



IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

Field Testing of ComFrame M2E1 M2E2 Progress Report

Tom Finnell
Vice Chair, Field Testing Working Group

Stakeholder Session
5 October 2015



Introduction

- Qualitative Field Testing exercise launched in October 2014
- Phase 1 – the subject of this report: M2E1 and M2E2 (structural and corporate governance aspects of ComFrame Module 2)
 - Volunteer IAIGs submitted data to Supervisors by 31 December 2014
 - Supervisors submitted own answers and checked data from Volunteers by 31 January 2015
- Phase 2 – ERM aspects of ComFrame Module 2:
 - Volunteer IAIGs submitted data to Supervisors by 31 March 2015
 - Supervisors submitted own answers and checked data from Volunteers by 30 April 2015
 - Phase 2 analysis is ongoing.

Responses

Answers from 31 firms and 20 supervisors; it should be noted that:

- firms were requested to report gaps between what they do (whether required or not) and ComFrame; supervisors were requested to report gaps between their requirements and ComFrame
 - “Requirement” was defined broadly, i.e., a law, regulation, supervisory practice or other means that effectively causes a firm to comply
- Members were allowed to consider pending legislation as if currently in effect as long as these are finalised, published and have a clear implementation date no later than 31 Dec 2018
- Cost/benefit data was requested and analysed

Responses from members

Partially Compliant or Non-Compliant Responses to the 38 Questions in the Field Testing Survey									
		Number of Members Responding		Total		Range		Average	As a % of Total Responses
Asia		4		25		0-17		6.3	16.44%
Europe		9		57		0-34		6.3	16.66%
North America		7		127		0-32		18.1	47.74%
	Total	20		209		0-34		10.5	27.50%

- Across jurisdictions, responses indicate that they are already compliant (either by law, regulation, or supervisory practice), or that any gaps will be addressed for reasons other than ComFrame
- Some supervisors question the need for certain group-wide control functions, especially a group-wide actuarial function

Responses from firms

- Detailed disclosure of results not presented today – will need agreement of volunteers – wait until revisions to ComFrame are released for consultation
- A high level of congruence between firm practices and ComFrame was observed
- For those areas where there was not congruence between firm practices and ComFrame there were:
 - some items needing clarity (e.g. issues involving group-level functions);
 - and potential discrepancies between ComFrame and emerging regional/global standards

Key findings

- There is a need for enhanced clarity in parts of the ComFrame text.
- Field testing results indicate a need to confirm the intent of ComFrame with respect to group-level functions.
- There may be a need to confirm and clarify what is intended by “requirement” and what (legal or supervisory) instruments or practices would constitute compliance with ComFrame.
- The field testing exercise has raised questions as to whether or not ComFrame has met the IAIS’ expectations with regard to governance requirements applicable to IAIGs.

Areas where more clarity is needed

A number of examples were noted:

- M2E1-3: The IAIG “takes account” of policyholder protection schemes...
- M2E1-2: Distinction between contingency plans, recovery and resolution plans, capital contingency plans, and business continuity plans
- M2E2-1: What is meant by a “code of conduct” and its purpose
- M2E4-2: What is meant by “independence” of members of the Governing Body and how it is intended to apply
- ...

Revisions to text will be considered by the relevant working groups

Group-level functions

- ICPs currently apply at both legal entity and group levels; thus, no gaps should have been expected relative to requirements for, or existence of, group-level functions
- Field testing indicates otherwise; some jurisdictions lack requirements, and some IAIGs do not maintain all of the indicated group-level functions
 - Example: group-wide actuarial function
- Phase 1 field testing found that gaps were not as pervasive as had been expected.
- ComFrame's text should be affirmed/clarified with respect to group-level functions

Comments will be considered by the Governance WG

What is meant by “requirement?”

- Supervisors were instructed to interpret broadly
- Responses indicate various means, from supervisory practices to “enforceable rules” or “explicit legal duty”
- ComFrame’s text is not uniform or clear in this regard across all standards/ parameters
- The IAIS’ intention with respect to the interpretation of “requirement” will be affirmed and the ComFrame’s text clarified accordingly

Cost-benefit information

- Very little cost data was provided and that cost data that was provided was only with respect to a minority of the standards and parameters of ComFrame and did not seem material with respect to an IAIG's operations
- Cost data reported by supervisors was especially minimal
- Benefit data received was very minimal, and rarely quantified
- Cost was not viewed as a significant factor with respect to whether a firm can comply with the proposed standards/parameters

Conclusions

- Relatively few gaps were reported compared to expectations based on prior consultations and communications with volunteers
- Phase 1 field testing found that gaps were not as pervasive as had been expected.
- ComFrame builds on the ICPs, which already apply at group level; nonetheless, more gaps were expected, particularly with respect to the existence of group-level functions
- Ongoing updates of ICPs will impact future iterations of ComFrame
- The maintenance of standards by thematic topics, whether in the ICPs, ComFrame, or supervisory measures applicable to GSIs, could better and more consistently address proportionality / rigor of standards applicable to GSIs, IAIGs, other groups, and legal entities