet. <p>The impacts of relevant material risks on an IAIG's overall financial position are to be appropriately and adequately recognised.</p> <p>If items are off-balance in general purpose financial reports and if such items imply a (potential) asset or a (potential) liability, then these items are to be included in the total balance sheet approach for solvency purposes.</p> | |
| <p>Parameter M2E8a-1-3 *reference ICP 17, Guidance 17.1.9 A number of total balance sheet approaches for group-wide supervision can be adopted:</p> <ul style="list-style-type: none">• Group level focus where the IAIG is considered primarily as a single integrated entity for which a separate assessment is made for the IAIG as a whole on a consistent basis, including adjustments to reflect constraints on fungibility of capital and transferability of assets among group members. Under a group level focus either an IAIG's consolidated accounts or an aggregation method may be used.• Legal entity focus where the IAIG is considered primarily as a set of interdependent legal entities. The focus is on the capital adequacy of each of the parent and other entities in the IAIG, taking into account risks arising from relationships within the IAIG, including those involving non-insurance members of the | |



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| <p>IAIG.</p> <ul style="list-style-type: none"> Hybrid or intermediate approaches which combine elements of the group level and legal entity focus. <p>The choice of approach will depend on the:</p> <ul style="list-style-type: none"> preconditions in a jurisdiction the legal environment which may specify the level at which the group-wide capital requirements are set the structure of the IAIG and the structure of the supervisory arrangements between the supervisors. | |
| <p>ComFrame Standard M2E8b-1 *reference ICP 17, Standard 17.2</p> <p>The IAIG calculates its group regulatory capital by assessing and measuring the total amount of relevant and material risk to which the IAIG is exposed. The group regulatory capital will be:</p> <ul style="list-style-type: none"> established at a sufficient level so that, in adversity, an IAIG’s insurance legal entity obligations to policyholders will continue to be met as they fall due and based on risk measurement criteria (see M2E8b-3 below). | |
| <p>Parameter M2E8b-1-1 A partly harmonised approach to these risk management criteria is currently under development.</p> | <p>Comment: The SSC is currently collecting information for a detailed comparison of methods and tools used for measurement of risk in various common risk categories.</p> |
| | <p><i>Specification M2E8b-1-1-2</i> <i>The IAIG will react to solvency regulation within a jurisdiction. The group regulatory capital assessment will take into account the nature and extent of solvency regulation within a jurisdiction. This may include:</i></p> |



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| | <ul style="list-style-type: none">• laws and regulations that specifically limit risk taking opportunities by a legal entity or IAIG• frequency and level of detail of regulatory reporting requirements for a legal entity or IAIG• frequency and level of detail of financial analysis and examinations of a legal entity or IAIG• nature and types of regulatory tools used in the supervision of the legal entity or IAIG• strength of the corporate governance requirements of a legal entity or IAIG• adequacy of supervisory resources and• nature and scope of supervisory powers. |
| <p>Parameter M2E8b-1-2</p> <p>The term ‘at a sufficient level so that, in adversity’ is the amount of a capital that is required to protect policyholders from events that have a negative impact on the IAIG’s ability to pay claims as they fall due. The required capital therefore has to be large enough to absorb losses from most adverse events. A sufficient level of capital does not mean that losses from any adverse event have to be absorbed by capital, i.e. a certain possibility of failure to pay claims to policyholder is accepted. The required level of policyholder protection is specified by the target criteria. The IAIS is currently working on developing a partly harmonised approach to establishing target criteria. The group capital assessment will establish target criteria within the narrow range permitted by the partly harmonised approach.</p> | <p><i>Specification M2E8b-1-2-1</i></p> <p><i>Insurance legal entities comprising parts of an IAIG that are compliant with ICP17 and not breaching solvency control levels will already be operating at capital levels such that in adversity, their obligations to policyholders will continue to be met (as per ICP17.2) according to each jurisdiction’s view of sufficiency in adversity.</i></p> <p><i>However, group-wide interactions among legal entities do exist and therefore a simple sum of the capital requirements for insurance legal entities within the IAIG will not provide an appropriate group-wide capital requirement.</i></p> <p><i>There is a need to consider:</i></p> <ul style="list-style-type: none">• the group level diversification in adversity• group level contagion in adversity• non-insurance entity interactions in adversity• intra-group transactions in adversity and• differences in jurisdictional calibrations of adversity. |



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| | <p><i>The strategic direction from the Technical Committee is to establish a narrow range of target criteria and time horizons for measurement of those risks. Implicit criteria would be allowed providing that the underlying rationale is evidenced. This is where that direction will be built upon and developed.</i></p> |
| <p>Parameter M2E8b-1-3 The group capital assessment must take into account risks inherent in different business models that may be used in:</p> <ul style="list-style-type: none">• non-life insurance• life insurance• health insurance• reinsurance (non-life, life, health)• other insurance (such as financial guarantee, mortgage guarantee) and• non-insurance businesses undertaken within the IAIG. | <p><i>Specification M2E8b-1-3-1 Specific attention should be paid to the split between traditional and non-traditional risks, and any non-insurance risks undertaken by the IAIG.</i></p> |
| | <p><i>Specification M2E8b-1-3-2 Differences in business models may be driven by:</i></p> <ul style="list-style-type: none">• <i>nature of the insured event (loss of life, longevity and retirement, loss of good health due to accident or sickness, loss or damage of property, loss of employment because of accident or sickness related to employment)</i>• <i>contract provisions (length, renewability, termination, re-underwriting and re-pricing, benefit guarantee, guarantee durations)</i>• <i>risk funding mechanism (pay as you go, prepayment of risk) and/or</i>• <i>business line diversification.</i> |



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| ComFrame Standard M2E8b-2 *reference ICP 17, Standard 17.7 | |
| The IAIG's calculation of its group regulatory capital takes into account the relevant and material categories of risk (including risk concentrations) which are: <ul style="list-style-type: none">• insurance risk• market risk• credit risk• group risk and• operational risk. | |
| Parameter M2E8b-2-1 The group capital assessment must take into account all risks from different types of insurance business as set out in M2E8b-1-3. | Comment: The SSC is currently collecting information for a detailed comparison of methods and tools used for measurement of risk in various common risk categories. This will include identifying sub-categories of the risks set out in the Standard. These sub-categories will then be reflected here in Parameters and Specifications. This is applicable to other categories of risk also and will result in further development of parameters and specifications under M2E8b-2. |
| Parameter M2E8b-2-2 The group capital assessment must take into account all risks embedded in any assets, or any liabilities, owned by the IAIG, addressing market risks including risks arising from: <ul style="list-style-type: none">• interest rate risk• equity market risk• currency (FX) risk and• other market risks | <i>Specification M2E8b-2-2-1</i> <i>Specific attention should be paid to risks arising from the mismatch of asset and liability cash flows of the IAIG.</i> <i>Attention should also be paid to off-balance sheet risks such as pension obligations.</i> |



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| Parameter M2E8b-2-3 The group capital assessment addresses credit risks arising from investments and reinsurance. | |
| Parameter M2E8b-2-4 The group capital assessment addresses group specific risks arising from: <ul style="list-style-type: none">• diversification of risk across group entities• intra-group transactions• non-insurance group entities• cross jurisdictional entities• partial ownership and minority interests• non-regulated group entities | <i>Specification M2E8b-3-4-1</i> <i>Attention will be paid to consequences arising from changes in the group structure, (e.g. the sale of a particular entity) that may cause a mismatch in original diversification calculations.</i> Comment: The SSC will consider if anything should be added with reference to systemic risk (dependent on work being conducted by other committees.) |
| Parameter M2E8b-2-5 The group capital assessment addresses operational risks arising from all of the operations of the IAIG. | <i>Specification M2E8b-2-5-1</i> <i>Due attention should also be paid to the reputational risk that may arise from operational failure in a particular entity of the IAIG, and from political or catastrophic events occurring in a particular related jurisdiction.</i> |
| | <i>Specification M2E8b-2-5-2</i> <i>Particular note should be taken of the risks arising from an individual entity's use of models (whether internal or factor based) and arising from any assumptions made in establishing those models.</i> |
| Parameter M2E8b-2-6 The group capital assessment addresses dependencies and inter-relationships between the risks. | |
| Parameter M2E8b-2-7 The group capital assessment includes a process of stress and | |



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| <p>scenario testing (see M2E8d below) to address risks that are less readily quantifiable in the group regulatory capital requirement.</p> | |
| <p>ComFrame Standard M2E8b-3 *reference ICP 17, Standard 17.6</p> <p>The IAIG calculates its group regulatory capital using standard approaches, internal models, (subject to supervisory approval where appropriate) or a combination of these two approaches.</p> <p>These approaches make use of the following methods:</p> <ul style="list-style-type: none"> • factor-based • shock Techniques • formula • deterministic and • stochastic. | |
| <p>Parameter M2E8b-3-1 The IAIG applies assumptions and parameters for these methods that are derived by group-wide supervisors using the following tools:</p> <ul style="list-style-type: none"> • expert judgement, which is the use of appropriate knowledge and experience in circumstances where no other or limited information is available. • empirical analysis, which is the use of a set of real world observations or • the specification of a probability distribution. <p>These tools are not mutually exclusive.</p> | <p><i>Specification M2E8b-3-1-1</i> <i>The IAIG measures risks based on risk measurement methods which are based on a documented rationale set out by the group-wide supervisor. The documentation includes:</i></p> <ul style="list-style-type: none"> • <i>description of the method(s) adopted</i> • <i>justification for the method(s) adopted and</i> • <i>description of how the different method(s) (if more than one used) work together.</i> <p><i>Where a group consists of entities doing business in different jurisdictional solvency regimes and/or has members of the IAIG engaged in different financial sectors, it is very likely that group capital assessment will be based on combinations of the methods of risk</i></p> |



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| | <p><i>measurement permitted.</i></p> <p><i>As these parameters and specifications are developed further, a description will emerge as to how the application of these methods reflects a narrowing of possibilities reflective of a partly harmonised approach.</i></p> |
| <p>Parameter M2E8b-3-2 Factor-based: A factor-based method is one for which areas of risk are measured by proxies for the risk. Factors are then applied to these risk proxies to calculate the capital to be applied to the risk. (Examples of proxies include outstanding claim and premium provisions)</p> | <p><i>Specification M2E8b-3-2-1</i> <i>A factor based method is a method that multiplies the values of balance sheet positions by individual numerical factors. The results are usually summed up to yield the overall risk.</i></p> <p>Comment: Examples to be included</p> |
| <p>Parameter M2E8b-3-3 Shock Techniques: Shock techniques allow for extreme increases in the values of risk and risk proxies and thus measure the extra capital needed for such changes. (Examples of shocks include the effect of a major stock market crash or a catastrophic event or range of events)</p> | <p><i>Specification M2E8b-3-3-1</i> <i>A shock technique is a method to quantify risk by revaluing assets and liabilities under hypothetical prescribed changes (“shocks”) in assumptions and parameters. The revaluation is performed using a valuation function specific to the assets and liabilities. The difference between the revaluation and the current value is considered as the risk quantification related to the specific shock.</i> <i>The assumptions and parameters to be shocked may be very comprehensive. Usually they contain market risk factors, position data and assumptions about insurance losses, but they can also include more general items as a sea level rise, political and legal change, mentality of policyholders etc.</i> <i>The overall risk is determined by a suitable aggregation of results from different shocks. The aggregation method depends on the specifications of the individual shocks.</i></p> <p>Comment: Examples to be included</p> |



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| <p>Parameter M2E8b-3-4 Formula approaches: Formula approaches rely on variables being obtained for the appropriate risk measures. Parameters and constants are then calculated so that the formula may be appropriately applied to the risk to which the IAIG is exposed. (These formulae may be simple linear equations, or more complicated multivariate formulae.)</p> | <p>Comment: Examples to be included</p> |
| <p>Parameter M2E8b-3-5 Deterministic methods: A deterministic method is one that allows the projection of a single outcome or set of outcomes based on a fixed set of underlying assumptions</p> | <p>Comment: Examples to be included</p> |
| <p>Parameter M2E8b-3-6 Stochastic methods: A stochastic method allows for a range of all likely outcomes from a particular risk to be calculated based on the attribution of a probability distribution to those outcomes. Capital is then calculated to meet the appropriate level of confidence required in the range of outcomes</p> | <p><i>Specification M2E8b-3-6-1</i> <i>Stochastic modelling: (Glossary definition) A methodology which aims at attributing a probability distribution to financial variables of interest. It sometimes uses closed form solutions, often involves simulating large numbers of scenarios in order to reflect the distributions of the capital required by, and the different risk exposures of, the insurer.</i></p> |
| <p>Parameter M2E8b-3-7 A legal entity or entities may be excluded or simplified adjustments may be used in the risk measurement of the group capital assessment whether that assessment is conducted using an aggregate or consolidated approach.</p> | <p><i>Specification M2E8b-3-7-1</i> <i>There may be situations where a legal entity is part of an IAIG but is no longer actively writing business and has a closed book of business that is an insignificant part of the total group risks. In such a case ignoring the legal entity altogether or using a simplified adjustment factor is appropriate in determining the group capital assessment.</i></p> |
| <p>ComFrame Standard M2E8c-1 *reference ICP 17, Standard 17.11 The IAIG holds sufficient available capital resources.</p> | |



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| <p>Parameter M2E8c-1-1 The amount of available capital resources is defined as excess of value of assets over value of liabilities used for solvency purposes.</p> <p>The determination of available capital resources would generally require the following steps:</p> <ul style="list-style-type: none">• the amount of capital resources potentially available for solvency purposes is identified• an assessment of the eligibility (quality and suitability) of the financial instruments comprising the total amount of capital resources identified is then carried out• on the basis of this assessment, the final capital resources eligible to meet regulatory capital requirements are determined. | <p><i>Specification M2E8c-1-1-1</i> <i>Defined technical provisions and other liabilities in accounting terms, such as perpetual subordinated debt, asset valuation reserve, and dividend liability may be treated as available capital resources instead of as liabilities in the valuation for solvency purposes.</i></p> |
| | <p><i>Specification M2E8c-1-1-2</i> <i>All off-balance sheet items are taken into consideration.</i></p> |
| <p>ComFrame Standard M2E8c-2</p> <p>The IAIG determines eligible capital resources for group capital assessment purposes.</p> | |
| <p>Parameter M2E8c-2-1 The approach and methods used for determination of the eligible capital resources are properly documented.</p> | <p>Comment: SSC currently is doing a mapping exercise to ascertain consistent standards with regard to assessment of the capital resources within the different jurisdictions. The exercise will facilitate better understanding of the current requirements and will help to establish a largely harmonised approach to capital resources.</p> |



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| <p>Parameter M2E8c-2-2 *reference ICP 17 Such a documentation covers at least:</p> <ul style="list-style-type: none">• an explanation of the methodology used for the determination of eligible capital resources• a justification of the methodology used. | |
| <p>ComFrame Standard M2E8c-3</p> <p>Capital resource items should be classified in accordance with quality criteria, and the eligible amount of those items to cover capital requirements should be limited accordingly.</p> | |
| <p>Parameter M2E8c-3-1 Any component of capital included in the IAIG's capital base satisfies, in both form and substance, all applicable requirements.</p> | <p>Comment: SSC is currently discussing how to classify the various financial instruments into different quality levels. ICP 17.11.34 is being considered as a starting point:</p> <ul style="list-style-type: none">• Highest quality capital - permanent capital that is fully available to cover losses of the insurer at all times on a going-concern and a wind-up basis• Medium quality capital - capital that lacks some of the characteristics of highest quality capital, but which provides a degree of loss absorbency during on-going operations and is subordinated to the rights (and reasonable expectations) of policyholders and• Lowest quality capital - capital that provides loss absorbency in insolvency/ winding-up only. <p>Banking tiers are also being considered as this will help the SSC to analyse and justify the differences in the approach to capital resources between the banking and insurance sectors.</p> |



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| <p>Parameter M2E8c-3-2 The IAIG cannot include a component of capital in a particular category of its capital base if that component, when considered in conjunction with other related transactions that affect its overall economic substance, could be reasonably considered not to satisfy fully the requirements.</p> | |
| <p>Parameter M2E8c-3-3 In calculating its capital base, the IAIG deducts:</p> <ul style="list-style-type: none"> • goodwill and any other intangible assets, • [list being determined] | <p>Comment: The SSC will consult with the AAISC if filters mentioned in the TC steering should be included here (in the capital resources) or should be included in valuation of assets and liabilities (the SSC prefer to include filters in capital resources part).</p> |
| <p>ComFrame Standard M2E8c-4 *reference ICP 17, Guidance 17.11.7</p> <p>Criteria for assessing the suitability of capital resources take account of characteristics such as:</p> <ul style="list-style-type: none"> • availability to absorb losses on both a going concern and wind-up basis (including considerations of subordination and priority) • the extent of the permanent and/or perpetual nature of the capital and • the existence of any mandatory servicing costs in relation to the capital. <p>Capital resources should be free from requirements or incentives to redeem the nominal sum.</p> | |
| <p>Parameter M2E8c-4-1 *reference ICP 17, Guidance 17.11.15 To satisfy the primary requirement that capital resources are available to absorb unforeseen losses, it is important that capital elements are fully paid.</p> | <p><i>Specification M2E8c-4-1-1</i> <i>*reference ICP 17, Guidance 17.11.11</i> <i>In order to be available to protect policyholders, a capital element must be legally subordinated to the rights of policyholders and senior creditors of the IAIG in an insolvency or winding-up. This means that the holder of a financial instrument is not entitled to repayment,</i></p> |



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| | <p><i>dividends or interest once insolvency or winding-up proceedings have been started until all obligations to the IAIG's policyholders have been satisfied.</i></p> <p>Comment: The SSC is considering whether or not to include something about the treatment of hybrid capital.</p> |
| <p>Parameter M2E8c-4-2 *reference ICP 17, Guidance 17.11.22 When assessing the extent of permanence of a capital element, regard should be had to:</p> <ul style="list-style-type: none"> • the duration of the IAIG's obligations to policyholders • the contractual features of the financial instrument which have an effect on the period for which the capital is available, e.g. lock-in clauses, step-up options or call options • any supervisory powers to restrict the redemption of capital resources and • what it might take to replace the capital element on suitable terms, as it approaches maturity. | |
| <p>Parameter M2E8c-4-3 *reference ICP 17, Guidance 17.11.25 The extent to which capital elements require servicing in the form of interest payments, shareholder dividend payments and principal repayments should be considered, as it will affect the IAIG's ability to absorb losses on a going-concern basis.</p> | |
| <p>ComFrame Standard M2E8c-5 *ICP 17, Guidance 17.10.22</p> <p>Key group-wide factors to be addressed in the determination of the availability of group-wide capital resources include:</p> | |



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| <ul style="list-style-type: none">• multiple gearing• intra-group creation of capital• leverage and• fungibility and transferability. | |
| <p>Parameter M2E8c-5-1 Riskiness of the assets is reflected/recognised in the group risk measurement rather than in the elimination of the risk from the balance sheet.</p> | <p><i>Specification M2E8c-5-1-1 Fungibility and transferability of capital between entities within the IAIG are typically restricted. As a consolidated approach to group solvency perceives the IAIG as a single entity, restrictions in fungibility and transferability need careful consideration. In a legal entity approach to group-wide solvency, fungibility issues can be treated by limiting group diversification benefits for subsidiaries to legally binding contracts between group entities.</i></p> |
| <p>Parameter M2E8c-5-2 *reference ICP 17, Guidance 17.11.48 Where internal structures have lead to the intragroup creation of capital, it should be treated either by:</p> <ul style="list-style-type: none">• if a group-wide approach to capital adequacy assessment is used, elimination from capital resources or• if a legal entity approach to capital adequacy assessment is used, proper recognition of the issue in the regulatory group capital requirement, which takes into account the fact that the created capital disappears in distressed situations. <p>If another approach, which is deemed suitable, is used, it should be fully explained, justified, documented and communicated to the IAIG and all supervisors involved.</p> | |



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| ComFrame Standard M2E8d-1 *reference ICP 17, Standard 17.2 | |
| The IAIG needs to maintain available capital resources to meet the group regulatory capital. | |
| <p>Parameter M2E8d-1-1 *reference ICP 17, Guidance 17.1.9 The IAIG will need to maintain capital resources above solvency control levels that have been set in the context of the approach to group-wide capital adequacy that has been applied.</p> <p>With regard to a Prescribed Capital Requirement (PCR), this may be established as:</p> <ul style="list-style-type: none">• a single group-wide PCR, based on either a consolidated or an aggregated approach, or• a consistent and interdependent set of PCRs for legal entities that are members of the IAIG. <p>(Refer to ICP 17.1.9 on group level focus and legal entity approach.)</p> <p>No matter how the IAIG PCR is set, this should have no bearing on the way that individual regulated entities of the IAIG have their capital adequacy assessment set within their own jurisdictions.</p> | <p><i>Specification M2E8d-1-1-1</i> <i>* ComFrame M2E8b</i> <i>The purpose of group capital requirements is to develop solvency control levels.</i></p> <p><i>If the IAIG goes below its PCR, or its set of PCRs, then the group-wide supervisor, in cooperation with other involved supervisors, will initiate a 'ladder of intervention', according to the nature, scale and complexity of the IAIG and the impact of risk that the supervisors have judged that the IAIG faces. That is, the supervisor will determine what supervisory actions should be taken, in what timescale, in which entity, in order to ensure that the IAIG is able to get back to, and maintain, appropriate capital resources. See Module 3 Element 1.</i></p> <p><i>Non-regulated entities of the IAIG, at least the risks imposed by such entities to the rest of the IAIG, are taken into consideration under required capital (see M2E8b).</i></p> |
| | <p><i>Specification M2E8d-1-1-2</i> <i>Large IAIGs (particularly those designated as being G-SII) may have a resolution and recovery plan in place. These plans will be informed by the results of stress and scenario testing and will form the basis for the different levels of intervention that the supervisor imposes.</i></p> |



| ComFrame Standard M2E8d-2 | |
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| The IAIG will carry out stress testing and scenario analysis as an adjunct to its capital adequacy assessment. | |
| <p>Parameter M2E8d-2-1 The IAIG will need to conduct its own stress and scenario testing (known as bottom-up) and may also be required to carry out a range of standard stress and scenario tests (including reverse stress testing) (known as top-down).</p> | <p><i>Specification M2E8d-2-1-1</i> <i>An IAIG reporting on its own stress and scenario tests demonstrates how well Senior Management understands the stresses to which the IAIG is exposed. Standard stress and scenario tests can be useful for a supervisor in comparing one group against another.</i></p> <p><i>The supervisory review of the outcomes of the stress and scenario testing, whether designed by them or the IAIG, is paramount in assessing the IAIG's ability to maintain adequate capital resources.</i></p> |
| <p>Parameter M2E8d-2-2 Stress testing measures the financial impact of stressing one or relatively few factors affecting the IAIG.</p> <p>Financial stresses applied could include:</p> <ul style="list-style-type: none"> • high inflation or high deflation • prolonged low interest rates • significant declines in equity markets or • other low probability, high impact financial events. <p>Insurance stresses applied could include:</p> <ul style="list-style-type: none"> • specified catastrophes • reinsurers' failure (or severe delay in paying claims) or • changes in regulation (e.g. banning of a particular product). | <p><i>Specification M2E8d-2-2-1</i> <i>Stress and scenario testing is also a key component of assessing group (enterprise) risk management. (Refer M2E2.) and is used in determining an IAIG's internal model.</i></p> <p><i>There are different methodologies that can be applied for stress testing an IAIG's capital adequacy, and which are currently used by various jurisdictions (e.g. the New York 7 stochastic models used by the US, and the annual stress and scenario exercise conducted by EIOPA (criteria may change from year to year)). The group-wide supervisor, in conjunction with other involved supervisors, will decide which, if any, methodology is best suited to a particular IAIG.</i></p> |
| <p>Parameter M2E8d-2-3 Scenario analysis is an integral part of any stress testing exercise as it</p> | <p><i>Specification M2E8d-2-3-1</i> <i>The IAIG may be subject to certain scenario tests, designed by the</i></p> |



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| <p>considers the impact of a combination of circumstances. It may reflect extreme historical scenarios which are analysed in the light of current conditions, such as the recent global financial crisis, pandemics or regional/global hostilities.</p> | <p><i>group-wide supervisor, in conjunction with other involved supervisors, taking into consideration various scenarios that are applicable on an individual or regional entity basis.</i></p> |
| <p>Parameter M2E8d-2-4 The IAIG should consider the impact of potential contagion of various stresses and scenarios in its calculation, as well as the contagion risk of one entity affecting another, or several entities', capital adequacy.</p> | <p><i>Specification M2E8d-2-4-1 The IAIG should conduct extreme stress tests, at a group level, to assess the risks of having significant unmitigated exposures within the IAIG.</i></p> |

Module 2 Element 8 ComFrame Commentary

- The SSC is collecting information from individual jurisdictions to enable a comparison of approaches, methods and tools for the calculation of capital requirements for a detailed range of risk categories.
- The AAISC in consultation with the SSC is developing principles for the application of prudential filters.



Group Reporting and Disclosure

Module 2, Element 9

Reporting and Disclosure

Module 2 Element 9 Introductory Comments

Appropriate reporting facilitates the supervision of IAIGs. Supervisors use all reporting information requested of IAIGs in the supervisory process. Where some of this information is deemed appropriate for disclosure, supervisors require it to be publicly disclosed. Appropriate public disclosures enhance understanding of the risks to which the IAIG is exposed and the manner in which those risks are managed and thus enhance market discipline.

Annual and Interim Supervisory Reporting Packages contain a common set of reported elements that address the qualitative and quantitative items set out in Module 2 in a format that can be shared with host supervisors. A sharable format is one that is readily accessible to supervisors without being burdensome to the IAIG, and could include, for example, publicly disclosed financial statements as well as a subset of reports used by IAIG management. The IAIS does not intend that supervisors develop common reporting templates for IAIGs.

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| ComFrame Standard M2E9-1 *reference ICP 7, Standard 7.7 | |
| The IAIG’s Governing Body ensures that the IAIG has a reliable group-wide financial reporting process to ensure that the group-wide (consolidated) financial reporting for both supervisory reporting purposes and public disclosure purposes presents a balanced and accurate assessment of the IAIG’s financial position. | |
| Parameter M2E9-1-1 The group-wide reporting structure of the IAIG: <ul style="list-style-type: none"> is supported by clearly defined roles and responsibilities allocated to the IAIG’s Governing Body, external auditor of the | <i>Specification M2E9-1-1-1</i> <i>Where there are jurisdictional differences in the financial reporting requirements applicable to entities within the IAIG, such differences are expected to be adequately dealt with in the overall governance</i> |



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| <p>ultimate holding company of the IAIG, and the respective Boards of the legal entities within the IAIG, their Senior Management and internal and external auditors</p> <ul style="list-style-type: none"> • fully meets any jurisdictional legal or other requirements applicable to legal entities within the IAIG • subject to adequate safeguards and controls, provides unrestricted access and adequate flow of information for the purposes of group-wide financial reporting within and across the entities within the IAIG and • has appropriate systems and structures in place to fulfil reporting and disclosure needs. | <p><i>structure of the IAIG. For this purpose, the overall governance structure is expected to contain adequate process for the identification of any significant findings and/or potential risks or weaknesses in financial reporting processes arising within one or some of the legal entities so that they are properly addressed.</i></p> |
| | <p><i>Specification M2E9-1-1-2 The IAIG's Governing Body designates individual(s) at an appropriate level of seniority as having responsibility for the accuracy and timeliness of the group-wide reporting to supervisors.</i></p> |
| <p>ComFrame Standard M2E9-2 *reference ICP 9.2</p> <p>The IAIG provides reporting information on qualitative and quantitative elements set out in Module 2 that is necessary to conduct the appropriate supervision of the IAIG, including information requested on an as needed basis.</p> | |
| <p>Parameter M2E9-2-1 *reference ICP 9.3 The IAIG submits reporting information within the timeframe set by involved supervisors.</p> | <p><i>Specification M2E9-2-1-1 Examples of appropriate timeframes for the submission of reporting information are:</i></p> <ul style="list-style-type: none"> • 90 days after the financial year end for annual information • 60 days after the end of the reporting period for interim information. |



| ComFrame Standard M2E9-3 *reference ICP 9, Standard 9.2 | |
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| The IAIG submits an Annual Supervisory Reporting Package (“IAIG Annual Supervisory Reporting Package”) and Interim Supervisory Reporting Packages (“IAIG Interim Supervisory Reporting Package”) to the group-wide supervisor. | |
| Parameter M2E9-3-1 The IAIG Annual and Interim Supervisory Reporting Packages address the quantitative and qualitative frameworks in Module 2. | <i>Specification M2E9-3-1-1</i> <i>The quantitative and qualitative frameworks in Module 2 are:</i> <ul style="list-style-type: none">• <i>Group Governance</i>• <i>Group ERM</i>• <i>Group Structure and Strategy and</i>• <i>Group Financial Condition.</i> |
| Parameter M2E9-3-2 The IAIG Annual and Interim Supervisory Reporting Packages are in a form suitable for the group-wide supervisor to share with involved supervisors. | |
| Parameter M2E9-3-3 The IAIG Annual Supervisory Reporting Package includes the IAIG's annual public financial statements prepared in accordance with, or reconcilable to, IFRS. | <i>Specification M2E9-3-3-1</i> <i>The group-wide supervisor in co-operation with involved supervisors considers whether and which aspects of the IAIG Annual Supervisory Reporting Package need to be subject to external audit or assurance.</i> |
| Parameter M2E9-3-4 Where the IAIG has an interim public financial reporting requirement, the IAIG Interim Supervisory Reporting Package includes the public interim financial statement prepared in accordance with the relevant public reporting requirements. | |



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| <p>Parameter M2E9-3-5 The IAIG Annual and Interim Supervisory Reporting Packages include detailed explanations of the differences between reporting for solvency purposes and its annual and interim public financial statements.</p> | |
| <p>Parameter M2E9-3-6 Where an IAIG uses an Internal Model, the IAIG Annual Supervisory Reporting Package includes information necessary for supervisory review and ongoing approval of the internal model. The IAIG Interim Supervisory Reporting Package includes information on an exception basis on the use of the model and the model itself.</p> | |
| <p>ComFrame Standard M2E9-4</p> <p>The IAIG provides timely updates to the group-wide supervisor of any material changes to aspects addressed in the qualitative requirements in Module 2.</p> | |
| <p>Parameter M2E9-4-1 The IAIG provides updates to the group-wide supervisor on material changes on an immediate basis.¹</p> | <p><i>Specification M2E9-4-1-1</i> <i>An immediate basis means as “soon as possible” or within the number of days prescribed by the securities legislation in the jurisdiction of the group-wide supervisor.²</i></p> |

¹ This is consistent with requirements in the International Organization of Securities Commission’s (IOSCO) *Principles for Ongoing Disclosure and Material Development Reporting by Listed Entities*, October 2002, p. 4

² The definition of “an immediate basis” is adapted from IOSCO’s *Principles for Ongoing Disclosure and Material Development Reporting by Listed Entities*, October 2002, p. 4



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| ComFrame Standard M2E9-5 | |
| The IAIG makes public disclosures that are a subset of the reporting information provided to supervisors. | |
| Parameter M2E9-5-1 The IAIG publicly discloses reporting information as required by involved supervisors, where the disclosure is not already required by securities laws and accounting standards in their jurisdiction. | <i>Specification M3E9-5-1-1</i> <i>The IAIG publicly discloses reporting information that involved supervisors use in their ongoing supervision of the IAIG. The reporting to involved supervisors includes this public information as well as more detailed information which is not disclosed to the public.</i> |
| ComFrame Standard M2E9-6 *reference ICP 20 | |
| The IAIG discloses relevant, comprehensive and adequate information on a timely basis in order to give policyholders and market participants a clear view of their business activities, performance and financial position. | |
| Parameter M2E9-6-1 The IAIG's public disclosure is made accessible on an identical basis and simultaneously ³ to the IAIG's relevant stakeholders irrespective of their location. | <i>Specification M3E9-6-1-1</i> <i>Accessibility would be enhanced by making the information available on the IAIG's website.</i> |
| Parameter M2E9-6-2 Public disclosures are sufficiently prompt and frequent that policyholders and market participants can take appropriate actions. | |

³ IOSCO's *Principles for Ongoing Disclosure and Material Development Reporting by Listed Entities*, October 2002, p. 5



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| ComFrame Standard M2E9-7 *reference ICP20, Standard 20.1 | |
| The IAIG discloses on an interim and annual basis, appropriately detailed qualitative and quantitative information on their profile, governance and controls, financial position, technical performance and the risks to which they are subject. | |
| Parameter M2E9-7-1 Disclosure is sufficiently detailed to provide stakeholders with an understanding of the financial position, financial performance and key risks of material parts of the business. | |
| Parameter M2E9-7-2 Risk disclosures by the IAIG provide clear information on issues such as key macroeconomic risks, group-wide risk mitigation techniques and risks arising from issues specific to the IAIG. | <i>Specification M2E9-7-2-1</i> <i>Risk disclosures may include for example the impact on the IAIG of significant legal, regulatory or political change or uncertainty in relevant jurisdictions.</i> |
| ComFrame Standard M2E9-8 *reference ICP20, Standards 20.2 to 20.9 | |
| The IAIG provides information at the segment level where this would enhance understanding of the risks to which the IAIG is exposed and the manner in which those risks are managed. | |
| ComFrame Standard M2E9-9 *reference ICP 20, Standard 20.1 | |
| The IAIG's public disclosures are: <ul style="list-style-type: none">• relevant to policyholders and market participants• decision useful• reliable as a basis upon which to make decisions | |



- **comprehensive and meaningful**
- **comparable and**
- **consistent over time.**

Parameter M2E9-9-1
The IAIG considers what is required to ensure comparability with relevant peers, including other IAIGs and other insurers in the IAIG's home market.

ComFrame Standard M2E9-10
***reference ICP20, Standards 20.2 to 20.10**

The IAIG's disclosures include:

- **technical provisions**
- **capital management and assessment of capital adequacy**
- **investments including financial instruments**
- **ERM including asset-liability management (ALM)**
- **performance measures**
- **insurance risk exposures and their management**
- **risk profile**
- **corporate governance framework and management controls**
- **annual audited consolidated financial statements**

Module 2 Element 9 ComFrame Commentary

- With respect to Parameter M2E9-1-1, where existing systems meet ComFrame reporting requirements, no changes are needed. Some systems may need modification to provide ComFrame information on a regular basis.



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- With respect to Parameter M2E9-3-3, financial statements prepared in accordance with, or reconcilable to, IFRS are not required prior to the mandatory adoption dates of the future insurance contracts and financial instruments standards.
 - The International Accounting Standards Board's September 2010 *Conceptual Framework for Financial Reporting*⁴ sets out qualitative characteristics of useful financial information:
 - The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors about providing resources to the entity. (paragraph OB2)
 - Relevant financial information is capable of making a difference in the decisions made by users. Information may be capable of making a difference in a decision even if some users choose not to take advantage of it or are already aware of it from other sources. (paragraph QC6)
 - Timeliness means having information available to decision makers in time to be capable of influencing their decisions. Generally the older the information is, the less useful it is. However some information may continue to be timely long after the end of a reporting period because, for example, some users may need to identify and assess trends. (paragraph QC29)
 - (...) information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date. (paragraph QC20)
 - Comparability is the qualitative characteristic that enables users to identify and understand similarities in, and differences among, items. (paragraph QC2)1
 - Consistency refers to the use of the same methods for the same items, either from period to period within a reporting entity or in a single period across entities. Comparability is the goal; consistency helps to achieve that goal. (paragraph QC22)
 - IAIGs that are mutuals make disclosures that are similar in substance to those required of publicly listed IAIGs in the same jurisdiction.

⁴ International Accounting Standards Board, *Conceptual Framework for Financial Reporting*, September 2010.



Module 3

The supervisors

Module 3 Introductory Comments

Module 3 sets out the process of supervisory actions highlighting the role of group-wide supervisor and other relevant supervisors' responsibilities within the process. The module also sets out disclosure, enforcement, cooperation and interaction requirements.

The supervisory process as described within this Module assesses the requirements placed on IAIGs in Module 2. An example of this includes the assessment of the capital adequacy of the IAIG as outlined in Module 3 which follows the requirements as described in Module 2. Module 3 expands upon the requirements in Module 2 by capturing the cooperation and interaction requirements needed between involved supervisors.



Group-wide Supervisory Process

Module 3, Element 1

Group-wide supervisory process

Module 3 Element 1 Introductory Comments

The first Standard M3E1-1 is the overarching general standard. The subsequent standards contain standards which support achieving the objective of the overarching standard.

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| ComFrame Standard M3E1-1 | |
| Involved supervisors carry out a continuous group-wide supervisory process focusing on the gathering of relevant information, risk assessment, supervisory planning, analysis (off-site and on-site), horizontal review, decision making, implementing, and, if necessary, enforcing those decisions. The involved supervisors carry out the group-wide supervisory process with the objective of proactively identifying and mitigating risks in order to reduce the likelihood of adverse developments of the IAIG. | |
| ComFrame Standard M3E1-2 | |
| Involved supervisors gather the necessary information for carrying out the group-wide supervisory process. | |
| Parameter M3E1-2-1 Involved supervisors, as defined in M3E3-2-1, require information that is necessary to carry out the group-wide supervisory process, at the: <ul style="list-style-type: none">• group level,• legal entity level, where relevant. | <i>Specification M3E1-2-1-1</i> <i>Supervisors have the necessary legal authority to obtain the information as stated in Module 2.</i> |



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| <p>At a minimum, the information required is that which is needed to appropriately assess the following parts of Module 2:</p> <ul style="list-style-type: none"> • group governance • group ERM • group structure and strategy and • group financial condition. | |
| | <p><i>Specification M3E1-2-1-2</i> <i>Information gathering consists of regular reporting (refer to M2E9) and other forms of communication. This could consist of e.g. market data IAIG specific market intelligence, press reports, research papers and other publication. Information gathering also involves the coordination of information among involved supervisors (see M3E2).</i></p> |
| <p>Parameter M3E1-2-2 Involved supervisors take into account market-wide risks throughout the group-wide supervisory process.</p> | <p><i>Specification M3E1-2-2-1</i> <i>Market-wide analysis is the analysis of risks to which the IAIG is exposed at both a group-wide and legal entity level. The purpose of market-wide analysis is to identify possible future events and changes in macro-economic conditions that may impact the financial standing of the IAIG.</i></p> |
| <p>Parameter M3E1-2-3 Involved supervisors ensure that material outcomes and decisions arising from the group-wide supervisory process and analysis are shared with the group-wide supervisor. Where relevant, the group-wide supervisor shares the information with other involved supervisors.</p> | <p><i>Specification M3E1-2-3-1</i> <i>Involved supervisors share material outcomes and decisions arising from supervisory activities with other relevant involved supervisors on a timely basis. The information can be shared through any practical forum or modes of communication, including letters, emails, phone calls, meetings, and supervisory colleges.</i></p> |
| <p>Parameter M3E1-2-4 The group-wide supervisor requests information relevant to the quantitative and qualitative requirements in Module 2 whenever needed.</p> | <p><i>Specification M3E1-2-4-1</i> <i>The group-wide supervisor and the IAIG agree a reasonable timeframe in relation to that information taking into account the context of the request.</i></p> |



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| <p>Parameter M3E1-2-5 Involved supervisors have the right to request information from the group-wide supervisor and when necessary the group-wide supervisor requests that information from the IAIG.</p> | <p><i>Specification M3E1-2-5-1</i> <i>When requesting information from the IAIG, involved supervisors coordinate with the group-wide supervisor in order to avoid duplication of tasks.</i></p> |
| <p>ComFrame Standard M3E1-3</p> <p>Involved supervisors undertake risk assessments to determine the level of supervisory intensity to be applied to an IAIG.</p> | |
| <p>Parameter M3E1-3-1 The group-wide supervisor has responsibility for driving the group risk assessment and coordinates with other involved supervisors through the supervisory college process.</p> | <p><i>Specification M3E1-3-1-1</i> <i>The IAIG is notified of regular supervisory reporting frequency as set out in M2E9.</i></p> |
| | <p><i>Specifications M3E1-3-1-2</i> <i>The risk indicators highlighted in the group-wide risk assessment will serve as a basis for assessing which information is to be looked into in detail and to assess all interdependencies between group risk indicators.</i></p> |
| | <p><i>Specification M3E1-3-1-3</i> <i>If the group-wide supervisor requires additional information, the group-wide supervisor identifies which legal entity is (are) most appropriate to provide the information. If legal entities are located in another jurisdiction, the group-wide supervisor consults with the relevant involved supervisors before consulting the legal entities themselves.</i></p> |
| <p>Parameter M3E1-3-2 Supervision is based on risk assessment, that is, a forward-looking risk-based approach. Involved supervisors assess operations of the IAIG to</p> | <p><i>Specification M3E1-3-2-1</i> <i>Involved supervisors assess the gathered information on a regular basis.</i></p> |



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| <p>identify possible developments that could negatively affect the financial condition and solvency position of the IAIG. The involved supervisors assess the ability of the IAIG to bear such developments. Risk assessment involves the determination of the assessment of adverse developments of an IAIG for the purposes of determining the appropriate supervisory intensity.</p> | |
| <p>Parameter M3E1-3-3 In assessing the possible impact of adverse developments on an IAIG, involved supervisors consider among other things:</p> <ul style="list-style-type: none"> • risks to which the IAIG is exposed • management of those risks by the IAIG and • financial resources of the IAIG and the ability to absorb losses. | <p><i>Specification M3E1-3-3-1</i> <i>Involved supervisors consider the risks relevant to the supervision of the IAIG entity in their respective jurisdiction. The group-wide supervisor reviews the risks at the group level. Where other involved supervisors identify risks that may be relevant to the supervision of the IAIG at the group level, they share this information with the group-wide supervisor. The group-wide supervisor shares and discusses the information with other involved supervisors in the supervisory college. Together with other involved supervisors, the group-wide supervisor determines and coordinates the appropriate supervisory actions to be taken.</i></p> |
| | <p><i>Specification M3E1-3-3-2</i> <i>Involved supervisors assess how the IAIG manages risks and the IAIG's implementation of the ComFrame requirements as set out in Module 2 Elements 1 to 6. Supervisors evaluate the strategies, processes and reporting procedures that are set up by the IAIG to comply with jurisdictional laws and regulations.</i></p> |
| | <p><i>Specification M3E1-3-3-3</i> <i>Involved supervisors assess the financial resources of the IAIG and the ability to absorb losses as set out in Module 2 Elements 7 and 8.</i></p> |
| <p>Parameter M3E1-3-4 The determination of the impact of adverse developments of an IAIG by</p> | <p><i>Specification M3E1-3-4-1</i> <i>The impact of any adverse development takes into account nature,</i></p> |



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| <p>involved supervisors includes assessment of the consequences for:</p> <ul style="list-style-type: none"> • policyholders • operating entities • other involved stakeholders and • stability in the market in which the IAIG operates. | <p><i>scale and complexity of the IAIG. Assessment of consequences is based on, at a minimum:</i></p> <ul style="list-style-type: none"> • <i>the absolute size</i> • <i>market share at legal entity and group level</i> • <i>absolute/relative impact on policyholders in different jurisdictions</i> • <i>overall market capacity</i> • <i>the activities undertaken and</i> • <i>resolvability.</i> |
| <p>Parameter M3E1-3-5 Involved supervisors determine the supervisory intensity and the appropriate allocation of supervisory resources according to the outcome of the risk assessment and take into account the nature, scale and complexity of the IAIG.</p> | <p><i>Specification M3E1-3-5-1</i> <i>Involved supervisors establish a risk classification system for the IAIG, e.g. traffic light, based on the available information. Involved supervisors determine the group risk classification and the group impact classification.</i></p> |
| | <p><i>Specification M3E1-3-5-2</i> <i>Involved supervisors identify the supervisory resource requirement to support the supervisory college and the group-wide supervisor based upon the outcome of the group risk assessment.</i></p> |
| <p>Parameter M3E1-3-6 The risk assessment has a commonly understood approach across jurisdictions so that involved supervisors can easily cooperate by reference to the same terminology.</p> | <p><i>Specification M3E1-3-6-1</i> <i>Relevant outcomes of the risk assessment are shared among involved supervisors and are commonly understood (refer to M3E4 on the use of supervisory colleges).</i></p> |
| <p>Parameter M3E1-3-7 The group-wide supervisor notifies the measures applicable at group level to the participating legal entity or parent company.</p> | <p><i>Specifications M3E1-3-7-1</i> <i>The group-wide supervisor puts in place a suitable review process to monitor whether the preventive or corrective measures are properly implemented by the participating legal entity or the parent company.</i></p> |



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| <p>ComFrame Standard M3E1-4</p> <p>Involved supervisors establish a supervisory plan based upon the risk assessment.</p> | |
| <p>Parameter M3E1-4-1 The supervisory plan allows for identification of emerging or existing risks and thematic reviews.</p> | <p><i>Specification M3E1-4-1 Priority is given to assessment of those risks considered most significant. Flexibility is to be maintained to ensure particular risks and complexities that warrant specific examination are addressed if there are immediate concerns.</i></p> |
| <p>Parameter M3E1-4-2 Involved supervisors establish a supervisory plan based on the risk assessment. This consists of a long-term supervisory strategy and a supervisory program.</p> | <p><i>Specification M3E1-4-2-1 The long-term supervisory strategy spans a period of three to five years and the supervisory program covers one year. The supervisory plan establishes the frequency and scope of supervisory activities.</i></p> |
| | <p><i>Specification M3E1-4-2-2 Supervisory activities can, for example, include off-site monitoring as well as on-site activities.</i></p> |
| <p>ComFrame Standard M3E1-5</p> <p>Involved supervisors perform both off-site monitoring and on-site activities.</p> | |
| <p>Parameter M3E1-5-1 Involved supervisors conduct regular off-site monitoring. The objective of off-site monitoring is to analyse available information for the purpose of updating the risk assessment.</p> | <p><i>Specification M3E1-5-1-1 Off-site monitoring occurs in a timely and comprehensive manner. It addresses all relevant risks to the extent that they can be monitored in that manner (both qualitative and quantitative).</i></p> |
| | <p><i>Specification M3E1-5-1-2 Off-site monitoring is flexible and takes into account information from ad hoc requests and submissions that are not part of the regular</i></p> |



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| | <i>supervisory reporting.</i> |
| Parameter M3E1-5-2 Involved supervisors verify information received on-site and off-site from IAIGs within their jurisdiction (both at the group and legal entity level). | |
| Parameter M3E1-5-3 Involved supervisors assess the governance of the IAIG or local entities subject to their supervision by reviewing reported changes to the governance structure as well as other available information to determine whether there are any weaknesses in the governance structure of the IAIG. | |
| Parameter M3E1-5-4 Involved supervisors assess the ERM framework of the IAIG or local entities subject to their supervision by reviewing the reported ORSA (see M2E2-5) as well as other available information to determine if there are any weaknesses in the ERM framework given the risks faced by the IAIG. | |
| Parameter M3E1-5-5 The group-wide supervisor reviews risks arising from the structure of the IAIG and whether the structure inhibits effective risk management and supervision of the IAIG. This review uses the reported IAIG Profile and other available information as a basis. | <p><i>Specification M3E1-5-5-1</i> <i>The IAIG structure-risk review measures the information provided by the IAIG Profile against all reasonably foreseeable relevant risks, including but not limited to operational (particularly those stemming from complexity and manageability), liquidity and contagion risk.</i></p> <p><i>M2E2 requires IAIGs to have a comprehensive risk management policy that outlines material and relevant risks. The IAIG Profile is considered as part of this and helps in determining if the group structure represents a material and relevant risk.</i></p> <p><i>M2E2-1-5 requires IAIGs to define risk tolerances both in terms of</i></p> |



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| | <p><i>qualitative and quantitative levels. The IAIG Profile assists an IAIG in defining a set of quantitative/qualitative risk tolerance levels where warranted.</i></p> <p><i>Involved supervisors review the IAIG Profile in a three step approach:</i></p> <ol style="list-style-type: none"><i>1. the legal structure of the IAIG.</i><i>2. the performance of the IAIG's ERM process.</i><i>3. the outcome of the ERM, namely the IAIG's risk and solvency assessment.</i> |
| | <p><i>Specification M3E1-5-5-2</i></p> <p><i>The risks arising from the group structure are expected to be a consideration in determining the frequency of review. The more complex the IAIG, the more likely it is that risks could arise from the structure of the IAIG.</i></p> <p><i>The complexity of an IAIG may on occasion be driven by tax, accounting and regulatory frameworks in various regions. Qualitative limits may be warranted in terms of structures that:</i></p> <ul style="list-style-type: none"><i>• impede transparency, or</i><i>• impede an IAIG's ability to aggregate risks in a timely manner, or</i><i>• pose potential difficulties due to the length of time necessary to unwind a transaction or structure, or</i><i>• have potential to give rise to significant reputational risk.</i> <p><i>The stresses that one may consider as part of an IAIG structure-risk review may include:</i></p> <ul style="list-style-type: none"><i>• concentration risk</i><i>• contagion risk</i><i>• liquidity risk.</i><i>• longevity risk</i><i>• credit risk</i><i>• interest rate risk.</i> |



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| <p>Parameter M3E1-5-6 The group-wide supervisor assesses the financial condition of the IAIG based on regular financial reports provided to the supervisor (see M2E9).</p> | <p><i>Specification M3E1-5-6-1</i> <i>Involved supervisors review the available information and analyse whether any of the risks identified are likely to affect the financial condition of the IAIG and determine the likelihood.</i></p> <p><i>Involved supervisors carry out a capital assessment process based on the requirements set out in M2E8. Further specifications of this assessment will be developed as M2E8 develops.</i></p> |
| | <p><i>Specification M3E1-5-6-2</i> <i>The review of risks focuses on the most significant as identified in the supervisory plan or other stages of the group-wide supervisory process. Interdependencies of risks are also taken into consideration by involved supervisors.</i></p> |
| <p>Parameter M3E1-5-7 Involved supervisors coordinate their on-site activities.</p> | <p><i>Specification M3E1-5-7-1</i> <i>On-site activities include on-site inspection activities.</i></p> |
| | <p><i>Specification M3E1-5-7-2</i> <i>Involved supervisors inform the group-wide supervisor when on-site activities are to be performed and communicate the main findings of such actions and/or inspections.</i> <i>The group-wide supervisor has the discretion to organise joint on-site inspections whenever other involved supervisors are interested in the findings and whenever this avoids duplication of work between group-wide and other involved supervisors.</i> <i>Whenever a joint activity is organised, the group-wide supervisor ensures a clear communication among all involved supervisors.</i> <i>The group-wide supervisor is allowed to take part in local inspections after consultation with the relevant host supervisors.</i> <i>The group-wide supervisor regularly informs the supervisory college</i></p> |



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| | <i>that it will perform specific supervisory action and communicate its main findings to all supervisory college members.</i> |
| <p>Parameter M3E1-5-8 {PLACEHOLDER: ALLOW FOR ICP 9 DEVELOPMENT} A kernel of common practices for on-site and off-site activities is to be developed but ComFrame allows for practices to be tailor-made for different IAIG structures. Access to key persons and functions of the IAIG occurs. The group-wide supervisor provides high-level coordination of group-level on-site activities including cooperation with relevant involved supervisors. The group-wide supervisor respects local mandatory legal requirements.</p> | |
| <p>Parameter M3E1-5-9 Involved supervisors are able to appoint experts in the conduct of on-site inspections or to perform particular analyses.</p> | <p><i>Specification M3E1-5-9-1 Experts may include actuaries, auditors, consultants etc.</i></p> |
| <p>Parameter M3E1-5-10 Involved supervisors possess appropriate monitoring tools to identify changes in the financial condition of the IAIG.</p> | <p><i>Specification M3E1-5-11-1 Monitoring tools provide involved supervisors with the appropriate ability to identify when corrections may be required.</i></p> |
| <p>Parameter M3E1-5-11 Group-wide and involved supervisors verify that risks identified herein, where appropriate, are captured by quantitative and/or qualitative requirements under Module 2.</p> | |
| <p>ComFrame Standard M3E1-6</p> <p>The group-wide supervisory process is consistently applied across IAIGs.</p> | |



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| <p>Parameter M3E1-6-1 Involved supervisors supervising different IAIGs need to arrive at similar outcomes. This is essential to ensure a level playing field between IAIGs.</p> | <p><i>Specification M4E1-6-1-1</i> <i>Involved supervisors have in place internal procedures that seek consistency between outcomes for a given type of situation or issue, for instance through regular exchanges between supervisory teams or development of written policies.</i></p> |
| <p>Parameter M3E1-6-2 Involved supervisors apply the supervisory process consistently over time.</p> | <p><i>Specification M3E1-6-2-1</i> <i>Involved supervisors allow for the variation in market conditions and the impact of these variations to outcomes of the supervisory process over time.</i></p> |
| <p>ComFrame Standard M3E1-7</p> <p>Involved Supervisors undertake horizontal reviews of IAIGs to assist in the supervision of individual IAIGs as well as identifying global trends of which supervisors should be aware.</p> | |
| <p>Parameter M3E1-7-1 Involved supervisors prepare horizontal reviews to provide a point of comparison so that risk assessment of each IAIG is not made in isolation.</p> | <p><i>Specification M3E1-7-1-1</i> <i>Horizontal reviews are used to compare and identify good practices in the areas of:</i></p> <ul style="list-style-type: none"> • <i>M2E1 Group Governance</i> • <i>M2E2 Group ERM</i> • <i>M2E3 to M2E5 Group Structure and Strategy</i> • <i>M2E6 to M2E8 Group Financial Condition</i> • <i>M2E9 Group Reporting and Disclosure</i> |
| <p>Parameter M3E1-7-2 Involved supervisors use horizontal reviews to assess market-wide risks.</p> | <p><i>Specification M3E1-7-2-1</i> <i>Horizontal reviews need to be done by involved supervisors across peer groups of IAIGs.</i></p> |
| <p>Parameter M3E1-7-3 Involved supervisors develop horizontal reviews to provide an input into</p> | <p><i>Specification M3E1-7-3-1</i> <i>In determining peer groups involved supervisors take into account, for</i></p> |



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| <p>macroprudential surveillance and also use information derived from other macroprudential surveillance activities.</p> | <p><i>example:</i></p> <ul style="list-style-type: none"> • <i>similarity of business models,</i> • <i>size, type and structure of IAIGs,</i> • <i>geographic scope, and</i> • <i>market coverage in totality of the peer group.</i> |
| | <p><i>Specification M3E1-7-3-2</i> <i>Relevant involved supervisors carry out the horizontal review jointly and determine the most appropriate supervisor to lead the review allowing for access and protection of data, availability of resources, among others.</i></p> |
| | <p><i>Specification M3E1-7-3-3</i> <i>The group-wide supervisor performs horizontal reviews with other relevant insurance groups in their jurisdiction.</i></p> |
| <p>ComFrame Standard M3E1-8</p> <p>Involved supervisors make decisions based on the conclusions reached from risk assessment, supervisory planning, analysis (off-site and on-site) and horizontal reviews.</p> | |
| <p>Parameter M3E1-8-1 Involved supervisors follow a due process for decision making which is determined within the supervisory college.</p> | <p><i>Specification M3E1-8-1-1</i> <i>Due process could involve either a consensus decision making approach or give the group-wide supervisor the authority to take decisions.</i></p> |
| <p>Parameter M3E1-8-2 Decisions are discussed with relevant governing body members, senior management, key persons in control functions before being finalised.</p> | <p><i>Specification M3E1-8-2-1</i> <i>Such decisions are those that require changes or actions on behalf of the group related to, e.g., solvency or risk management concerns.</i></p> |



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| <p>Parameter M3E1-8-3 Decisions are formally communicated to the Governing Body of the IAIG after finalisation.</p> | |
| <p>ComFrame Standard M3E1-9</p> <p>Involved supervisors apply the concept of a supervisory intervention ladder and implement decisions in order to take preventive and, corrective actions in a timely manner.</p> | |
| <p>Parameter M3E1-9-1 Involved supervisors apply a supervisory intervention ladder with different degrees of escalating intervention, depending on the control levels triggered. Supervisory action is commensurate to the particular identified deficiencies.</p> | <p><i>Specification M3E1-9-1-1</i> <i>Enforcement is to be based on a clear escalation of preventive and corrective measures or a very significant identified issue</i></p> |
| <p>Parameter M3E1-9-2 Relevant actions are communicated to Board members before being taken.</p> | |
| <p>Parameter M3E1-9-3 The group-wide supervisor is responsible for taking actions at the group level, i.e. the governing body within the IAIG which it supervises. Other involved supervisors are responsible for taking actions at a jurisdictional level but in conjunction with other supervisors as necessary.</p> | |
| <p>Parameter M3E1-9-4 The group-wide supervisor and involved supervisors monitor the implementation by the IAIG of supervisory decisions.</p> | |
| <p>Parameter M3E1-9-5 The involved supervisors require the IAIG to implement a plan to</p> | <p><i>Specification M3E1-9-5-1</i> <i>Involved supervisors consider directions such as:</i></p> |



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| <p>address identified weaknesses.</p> | <ul style="list-style-type: none"> • <i>requiring a solvency plan</i> • <i>requiring a recovery plan for assets covering the technical provisions.</i> |
| <p>Parameter M3E1-9-6 Involved supervisors can also take preventive measures where a breach of solvency requirements at the legal entity level is possible but has not yet occurred.</p> | <p><i>Specification M3E1-9-6-1</i> <i>Involved supervisors consider directions to reinforce financial position such as the following:</i></p> <ul style="list-style-type: none"> • <i>requiring measures that reduce or mitigate risks</i> • <i>requiring an increase in capital</i> • <i>requiring higher technical provisions</i> • <i>restricting or suspending dividend or other payments to shareholders</i> • <i>restricting the IAIG's ability to purchase its own shares</i> • <i>restricting purchase of the shares in any entity within the scope of supervision of the IAIG.</i> |
| <p>Parameter M3E1-9-7 * reference ICP 11, Standard 11.4 Involved supervisors have effective means to address management and governance problems.</p> | <p><i>Specification M3E1-9-7-1</i> <i>Means available to involved supervisors include replacement or restriction of the powers of:</i></p> <ul style="list-style-type: none"> • <i>board members and senior management</i> • <i>key persons in control functions</i> • <i>significant owners</i> • <i>external auditors and actuaries.</i> |
| <p>Parameter M3E1-9-8 *reference ICP 11, Standard 11.2 Involved supervisors take the strongest measures where the IAIG or any of its legal entities are in imminent danger of failure.</p> | <p><i>Specification M3E1-9-8-1</i> <i>*reference ICP 11, Guidance 11.2.1</i> <i>Involved supervisors consider actions such as the following:</i> <i>(1) directions regarding activities:</i></p> <ul style="list-style-type: none"> • <i>requiring or restricting the transfer of assets</i> • <i>withholding approval for new business activities or acquisitions</i> • <i>restricting the ownership of subsidiaries</i> • <i>restricting activities of a subsidiary where, in its opinion, such</i> |



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| | <p><i>activities jeopardise the financial situation of the IAIG</i></p> <ul style="list-style-type: none"><i>prohibiting an IAIG or insurer within an IAIG from issuing new policies.</i> <p><i>(2) other directions:</i></p> <ul style="list-style-type: none"><i>requiring portfolio transfer</i><i>suspending or revoking the licence of an insurer within an IAIG</i><i>barring individuals acting in responsible capacities from such roles in future</i><i>appointing other specified officials or receivers for the task</i><i>appointing temporary manager or take control of the IAIG or parts of it</i><i>freezing of assets</i><i>ordering a restructuring</i><i>ordering winding up.</i> |
| <p>Parameter M3E1-9-9 The involved supervisors can take other actions on the parts of the IAIG that are failing to meet prudential or other requirements.</p> | <p><i>Specification M3E1-9-9-1</i> <i>Involved supervisors apply sanctions by way of fines and/or other penalties against individuals and insurers where the provisions of the legislation are breached. The sanctions are proportionate to the identified breach.</i></p> |
| | <p><i>Specification M3E1-9-9-2</i> <i>Further measures that group-wide or involved supervisors could take include:</i></p> <ul style="list-style-type: none"><i>prohibiting the outsourcing of activities</i><i>demanding mitigation/hedging of risks</i><i>participating in/convoking corporate meetings</i><i>appointing a special auditor.</i> |



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| ComFrame Standard M3E1-10 *reference ICP 11, Standard 11.3 | |
| After corrective actions have been taken or remedial measures, directions or sanctions have been imposed, involved supervisors follow up to see that the IAIG has taken necessary actions and assess their effectiveness. | |
| Parameter M3E1-10-1 Supervisors follow up on remedial actions, directions or sanctions that have been imposed to satisfy themselves that the IAIG has taken the necessary actions. Supervisors assess the effectiveness of these actions. | |
| ComFrame Standard M3E1-11 | |
| Involved supervisors have in place adequate systems and procedures for documentation to support their conclusions. | |
| Parameter M3E1-11-1 Involved supervisors provide authorized staff with prompt access to relevant data. | |
| ComFrame Standard M3E1-12 | |
| Involved supervisors regularly review the on-going appropriateness of the group-wide supervisory process. | |
| Parameter M3E1-12-1 Involved supervisors update their supervisory process as required so that it remains fully in line with the market developments and the risks assumed by the IAIG that may be faced by policyholders. | <i>Specification M3E1-12-1-1 Involved supervisors regularly review internally that the frequency, scope and components of the supervisory process are still relevant and appropriate.</i> |



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| Parameter M3E1-12-2 The frequency of such a review is determined by involved supervisors. | |
| ComFrame Standard M3E1-13 The IAIG has the right to challenge supervisory actions prescribed by the involved supervisors. | |
| Parameter M3E1-13-1 Involved supervisors maintain appeal processes that are specific and balanced to preserve supervisory independence and effectiveness. | <i>Specification M3E1-13-1-1</i> <i>The processes do not unduly impede the ability of the supervisor to make timely interventions in order to protect policyholders' interests.</i> <i>The existence of an appeals or review mechanism helps ensure that regulatory and supervisory decisions are made within the law as consistently as possible and are well reasoned.</i> |

Module 3 Element 1 ComFrame Commentary

- The benefits of coordination and interaction amongst involved supervisors include:
 - providing an efficient platform for sharing information, methodologies and opinions across the IAIG
 - increasing the contribution of involved supervisors to group-wide decisions
 - bringing a broader exposure and greater influence for involved supervisors in examining group-wide situations than would be the case under legal entity reviews
 - facilitating the application of coordinated decisions when appropriate.



Supervisory Cooperation

Module 3, Element 2

Cooperation and coordination including reliance and recognition

| ComFrame Standard M3E2-1 | |
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| Involved supervisors proactively interact and coordinate the supervision of the IAIG to effectively and efficiently supervise the IAIG and cooperate on cross-border issues. | |
| Parameter M3E2-1-1 Involved supervisors proactively interact and communicate throughout the group-wide supervisory process (see M3E3). | <i>Specification M3E2-1-1-1</i> <i>Involved supervisors do not take decisions in isolation which would weaken the position of policyholders of all legal entities within the IAIG. Involved supervisors consult with other involved supervisors when actions being considered by a supervisor in one jurisdiction may adversely affect the operations of the IAIG in the jurisdiction of another supervisor.</i> |
| Parameter M3E2-1-2 Involved supervisors consult each other on matters concerning cross-border implementation and enforcement. No supervisor pre-empts the actions of others and national responsibilities are not to be overruled. | |
| Parameter M3E2-1-3 Involved supervisors cooperate in the assessment of acquisitions and disposals made by the IAIG. | <i>Specification M3E2-1-3-1</i> <i>Supervisors have effective procedures to ensure that any potential acquisition or material disposal of an IAIG or any party thereof, is subject to coordination, cooperation and information exchange with other involved supervisors. These procedures include identification of relevant involved supervisors and the establishment of effective</i> |



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| | <i>channels of communication.</i> |
| <p>ComFrame Standard M3E2-2</p> <p>Involved supervisors proactively exchange supervisory information that is considered important for other supervisors, in respect of legal entities and groups including relevant non-regulated entities within the IAIG. Information obtained under this process is shared among involved supervisors by the group-wide supervisor as necessary. Information is exchanged as soon as it becomes available.</p> | |
| <p>Parameter M3E2-2-1 *reference ICP3, Guidance 3.1.1</p> <p>Involved supervisors have the legal power to obtain and exchange supervisory information on all IAIG entities in their jurisdiction including in response to a reasonable request from another supervisor.</p> | <p><i>Specification M3E2-2-1-1</i> <i>Involved supervisors have legal authority to obtain information from regulated and non-regulated group entities in their jurisdictions. Involved supervisors may access such information either through direct or indirect means.</i></p> |
| | <p><i>Specification M3E2-2-1-2</i> <i>Requests are reasonable when the supervisor considers the information to be necessary for the effective supervision of the IAIG.</i></p> |
| <p>ComFrame Standard M3E2-3</p> <p>*reference ICP 2 and 25, Standard 2.9 and 25.1</p> <p>Involved supervisors take all necessary actions to protect confidential information.</p> | |
| <p>Parameter M3E2-3-1 The information, both transmitted and received, is subject to confidentiality requirements and disclosure is bound by certain preconditions.</p> | <p><i>Specification M3E2-3-1-1</i> <i>Preconditions in this instance would include that the standards for treatment of confidential information must meet the standards such as those set out in the IAIS Multilateral Memorandum of Understanding (IAIS MMOU).</i></p> |



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| | <i>Specification M3E2-3-1-2</i> <i>“Confidential Information” means any information regarded as confidential by the domestic Applicable Law in the jurisdictions of Signatory Authorities</i> |
| Parameter M3E2-3-2 Confidentiality requirements specify penalties for the wrongful disclosure of confidential information. All persons gaining access to confidential information are subject to penalties. | <i>Specification M3E2-3-2-1</i> <i>The penalty for wrongful disclosure of confidential information may involve a custodial penalty.</i> |
| Parameter M3E2-3-3 When the IAIG is directly or indirectly involved in other financial sectors, or other sectors, supervisors cooperate with other involved supervisors in these sectors to ensure effective legal entity and group-wide supervision. Financial supervisors and other supervisors are subject to the same requirements to ensure the protection of confidential information. | <i>Specification M3E2-3-3-1</i> <i>Information is not shared with other relevant involved supervisors until a validation is performed which demonstrates their ability to handle confidential information is, at a minimum, equivalent to the requirements of the IAIS MMoU.</i> |
| Parameter M3E2-3-4 Where necessary, involved supervisors exchange certain information with government bodies responsible for the legislation of financial market institutions. In cases where information was received from other supervisors, express consent by those supervisors needs to be given. | |
| Parameter M3E2-3-5 Involved supervisors proactively identify parties which may legitimately request information. Involved supervisors satisfy themselves that these parties meet the necessary confidentiality requirements in advance of any requests. (<i>reference M3E2-3-3</i>) | <i>Specification M3E2-3-5-1</i> <i>Involved supervisors identify, at an early stage, other supervisors and government bodies that may have a legitimate interest in the operations of the IAIG and liaise with those parties to ensure the proper treatment of information.</i> |



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| <p>Parameter M3E2-3-6 The inability to exchange information on a confidential basis is not to be a barrier to the ongoing efficient and effective supervision of IAIG's. Workable solutions for the confidential exchange of information need to be identified.</p> | |
| <p>ComFrame Standard M3E2-4 * reference ICP 3</p> <p>The group-wide supervisor, where necessary, requests information from other involved supervisors and requests involved supervisors to collect information from the IAIG entities under their supervision.</p> | |
| <p>Parameter M3E2-4-1 *reference ICP 3, Standard 3.4 The group-wide supervisor only requests information where it has a legitimate interest and a valid purpose.</p> | <p><i>Specification M3E2-4-1-1</i> <i>Valid purposes include but are not limited to carrying out components of the group-wide supervisory process, identification of possible money laundering, the financing of terrorism, and countering fraud.</i></p> |
| <p>Parameter M3E2-4-2 The group-wide supervisor has access to information relevant for the purposes of group-wide supervision including information that is held by other involved supervisors.</p> | <p><i>Specification M3E2-4-2-1</i> <i>Information relevant for the purposes of supervising the IAIG can include information required in the IAIG Supervisory Reporting Package in M2E9.</i></p> |
| <p>Parameter M3E2-4-3 Involved supervisors proactively exchange significant information that is considered important for other supervisors as soon as it becomes available.</p> | <p><i>Specification M3E2-4-3-1</i> <i>Significant information includes information that is necessary for the supervisory risk assessment of the IAIG.</i></p> |
| | <p><i>Specification M3E2-4-3-1</i> <i>The sharing of market wide risks analysis with other involved supervisors is necessary to assess cross-border systemic risks.</i></p> |



ComFrame Standard M3E2-5
***reference ICP 3, Standard 3.11**

Confidential information provided by one supervisor to another remains the property of the providing supervisor.

Parameter M3E2-5-1

Where confidential information provided is subject to a legally enforceable request in the jurisdiction of the receiver, the receiver will notify the provider prior to complying with such a demand. Where consent to passing on is not given, the receiver will use all reasonable legal means to resist such a demand or protect the confidentiality of the information.

Specification M3E2-5-1-1

“Reasonable legal means” include asserting such appropriate legal exemptions or privileges with respect to that information as may be available and affords the provider the opportunity to take whatever action it deems appropriate to protect the confidential nature of the information provided.

This includes consenting to any application by the provider to intervene in any action to preserve the confidentiality of the information provided. Therefore, the receiver obtains prior, express consent from the provider before disclosing confidential information to government bodies.

“Receiver” in this instance means the involved supervisor receiving the information.

“Provider” in this instance means the involved supervisor providing the information.



Module 3, Element 3

Roles of group-wide supervisor and involved supervisors

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| ComFrame Standard M3E3-1 *reference ICP 25, Standard 25.4 | |
| The Group-wide supervisor is responsible for supervisory activities relating to the IAIG as a whole. | |
| Parameter M3E3-1-1 The roles of the group-wide supervisor are agreed and clearly set out. | <i>Specification M3E3-1-1-1</i> <i>The group-wide supervisor is responsible for, at a minimum:</i> <ul style="list-style-type: none">• <i>initiating and chairing of the supervisory college</i>• <i>aggregation of group-wide information</i>• <i>preparation of supervisory plans</i>• <i>group-wide supervisory assessment</i>• <i>conduct and leadership of group-wide supervisory activities</i>• <i>preparation and discussion of group-wide supervisory analysis</i>• <i>coordination of information sharing procedures amongst involved supervisors</i>• <i>decision making on group-wide issues in consultation with involved supervisors</i>• <i>implementation of group-wide supervisory decisions</i>• <i>implementation and coordination of group-wide enforcement activities</i>• <i>identification of gaps in supervision and</i>• <i>oversight of group capital management.</i> |
| Parameter M3E3-1-2 The group-wide supervisor leads, in consultation with the other involved supervisors, the determination of the appropriate scope of IAIG supervision in accordance with M1E3. | <i>Specification M3E3-1-2-1</i> <i>The group-wide supervisor understands the structure and operations of the IAIG. Other involved supervisors understand the structure and operations of parts of the IAIG at least to the extent they could affect the</i> |



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| | <p><i>operations in their jurisdictions and how the operations in their jurisdictions may affect the IAIG as a whole. (see also M2E3).</i></p> |
| <p>Parameter M3E3-1-3 The scope of supervision as stated in M3E3-1-2 also takes into account cross-sectoral coordination requirements when financial conglomerates are involved.</p> | <p><i>Specification M3E3-1-2-2 Determination of the roles of the involved supervisors also take into consideration the involvement of non-insurance supervisory authorities such as banking and securities supervisors.</i></p> <p><i>According to the <draft> Joint Forum Principles for the supervision of Financial Conglomerates, “Supervisors should establish a process to confirm the roles and responsibilities of each supervisor in supervising the financial conglomerate, and to ensure efficient and effective information sharing, cooperation and coordination in the supervision of the financial conglomerate”.</i></p> |
| <p>ComFrame Standard M3E3-2</p> <p>Involved supervisors are responsible for supervisory activities relevant to their local legal entity(s) and for cooperating with the group-wide supervisors and other supervisors on the IAIG as a whole.</p> | |
| <p>Parameter M3E3-2-1 Involved supervisors are responsible, at a minimum for:</p> <ul style="list-style-type: none"> • supervising the local entity in a group context informing the group-wide supervisor and, if necessary, other involved supervisors, of material findings concerning their jurisdiction or possibly affecting other involved supervisors’ jurisdictions. • sharing all relevant information with the group-wide supervisor to assist with supervision at the group-wide level and thus other involved supervisors • discussing findings and concerns with the group-wide supervisors and other involved supervisors | |



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| <ul style="list-style-type: none">• cooperating in the Analysis and Decision Making as well as Implementation and Enforcement• identifying gaps in supervision. | |
| ComFrame Standard M3E3-3 *reference ICP 23, Standard 23.2 The group-wide supervisor, and in turn the involved supervisors, rely on the work of each other in respect to the conduct of the group-wide supervisory process. | |
| Parameter M3E3-3-1 All involved supervisors meet the ComFrame pre-requisites as set out in Module 4 to enable reliance on the supervision performed by each involved supervisor. | |



Module 3, Element 4

Use of supervisory colleges

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| ComFrame Standard M3E4-1 *reference ICP 25, Standard 25.4 | |
| A supervisory college is established for each IAIG for the purpose of facilitating group-wide supervision. | |
| Parameter M3E4-1-1 A supervisory colleges is established as a permanent platform for cooperation and coordination of supervision of the IAIG among involved supervisors. | <i>Specification M3E4-1-1-1</i> <i>A supervisory college reflects the nature, scale and complexity allowing for the legal and organisational structure and business activities of the IAIG.</i> <i>The supervisory college facilitates both the supervision of the IAIG as a whole on a group-wide basis and improving the legal entity supervision of the entities within the IAIG.</i> |
| Parameter M3E4-1-2 The supervisory college is based on coordination arrangements among supervisors. | <i>Specification M3E4-1-1-2</i> <i>Coordination arrangements lay down the processes of the college. Coordination arrangements include effective procedures for information flows between involved supervisors on an ongoing basis and in emergency situations and for communication with the head of the IAIG.</i> <i>Supervisory college members coordinate information requests sent to the parent company and local entities of the IAIG. The group-wide supervisor is responsible for communication with the parent company as it relates to the IAIG. The relevant host supervisors are responsible for communication with local entities.</i> |
| | <i>Specification M3E4-1-1-3</i> <i>“Supervisory College” is a forum for cooperation and communication between the involved supervisors established for the fundamental</i> |



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| | <p><i>purpose of facilitating the effectiveness of supervision of entities which belong to an insurance group; facilitating both the supervision of the group as a whole on a group-wide basis and improving the legal entity supervision of the entities within the insurance group</i></p> <p><i>“Permanent platform” illustrates that Supervisory Colleges are not just a meeting of supervisors but rather the foundation upon which involved supervisors are able to communicate and cooperate on supervisory actions.</i></p> |
| | <p><i>Specification M3E4-1-1-4</i> <i>The supervisory college regularly assesses its effectiveness in carrying out its role and functions.</i></p> |
| <p>ComFrame Standard M3E4-2 *reference ICP 25</p> <p>The membership of a supervisory college reflects the nature, scale and complexity of the IAIG.</p> | |
| <p>Parameter M3E4-2-1 The membership of a supervisory college is determined by the group-wide supervisor and takes into account involved supervisors from jurisdictions where material activities are undertaken.</p> | <p><i>Specification M3E4-2-1-1</i> <i>* reference ICP 25, Guidance 25.5.12 - 14</i> <i>The group-wide supervisor is responsible for the identification of appropriate members of a supervisory college. Determination of appropriate membership criteria takes into account the relative importance of the IAIG companies within individual jurisdictions.</i> <i>The supervisory college consists of:</i></p> <ul style="list-style-type: none"><i>• the involved supervisors of legal entities situated in jurisdictions and</i><i>• where applicable, other competent involved supervisors for significant branches, related legal entities and other financial sectors.</i> |



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| | <p><i>Specification M3E4-2-1-2</i> <i>A branch is part of a company, not being a separate legal entity, established in a jurisdiction other than the company's home jurisdiction. Significant branches meet one of the following two criteria:</i></p> <ul style="list-style-type: none"><i>the annual gross written premium of the branch is larger than 5% of the annual gross written premium of the IAIG and</i><i>the annual gross written premium of the branch represents more than 5% of the overall market of the host jurisdiction.</i> |
| | <p><i>Specification M3E4-2-1-3</i> <i>If an involved supervisor does not directly meet the criteria but in its opinion its participation is relevant, the supervisory college may decide to include this supervisor.</i></p> |
| <p>ComFrame Standard M3E4-3 *reference ICP 25</p> <p>To enable the group-wide supervisor to supervise the IAIG on a group-wide basis the structure of a supervisory college is commensurate with the nature, scale and complexity of the IAIG.</p> | |
| <p>Parameter M3E4-3-1 *reference ICP25, Guidance 25.5.20 – 25.5.25 Subgroup colleges or specialised teams may be established as appropriate to enhance the overall effectiveness of the college as well as the supervision of regional activities.</p> | <p><i>Specification M3E4-3-1-1</i> <i>The organisational structure of the supervisory college takes into account the significance and materiality of the entities within the IAIG. Allowing for the complexity of some IAIG structures, it may be more appropriate to establish a sub-group college. In doing so involved supervisors must take into account the additional benefits and costs of establishing a subgroup college.</i> <i>When needed, the supervisory college establishes different specialised teams for certain workstreams or projects. The college agrees on the chair of each specialised team or subgroup college.</i> <i>Where specialised teams are created within the supervisory college, the group-wide supervisor ensures the coordination of the work of these</i></p> |



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| | <p><i>teams.</i></p> <p><i>The supervisory college, including members not involved in the specialised teams, is kept regularly informed of the developments made by the teams.</i></p> <p><i>Care is taken to ensure adequate information sharing between the main supervisory college and any subgroup colleges occurs.</i></p> |
| | <p><i>Specification M3E4-3-1-2</i></p> <p><i>There is a regular assessment of the effectiveness of the coordination between the subgroup colleges and the main supervisory colleges for the IAIG done by the group-wide supervisor in consultation with other involved supervisors.</i></p> |
| | <p><i>Specification M3E4-3-1-3</i></p> <p><i>Subgroup colleges can also take place as a working group of the overall supervisory college or as an extension of meeting time of a supervisory college for those specific involved supervisors.</i></p> |
| <p>ComFrame Standard M3E4-4 *reference ICP 25, Standard 25.4</p> <p>The supervisory college is chaired by the group-wide supervisor. The group-wide supervisor establishes the key functions of supervisory colleges and other coordination mechanisms.</p> | |
| <p>Parameter M3E4-4-1</p> <p>Key functions include the development of a profile of the IAIG that addresses the IAIG’s strategy and financial/solvency situation as a whole. The profile addresses:</p> <ul style="list-style-type: none"> • Group Governance (M2E1) • Group ERM (M2E2) | <p><i>Specification M3E4-4-1-1</i></p> <p><i>The group-wide supervisor will be assisted in its tasks by the supervisory college and the other involved supervisors individually.</i></p> |



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| <ul style="list-style-type: none"> • Group Structure and Strategy (M2E3 to M2E5), • Group Financial Condition (M2E6 to M2E8) and • Crisis management among supervisors (M3E5). | |
| | <p><i>Specification M3E4-4-1-2</i> <i>Involved supervisors perform macroprudential assessment at the group-wide level. This means, for example, that involved supervisors take into account macroeconomic or overall market developments in their supervision of the IAIG.</i></p> |
| <p>Parameter M3E4-4-2 * reference ICP25, 25.5 – 25.6 The group-wide supervisor draws up a coordinated college work plan for the supervision of the IAIG.</p> | <p><i>Specification M3E4-4-2-1</i> <i>When developing the work plan the supervisory college takes into account all of the requirements in Module 2. Further specifications are to be developed for example:</i> <i>Involved supervisors review the IAIG Profile provided for under M2E3-2. The supervisory college also considers changes to an IAIG’s business and its structure referencing material provided in accordance with M2E3. In assessing intra-group transactions, the supervisory college considers the information provided by the IAIG in accordance with M2E4.</i></p> |
| | <p><i>Specification M3E4-4-2-2</i> <i>Involved supervisors consider the sharing and delegation of tasks when developing the college work plan.</i></p> |
| | <p><i>Specification M3E4-4-2-3</i> <i>The college work plan considers the main risks of the IAIG and coordinates the main activities of involved supervisors (including the group-wide supervisory process). The work plan covers a time period of at least one year and is updated at least annually or when required.</i></p> |
| | <p><i>Specification M3E4-4-2-4</i> PLACEHOLDER</p> |



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| | <i>Text to be drafted reflecting correlation of IAIG requirements for internal models in Module 2 and corresponding supervisory actions required.</i> |
| | <i>Specification M3E4-4-2-5 The group-wide supervisor is responsible for circulating a draft agenda with defined meeting objectives sufficiently in advance of supervisory college meetings.</i> |
| Parameter M3E4-4-3 The supervisory college puts in place processes for cooperation, exchange of information and consultation among involved supervisors. | <i>Specification M3E4-4-3-1 A Supervisory college facilitates information exchange as well as exchange of views and supervisory assessments in order to enhance the supervision of the IAIG. They develop a common view of the risk profile of the IAIG and enhance legal entity supervision.</i> |
| | <i>Specification M3E4-4-3-2 The supervisory college agrees on what information needs to be exchanged among involved supervisors, its purpose and how frequently this needs to be done.</i> |
| | <i>Specification M3E4-4-3-3 The supervisory college discusses findings from the analysis of the group-wide supervisor or other involved supervisors in its meetings. On that basis, it might also discuss and coordinate appropriate measures.</i> |
| Parameter M3E4-4-4 A supervisory college aims to achieve common agreements and promotes common understanding on supervisory activities in relation to the supervision of the IAIG (refer to M3E3), despite not having legally binding authority as a decision making body. | |



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| <p>Parameter M3E4-4-5 *reference ICP 25 Guidance 25.8.3, It is vital that appropriate information sharing arrangements are in place between the members of the supervisory college to ensure that confidential information can be shared in a secure environment. (see M3E2).</p> | <p><i>Specification M3E4-4-5-1</i> <i>There are three principal methods by which information sharing could be achieved:</i></p> <ul style="list-style-type: none"> • <i>each supervisor involved in the supervisory college establishes MoU or equivalent on a bilateral basis with the other members of a supervisory college. In many instances such MoUs already exist.</i> • <i>all members of the supervisory college are signatories to the IAIS MMoU which requires the commitment to a strict confidentiality regime or</i> • <i>other MMOUs that facilitate information exchange may exist.</i> |
| | <p><i>Specification M3E4-4-5-2</i> <i>Where confidential information exchanged within a supervisory college is also communicated to other supervisors there is a formal mechanism in place with these supervisors to protect the confidential information.</i></p> |
| <p>ComFrame Standard M3E4-5 *reference ICP 25, Standard 25.5</p> <p>To enable the group-wide supervisor to supervise the IAIG on a group-wide basis the operation and functions of a supervisory college are commensurate with the nature, scale and complexity of the IAIG.</p> | |
| <p>Parameter M3E4-5-1 Supervisory colleges meet on a frequency that is appropriate to the nature, scale and complexity of the IAIG. At a minimum however, colleges meet annually and the group-wide supervisor is responsible for convening the meeting.</p> | <p><i>Specification M3E4-5-1-1</i> <i>It may be more appropriate to convene physical meetings. Individual involved supervisors can choose to attend physically or via electronic means.</i></p> |
| | <p><i>Specification M3E4-5-1-2</i> <i>Supervisory colleges foster an environment of sharing and delegation of</i></p> |



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| | <i>tasks amongst the involved supervisors.</i> |
| <p>Parameter M3E4-5-2 The group-wide supervisor, after identification of the IAIG, initiates and schedules the first meeting of the supervisory college within a reasonable time frame. This is no later than 6 months from the identification of the IAIG.</p> | <p><i>Specification M3E4-5-2-1</i> <i>In case a supervisory college is already established at the date of implementation of ComFrame, an assessment of compliance against these parameters and specifications is carried out and the necessary adaptations are made.</i></p> |
| <p>Parameter M3E4-5-3 The supervisory college follows an agreed upon agenda which reflects the group-wide supervisory process.</p> | <p><i>Specification M3E4-5-3-1</i> <i>The agenda of the initial supervisory college meeting includes:</i></p> <ul style="list-style-type: none"><i>• the designation of the group-wide supervisor</i><i>• a description of the scope of group-wide supervision, including where applicable, an explanation from the group-wide supervisor for its decision to exclude a legal entity in the scope of group-wide supervision</i><i>• an explanation by the group-wide supervisor of the rationale of its initial mapping and any significant departure from another supervisory college member's assessment and</i><i>• a discussion of a first proposal for the coordination arrangements in order to determine the organisational structure of the supervisory college and the means of exchange of information among supervisory college members.</i> <p><i>The agenda of subsequent supervisory college meetings allows for all elements of the group-wide supervisory process and results in a clear outcome on a supervisory plan. In addition the agenda allows for the discussion of all elements of the IAIG requirements in Module 2.</i></p> |
| | <p><i>Specification M3E4-5-3-2</i> <i>The framework of the sharing and delegation of tasks is included in the coordination arrangements, and the concrete tasks to be shared or delegated, including their expected duration, are addressed in the coordinated supervisory work plan.</i></p> |



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| <p>Parameter M3E4-5-4 A supervisory college meeting is convened when there is a significant change or event that may affect the IAIG, its legal entities or other urgent circumstances make this necessary.</p> | <p><i>Specification M3E4-5-4-1</i> <i>In the case of significant concerns about the IAIG or material deviation from the supervisory plan, the group-wide supervisor is responsible for convening a supervisory college either physically or by other means.</i></p> |
| | <p><i>Specification M3E4-5-4-2</i> <i>Where there are significant concerns about one of the legal entities of the IAIG the relevant supervisor informs the group-wide supervisor immediately. The group-wide supervisor is responsible for determining whether convening the full supervisory college is necessary.</i></p> |



Crisis Management and Resolution

Module 3, Element 5

Crisis management among supervisors

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| ComFrame Standard M3E5-1 *reference ICP 26, Standard 26.2 | |
| The group-wide supervisor together with the supervisory college develops and maintains emergency plans and tools for dealing with any crisis within the IAIG and involved supervisors seek to remove any practical barriers to efficient, effective and internationally coordinated resolutions. | |
| Parameter M3E5-1-1 Group-wide and other involved supervisors proactively agree upon, develop and implement emergency plans and tools to be used during a crisis. | <i>Specification M3E5-1-1-1</i> <i>An emergency plan, at a minimum:</i> <ul style="list-style-type: none">• <i>establishes the objectives and processes for cooperation amongst involved supervisors</i>• <i>defines the roles and responsibilities of the authorities pre-crisis and during a crisis</i>• <i>sets out the process for information sharing before and during a crisis as well as the processes for coordination among involved supervisors</i>• <i>takes into account the mapping exercise of involved supervisors concerning possible obstacles in crisis management and</i>• <i>provides an appropriate level of detail with regard to the cross-border implementation of specific resolution measures, including with respect to the use of run off and portfolio transfers.</i> |



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| | <p><i>Specification M3E5-1-1-2</i> <i>An IAIG, as a whole, is considered to be in crisis when the group-wide solvency position of the IAIG is impaired. However, there may be other conceivable situations that would also qualify as a crisis. In addition, parts of the IAIG may be in a crisis situation for which proactive emergency planning is required.</i></p> |
| | <p><i>Specification M3E5-1-1-3</i> <i>Involved supervisors proactively identify and agree upon simulation exercises, a communication programme and mediation requirements when in crisis situations.</i></p> |
| <p>Parameter M3E5-1-2 Involved supervisors engage with the IAIG to conduct simulation or stress/scenario exercises to better understand how well the IAIG performs its financial crisis management.</p> | <p><i>Specification M3E5-1-2-1</i> <i>Involved supervisors assess the ability of the IAIG to practically implement their financial crisis management and its effectiveness. Where necessary, the group-wide supervisor requires strengthening of the IAIG's financial crisis management.</i></p> |
| <p>Parameter M3E5-1-3 Involved supervisors implement a communication programme for crisis situations and by doing so identify points of contact between involved supervisors and the IAIG. This includes communication between involved supervisors as well as communication to/from the IAIG.</p> | <p><i>Specification M3E5-1-3-1</i> <i>The identification of the most appropriate points of contact allows for the most efficient communication occurs during periods of crisis.</i></p> |
| | <p><i>Specification M3E5-1-3-2</i> <i>Involved supervisors periodically test the appropriateness and performance of the communication programme (e.g. call cascade, list of contact persons) amongst themselves and the IAIG.</i></p> |
| <p>Parameter M3E5-1-4 Prior to a crisis situation, involved supervisors identify and agree</p> | <p><i>Specification M3E5-1-4-1</i> <i>Involved supervisors ensure there are no practical barriers to mediation</i></p> |



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| <p>upon likely disputes that may require mediation. Involved supervisors establish protocols for mediation of these disputes. Disputes subject to mediation are regularly reviewed for the ongoing relevance and allow for developing trends.</p> | <p><i>that would prevent effective resolution. The most likely dispute among supervisors involves the movement of capital within or between jurisdictions.</i></p> |
| | <p><i>Specification M3E5-1-4-2 Involved supervisors undertake a mapping exercise in order to identify possible obstacles in crisis management. These could include existing tax agreements, among other matters. The mapping exercise helps to determine what is legally and practically possible in a crisis situation.</i></p> |
| | <p><i>Specification M3E5-1-4-3 The group-wide supervisor is expected to lead the mediation; in turn other involved supervisors are to be represented by officials with the necessary decision-making powers.</i></p> |
| | <p><i>Specification M3E5-1-4-4 Involved supervisors involved in mediation do not take decisions in isolation which would weaken the position of policyholders of all legal entities within the IAIG. References to Specification M3E2-1-1-1.</i></p> |
| <p>Parameter M3E5-1-5 *reference ICP 26, Standard 26.2 Involved supervisors review the emergency planning programme and protocols of the IAIG on a regular basis.</p> | <p><i>Specification M3E5-1-5-1 Group-wide supervisors have the review and maintenance of emergency plans and tools as a standing agenda item in supervisory college meetings (see M3E4-4-1).</i></p> |
| | <p><i>Specification M3E5-1-5-2 “Regular basis” means, at a minimum, on an annual basis.</i></p> |
| <p>Parameter M3E5-1-6 The emergency plan includes the measures to prepare for a crisis situation, assessment of the crisis, crisis management (including</p> | |



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| <p>alert) as well as public communication.</p> | |
| <p>Parameter M3E5-1-7 PLACEHOLDER ON RESOLUTION AUTHORITY AND POWERS</p> | |
| <p>Parameter M3E5-8 PLACEHOLDER ON FUNDING OF FIRMS IN RESOLUTION</p> | |
| <p>Parameter M3E5-1-9 An involved supervisor informs the group-wide supervisor as soon as it becomes aware of an evolving crisis. The group-wide supervisor coordinates the prompt sharing of this information and any other relevant information that it has become aware of among other involved supervisors and other relevant authorities.</p> | <p><i>Specification M3E5-1-9-1</i> <i>All involved supervisors share information as freely as is practicable with other involved supervisors, subject to legislative requirements and confidentiality regimes, in a way that does not compromise the prospects for successful resolutions.</i></p> |
| <p>ComFrame Standard M3E5-2 *reference ICP 26, Standard 26.3</p> <p>The group-wide supervisor coordinates crisis management preparations with other involved supervisors and keeps other involved supervisors (at a minimum those where the IAIG is of considerable importance) informed of the crisis management preparations.</p> | |
| <p>Parameter M3E5-2-1 As far as legal frameworks and confidentiality regimes allow, involved supervisors share, at a minimum, with other involved supervisors information on the following:</p> <ul style="list-style-type: none"> • IAIG structure (including legal, financial and operational intragroup dependencies) • inter-linkages between the IAIG and the financial system in each jurisdiction where it operates and | <p><i>Specification M3E5-2-1-1</i> <i>In a crisis situation, supervisors consider sharing the following information:</i></p> <ul style="list-style-type: none"> • <i>crisis description</i> • <i>affected entities</i> • <i>latest financial data</i> • <i>significance of affected entities</i> • <i>financial market impact</i> • <i>assessment of systemic implications</i> |



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| <ul style="list-style-type: none"> potential impediments to coordinated solutions. | <ul style="list-style-type: none"> <i>measures/responses taken by the IAIG and</i> <i>national safety nets that may exist.</i> |
| <p>Parameter M3E5-2-2 The supervisory regime requires that the IAIG is capable of supplying, in a timely fashion, the information required by the group-wide supervisor in managing a financial crisis.</p> | |
| <p>Parameter M3E5-2-3 The group-wide supervisor analyses and assesses the crisis situation and its implications as soon as practicable and co-ordinates involved supervisors to try to reach a common understanding of the situation.</p> | |
| <p>Parameter M3E5-2-4 The group-wide supervisor coordinates public communication in a crisis situation at each stage of a crisis.</p> | |
| <p>ComFrame Standard M3E5-3 *reference ICP 26, Standard 26.10</p> <p>Involved supervisors cooperate to find internationally coordinated, timely and effective solutions.</p> | |
| <p>Parameter M3E5-3-1 In case a fully coordinated supervisory solution is not possible, the involved supervisors discuss national measures as soon as possible with a view to reaching an appropriate and unified solution.</p> <p>Emergency plans and other appropriate platforms are in place to facilitate cooperation and interaction amongst involved supervisors during such times.</p> | |



ComFrame Standard M3E5-4

Involved supervisors are aware of the policyholder protection schemes which have an impact on insurers under their responsibility.

Parameter M3E5-4-1

Involved supervisors remain aware of the impact of policyholder protection during crisis situations.

Specification M3E5-4-1-1

Supervisory cooperation is encouraged to promote the exchange of information on relevant policyholder protection schemes including in the case of cross-border activities.



Module 3, Element 6

IAIGs and resolution

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| ComFrame Standard M3E6-1 *reference ICP 12, Standard 12.1 | |
| The procedures for the winding-up and exit of an insurer from the market are clearly set out in legislation. A high legal priority is given to the protection of the rights and entitlements of policyholders. The procedures aim to minimise the disruption to the timely provision of benefits to policyholders. | |
| Parameter M3E6-1-1 Involved supervisors assess the tools to facilitate resolution which include the requirement for the IAIG to have restructuring and repositioning planning and the establishment of crisis management groups (CMGs). | <i>Specification M3E6-1-1-1</i> <i>Resolution mechanisms take into consideration linkages between and separability of business units and legal entities. Awareness of the resolution and insolvency regimes of the jurisdictions the IAIG operates in is also taken into consideration.</i> |
| Parameter M3E6-1-2 The legislation provides for the determination of the point at which it is no longer permissible for an insurer to continue its business. | |
| Parameter M3E6-1-3 *reference ICP 12, Standard 12.1 The body responsible for dealing with the insolvency of an insurer, and associated procedures, including the possible restructuring or portfolio transfer, and winding-up of the insurer, is clearly set out in legislation. | |



Module 4

Implementation of ComFrame

Module 4 Introductory Comments

Module 4 sets out the jurisdictional requirements to implement ComFrame. Element 1 sets out Base ComFrame Prerequisites for all supervisors since nearly all of them at least have to assume the role of involved supervisors. It also addresses Group-wide Supervisor Prerequisites applicable to those IAIS members carrying out the role of group-wide supervisor in relation to IAIGs.



Module 4, Element 1

Applicability of ComFrame to all IAIS jurisdictions

ComFrame Standard M4E1-1

IAIS Members implement ComFrame on a pre-determined start date by meeting either the Base ComFrame Prerequisites, or, in the case of group-wide supervisors, the Group-wide Supervisor Prerequisites.

Requirements for IAIGs and the supervisory process set out under Modules 2 and 3 will be subject to transition arrangements (a phase-in period). Transition arrangements will be developed once the content of Modules 2 and 3 are established.

... [further elaboration necessary]

ComFrame Standard M4E1-2

At the time ComFrame comes into effect, all IAIS Members meet prerequisites necessary to implement ComFrame. Collectively referred to as Base Prerequisites, these cover::

- **powers and responsibilities**
- **technical competence and capabilities**
- **organisational processes and**
- **resources**

Parameter M4E1-2-1

*reference ICP 1 and 2

All IAIS members have adequate powers and responsibilities to implement ComFrame, evidenced by the following:

- sound legal basis that specifies clearly their supervisory

Specification M4E1-2-1-1

Legislation should be clearly defined and sufficiently extended to allow involved supervisors to carry out their mandate in order to be able to contribute to the supervision of IAIGs as set out in Module 3. At a minimum, this legislation should enable involved supervisors to fulfil



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| <p>mandates, responsibilities and enforcement powers</p> <ul style="list-style-type: none">• powers and responsibilities to supervise entities in a group context, including supervisory cooperation• decision-making processes that take into account responsibilities as involved supervisors• independence of any undue political, governmental and industry interference in the performance of supervisory responsibilities• clear and transparent (to IAIGs and other supervisors) regulatory requirements and procedures• processes to enable entities in an IAIG to appeal against supervisory decisions, including using judicial review• appropriate protection of involved supervisors and their staff from being held liable for actions taken in good faith and within their mandates, including actions taken on a coordinated group-wide basis• legislation requiring protection of the confidentiality of information in the possession of the supervisor, including confidential information received from other supervisors. | <p><i>their responsibilities and provide enforcement powers to implement and carry out the supervision of insurance legal entities in a group-wide context.</i></p> |
| | <p><i>Specification M4E1-2-1-2 Involved supervisors must have direct powers to supervise insurance legal entities within their jurisdiction in a group context, including powers to issue and enforce rules by administrative means and take immediate action in accordance with Module 3.</i></p> |
| | <p><i>Specification M4E1-2-1-3 Decision-making processes must take into account the responsibility for coordination and cooperation as set out in M3E3-1-1-1.</i></p> |
| | <p><i>Specification M4E1-2-1-4 Involved supervisors must be given the operational independence to</i></p> |



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| | <p><i>carry out their functions without undue political, governmental or industry interference. Being operationally independent includes having the discretion to allocate financial and human resources in way that enables involved supervisors to carry out activities set out in Module 3 including legal protection for decisions taken in the performance of their functions.</i></p> |
| | <p><i>Specification M4E1-2-1-5 There must be sufficient clarity and transparency of an involved supervisor's regulatory requirements and procedures to foster understanding and cooperation with other involved supervisors.</i></p> |
| | <p><i>Specification M4E1-2-1-6 As per Specification M3E2-3-3-1, involved supervisors are either signatories to the IAIS MMoU or commit separately to international cooperation to the extent set out in the IAIS MMoU.</i></p> <p><i>Legislation provides the legal basis for the protection of confidential information.</i></p> |
| | <p><i>Specification M4E1-2-1-7 Appeal processes available to entities of IAIGs must allow for the role of the involved supervisor in supervision of the IAIG as set out in Module 3 and do not require reasons for supervisory decisions to be exclusively based on issues within the local legal entity.</i></p> |
| <p>Parameter M4E1-2-2 *reference ICP 2 All IAIS members have adequate technical competence and capabilities to act as involved supervisors evidenced by the following:</p> <ul style="list-style-type: none"> • sound technical competence and capabilities including: financial literacy and non-financial expertise; legal, regulatory and | <p><i>Specification M4E1-2-2-1 The involved supervisors' technical competence and capabilities, particularly those focusing on and/or relevant to IAIGs, are kept up-to-date and aligned with the latest developments in group supervision and other relevant fields. Involved supervisors have the necessary technical competence and capabilities to contribute to the supervision of IAIGs and undertake the</i></p> |



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| <p>supervisory knowledge to undertake supervision of insurance legal entities of an IAIG in a group-wide context</p> <ul style="list-style-type: none"> command of languages enabling them to communicate, interact and cooperate on a cross-border basis with their supervisory counterparts | <p><i>role of involved supervisor as set out in Module 3 Element 5.</i></p> |
| | <p><i>Specification M4E1-2-2-2</i> <i>A proficient command of the most common language used by the IAIG and/or most involved supervisors will prove crucial. Often English is the default common language.</i></p> |
| <p>Parameter M4E1-2-3 *reference ICP 3 All IAIS members have adequate processes to implement ComFrame as involved supervisors on a cross-border basis to liaise, interact, coordinate and cooperate (including sharing information backed by necessary confidentiality safeguards) with their supervisory counterparts regarding the supervision of IAIGs.</p> | <p><i>Specification M4E1-2-3-1</i> <i>Involved supervisors demonstrate that they have in place the minimum regulatory and supervisory infrastructure to undertake the role of involved supervisors as set out in Module 3 Element 5. Involved supervisors have sufficient infrastructure to contribute to the supervision of IAIGs as set out in Module 3.</i></p> |
| <p>Parameter M4E1-2-4 *reference ICP 2 All IAIS members have adequate resources commensurate to the operations of the IAIGs in their jurisdictions evidenced by:</p> <ul style="list-style-type: none"> necessary human resources and technical infrastructure, such as means of communication, to effectively interact with other supervisors involved in the supervision of the IAIGs | <p><i>Specification M4E1-2-4-1</i> <i>IAIS Members have:</i></p> <ul style="list-style-type: none"> <i>hiring (recruitment) policies to enable recruitment of staff able to interact in a cross-border context</i> <i>sufficient staff with appropriate expertise and competencies</i> <i>adequate and ongoing training programmes</i> <p><i>IAIS Members have adequate information technology and communication tools to enable them to carry out the role of involved supervisors by interacting with other involved supervisors.</i></p> |



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| | <p><i>Specification M4E1-2-4-2</i> <i>*reference ICP 2, Standard 2.13</i> <i>Where involved supervisors outsource supervisory functions to third parties, involved supervisors do the following in relation to those third parties:</i></p> <ul style="list-style-type: none"><i>• set expectations, assess their competence with regard to IAIG supervision</i><i>• monitor their performance and</i><i>• ensure their independence from the IAIG or any other related party.</i> <p><i>Outside experts hired by involved supervisors are subject to the same confidentiality rules and professional standards as the staff of the involved supervisors.</i></p> |
| | <p><i>Specification M4E1-2-4-3</i> <i>Involved supervisors ensure that where they do outsource supervisory functions this does not impede their ability to interact and share information about these supervisory functions with other involved supervisors.</i></p> |
| <p>ComFrame Standard M4E1-3</p> <p>At the time ComFrame comes into effect, Group-wide supervisors meet prerequisites necessary to implement ComFrame. Collectively referred to as Group-wide Supervisor Prerequisites, these cover:</p> <ul style="list-style-type: none">• powers and responsibilities• technical competence and capabilities• organisational processes and• resources. | |



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| <p>Parameter M4E1-3-1 *reference ICP 1 and 2 In addition to the Base ComFrame Prerequisites in M4E1-2-1, Group-wide Supervisor Prerequisites mean, regarding powers and responsibilities,</p> <ul style="list-style-type: none">• sound legal basis that specifies clearly their supervisory mandates, responsibilities and enforcement powers to assume the role of group-wide supervisor as set out under Module 3• powers and responsibilities to undertake group-wide supervision and supervisory cooperation as a group-wide supervisor• independence of any undue political, governmental and industry interference in the performance of group-wide supervisory responsibilities• appropriate protection from being held liable for actions taken in good faith and within their mandates in carrying out the group-wide supervisor's role.• clear and transparent (to IAIGs and other supervisors) regulatory requirements and procedures to act as group-wide supervisor | <p><i>Specification M4E1-3-1-1</i> <i>The role of the group-wide supervisor could be achieved either by direct means where supervisors have explicit authority and powers over entities within the group, including the head of the group, or via the use of an indirect approach where supervisors have adequate power and authority over the insurance legal entity to access information in respect of the head of the IAIG and apply relevant requirements.</i></p> |
| | <p><i>Specification M4E1-3-1-2</i> <i>Group-wide supervisors are supported by legislation that provides a legal basis to implement requirements applicable to IAIGs as set out in Module 2.</i></p> |
| <p>Parameter M4E1-3-2 *reference ICP 2 In addition to the Base ComFrame Prerequisites in M4E1-2-2, Group-wide Supervisor Prerequisites relating to technical competence and capabilities to implement ComFrame are:</p> <ul style="list-style-type: none">• appropriate financial literacy and non-financial expertise, which | <p><i>Specification M4E1-3-2-1</i> <i>Group-wide supervisors have sufficient and up-to-date knowledge regarding discussions and developments in related international fora that could have ramifications to the legal, regulatory and supervisory environment applicable to IAIGs</i></p> |



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| <ul style="list-style-type: none">• is at a level sufficient to deal with <i>more intricate</i> cases often seen in group-wide supervision matters, that backs their capabilities to properly assess in light of Module 2 requirements:<ul style="list-style-type: none">– Group governance– Group ERM– Group Structure and Strategy.– Group Financial Condition• capabilities to cooperate and coordinate with the local supervisors, focusing on, in particular, interaction and exchange with the local supervisors regarding the present state• developments of and changes of the IAIG• powers to take adequate actions where necessary based on the information provided by and decisions made by local supervisors. | |
| <p>Parameter M4E1-3-3 In addition to the Base ComFrame Prerequisites in M4E1-2-3, Group-wide Supervisor Prerequisites for group-wide supervisors relating to organisational processes to implement ComFrame require group-wide supervisors to have the capability to lead, steer and coordinate the supervision of IAIGs in accordance with Module 3 including leading the supervisory college.</p> | |
| <p>Parameter M4E1-3-4 In addition to the Base ComFrame Prerequisites in M4E1-2-4, Group-wide Supervisor Prerequisites require group-wide supervisors to have appropriate and adequate resources to fulfil their leadership role in the supervision of the IAIG in accordance with their role and responsibilities set out in Module 3, particularly in terms of personnel skilled to perform group-wide supervision.</p> | |



Module 4 Element 1 ComFrame Commentary

- ComFrame aims to provide a **global and multilateral common frame of reference** for supervisors to look at and better understand – and hence better supervise - IAIGs given their continuously increasing importance and relevance in the context of insurance supervision.
- To this end, the IAIS recognises that the IAIG supervision needs to be better aligned and more consistent across jurisdictions, which in turn, is based on the premise that all involved supervisors have in place (and are in compliance with) certain **prerequisites (Base ComFrame Prerequisites)** that provide for a common platform upon which to build. It is expected that all IAIS Members will be involved supervisors.
- **Base ComFrame Prerequisites** address *basic capacity and abilities* of the supervisor and are to be distinguished from the *specific technical requirements* separately set out under Module 2, 3 and 4. Base ComFrame Prerequisites under Module 4 relate to: **powers and responsibilities; technical competence and capabilities; organisational processes; and resources**. Here, in terms of such prerequisites, *ComFrame Standards* set out the specific requirements supervisors need to meet (or comply with) to implement and operate ComFrame. *ComFrame Parameters* complement the Standards by providing a specific list or criteria that one can work off in complying with the Standard. Specifications provide or illustrate approaches on implementing Parameters in practice.
- The components of **Base ComFrame Prerequisites** are in many cases based on Insurance Core Principles (ICPs) but are complemented and tailored to the supervision of IAIGs. This is not unexpected as the underlying baseline in terms of conditions and infrastructure should not greatly differ between cases for insurance legal entity supervision or group supervision and IAIG supervision. It is however necessary for Module 4 Element 1 to list all prerequisites (tailored to IAIGs) *in the context of ComFrame* given some aspects hereunder are specified and more relevant to IAIG supervision and also to give IAIS Members and other relevant stakeholders a full picture.
- **Base ComFrame Prerequisites** under Module 4 aim to ensure that a certain level of commonality or standardisation regarding the basic supervisory framework – focusing on fundamental capacity and abilities – is secured and in place **among all IAIS Members**, for at least carrying out the role of an involved supervisor, as it relates to the supervision of IAIGs.
- **Group-wide Supervisor Prerequisites** must be met by those supervisors who are acting as group-wide supervisors.
- The IAIS view is that all IAIS members should comply with **Base ComFrame Prerequisites** set out above under Module 4 in a **holistic fashion** having regard to the outcomes, rather than by way of a narrow ‘tick-box’ process. With this, approach the IAIS also recognises that, notwithstanding the principle of all IAIS Members being required to have in place common prerequisites for at least carrying out the role of a involved supervisor (e.g. a supervisor in a jurisdiction that involved one of the IAIG’s operations or affiliates), some of them commensurate with the Member’s role as a group-wide supervisor (e.g. a supervisor where the head of the IAIG or the entity that manages the group is located). **Group-wide supervisor prerequisites** are also addressed under M4E1. For jurisdictions that are both group-wide and involved supervisors, in terms of M4E1, it will suffice to meet the prerequisites for group-wide supervisor because substantively they naturally include (and go beyond) the prerequisites for involved supervisors.



- It is recognised that the implementation of ComFrame may vary across jurisdictions depending on the supervisory powers and structure within a jurisdiction. There are **direct and indirect approaches to group-wide supervision**. Under the **direct approach**, the supervisor has the necessary powers over the parent and other entities in the IAIG and can impose relevant supervisory measures directly on such entities, including non-regulated entities. Under the **indirect approach**, supervisory powers focus on the insurance legal entities and supervisory measures are applied to those insurance legal entities to address the group-wide risks posed by other entities within the IAIG, including non-regulated entities. There may also be different combinations of elements of the direct and indirect approaches.
- Regardless of the approach, the supervisor must be able to demonstrate that in effect, the outcome is similar to having the supervisory requirements applied directly on those entities within the IAIG from which the risks are emanating. This is to ensure effective group-wide supervision, which includes ensuring that all relevant group-wide risks impacting the insurance entities are addressed appropriately.

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