

Insurance Europe response to IAIS Consultation on ComFrame

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General comments on ComFrame

Insurance Europe welcomes the opportunity to take part in this second public consultation on ComFrame. For many years, Insurance Europe has supported the introduction of comprehensive and efficient group supervision and, therefore, appreciates the International Association of Insurance Supervisors (IAIS) efforts in launching the ComFrame initiative. A global framework for group supervision is an appropriate response to the increasing globalisation of insurance markets to ensure that policy holders are appropriately protected and confidence in insurance markets is promoted.

ComFrame is an ambitious project which we can still see potential benefits in for both supervisors and the industry:

- **Convergence of supervisory practises** – work is underway in a number of jurisdictions to improve and further develop domestic approaches to group supervision, therefore, it is important these efforts build off and converge towards some common supervisory principles.
- **Greater consistency in supervisory requirements** – it is important that supervisors and industry agree on basic and indispensable elements that should be included in a global framework for group supervision. This should help to foster a common understanding of groups among supervisors and reduce duplication of regulatory efforts for internationally active insurance groups.
- **Coordination and cooperation** – greater understanding is fundamental to the ultimate success of ComFrame. To achieve this goal, efficient and effective coordination and cooperation between supervisors is vital.

Through improving the quality and consistency of group supervision globally through improved cooperation and coordination between supervisors ComFrame should foster enhanced policyholder protection, facilitate competition for the benefit of policyholders, strengthen financial stability and contribute to a level playing field for insurance groups. Before highlighting the essential elements Insurance Europe believe should be reflected in ComFrame and our issues with the current draft, we set out our vision for successful implementation of the project.



Vision

Greater coordination and cooperation in group supervision delivering improved policyholder protection and confidence in the insurance industry

The improved understanding between supervisors of the different practices and approaches used by jurisdictions, facilitated by result oriented supervisory colleges, should naturally lead to convergence in supervisory approaches, elimination of duplicative reporting requirements and greater efficiency and reliance on supervision conducted by supervisors involved in the college of international groups.

From the perspective of the industry, a group operating internationally would only need to report once to its group supervisor with respect to risks arising from its group wide operations and processes. Solo supervisors would have a good understanding of the implications for legal entities in their jurisdiction of being part of a group and able to rely on and discuss concerns openly with the group supervisor and the supervisory college, should they need to, and avoid additional requirements on group risk issues. Information exchange between the IAIG, its group supervisor and supervisors of solo entities should be primarily gathered from already existing information, transparent taking into account the necessary confidentiality agreements, and proportionate.

Key issues with the current status of the development of ComFrame

In order to achieve this, there are a number of issues in the current draft that need to be addressed to provide an appropriate structure to the framework. These are:

Purpose and scope of ComFrame

We recommend that there is a clear statement on the purpose of group supervision to provide focus on how the standards, parameters and specifications should develop and justification for the aims and drivers articulated in the introductory remarks. This should also help clarify how ComFrame interacts with the ICPs and solo supervision given the common objectives of policyholder protection.

Insurance Europe believes that the framework should focus on facilitating supervisory understanding of IAIG's and not blur this with the potential creation of a separate prudential regime for IAIG's through setting standards surrounding valuation and capital requirements. The creation of a two tiered approach to group supervision where prudential requirements differ between insurance groups must be avoided as this would create opportunities for regulatory arbitrage and may lead to unforeseen consequences.

We believe that the aim of fostering global convergence of regulatory and supervisory measures will be achieved over time as a natural consequence of the structure of ComFrame. This will help improve supervisory dialog and understanding of regimes in other jurisdictions, such that best practice can be shared and applied in a way as to be applicable to all insurers, not just IAIGs. This would also be consistent with the introductory remarks to the paper that note ComFrame is designed to create more commonality and comparability of approaches without being rules based.

Clarity of purpose will also enable a meaningful assessment of the measures proposed for identifying the firms that should be within the scope of the ComFrame requirements.

Application of ComFrame

The introductory remarks set out the characteristics of ComFrame as having three levels, Standards that supervisor's need to meet, Parameters that can be worked off in complying with the standard, and Specifications that illustrate or provide details and definitions to the parameters.

Given that ComFrame will have the status of an international standard that will need to be reflected in a consistent manner in local legislation the language used throughout the paper should be appropriately addressed to national policy makers/supervisors and further articulation of the status of each of the three levels is required. In particular:

- The Parameters and Specifications, especially in Module 2, are too prescriptive and should be positioned as indicative guidance on how the standards may be met but should explicitly note that alternative approaches may be equally valid and that supervisors should exercise discretion in assessing appropriateness.
- There should be greater clarity on the status of module 2. It should not set prescriptive requirements applicable to IAIG's that would need to be transposed into national rules. We would recommend that Module 2 clearly focus on the essential elements and high level principles that a robust group supervision regime should include with the aim that supervisors' should be able to understand and assess the risks of a group.

Key elements that ComFrame should address

To ensure the success of the project it is very important that both regulators and industry agree on the basic and indispensable elements a global framework for group supervision should include. Following the experience gained as a result of the insurance groups directive and in preparing for the group supervisory regime in Solvency II, which cover EU domiciled insurance groups' insurance operations both in Europe and globally, Insurance Europe believes ComFrame should include the following components and principles:

- Group supervision should only be exercised at ultimate parent level and should not be duplicated at different sub-group levels.
- There should be only one group supervisor with clear supervisory responsibilities.
- Solo entity supervision should remain the responsibility and task of the national supervisor. Through the establishment of supervisory colleges reliance and recognition between supervisors should be fostered and although other supervisors should be provided with an opportunity to challenge, the group supervisor should have ultimate decision making power with respect to group decisions.
- Sharing of information amongst relevant supervisors should be based on appropriate confidentiality arrangements to protect the group and its policyholders.
- ComFrame should be applied in a manner that is proportionate to the nature, scale and complexity of the risks inherent in the business of an insurer.
- The group supervisor should be provided with appropriate tools and powers to carry out a risk based assessment of the financial position of a group. The assessment should not only consist of quantitative elements, but also cover qualitative aspects that influence a group's risk profile.
- Principles covering a group's governance and risk management processes are important, however they should remain focused on ensuring that the right risks are covered while allowing for flexibility in how a particular risk is dealt with. A well-integrated own risk and solvency assessment (ORSA) for all internationally active groups is key to this.
- Groups should be incentivised to measure and properly manage their risks.

- The quantitative assessment should provide a way of understanding the financial condition of the group using the risk based local requirements applicable at the group level allowing appropriate recognition of local requirements applicable to the solo entities within the group to provide a consolidated view. This could form the basis for a range of acceptable existing and developing solvency regimes that the IAIS are considering.
 - ComFrame should enable all risks to be captured on the balance sheet including relevant off balance sheet items and activities conducted by unregulated entities and recognise an economic assessment of assets and liabilities
 - The use of full and partial internal models should be accepted
 - The assessment should be risk based
- Reporting requirements should be harmonized at group level in order to ensure that the required extent of information will be restricted to what is actually needed to consider the special supervisory aspects of a group and will be primarily extracted from the reporting formats already available. This would help to avoid multiple reporting and redundant disclosure requirements.
- Market discipline should be promoted through improved risk disclosure to the public and confidential disclosure to supervisory authorities.

Insurance Europe is aware of the very challenging and ambitious task for the IAIS to agree on a framework that is fully consistent with the key elements described above. Thus, to ensure that development of ComFrame i) is not held up by difficulties in reaching agreement in certain areas and ii) provides added value to the comprehensive suite of supervisory standards already contained in the IAIS's ICPS, insurance Europe strongly believes that ComFrame should be developed through a phased approach based on practical experience of group supervision in an international context. Otherwise, there is a risk of the emergence of dysfunctional, disjointed and duplicative arrangements and structures being introduced, which may hinder convergence and prove difficult to dismantle.

Insurance Europe believes this approach should be based on the following key phases:

- **Phase 1:** The ComFrame development phase should focus on supervisory cooperation and coordination, in order to improve the common understanding of group risks, as set out in Module 3. Module 2 should be based on the principles contained in the ICPs and greater supervisory understanding of differences in jurisdictional approach should be informed by a mapping exercise of capital resources and key measurements already employed or being developed elsewhere.
- **Phase 2:** As part of ComFrame's 'calibration phase' and following further implementation and embedding of the ICPs and practical experience of group supervision in an international context, any gaps in available information should be identified including areas where greater specification may be needed.

Despite Insurance Europe, along with other industry observers, advocating such an approach in the past no clear explanation has been provided as to why supervisors believe there is a need to go further at the outset and develop all elements of ComFrame at the same time.

With respect to the Working Draft of the Common Framework for the Supervision of Internationally Active Insurance Groups as released on 2nd July (“Working Draft”), Insurance Europe has identified some key concerns where the current text remains disconnected from the overall goals of ComFrame. In particular, many of the concerns highlighted do not properly reflect the strategic directions included in the resolutions set out in Appendix 1 to the Working Draft:

- **It is still unclear how ComFrame relates to local regulatory/legal requirements that meet the overall principles covered by ComFrame.** Although, the IAIS has repeatedly stated (most recently in a separate resolution in Appendix 1 of the Working Draft), if local rules embody the ComFrame requirements then no change is needed, this is not clearly reflected in the ComFrame modules. On the contrary, the highly prescriptive nature of some requirements, as noted earlier, makes it unlikely that even robust group supervision regimes will satisfy the ComFrame requirements potentially due to minor differences resulting from the level of prescription specified in the ComFrame as to how a risk should be dealt with. Insurance Europe believes that further clarity should be provided in ComFrame to clearly indicate what is mandatory and what is indicative of good practice (recognising that alternatives may be equally valid) to enable coordination with existing and forthcoming supervisory regimes.
- **ComFrame is still too prescriptive.** The Working Draft demonstrates this most clearly in the area of corporate governance and group financial condition, but it is also true for other parts of the paper. The focus should instead be on ensuring that a group identifies and deals with risks without specifying exactly how it does so. ComFrame’s approach should build on existing and forthcoming supervisory regimes at national and regional level.
- **ComFrame should only apply to internationally active groups.** Internationally active solo entities, which are not part of a group, should not fall within ComFrame’s scope and there should be an explicit exclusion for them set out in the ComFrame text. ComFrame deals with specific group supervisory issues, such as gaps in supervision, and aims at providing an integrated, multilateral framework, giving a holistic picture of an IAIG. These group issues and considerations do not apply to solo entities, which are prudentially supervised in respect of the entirety of their operations and their solvency by their home state supervisors.
- **ComFrame should focus on what is ‘material’ for a group.** It should not seek to replace/be confused with supervision of legal entities. As a result of a desire for supervisors to create a ‘common language’ and facilitate a greater reliance on each other’s supervision ComFrame’s focus has unfortunately in some places drifted from addressing gaps in group supervision to designing a more intrusive supervisory regime for legal entities within groups. This is not only at odds with ComFrame’s original aim, to create a framework for group supervision, but will place an unnecessary and significant additional regulatory burden on groups and risks considerable delays to agreement and implementation of the framework. ComFrame should instead facilitate supervisory dialogue on material risks arising from being part of a group structure.
- **ComFrame should not set a single new global standard in the areas of capital, solvency and valuation but should facilitate the recognition of local regimes.** Insurance Europe recognises that there are significant variations in local/regional regulatory frameworks for capital, solvency and valuation. Therefore, rather than defining a single standard for group capital requirements, ComFrame should set out a way of understanding the financial condition of the group using risk based local requirements applicable at the group level allowing appropriate recognition of local requirements applicable to the solo entities within the group to provide a consolidated view. This could form the basis for a range of acceptable existing and developing solvency regimes that the IAIS are considering. The current divergences in approaches, on-going developments and deep reservations between jurisdictions about change means that specifying one global standard at the outset could block progress on the initiative as a whole, which would be undesirable. Existing processes are

already in place to amend solvency standards in various jurisdictions and it is unlikely to be productive to leapfrog these via prescription in ComFrame. It is also important that work in this area builds off a good knowledge of the range of approaches currently in place or being developed; we are, therefore, very supportive of the mapping exercise being conducted by the Solvency Subcommittee. With respect to valuation Insurance Europe believes that a common and consistent valuation standard should be used throughout the group. . Harmonisation of valuation standards is an issue that goes far wider than insurance, and it would be unwise to tie the progress of ComFrame to agreement on this issue.

■ **Interaction with discussion on systemically important financial institutions**

The IAIS has repeatedly assured that ComFrame does not address systemic risks. However, IAIGs are required to maintain contingency plans in gone concern situations. This requirement clearly refers to the obligation for systemically important financial institutions to have resolution plans in place and contradicts the IAIS assertion that rather than requiring specific resolution plans, ComFrame should include an analysis of scenarios and the flexibility of IAIGs to reposition when under stress. We strongly object to the underlying indication that IAIGs are deemed to be systemically relevant and reinforce our position that resolution measures should be exclusively addressed as part of the discussions relating to systemically important financial institutions.

Module 1: Scope of ComFrame

It is very important that the scope of ComFrame does not result in a two tier prudential system with a small number of internationally active groups potentially subject to differing and additional prescriptive requirements. Therefore the ComFrame principles should focus on supervisory recognition, coordination and cooperation to allow deference to robust group supervision already in place. There should not be any 'cliff edges' with groups suddenly becoming subject to a whole new suite of prudential requirements following identification as an IAIG.

The EEA should be treated as just one 'jurisdiction' for IAIG identification purposes in ComFrame. The EU has created an internal market for providing insurance services. European insurance companies and groups are subject to harmonised rules and obstacles to cross border trade have been removed. Robust group supervision is already in place and will be further strengthened and harmonised once Solvency II enters into force. Against this background undertakings with cross border business restricted to different EEA member countries should not be considered internationally active as they are operating in the same internal market. The identification criteria currently proposed by the IAIS would result in a large insurer only doing business in three European countries potentially falling in ComFrame scope. Given that a common framework is already in place within Europe it is hard to see what additional benefit ComFrame will bring to the IAIG or to the respective involved supervisors. Where a robust common supervisory framework already exists, deference should be given to it and groups subject to such a framework (and not operating outside of it) should not fall within the ComFrame scope.

Insurance Europe has concerns about the inclusion of internationally active solo entities which are not part of a group. ComFrame is a framework for group supervision, developed to address risks arising from the corporate and financial structures and governance processes of insurance groups with separate legal entities operating in different jurisdictions, elaborating on the standards set out in the ICPs that are applicable to solo entities. Given that ComFrame has been designed as a group regulatory framework, many of the Module 2 or Module 3 provisions have little or no application to, or would be inappropriate for, solo entities. The case has not been made for including solo entities, which are already prudentially supervised on a holistic basis by their home supervisors, within the scope of ComFrame.

Element 1: identification of Internationally Active Insurance Groups (IAIGs)

- M1E1-1-2-1 Insurers writing premiums in not less than 3 jurisdictions potentially fall within ComFrame scope. The definition of 'jurisdictions' is not based on a common supervisory framework or even a legal jurisdiction but is based on how the International Monetary Fund (IMF) has treated a country for the purposes of its Financial Services Action Programme (FSAP) assessments. Insurance

Europe believes it would be more appropriate for reference to be made to common supervisory framework. In this respect EEA should be treated as one 'jurisdiction' for ComFrame purposes. Individual countries can and should still be assessed through the IMF's Financial Services Assessment Process on the extent to which ComFrame has been implemented in that country.

- M1E1-1-2 The key focus of the criteria should be how 'internationally active' an insurance group is with countries/jurisdictions only counting individually if they are not part of a common supervisory framework. Size should be a less important criterion than 'international activity'.
- M1E1-1-1-2 The inclusion of internationally active solo entities which are not part of a group in ComFrame's scope is unnecessary and inappropriate. ComFrame aims to address group supervisory issues, including gaps in supervision, and to provide an integrated, multilateral framework for genuine groups. There is, however, no established need for this in relation to internationally active solo entities, which are not part of a group. Such solo entities are subject to comprehensive home state prudential supervision in relation to the entirety of their operations. Host supervisors may of course additionally supervise certain aspects of the solo entity's operations in their jurisdictions, but are entitled to rely on the home supervisor for central supervision of the whole entity. Supervisory colleges for solo entities risk duplicating regulatory effort without enhancing supervisory outcomes. Given that ComFrame has been designed as a supervisory framework for groups, many of Module 2 requirements are irrelevant to the supervision of solo entities. It is also unclear how group supervisory practices, as envisaged in Module 3, could be applied to solo entities. If supervision of internationally active solo entities needs to be improved, this can and should be achieved by amending the relevant ICPs rather than attempting to shoehorn solo entities inappropriately into a group supervisory regime.

Element 2: Process of identifying IAIGs

- It is important that the identification process is sufficiently transparent and that it provides for an opportunity to challenge and contribute to the discussions leading to a decision. In addition, potential IAIGs should not find themselves subject to constant requests for additional information. The IAIG should be informed if non-publically available information relating to its activities is being shared with other supervisors.
- M1E2-2-2 Insurance Europe questions the rationale for it only taking one year for an IAIG to be classified as an IAIG but three years for an IAIG to be declassified. Insurance Europe believes that IAIGs should be classified, or declassified at the frequency that the designation of IAIGs is reviewed. It should not take three years for an IAIG to be declassified.

Element 3: Scope of ComFrame supervision

- An IAIG should be given an opportunity to challenge the final decision on the scope of supervision. Currently the Working Draft is silent with respect to interaction with the IAIG when setting the scope, except for the purpose of information provision.
- M1E3-1-1-1 The specifications include definitions for the 'governing body' and 'senior management of the IAIG'. This is unnecessarily detailed and prescriptive and likely to conflict with different legal requirements imposed by corporate law in certain jurisdictions; Insurance Europe instead suggests the definition as applicable in the group supervisor's home jurisdiction should apply to avoid contradictory relevant bodies.
- M1E3-2-2 The involved supervisors of an IAIG are required to share any information needed for the identification of the scope of ComFrame supervision with the other relevant involved supervisors. Insurance Europe points out that confidentiality needs to be safeguarded during the entire process.

Element 4: Identification of group-wide supervisor and involved supervisors

- M1E4-1 The process for selection of the group wide supervisor should be simplified and in the first instance based on objective criteria rather than on discussion and joint decision between supervisors. The designation of the group supervisor should mainly be based on the location of the head office (i.e. where strategic Board decisions are taken). In specific circumstances other factors could be considered such as the location of main risks and/or largest balance sheet total (for example, in case of a newly established group or when group supervision is not in place in the country of residence of the IAIG's head office).

- M1E4-1-2-2 We strongly support this specification as we believe it is important that there is clarity as to who should be the group supervisor if agreement cannot be reached jointly. In this regard, we suggest this specification should become a parameter.
- Insurance Europe would like to see clarification that where there is already a group-supervisor in charge in the jurisdiction where the IAIG's ultimate parent's has its head, that such a group-supervisor will be identified as the relevant group-wide supervisor for ComFrame. Additional group-supervisors would result in an excessive burden for the IAIG and jeopardise already existing processes.
- Contrary to M1 E4-1-1-1, IAIGs should not become subject to multiple group supervisors and that only one supervisor should be assigned with the responsibilities of a group-wide supervisor. We believe that having the 'duty of seamless co-operation' spelt out in the event there is more than one group wide supervisor does not prevent the risk of inefficient or even conflicting supervisory processes. Not only does having more than one group supervisor increase the risk of duplicative and contradictory requirements being made of IAIGs and duplicative work processes established but having just one group supervisor is also in-line with how most groups structure themselves with the group's board of directors and group-wide governance in one location.
- M1E4-1-2-3 The definition of involved supervisors is too wide. Involvement in the process for identifying the group supervisor should be limited to supervisors of legal entities and significant branches. There needs to be appropriate recognition of the different interests and accountabilities of the supervisors to avoid the regulatory process becoming inefficient
- M1E4-2-2 The governing body is required to demonstrate the adequacy and effectiveness of the IAIG's governance framework. ComFrame should be clear that where information is provided under a regime that meets ComFrame standards that this will be sufficient in order not to duplicate processes or create additional workload for the IAIG.

Module 2: The IAIG

We appreciate and support the resolution in the introduction to the paper that:

"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".

However, the level or prescription contained in Module 2 makes this resolution redundant, as in practice it is highly unlikely that the detail in multiple different jurisdictions will be in line with the practices outlined in the Working Draft. For this reason, it is important to return the focus of this module to principles rather than prescriptive requirements. Indeed, we believe the parameters and specifications are too prescriptive and should be redrafted as indicative guidance on how the standards may be met.

In line with our comments in the introduction, ComFrame should be developed through a phased in approach. Thus at the outset Module 2 should focus on the essential elements and high level principles that a robust group supervision regime should include, covering both qualitative and quantitative aspects of group supervision. To inform the development of the high level principles we strongly support mapping exercises to be carried out to ensure that ComFrame is based and builds, where necessary, on the ICPS and practises and approaches already employed or being developed elsewhere. Further specification and detail should only be developed at a later stage as necessary based on experience gained from practical implementation of global group supervision.

Insurance Europe understands that the restructuring of ComFrame Module 2 is intended to clarify which requirements an IAIG is expected to meet as opposed to requirements that supervisors are intended to implement (Module 3). However, in changing the focus it is important that some of the elements are redrafted as to be applied to IAIG's they would need to be transposed into national rules. As noted above under the purpose of ComFrame this risks the creation of separate prudential standards for IAIGs. This also appears to be inconsistent with the introductory remarks that note that ComFrame is designed to create more commonality and comparability of approaches without being rules based.

Element 1: Governance

- Although Insurance Europe believes the right risks are covered in this element. The level of detail included is far too high. ComFrame should not include detailed provisions regarding the organisational and functional set-up within an organisation (e.g. rules on which function does what). Instead ComFrame should set out general principles focused on areas that have to be covered thus leaving it free for groups to determine the most appropriate way to structure their functional and organisational set-up.
- M2E1-1-1: this section requires the governance framework to identify the head of the IAIG, its governing body and the senior management. We would like to see a clarification that the definitions should refer to the relevant jurisdictional requirements in order avoid contradictory relevant bodies.
- M2E1-3 The principle requiring roles and responsibilities of the IAIG's governing body to be clearly defined by the IAIG is sensible. However, the detailed list of responsibilities for the key functions specified later on in the element contradicts this principle and instead impinges on an IAIG's ability to structure its operations as most appropriate. For example, business objectives and strategies may be developed by an IAIG's management body not its Governing Body. As long as the established process of oversight adequately captures the risk in question this should be acceptable. Flexibility should be allowed as to which function is responsible for dealing with a particular risk.
- The following are illustrative of how through being too prescriptive ComFrame might conflict with an IAIG's current practices or/and national requirements whilst not necessarily dealing with the risk in question in a more appropriate manner. We, therefore, suggest this level of detail is removed from ComFrame and include these examples as illustrations of where immaterial conflicts may arise:
- M2E1-8-4-1 introduces the requirement for control functions to be subject to periodic evaluations by an external evaluator where appropriate. This statement may be either redundant or overlapping as an internal assessment of control functions by the internal auditor is already required. M2E1-8-8-1 requires the group-wide compliance function to conduct a regular assessment of the compliance systems at the group and entity level. This requirement and associated requirements in M2E1-8-8-11-1 and M2E-1-8-12-2 should not be too prescriptive to allow IAIG's discretion on how they structure their internal controls so as to allow proportional approaches to be taken. M2E1-8-7/M2E1-8-8 the compliance function is local. The group supervisor should not be involved in supervising compliance matters or market conduct issues in other countries.

Element 2: Enterprise Risk Management

- M2E2-2-2-1 Specifications relating to exactly how an outsourcing arrangement should be dealt with are excessive. What is important is that the risk of outsourcing is considered. Therefore the detail included in this specification should be deleted and at the very least it is unnecessary for written contracts to include expectations of all parties and this should be deleted.
- M2E2-3-6-2 Stress tests as prescribed by the group supervisor, as opposed to those which are conducted by the IAIG as part of its ORSA, should come under Module 3 not Module 2. Indeed stress testing by supervisors is already covered in Module 3 Element 5. Therefore we believe M2E2-3-6-2 should be deleted. M2E2-5 Through conducting an ORSA an IAIG is undertaking a forward looking assessment of the adequacy of its solvency position not its risk management. We therefore believe that reference to 'risk management' in this standard should be deleted so that it reads instead '*The IAIG regularly performs its ORSA to assess the adequacy of its current and likely future, solvency position*'. M2E2-5-4 an ORSA is by very definition a groups own risk solvency assessment and as such we do not believe the risks to be covered should be specified.

Element 3: IAIG's legal and management structures from an ERM perspective

- There is also far too much detail in this element. What is important is that a certain risk is appropriately dealt with/given adequate consideration. For example, we believe requirements on the legal structures of groups should not be stipulated (M2E3-3-1-2). Legal structures of groups are based on group strategy and national company law and other local issues i.e. whether a 1 or 2 tier board structure is applied.

- M2E3-1 Insurance Europe agrees that an IAIG should maintain a group structure that is transparent, however it should be the role of the group supervisor, not all involved supervisors, to ensure they are comfortable/have a complete overview of the group's structure. In addition, the reference to supervision of the IAIG otherwise being hindered' should be deleted as this is an assessment for the group supervisor (and should therefore be addressed in module 3). Therefore, we suggest this standard should be redrafted with the last part deleted to read as follows 'The IAIG maintains a transparent group structure ~~that is sufficiently transparent to the involved supervisors so that supervision of the IAIG will not be hindered~~'.
- M2E3-5-3 Insurance Europe is supportive of the overall principle of M2E3-5 that an IAIG should use appropriate scenarios to analyse whether it has the risk management capability and financial resources to continue to operate in periods of stress. However, the parameters here seem to go much further and demand much more of the IAIG. Therefore the parameters should be deleted. With respect to contingency plans or 'procedures to be developed to deal with a going concern situation', Insurance Europe believes that contingency plans can be a useful tool as part of risk management to address and anticipate particular risks. . However, the prescriptive requirements as to what these plans should cover are excessive and go beyond what is necessary for a contingency plan. As a risk management tool for the IAIG, It should be up to an IAIG to determine the contents of the contingency plan as opposed to it being prescribed by its supervisor. ComFrame also requires the IAIG to maintain procedures for use in gone concern situations. These requirements contradict the final IAIS's Resolution in the introduction to the Working Draft. This notes that rather than requiring resolution plans, ComFrame should include an analysis of scenarios and the flexibility of IAIGs to reposition under stress. Insurance Europe considers this to mean 'going concern analysis' and finds it hard to understand the difference between resolution plans and 'procedures to be used in gone concern situations'. Therefore, the reference to gone concern should be deleted from ComFrame. The topic of resolution plans should be exclusively addressed in the discussions relating to systemically important financial institutions. Differences in the business models between insurers and banks and the resulting impact this has on their resolvability obviates the need for such plans or procedures to be drawn up in advance. Provided a suitable ladder of intervention is observed, time will be available in the event of financial distress of an insurer for a plan to be developed and tailored to the event in question during the early stage of intervention. This will not only be more efficient in terms of supervisors/ the IAIGs resources but it should ensure that the plan is appropriately designed to deal with the situation in question.

Element 4: IAIG's strategy from an ERM perspective

- M2E4-3 The group-wide supervisor should be kept informed by an IAIG about material changes to its strategy and important developments in the relevant markets. However, Insurance Europe questions the extent to which quantitative reporting is necessary. In this regard, a continuous qualitative exchange of relevant information with a clear focus on materiality should be relied on instead.

Element 5: Intra-group transactions and exposures from an ERM perspective

- M2E5-1-1/M2E5-1-2 Insurance Europe welcomes the fact that host supervisor's prior approval of intra-group transactions (IGTs) is no longer explicitly required. However, the statement that intra-group transactions may be subject to approval is ambiguous and unnecessary and therefore should be deleted. The focus should instead be on informing the group-supervisor of material IGTs.
- M2E5-1-3-1 This specification contains a detailed definition of materiality for reporting purposes. If an informative communications process is in place a detailed definition of materiality seems unnecessary. There is also the risk that the definition of materiality might differ to that currently used in other regimes, for example in Solvency II IGTs is classified as follows: IGTs, significant IGTs and very significant IGTs. Otherwise, IAIGs might find themselves needing to dual classify certain transactions to comply with two different reporting regimes. We therefore suggest this specification is deleted.

Element 6: Liabilities / technical provisions and assets / investments

- The requirements in this element are much too prescriptive and detailed and therefore in many cases should be deleted. The focus should remain on ensuring the right risks are covered through setting

high level principles, however, it should not be specified exactly how a risk is dealt with. If too much detail is included on the exact activities carried out by a function, as is the case with these parameters and specifications currently drafted, there is a high risk that ComFrame requirements will conflict with local requirements already in place which already adequately achieve the same outcome. To illustrate this there are the following examples of some of the areas where we believe too much detail has been included, however there are others and this list should not be viewed as comprehensive:

- M2E6a-2, M2E6a-3 and M2E6a-4 relating to an IAIG's investment policy. Undertakings should be responsible for adopting asset and liability management strategies that best fit their company and report to their supervisor on their investments as part of their standard supervisory reporting.
- M2E6b-1 IAIG's group-wide underwriting policy. Not only does the level of prescription increase the risk of conflicts with local requirements already in place, but a number of the requirements specified are already covered in an IAIG's ORSA as they are not specific to underwriting i.e. willingness to bear risk; risk appetite and tolerance; risk monitoring process; interaction between policy and strategy and connectivity with prices and premiums, therefore inclusion in the underwriting policy is both duplicative and unnecessary.
- M2E6b-2 Too much detail is provided on what should be included in an IAIG's group wide claims management policy M2E6b6 List of activities the IAIG's group-wide actuarial function is expected to carry out is not only excessive and unnecessary but runs the risk of conflicting with current practice whilst making little difference to the outcome of the risk assessment.

Element 7: Valuation

- A common and consistent valuation method should be used to evaluate the group. ComFrame should not design its own valuation standard. Harmonisation of valuation standards is an issue that goes far wider than insurance, and it would be unwise to tie the progress of ComFrame to agreement on this issue. M2E-7-2 We continue to strongly object to the development of 'prudential filters' a definition of prudential filters would only make sense if questions relating to contract boundaries, valuation of liabilities as well as OCI are finalised first.

Element 8: Group Capital Adequacy Assessment

- It is important that the strategic direction of the IAIS Technical Committee in relation to solvency/capital standards provides sufficient flexibility to allow for the recognition of national regimes. It should set out a way of understanding the financial condition of the group using the risk based local requirements applicable at the group level allowing appropriate recognition of local requirements applicable to the solo entities within the group to provide a consolidated view. This could form the basis for a range of acceptable existing and developing solvency regimes that the IAIS are considering.
 - ComFrame should enable all risks to be captured on the balance sheet including relevant off balance sheet items and activities conducted by unregulated entities and recognise an economic assessment of assets and liabilities
 - The use of full and partial internal models should be accepted.
 - The assessment should be risk based
- In order to inform the development of supervisory oversight of group solvency/capital standards Insurance Europe believes it is important that work in this area builds off the ICPs and a good knowledge of the range of approaches currently in place or being developed; we are, therefore, very supportive of the mapping exercise being conducted by the Solvency Subcommittee.

With respect to the detail included in this module Insurance Europe would like to make the following comments:

- M2E8a-1 Insurance Europe strongly supports a total balance sheet and risk based approach.
- M2E8a-1-1: Within the ERM framework, not all risks are quantifiable; this is the purpose of ORSA. In the ORSA, both quantifiable and non-quantifiable risks are to be identified in order to determine their materiality.
- M2E8a-1-3 Insurance Europe is concerned by the reference to adjustments needing to be made to reflect restrictions on fungibility of capital and transferability of assets. In line with M2E6a-2-5 Insurance Europe believes issues impeding cross-border asset transfers should be considered and scrutinised on a qualitative basis and therefore should not be included here. A group solvency calculation should treat the group as one unit and allow the use of excess capital of solo entities for the group-wide solvency calculation.
- With particular regard to the calculation of the IAIG's group regulatory capital, we would like to raise the following:
 - M2E8b-1-3-1 the reference to "traditional" and "non-traditional risks" should be deleted. Supervision should be risk based; the creation of such artificial categories has the potential to incentivise supervisors to supervise immaterial risks in a more intensive manner whilst not giving more material risks the attention they require thus undermining a risk based approach.
 - M2E8b-2-4 the reference to the need to take into account risks arising from 'diversification of risks across group entities' seems to imply that 'diversification of risks' is a risk as opposed to a risk mitigation technique. It is important that a group's solvency capital requirement is adjusted to take into account diversification effects but this should not only be viewed as a 'risk'. We appreciate that the concern supervisors are trying to address here is the varying concentrations of risks within individual group entities, we therefore suggest the bullet point is redrafted as follows: ~~diversification~~ 'varying concentrations of risk across group entities'.
 - M2E8b-2-5-1 reputational risk is a non-quantifiable risk which is dealt with under ORSA and, therefore, should not form part of a group's regulatory capital requirement.
 - M2E8b-2-7 stress and scenario testing to address risks that are less readily quantifiable should take place within the ORSA not the Pillar 1 capital assessment.
- M2E8b-3 Insurance Europe welcomes the recognition of the use of full or partial internal models for the calculation of the group regulatory capital requirement.
- M2E8c-2 In line with comments above, Insurance Europe would like explicit reference to be included stating that where a regimes existing definition of capital meet the requirements IAIGs with their home supervisors in these jurisdictions will be treated as compliant.
- M2E8c-3-1 Insurance Europe is concerned at the reference to banking tiers being considered in developing this approach. Whilst we welcome the recognition by the IAIS that 'differences in approach' will be taken, we are unsure why there is a need to justify these differences and we also caution against inappropriate read across between the sectors – capital resources serve very different purposes in the banking and insurance sectors.

Element 9: reporting and disclosure

- Insurance Europe welcomes the statement that 'the IAIS does not intend that supervisors develop common reporting templates for IAIGs'. A reliance on existing reporting and disclosure processes is vitally important for achieving efficiencies in the supervisory process and limiting the burden on IAIGs.
- M2E9-3-3-1 Insurance Europe strongly objects to any mandatory requirements relating to external auditing. We do not believe that mandatory auditing is necessary to complement the assurance already provided by the internal controls and governance of undertaking, and the supervisory review process. An IAIG's system of governance will ensure there is a sufficiently robust system behind the information reported for supervisory purposes, including provisions for an independent internal review. The information submitted by (re)insurance undertakings is subject to a supervisory review process and for certain items, such as ancillary own funds in the case of solvency II, subject to supervisory approval itself. Due consideration should be given to cost and timing implications of

external auditing requirements. Instead, IAIGs should have the flexibility to determine for themselves the mandate and scope for an external audit/opinion where appropriate. M2E9-3-4 and M2E9-3-5 If the reference to 'public' is intended to be a reference to public disclosure we would question the necessity of public disclosure needing to be done on an 'interim basis' in addition to the systematic public disclosure which already takes place on an annual basis. Any more frequent public disclosure requirement is excessive. We therefore believe reference to interim public statements/reporting should be deleted from both these specifications.

- M2E9-3-6 insurance Europe opposes the reference to internal models being subject to on-going approval, only changes to the internal model should subject to prior supervisory approval. As currently drafted, this requirement for on-going approval would result in a very burdensome process creating uncertainty for both supervisors and undertakings.
- M2E9-10 Insurance Europe questions why "annual audited consolidated financial statements" are required as part of the (re)insurance reporting/disclosure package? Financial statements are required as part of the accounting framework, it is important to ensure the (re)insurance framework is considered in the right context.

Module 3: Group-wide Supervisory Process

It is very important that supervisors' roles and responsibilities in the supervisory process are clearly allocated to ensure duplications and inconsistencies do not occur and provide a firm foundation on which the supervisory process can be based. We, therefore, appreciate the attempt in Element 3 to provide a clear allocation of tasks between involved supervisors and the group wide supervisor. In this regard, we believe Element 3 should be moved to the beginning of Module 3. It is unfortunate however, that the roles and responsibilities attributed to involved vs. the group supervisor later in this chapter are not consistent with the division of tasks allocated in Element 3.

The supervisory college should facilitate the concept of cooperative group supervision and be the primary forum within which supervisors interact when carrying out the group wide supervisory process. We, therefore, suggest that Element 4 on supervisory colleges be the second element in Module 3 (following the clear allocation of supervisors' roles and responsibilities). Membership of the supervisory college should also be aligned with supervisors involved in the group-wide supervisory process. We strongly support the requirement for involved supervisors to request information from the group-wide supervisor (and not directly from the IAIG). However, involved supervisors should only be granted access to information when they have a clear supervisory need for the information and appropriate confidentiality arrangements in place.

Module 3 makes frequent reference to the involvement of 'involved supervisors' in the supervisory process, Insurance Europe is concerned that i) the definition of involved supervisors as provided in M1E4-1-2-3 is too wide and ii) the powers given to involved supervisors are too extensive. It could result in supervisors with only limited exposure to a group getting involved in supervising and gaining access to information on entities outside of their own jurisdiction for which they have little supervisory need. Careful consideration should be given as to whether it would be more appropriate for reference to be made to the more narrowly defined term 'host supervisors', as per the definition in M1E4-1-2-3, in a particular instant as opposed to involved supervisors. Insurance Europe strongly believes participation in the supervisory college should be limited to just the group supervisor, host supervisors; other involved supervisors should only be invited to take part on an ad hoc basis for information sharing purposes. In addition, Insurance Europe suggests that supervisors should have a proportionate influence in the college of supervisors taking into account both the significance of the group's operations in their market and the significance to the group of their respective market.

As noted above, not only is the definition of 'involved supervisors' too wide, their involvement in the group supervisory process is too high. Instead more emphasis should be placed in the group supervisor carrying out an assessment based on the information provided by involved/host supervisors and other supervisors should be encouraged to rely on it. Group supervision should only be exercised at the ultimate parent level and should not be duplicated at different sub-levels of the group. In line with this there should only be one supervisory college and subgroup supervisory colleges should not be established.

With regard to crisis management and resolution, existing processes and tools in the insurance sector at local level have to be recognised as the primary basis for intervention. Cross-border coordination of these measures is key to facilitate supervisors in working together to deal with a cross border crisis situation and foster reliance and recognition of each other's ability to deal with crisis situations effectively either individually or jointly, therefore, we believe this should be the focus of this element.

Element 1: Group-wide supervisory process

- M3E1-2 cross reference is made to M3E3-2-1 for definition of involved supervisors; cross reference should instead refer to M1E4-1-2-3. However, given the importance of the definitions of 'involved', 'host' and 'group-wide' supervisor to this module they should also be included again here.
- M3E1-5-3/M3E1-5-4 we appreciate that in Element 3 ComFrame clarifies that 'involved supervisors' are responsible for supervising activities relating to their local insurance entities whereas the group supervisor is responsible for supervising activities relating the IAIG as a whole. However, this seems to be contradicted by references to involved supervisors being responsible for assessing the governance and the ERM framework of the IAIG. It is important that the supervisory activities relating to the group as a whole remain the responsibility of the group wide supervisor not involved supervisors.
- M3E1-2-2 makes reference to involved supervisors needing to take into account 'market-wide risks' throughout the group-wide supervisory process. Definition of market risk is provided but further clarity is still needed as to exactly the sort of information which should be considered or/and how the information will be gathered. It is important that clear parameters are included on the type of information that will be considered as otherwise a large amount of data could potentially be requested for which there is no clear supervisory purpose.
- M3E1-2-4 group wide supervisor is allowed to request information 'whenever needed'. Certain parameters should be included as to when a group wide supervisor can request information; otherwise, the goal of ComFrame goal to improve efficiency in group supervision will not be achieved. Information should only be requested by the group supervisor outside of its standardised reporting when it has clear justification for doing so.
- M3E1-2-5 we strongly support the clear statement that involved supervisors should request information from the group-wide supervisor (and not directly from the IAIG). However, involved supervisors should only be granted access to information when they have a clear supervisory need for the information and appropriate confidentiality arrangements are in place.
- M3E1-3-3-3 this specification should be deleted. Assessing the financial resources of the IAIG and the ability to absorb losses should be the responsibility of the group supervisor not all the involved supervisors. Indeed this is recognised in M3E1-5-6.
- M3E1-4-2-1 supervisors are required to establish a long-term supervisory strategy spanning a period of three to five years; we question the value of such a strategic plan being developed. Although, supervisors will need to take a forward looking perspective in order to allocate resource and plan their activities, it is important that their approach is reflective of an IAIG's actual position/current risks it is facing; this we believe cannot be accurately predicted 3-5 years in advance. We therefore, suggest the time period for long term strategy is changed from 3-5 years to 1-3 years. In addition, explicit reference should be included for the need for the group supervisor to discuss and share their strategy with the IAIG and also to consider and align their strategy for an IAIG with the IAIG's strategic plan.
- M3E1-5 On-site activities and off-site monitoring are accepted and well established supervisory techniques. All supervisory monitoring and inspection processes as well as the involvement of host supervisors should be based as far as possible on an analysis and exchange of existing information by supervisors. Additional requirements to the IAIG should have a clear rationale (ME2-2-4) and on-site inspections should only be used when information gaps are found to exist or when there is a clear need for greater supervisory interaction with the IAIG. It should be the task of the supervisors to encourage each other to collect relevant information through their periodical reporting requirements. On-site inspections are resource intensive both for IAIGs and supervisors so should be used sparingly.
- M3E1-5-6-1/M3E1-5-6-2/M3E1-5-6-2 In line with M3E1-5-6 reference in these specifications should be to the group-wide supervisor as opposed to involved supervisors. It should be the group

supervisor's responsibility to assess the financial condition of the group with relevant input from host supervisors on legal entities located in their jurisdiction.

- M2E1-5-7-2 Reference is made to the conduct of joint on-site inspections whenever other supervisors 'are interested in the findings or whenever this involves duplication of work between group wide and other involved supervisors'. Another supervisor merely being 'interested' in the findings is not an appropriate cause for a 'joint on-site inspection' to be conducted. Instead we believe this sentence should be re-drafted to make it clear that joint-inspections should only be planned 'where supervisory authorities need to verify information' or whenever this avoids duplication of work.
- M3E1-6 Requirement for supervisors to achieve consistency of outcomes is mentioned here. Insurance Europe is concerned that there needs to be flexibility for supervisors to apply judgement for each specific circumstance. Therefore Insurance Europe believes reference to consistency of outcomes should be deleted.
- M3E1-7 With regard to horizontal reviews of IAIGs, we believe that confidential information relating to an IAIG should not be used for conducting a peer review. As the potential involvement of any peer supervisor could lead to the sharing of information across supervisory regimes even if the peer IAIG has no business in a jurisdiction.
- M3E1-8 Decision making process is to be determined by the supervisory college. In the event that the supervisory college does not agree on a decision making process we believe that ComFrame should explicitly state that the group wide supervisor should take the final decision, however involved supervisors should have the right to challenge a decision. .
- M3E1-8-2 Insurance Europe welcomes reference to decisions needing to be discussed with IAIG before finalisation.
- M3E1-9 Needs to be clear that the group supervisor is expected to develop a supervisory ladder of intervention at group level recognising that enforcement will always take place at individual legal entity level. The enforcement regime included in ComFrame should adopt a more principles based approach as set out in ICP 17 and more clearly define the roles and responsibilities of the group supervisor and the involved (host) supervisors. For example, M3E1-9-5 makes reference to involved supervisors requiring the IAIG to implement a plan to address identified weaknesses; Involved supervisors should only be able to request a plan from entities located in their jurisdiction not the IAIG as a whole. Insurance Europe also believes this standard should refer to the group-wide supervisor and host supervisors not all involved supervisors. It makes little sense for the supervisor of an insignificant branch to be required to establish a supervisory ladder of intervention; especially given prudential supervision of the branch is the responsibility of the group's home supervisor.
- M3E1-9-7-1/M3E1-9-8-1 Supervisory powers are still too wide and invasive. Supervisors (both group wide and involved supervisors) can still intervene in business decisions of the IAIG. For example, one of the means suggested to address management/governance problems is the ability for supervisors to replace significant owners; we believe this goes too far and question whether supervisors should have the authority to force a shareholder to divest shares.
- M3E-1-13 Insurance Europe welcomes the inclusion of an appeal process for IAIG's.

Element 2: Cooperation and coordination including reliance and recognition

- Insurance Europe strongly supports the inclusion of this element. Reliance and recognition of supervision carried out by other involved supervisors is essential for achievement of efficiencies in supervisory effort. All supervisory activities should be based on a concept of confidentiality and trust (therefore M3E2-3-2 is fully supported).
- M3E2-3-6 We strongly object to language in parameter M3E2-3-6 which states that the "inability to exchange information on a confidential basis is not to be a barrier to ongoing efficient and effective supervision of IAIGs". Exposure of confidential information may result in significant harm to groups both from a regulatory and economic perspective. As noted elsewhere in this response, the establishment of appropriate confidential agreements is an essential pre-requisite for information sharing between supervisors.

Element 3: Roles of group-wide supervisor and involved supervisors

- Clear allocation of roles and responsibilities between the group-wide supervisor and involved supervisors provide the foundations for efficient and effective group supervision and are essential to ensure duplications and contradictions in supervisory requests/processes do not occur. In this respect, we believe Element 3 should come right at the beginning of Module 3. We believe the current definition of 'involved supervisors' (M1E4-1-2-3) is far too wide. The ComFrame draft usefully differentiates between involved supervisors and host supervisors therefore we would welcome references to 'involved' supervisors to be substituted for 'host supervisors' where more appropriate.
- If the role and responsibilities allocated to involved and group wide supervisor in this module instead were allocated to 'host supervisors' and the group wide supervisor, we would be broadly supportive of the allocation of tasks. However, as mentioned in our earlier comments this list is inconsistent with the roles and responsibilities attributed in module 1 with respect to the group wide supervisory process.

Element 4: Use of Supervisory Colleges

- Insurance Europe strongly supports the establishment of supervisory colleges for IAIGs.
- Effective two way dialogue between the supervisors in the college and the group concerned is an essential pre-requisite to the efficient and effective functioning of a supervisory college. Currently Element 4 is silent on the need for the supervisory college to interact with the IAIG. In line with the strategic direction given by the IAIS Technical Committee (24/02/2012) Insurance Europe believes that the involvement of the IAIG Board and Senior Management in Supervisory College activities must be considered. At the very least, Insurance Europe believes it is vitally important that the IAIG is kept fully informed of: the membership of the supervisory college, the allocation of these tasks between supervisors if certain roles and responsibilities have been delegated between the supervisors involved and key outcomes from supervisory college meetings. In addition, we believe that it would be beneficial if the IAIG is invited, at least annually, to take part in supervisory college meetings.
- Coordination arrangements between supervisors are already dealt with in a number of places in Module 3 (e.g. M3E2-4) and therefore it is important that the coordination arrangements laid down in M3E4-1-1-2 are in line with requirements contained elsewhere in the module.
- Element 4 does not define a mediation process in case of disagreement between supervisors in the college. Insurance Europe believes that supervisory colleges should define a mediation process. We note that supervisors are required to establish protocols for mediation of disputes with respect to a crisis situation (M3E5-1-4) however we believe such a protocol should also apply/be developed outside of a crisis situation.
- M3E4-2-1 Membership of the supervisory college should be limited to the group wide supervisor and host supervisors (as identified in M1E4-1-2-3) other involved supervisors should only be allowed to participate on an exceptional basis and their participation should be strictly limited to facilitating the efficient exchange of information. The definition of 'involved supervisors' is too wide and will result in far too many supervisors taking part. If a significant number of involved supervisors take part in a supervisory college it will make the regulatory processes ineffective and inefficient.
- M3E4-2-1-3 In line with the comments above we suggest 'for information purposes' should be added to the text, therefore, the last paragraph should read as follows: 'the supervisory college may for information sharing purposes only decide to include this supervisor'.
- M3E4-3-1 Insurance Europe opposes sub-group colleges. The intention of ComFrame should be to help convergence to only one international supervisory college for an IAIG. This should build off of the existing college arrangements to avoid the need for subgroup colleges to be established in the future. Otherwise, additional complexity is introduced with the need to establish an organisational structure to the colleges (hierarchy, reporting, process, etc.) and the risk of duplicative or contradictory requests being made of an IAIG are likely to materially increase.
- M3E4-4-5 We strongly support inclusion of this parameter requiring that appropriate information sharing agreements are in place – this is an essential pre-requisite for information sharing taking place in a supervisory college.

Element 5: Crisis Management and resolution

- Insurance Europe appreciates the need for supervisors to discuss in advance measures that might need to be taken in a crisis situation. However, given the necessity for any action to be carefully tailored to the event in question (which is unlikely to be able to be predicted in advance) – and given the nature of the insurance business model - Insurance Europe questions the value of detailed ‘emergency plans’ being drawn up and maintained in advance. For example, the requirement for the emergency plan to define the role and responsibilities of the authorities during a crisis in advance seems excessive (and would like need to be changed to reflect the particularities of the crisis triggering event). We, therefore, believe the detail relating to what an emergency plan should contain (M3E5-1-1-1) be deleted or redrafted so it is made more apparent that it is only intended as illustrative guidance.
- M3E5-2 References in element 5 to ‘involved supervisors’ should be changed to group-wide supervisor and ‘host supervisors’ as defined in M1E4-1-2-3. The definition of involved supervisors is far too broad for purposes of Element 5.

Element 6: IAIGs and resolution

- Insurance Europe strongly opposes the reference to the need for an IAIG to conduct restructuring and repositioning planning and establish crisis management groups (M3E6-1-1). These requirements originate from the systemic risk debate and discussions relating to systemically important banks. Considering the fundamental differences in the insurance business model and its prudential regulatory framework, we do not believe there is any need for an IAIG to develop such plans. Provided a suitable ladder of intervention is observed time is available should an insurer run into financial difficulty for recovery actions to be triggered with considerations relating to resolution only required as a final resort. We, therefore, strongly believe M3E6-1-1 and M3E6-1-1-1 are inappropriate and unnecessary, and should be deleted.
- As part of its ORSA an IAIG is required to maintain ‘procedures for use in going and gone concern situations’ (M2E3-5-3). As noted in our comments on Module 2 Insurance Europe strongly objects to requirements for IAIGs to maintain ‘procedures for use in a gone concern situation’ these originate from the discussions on systemically important banks and are not appropriate or necessary for IAIGs. It is unclear how the requirement for a IAIGs to undertake ‘restructuring and repositioning planning’ (M3E6-1) differs from this requirement.

Module 4: Implementation of ComFrame

It remains unclear how and when ComFrame will be implemented and enforced. Insurance Europe believes that ComFrame should become subject to an IMF FSAP assessment to ensure it is consistently enforced in all jurisdictions. In order to ensure that consistent implementation does occur it is important that ComFrame is based on principles rather than on prescriptive requirements which will impede transposition into national legislation.

In implementing ComFrame into local jurisdictions laws and regulations it is vitally important that changes/additions are only made to local frameworks where it is clear that a risk is not appropriately covered. If a risk is already adequately covered, as stated in the resolution at the beginning of the Working Draft, no change is needed. In addition, if new requirements are required they should build on what is currently in place thus ensuring that a localised two tier regulatory/supervisory system does not result.

As outlined in our general comments at the beginning ComFrame should be developed through a ‘phased’ approach. This should facilitate early implementation, as development will not be held up by difficulties in reaching agreement in certain areas.

ComFrame currently foresees a calibration/testing phase following the three year development phase; we strongly support its inclusion, however, believe that refinement should occur during each stage of a phased implementation of ComFrame rather than attempting to both implement and calibrate the full framework in one go. Only by testing the framework will it be possible to identify issues relating to its design and if done at

each stage of ComFrame's implementation it will enable adjustments and refinements to the design to be incorporated in the elements to be implemented in later phases.

General Questions

1) Are the criteria and process for identifying IAIGs appropriate?

The IAIS should clearly set out the overriding purpose of group supervision, and therefore link the aims of ComFrame to this so that the criteria can be appropriately focused. The key focus of the criteria should be how 'internationally active' an insurance group is with countries/jurisdictions only counting individually if they are not part of a common supervisory framework. Given that the aims of ComFrame are to foster global convergence, establish a comprehensive framework for supervisors to address group-wide activities and risks and also set grounds for better supervisory cooperation it would logically follow that an IAIG must be globally active and operating across a number of different supervisory frameworks and regulatory regimes.

As the EU is subject to a common supervisory framework, shortly to be further reinforced following the implementation of Solvency II, the EEA should be counted as one 'jurisdiction' for the purposes of ComFrame identification.

Specification M1E1-1-1-2 suggests that insurance entities which are not insurance groups could still fall within the scope of ComFrame and be identified as IAIG. We disagree with this proposition. ComFrame is a framework for group supervision, designed to address risks arising from the corporate and financial structures and governance processes of groups, which would typically include a parent company with separate legal entities that operate in different jurisdictions. These issues do not apply to solo entities, which are prudentially supervised in their entirety by the home state supervisors. Given that ComFrame has been designed as a supervisory framework for groups, many of Module 2 and 3 requirements are irrelevant to the supervision of solo entities.

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?

The status of module 2 is unclear as it appears to set prescriptive requirements that are applicable to IAIG's that to be applied would need to be transposed into national rules. As noted above under our comments on the purpose of ComFrame this risks the creation of separate prudential standards for IAIGs. This also appears to be inconsistent with the introductory remarks that note that ComFrame is designed to create more commonality and comparability of approaches without being rules based. We would recommend that Module 2 should focus on the essential elements and high level principles that a robust group supervision regime should include, covering both qualitative and quantitative aspects of group supervision with the aim that supervisors should understand and assess the appropriateness of IAIGs risk, governance and capital management, but not specify a framework that should be adopted.

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?

Insurance Europe believes the right risks are covered in this element and is not aware of other risks that should be covered. However, the level of prescription as to how, or by whom, a risk should be dealt with is a real concern and thus we believe this element is not sufficiently flexible to accommodate different ways of structuring IAIGs and different governance models being used. ComFrame should not include detailed provisions regarding the organisational and functional set-up within an organisation. Instead ComFrame should set out general principles focused on areas that have to be covered thus leaving it free for groups to determine the most appropriate way to structure their operations.

Otherwise through being too prescriptive ComFrame runs the risk of conflicting with an IAIG's current practices or/and national requirements whilst not necessarily dealing with the risk in question in a more appropriate manner. We, therefore, the parameters and specifications included in this element are either deleted or redrafted to make it more apparent they are only included as illustrative guidance.

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?

The ERM requirements in ComFrame are too prescriptive and restrict the flexibility of an IAIG to most appropriately monitor and manage its risk. ComFrame should instead focus on facilitating supervisors understanding of an IAIG's ERM practises and assessing their adequacy.

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?

The requirements in this section are too detailed and prescriptive. This element along with most, if not all of Module 2, would benefit from greater clarity on the relationship between standards, parameters and specifications. In this regard, the specifications and parameters should be more clearly drafted and explicitly referenced as providing only illustrative guidance of how a standard could be complied with.

The need for an IAIG to maintain a plan for use in a gone concern situation is excessive. Differences in the business models between insurers and banks and the resulting impact this has on their resolvability obviates the need for such plans to be drawn up in advance. Time will be available for a plan to be developed and tailored to the event in question should there be a need. This will not only be more efficient in terms of supervisors/ the IAIGs resources but it should ensure that the plan is appropriately designed to deal with the situation in question.

With respect to contingency plans, although they can be a useful tool for IAIGs to ensure the full range of potential material risk are identified and tracked with potential mitigating responses pre-planned, the prescriptive requirements as to what these plans should cover are excessive and go much further than is appropriate for a contingency plan. For example, the requirement to include detail on how an IAIG might reposition its business strategy or restructure is inappropriate and unnecessary and should be deleted.

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.

It is important that the strategic direction of the IAIS Technical Committee in relation to solvency/capital standards provides sufficient flexibility to allow for the recognition of national regimes. It should set out a way of understanding the financial condition of the group using the risk based local requirements applicable at the group level allowing appropriate recognition of local requirements applicable to the solo entities within the group to provide a consolidated view. This could form the basis for a range of acceptable existing and developing solvency regimes that the IAIS are considering.

- ComFrame should enable all risks to be captured on the balance sheet including relevant off balance sheet items and activities conducted by unregulated entities and recognise an economic assessment of assets and liabilities
- The use of full and partial internal models should be accepted.
- The assessment should be risk based

It is important that work in this area builds on the ICPs and a good knowledge of the range of approaches currently in place or being developed; we are, therefore, very supportive of the mapping exercise being conducted by the Solvency Subcommittee.

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?

The definition of involved supervisors is far too broad and the powers they are granted too wide and risk creating duplication of regulation or, even worse, contradiction of requirements in different jurisdictions. To resolve this concern Insurance Europe suggests that many of the references in the draft to 'involved supervisors' should instead be changed to refer to the group supervisor and 'host supervisors'. In addition, the group supervisor should be the one carrying out the assessment of the group as a whole (not involved supervisors) based on the information provided by involved/host supervisors and other supervisors should be encouraged to rely on it.

Appropriate confidentiality arrangements are an essential pre-requisite for information sharing between supervisors and as such we welcome the requirements for supervisors to protect confidential information contained in M3E2-3 and that information is shared in a secure environment in M3E4-4-5. However, we strongly object to language in parameter M3E2-3-6 which states that the "inability to exchange information on a confidential basis is not to be a barrier to on-going efficient and effective supervision of IAIGs". Exposure of confidential information may result in significant harm to groups both from a regulatory and economic perspective; therefore it should not be viewed as an avoidable inconvenience but rather an essential pre-requisite.



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