International Supervisory Standards for Insurers

Federal Advisory Committee on Insurance
November 6, 2014
Areas for Discussion

♦ Workstreams of the International Association of Insurance Supervisors
  • ComFrame
  • G-SIIs and Capital Standards

♦ U.S.-Specific Activities involving the Global Capital Standard (ICS), including work on a U.S. Proposal for the ICS

♦ EU-U.S. Insurance Project
The International Association of Insurance Supervisors (IAIS) is the international standard-setting organization for insurance supervisors.

By statute, FIO coordinates and develops federal policy on prudential aspects of international insurance matters, including representing the United States at the IAIS.

Other U.S.-based members of the IAIS include the 56 state insurance regulators and the Board of Governors of the Federal Reserve System (FRB). FIO coordinates closely and regularly with both.
In July 2013 the FSB called upon the IAIS to develop a work plan for a comprehensive, group-wide supervisory and regulatory framework and to include a quantitative insurance capital standard (ICS) applicable to “internationally active insurance groups” (IAIGs) as defined by the IAIS.

The IAIS had previously been developing ComFrame, a framework for the group-wide supervision of IAIGs, which will serve as the comprehensive framework called for by the FSB.

ComFrame is thus described as encompassing two key aspects:

- **Qualitative** standards for group-wide supervision, governance and risk management, including recovery and resolution; these are now in field testing through early 2015.
- **Quantitative** standards (i.e., the ICS), currently under development, will be subjected to several iterations of field testing through 2018.

The ICS has several sub-workstreams: a capital requirement; valuation bases; and capital resources.

The project plan currently calls for ComFrame to be finalized and adopted by the IAIS by the end of 2018.
Also in July 2013, the FSB, in consultation with the IAIS and national authorities, identified nine global systemically important insurers (G-SII{s}), three of which are based in the U.S.: AIG, MetLife and Prudential.

The FSB determination on G-SII{s} was based in large part on an IAIS assessment methodology that consisted of three steps:

- Data collection from 50 insurers from 14 jurisdictions.
- Assessment of the relative impact of failure of each G-SII candidate firm, emphasizing the firm’s interconnectedness and non-traditional, non-insurance activities.
- Supervisory judgment and validation to consider insurer-specific circumstances not captured by the assessment approach.

The consideration of firms for designation as G-SII{s} is an ongoing process, as is the assessment of the assessment methodology.
Policy Measures for G-SIIs

- The IAIS published, and the FSB endorsed, a set of policy measures to be applied to G-SIIs, including: enhanced group-wide supervision; recovery and resolution planning; and higher loss absorbency (HLA) requirements, scheduled for development through 2015 with adoption by the IAIS end 2018.

- As a result, the FSB called upon the IAIS to develop straightforward, backstop capital requirements (BCR) to serve as a common baseline for G-SII HLA requirements.

- The BCR is based on a risk-weighted, factor-based approach with fixed factors applied to various categories of risk.

- The development of the BCR has been a key effort of the IAIS over the past 15 months, including two rounds of consultation, data collection from G-SIIs /IAIGs, and analysis through field testing.

- In October, the IAIS published the BCR, the first common global capital standard in the insurance sector.
U.S.-Specific Activities Involving the Global Capital Standard (ICS)

- The ICS will follow a 3-step process: standard development; testing; and adoption.
- The U.S. – through FIO, the FRB, and state regulators – is actively involved at the IAIS in developing the ICS and representing the U.S. perspective.
- FIO is also leading an effort that includes the FRB and state regulators to develop an ICS proposal that will address the unique needs of U.S. insurers and supervisors (e.g., the need to utilize U.S. accounting standards).
- Through field testing with firms from around the world, the IAIS will evaluate the impact, practicality, and value of the standards. Field testing will inform further refinement of and re-calibration of the standards.
- Through field testing, the U.S. representatives also will be able to judge the impact of the standards on certain U.S. companies, propose refinements, and better determine appropriate implementation.
- This process, as well as a broader market impact analysis, will take into account and value the diversity (and complexity) of the U.S. marketplace.
- A global standard will be not implemented in the U.S. without appropriate action by the states and/or, in certain circumstances, the Federal Reserve.
In early 2012, the European Commission (EC), the European Insurance and Occupational Pensions Authority (EIOPA), the NAIC and FIO agreed to engage in a project to contribute to an increased mutual understanding and enhanced cooperation between the EU and the U.S.

The objective of the Project is to promote business opportunity, consumer protection and effective supervision by deepening insight into the overall design, function and objectives of the key aspects of the two regimes.

The strategic “Way Forward; Objectives and Initiatives for the Future,” published in December 2012, laid out the common objectives and initiatives to be pursued over the next five years.

In light of recent developments in the EU and the United States, and of progress to date on the Project, the Project’s Steering Committee revisited and updated the Way Forward in July 2014 and reaffirmed its commitment to the Project.

The project is moving beyond mutual understanding into concrete initiatives to foster improvements and greater compatibility on both sides.
EU-U.S. Insurance Project – Priority Initiatives for 2014

Professional secrecy/confidentiality:
- Encourage U.S. states and EU Member States to become signatories to the IAIS Multilateral Memorandum of Understanding
- Review existing bilateral MoUs and consider critical points and best practices
- Identify by end 2014 the merits of an additional trans-Atlantic bilateral agreement, including the optimal structure(s) of such an agreement to further facilitate the exchange of confidential information through a covered agreement or other mechanisms identified by the Steering Committee

Group Supervision:
- The U.S. side to report on the integrated effect of the total system of insurance supervision in the U.S. that reflects the state and federal levels.
- Share best practices/experiences of cooperation and coordination amongst supervisors from key colleges (public events held December 2013 and October 2014)
- By end 2014, evaluate the use of a covered agreement to achieve the group supervision objectives.
Reinsurance and collateral requirements

- The U.S. side to report on progress by states in adopting the NAIC model law on credit for reinsurance; outline possible revisions to the model; and whether the model may become an accreditation standard.
- The EU, and Treasury/FIO with the consultation of state insurance regulators, to take initial steps toward a covered agreement by end 2014 that for the U.S. would be based on the NAIC Credit for Reinsurance Model Law and Regulation.

Solvency and capital requirements

- Provide a forum for the periodic bi-lateral exchange of views among experts from U.S. state and federal agencies and the EU with regard to the ongoing efforts of the IAIS to develop basic capital requirements, a high-loss absorbency requirement, and an insurance capital standard.