Common Framework for the Supervision of Internationally Active Insurance Groups

Revised DRAFT

September 2014

Information on integration of ComFrame into ICPs

This table shows how elements of 2014 draft ComFrame were distributed across Insurance Core Principles (ICPs), following a decision to integrate ComFrame into ICPs.

2014 draft ComFrame	ICP into which the ComFrame material was integrated
Module 1 Scope of ComFrame	
Element 1 Criteria for identifying internationally active insurance groups	ICP 23
Element 2 Process of identifying internationally active insurance groups	ICP 23
Element 3 Scope of IAIG supervision	N/A (covered by ICP 23, revised in 2015)
Element 4 Identification of group-wide supervisor	N/A (covered by draft revised ICP 25, endorsed in 2017)
Module 2 The IAIG	
Element 1 IAIG's legal and management structures	ICP 7
Element 2 Governance	ICP 7 and ICP 8
Element 3 Enterprise Risk Management (ERM)	ICP 8 and ICP 16
Element 4 Enterprise Risk Management (ERM) policies	ICP 15 and ICP 16
Element 5 Capital adequacy assessment	To be replaced with ICS
Module 3 The supervisors	
Element 1 Group-wide supervisory process	ICP 9 and ICP 10
Element 2 Supervisory colleges, cooperation and coordination	ICP 25
Element 3 Crisis management and resolution measures among supervisors	This element was not developed for the purpose of 2014 version. New material was developed and integrated with ICPs 10, 12 and 25

Introductory Remarks

1 Background

The objectives of the IAIS are to:

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

To support these objectives, the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) establishes international supervisory standards focusing on the effective group-wide supervision of internationally active insurance groups (IAIGs).

ComFrame identifies an IAIG as being an insurance group that has total assets of at least USD 50 billion or gross written premiums of at least USD 10 billion (on a rolling three year average basis). In addition, its premiums are written in three or more jurisdictions and at least 10% of the group's total gross written premium is written outside the home jurisdiction. ComFrame builds and expands upon the high level standards and guidance currently set out in the IAIS Insurance Core Principles (ICPs).

The ICPs are the globally accepted standards for the supervision of the insurance sector. They are structured to allow a wide range of regulatory approaches and supervisory processes to suit different markets and the range of insurance entities and groups operating within these markets.

IAIGs, however, need tailored and more coordinated supervision across jurisdictions due to their complexity and international scope. ComFrame is designed to assist supervisors in collectively addressing group-wide activities and risks, identifying and avoiding regulatory gaps and coordinating supervisory actions under the remit of a group-wide supervisor.

ComFrame is intended to be a framework for supervisors to coordinate supervisory activities efficiently and effectively and share information about IAIGs at the group-wide level and between group-wide and host supervisors. ComFrame will provide a basis for comparing IAIG regulation and supervision across jurisdictions. By implementing ComFrame, supervisors should be able to reduce unnecessary compliance and reporting demands on IAIGs.

ComFrame will necessarily be more specific than the ICPs but is not intended to be a highly prescriptive set of rules. Like the ICPs, ComFrame must be adopted by regulators into their jurisdiction's regulations and supervisory processes. To the extent that ComFrame standards are already embodied in a jurisdiction's system, there is no need for change.

2 Preconditions

There are specific considerations in ICP 1 *Objectives, Powers and Responsibilities of the Supervisor* and ICP 2 *Supervisor* that should be taken into account in an IAIG context.

Adequate powers and responsibilities

All supervisors need adequate powers to supervise legal entities in the group-wide context taking into account their responsibilities as supervisory college members.

To carry out their role, group-wide supervisors should have:

- a sound legal basis that specifies their supervisory mandates
- powers and responsibilities to undertake group-wide supervision and supervisory cooperation

Protection of confidentiality of information

Supervisors within a supervisory college need to exchange information and protect any confidential information that comes into their possession.

Legal protection of supervisors and their staff

Supervisory staff need to be able to carry out their roles with confidence based on appropriate legal protection that addresses the more complex and challenging environment of supervising IAIGs.

Resources

Supervisors need to have staff with appropriate expertise and competence to be able to understand and assess the issues arising from the complexity of IAIGs. Group-wide supervisors, in particular, need staff who are able to interact with, and challenge, senior management and the Governing Body of IAIGs.

Supervisory staff also need the qualities and skills to enable them to interact with other supervisors so that they are well-equipped either to lead the group-wide supervisory process or contribute actively to the supervisory process.

Appeal processes

IAIGs and their insurance entities should have access to appeal processes in their relevant jurisdictions. The appeal process should take into consideration the fact that a supervisor may take decisions on insurance entity issues in the context of the IAIG.

3 Cornerstones of ComFrame

The following principles are fundamental to ComFrame. They apply to all Elements and ComFrame needs to be read with these in mind.

Proportionality
The nature, scale and complexity of the IAIG should be taken into account in applying ComFrame.

Approach to group-wide supervision
Supervisors should have direct powers over the Head of the IAIG. The ICPs on group-wide supervision are being revised and the revisions will be reflected in the 2015 consultative draft of ComFrame.

Governance Structures
IAIGs have different governance structures. ComFrame does not favour any particular governance structure and focuses instead on the outcomes that the governance structure needs to achieve.

Allocation of roles
The group-wide supervisor takes responsibility for the supervision of the IAIG as a whole, on a group-wide basis. Involved supervisors are responsible for the supervision of the IAIG's individual entities in their respective jurisdictions and take into account the impact of their supervisory actions on the rest of the IAIG.

4 ComFrame Hierarchy

ComFrame Standards are outcomes-focused and set out the specific requirements that supervisors expect IAIGs to meet or that the supervisors must meet.

Parameters set out specific criteria that IAIGs or supervisors need to apply in order to achieve the outcomes set out in the standards.

Guidelines provide additional information such as practical approaches or examples on how parameters may be implemented; they are not prescriptive. Guidelines are not intended to set out the one and only way of meeting a parameter nor are they exhaustive, but rather they are intended to be helpful in understanding the intent of the parameter. Definitions are laid out in the glossary but may be repeated in a guideline for clarity.

5 Structure of ComFrame

It is important to note that the ICPs, in general, apply to legal entity and group-wide supervision. Therefore, in order to understand the totality of requirements applicable to IAIGs and involved supervisors, all ICPs must be considered. ComFrame standards are specific to IAIGs.

Where appropriate, standards from the ICPs are incorporated in the ComFrame text verbatim as ComFrame standards or as part of ComFrame standards. In these cases, "insurer" should be read to mean "IAIG" and "the Board" should be read to mean "the Governing Body of the IAIG".

Module 1 The Scope of ComFrame	
Elements 1 and 2	Provide the definition for an IAIG and set out the processes for identifying IAIGs.
Element 3	Addresses the scope of ComFrame supervision and how supervisors should determine which entities should be within the perimeter of supervision.

Module 2 The IAIG	
Element 1	Covers the IAIG's legal and management structures, highlighting those cross-border issues and complexities that can give rise to risks that might not exist in simpler insurance groups.
Element 2	Sets out the group-wide governance framework and expected roles of the Governing Body and Senior Management of the Head of the IAIG vis-à-vis the Boards, Senior Management and Key Control Functions of the IAIG entities.
Element 3	Covers the requirements for Enterprise Risk Management (ERM), addressing all relevant and material risks.
Element 4	Describes group-wide ERM policies that an IAIG should develop and implement: an investment policy, an underwriting policy, a claims management policy, a reinsurance strategy, an insurance liability valuation policy and an actuarial policy.
Element 5	[*Element 5 is a placeholder for the risk-based global Insurance Capital Standard (ICS).*]
Module 3 The Supervisor	
Element 1	Sets out the group-wide supervisory process.
Element 2	Highlights the need for cooperation and interaction between involved supervisors and the requirement for supervisory colleges.
Element 3	[*Element 3 is a placeholder for the measures to address crisis management and resolution.*]

Next Steps

In this revised draft ComFrame, Module 2 Element 5 is a placeholder for the ICS. The ICS will provide an objective group-wide measure of capital adequacy for IAIGs that is comparable across jurisdictions. See the *Public Update on ICS Development* for more information. (link to be inserted)

Work done to date on Module 3 Element 3 is not included in this revised draft ComFrame. The IAIS will develop Module 3 Element 3 taking into consideration the *Key Attributes of Effective Resolution Regimes* and relevant materials to be developed by the Financial Stability Board. The IAIS plans to consult on this element by the end of 2014.

Quantitative field testing of ComFrame started in March 2014 to support the development of the ICS and approaches to valuation. Qualitative field testing will start in the third quarter of 2014 based on this revised draft ComFrame.

ComFrame will be revised and updated as field testing progresses. The following consultations are planned before ComFrame is finalised and adopted in 2018:

End 2014	Standalone consultation on ICS
End 2014	Standalone consultation on resolution
End 2015	Consultation on ComFrame including ICS
2016	Finalisation of ICS for purposes of field testing
2017	Consultation on ComFrame including ICS
2018	Finalisation and adoption of ComFrame

Module 1

Scope of ComFrame

Module 1 Table of contents

Element 1	Criteria for identifying internationally active insurance groups
Element 2	Process of identifying internationally active insurance groups
Element 3	Scope of IAIG supervision
Element 4	Identification of group-wide supervisor

Module 1, Element 1

Criteria for identifying internationally active insurance groups

<table>
<tr><th colspan="2">ComFrame Standard M1E1-1

Supervisors identify whether or not a group qualifies as an internationally active insurance group (IAIG).</th></tr>
<tr><td rowspan="3">Parameter M1E1-1-1
An insurance group qualifies as an IAIG if it meets the following criteria:
(a) international activity criterion
• premiums are written in three or more jurisdictions
and
• percentage of gross premiums written outside the home jurisdiction is at least 10% of the group's total gross written premium.
and
(b) size criterion (based on a rolling three-year average)
• total assets are at least USD 50 billion
or
• gross written premiums are at least USD 10 billion.</td><td>Guideline M1E1-1-1-1
"Premiums are written in three or more jurisdictions" are those written by subsidiaries or branches.

"Total assets", at a minimum, are group assets related to the insurance business of the group.</td></tr>
<tr><td>Guideline M1E1-1-1-2
An IAIG may be:
• an insurance group that only conducts insurance business
• a financial conglomerate dominated by insurance business that also includes other financial business such as banking or securities related activities
• part of a financial conglomerate dominated by other financial business
• part of a diversified conglomerate including non-financial activities.</td></tr>
<tr><td>Guideline M1E1-1-1-3
Although an insurance entity which has no parent or subsidiaries is legally not an insurance group, it should be regarded as an IAIG if it operates on a branch basis in foreign jurisdictions and meets the criteria.</td></tr>
<tr><td>Parameter M1E1-1-2
The criteria in M1E1-1-1 for identification purposes are applied on the basis of the insurance group's consolidated financial statements prepared for supervisory purposes or, where such statements are not available, on the basis of consolidated general purpose financial</td><td>Guideline M1E1-1-2-1
If an IAIG pursues insurance activities with an associate or through a joint venture or joint arrangement, involved supervisors should take these activities into account for identification purposes to the extent provided for in the consolidated financial statements prepared for supervisory</td></tr>
</table>

statements.	*purposes or consolidated general purpose financial statements.*
Parameter M1E1-1-3 Involved supervisors have discretion in applying the criteria to determine whether an insurance group qualifies as an IAIG.	*Guideline M1E1-1-3-1* *The discretion allows involved supervisors to:* • *qualify an insurance group that does not meet the criteria as an IAIG* *or* • *not qualify an insurance group that does meet the criteria as an IAIG.*
	Guideline M1E1-1-3-2 *The following examples show how involved supervisors may apply their discretion:* • *an involved supervisor requests the group-wide supervisor to consider an insurance group as an IAIG if its business activities in the host jurisdiction are material, even though the group does not meet some of the criteria* • *a group will meet the criteria in the near future, for example, through mergers and acquisitions* • *a group will not meet the criteria in the near future as a result of, for example, expected disposal of part of the group business activities* • *a group's activities are predominately in its home market with minimal business activities in a number of jurisdictions* • *there are entities additional to those in the consolidated financial statements which are relevant from the perspective of risk to the group.*
	Guideline M1E1-1-3-3 *If an IAIG changes or rearranges its business activities to avoid meeting the criteria, involved supervisors should consider whether to exercise discretion and treat the group as an IAIG.*

Module 1, Element 2
Process of identifying internationally active insurance groups

ComFrame Standard M1E2-1 **The group-wide supervisor leads the process of identifying an IAIG in cooperation with other involved supervisors. Any involved supervisor can prompt the process.**	
Parameter M1E2-1-1 Involved supervisors identify an IAIG, coming to a joint decision where possible. If a joint decision is not possible within a timely manner, the group-wide supervisor is responsible for making the decision.	*Guideline M1E2-1-1-1* *Where a supervisory college exists, it should be used to facilitate decision making among involved supervisors.*
	Guideline M1E2-1-1-2 *Where no supervisory college exists, any involved supervisor may request that an insurance group be analysed to determine whether it meets the criteria. The supervisor demonstrating the characteristics of a group-wide supervisor should invite involved supervisors to participate in the process of identifying an IAIG.*
	Guideline M1E2-1-1-3 *Where involved supervisors have not formally identified and agreed upon a group-wide supervisor, the supervisor demonstrating the relevant characteristics should assume the role of group-wide supervisor and take responsibility for coordinating the process of identifying an IAIG.*
Parameter M1E2-1-2 The group-wide supervisor documents the reasons for the identification of the group as an IAIG.	*Guideline M1E2-1-2-1* *Where discretion has been applied to treat the group as an IAIG, the group-wide supervisor should clearly document the considerations that have led to the decision to apply the discretion.*

Parameter M1E2-1-3 Involved supervisors regularly review whether a group qualifies as an IAIG.	*Guideline M1E2-1-3-1* *A group may cease to meet some, or all, of the criteria due to certain factors, for example a decrease in gross written premium due to a temporary economic shock. If supervisors expect it to resume meeting the criteria within a few years, they should continue to treat the group as an IAIG.*

Module 1, Element 3

Scope of IAIG supervision

ComFrame Standard M1E3-1 **Standard 23.1** **"The supervisor, in cooperation with other involved supervisors as necessary, identifies the scope of the group to be subject to group-wide supervision."**	
Parameter M1E3-1-1 The group-wide supervisor leads the process of determining the scope of the group to be subject to supervision. If the involved supervisors cannot reach a joint decision within a timely manner, the group-wide supervisor is responsible for making the decision.	*Guideline M1E3-1-1-1* *Involved supervisors should consult and agree on the scope of group-wide supervision of the IAIG to ensure that there are no gaps and no unnecessary duplication in regulatory oversight among jurisdictions.* *Guideline M1E3-1-1-2* *A practical method to determine the entities to capture within the scope of group-wide supervision is to start with entities included in the consolidated accounts. Entities that are not included in consolidated accounts should be included if they are relevant from the perspective of risk (non-consolidated entities also subject to supervision) or control. The entities may either be incorporated or unincorporated.* *Guideline M1E3-1-1-3* *In considering the risks to which the group is exposed it is important to take*

	account of those risks that emanate from the wider group within which the IAIG operates. *Guideline M1E3-1-1-4* *Individual entities within the group may be excluded from the scope of group-wide supervision if the risks from those entities are negligible.* *Guideline M1E3-1-1-5* *The exclusion or inclusion of entities within the scope of group-wide supervision should be regularly re-assessed.*
Parameter M1E3-1-2 Involved supervisors identify the Governing Body and the Senior Management of the Head of the IAIG.	*Guideline M1E3-1-2-1* *The Head of the IAIG is the entity that controls or exerts dominant influence over the insurance group. It is usually the ultimate parent or, if the insurance group is a subset of a conglomerate, the head of the insurance group within the conglomerate.*
Parameter M1E3-1-3 The group-wide supervisor documents the reasons for the scope of group subject to supervision.	

Module 1, Element 4

Identification of group-wide supervisor

ComFrame Standard M1E4-1

Standard 25.3
"Involved supervisors determine the need for a group-wide supervisor and agree on which supervisor will take on that role (including a situation where a Supervisory college is established)."

Parameter M1E4-1-1 A group-wide supervisor is identified for each IAIG.	*Guideline M1E4-1-1-1* *The group-wide supervisor would normally be the supervisor with the statutory responsibility to supervise the Head of the IAIG.* *Factors relevant to the identification of a group-wide supervisor include the location where:* • *the Head of the IAIG is based* • *the insurance business activities of the IAIG are actually controlled* • *the largest proportion of the IAIG's balance sheet is located* *or* • *the main business activities of the IAIG are undertaken.* *In some cases these factors may point to the same jurisdiction but in others there may need to be a discussion at a supervisory college to reach an appropriate conclusion.* *Consideration should be given in the selection of the group-wide supervisor to the degree of access to the IAIG's Governing Body, Senior Management and Key Persons in Control Functions.*
	Guideline M1E4-1-1-2 *In exceptional circumstances involved supervisors may identify two or more group-wide supervisors with the proviso that those supervisors identified work together seamlessly. When there are two or more group-wide supervisors there should be a clear, documented allocation of roles between them.*

Module 2

The IAIG

Module 2 Table of contents

Element 1	IAIG's legal and management structures
Element 2	Governance
Element 3	Enterprise Risk Management (ERM)
Element 4	Enterprise Risk Management (ERM) policies
Element 5	Capital adequacy assessment

Module 2, Element 1
IAIG's legal and management structures

ComFrame Standard M2E1-1 **The IAIG clearly identifies the legal and management structures and inter-relationships within the IAIG (IAIG Profile).**	
Parameter M2E1-1-1 The IAIG Profile provides sufficient information to enable the IAIG to determine whether the legal and management structures give rise to any specific risks and to demonstrate how such risks are mitigated.	*Guideline M2E1-1-1-1* *The IAIG Profile includes items such as:* • *legal structure including off-balance sheet entities and branches* • *the jurisdictions within which entities are established/ incorporated, domiciled, or have operations, including through branches* • *interrelations/interlinkages (including financial and non- financial ties) with other entities* • *location of the Head of the IAIG* • *details of the shareholding structure and significant shareholdings, including controlling shareholders* • *governance structure including boards of directors and their committee structure* • *management structure, including management bodies and key responsibilities* • *materiality of entities or business units within the structure.* *Where the number of entities in the IAIG renders a single IAIG Profile unwieldy, the group-wide supervisor, in conjunction with the IAIG, should consider sub-profiles.*

	Guideline M2E1-1-1-2 *The IAIG Profile will assist in determining if the group structure and its inherent risks inhibit effective risk management and/or supervision of the IAIG.*
	Guideline M2E1-1-1-3 *Matters which could give rise to such risks and need to be considered include:* • *complexity of the legal, management and shareholding structures, and of management responsibilities* • *geographic issues, such as domicile of group entities, place of incorporation, jurisdictions in which the IAIG is active* • *interrelationships, dependencies and the differing materiality of entities or business units* • *the ability to restructure the IAIG during, or in response to, periods of stress.*
	Guideline M2E1-1-1-4 *The IAIG may establish a management structure with different degrees of centralisation or decentralisation. For example, the management structure may:* • *mirror the legal structure of the group* • *establish competence centres for certain lines of business* • *place certain functions in one location*. *Whatever structure is adopted, the IAIG should consider risks arising from*: • *the division of authority and decision making between business line management and local management* • *the availability of technical skills at business line and local level* • *difficulties in repositioning or restructuring the group where entities do not have the skills and systems necessary to continue operating without centralised group support.*

	Guideline M2E1-1-1-5 *It may be useful for the IAIG to map its management structure to its legal structure as an addition to its IAIG Profile. This may assist Senior Management of the IAIG to:* • *understand where risks from the management and legal structures may emerge* • *clarify the degree of centralisation or decentralisation of the management and control functions and identify challenges arising from the structure adopted* • *explain these to involved supervisors.*
ComFrame Standard M2E1-2 **The IAIG develops and maintains contingency plans and procedures, within its legal and management structure, that enable it to deal with crisis situations.**	
Parameter M2E1-2-1 The IAIG draws up contingency plans and procedures that describe how the IAIG would restructure or reposition its business strategy to achieve the following: • acceptable financial condition and • protection of all policyholders, no matter where they are domiciled.	*Guideline M2E1-2-1-1* *Contingency plans are an integral part of the risk management process of an IAIG to address risks that may materialise, and actions to be taken, in stress conditions that may pose a serious risk to the viability of the entire IAIG, or any part of its insurance business.* *Contingency plans generally describe how the IAIG would:* • *continue operating its entire insurance business (i.e. consider non-insurance operations that could be discontinued) including through a modified legal structure, and/or* • *continue operating certain profitable lines of insurance business while restructuring or running off its discontinued business lines in an orderly fashion.*

Parameter M2E1-2-2 The IAIG takes into account the impact of stress situations on intra-group transactions when drawing up its contingency plans.	*Guideline M2E1-2-2-1* *The IAIG should pay particular attention to intra-group cash flows and their availability (e.g. from surpluses released from long-term funds or dividends from other subsidiaries) and whether it will be able to transfer these cash flows among its entities to cover any other anticipated liabilities as they fall due. The IAIG outlines what management actions it would take to manage the potential cash flow implications of a stress scenario (e.g. reducing new business or cutting dividends).* *The IAIG's contingency planning should also consider the distribution of capital in the IAIG after stress and the possibility that subsidiaries within the IAIG may require recapitalisation.*
Parameter M2E1-2-3 The IAIG maintains up-to-date business continuity plans (BCPs) in order tocontinue its operations in adverse operational circumstances.	*Guideline M2E1-2-3-1* *The IAIG should maintain BCPs in order to be able to continue, or quickly restore, operations of its businesses after direct catastrophic events (such as fire, flood, power failure), which would cause severe damage to an important location of the IAIG, as well as after indirect market events.*
ComFrame Standard M2E1-3 **The IAIG takes account of the policyholder protection schemes (PPS) that apply to its insurance entities, and how these schemes affect each of the entities in the IAIG.**	

Parameter M2E1-3-1 The IAIG understands how policyholder protection schemes apply at the respective insurance entity level and has appropriate plans in place in the event that any PPS is triggered.	*Guideline M2E1-3-1-1* *The IAIG should also analyse the contingent liabilities it faces from insurance entities being members of a PPS in the situation where another insurer triggers a call on the PPS. This includes understanding:* • *when a PPS is triggered* • *the timing of any funding demands on its insurance entities* • *issues that may arise from the PPS being funded or unfunded.*

Module 2, Element 2

Governance

ComFrame Standard M2E2-1 **The IAIG's Governing Body and Senior Management establish and implement a group-wide governance framework for the IAIG.**	
Parameter M2E2-1-1 The IAIG's group-wide governance framework is well documented and contains adequate measures to: • promote effective group-wide governance • address risks arising from or affecting the IAIG • promote the protection of the interests and fair treatment of policyholders of insurance entities within the IAIG. The framework also takes due account of the jurisdictional requirements applicable to the entities within the IAIG, including any of their branches.	*Guideline M2E2-1-1-1* *The group-wide governance framework should be aligned with the IAIG Profile.*

<table>
<tr><td rowspan="2">Parameter M2E2-1-2
The IAIG's group-wide governance framework includes a code of conduct/ethics and related policies and procedures.

Such policies and procedures include appropriate mechanisms to identify and remove or mitigate conflicts of interests that may adversely affect the IAIG as a whole or any of its entities.</td><td>Guideline M2E2-1-2-1
Due to the complexity of operations and the interactions within an IAIG, the management of conflicts of interest is an essential part of group governance.

The IAIG should cover in the code of conduct/ethics and in related policies and procedures any conflicts of interest that may arise:
at the level of the Governing Body, Senior Management and Key Persons in Control Functions, and similar functions of IAIG and its entities
as between the interests of the entities amongst themselves, or as between the group-wide interests and those of any entity.</td></tr>
<tr><td>Guideline M2E2-1-2-2
Where a conflict of interests cannot be avoided or fully mitigated, the policies and procedures should require the relevant individuals to inform their superiors or the Governing Body of the conflict and measures taken to mitigate its adverse impact.</td></tr>
<tr><td colspan="2">ComFrame Standard M2E2-2

Standard 7.1
"The supervisor requires the insurer’s Board to set and oversee the implementation of the insurer’s business objectives and strategies for achieving those objectives, including its risk strategy and risk appetite, in line with the insurer’s long term interests and viability."</td></tr>
</table>

Parameter M2E2-2-1 The IAIG's Governing Body, in setting the IAIG's group-wide business objectives and strategies, takes into account: • applicable laws, regulations and risks which may arise from doing business in any particular jurisdictions in which the IAIG operates • legitimate interests and fair treatment of policyholders of insurance entities within the IAIG • any material issues relating to the governance of entities within the IAIG, and measures to address such issues. The group-wide business objectives and strategies inform its Enterprise Risk Management (ERM) framework, which in turn feeds back into the group-wide strategies.	*Guideline M2E2-2-1-1* *The IAIG's group-wide business objectives should reflect the group structure, and take due account of the interests and objectives of the entities within the IAIG as appropriate.*
Parameter M2E2-2-2 The Governing Body: • reviews the IAIG's overall business objectives and strategies to ascertain whether they remain adequate and appropriate • adopts appropriate measures to address any deficiencies or issues identified.	*Guideline M2E2-2-2-1* *The Governing Body should monitor on an on-going basis whether the IAIG's objectives and strategies remain adequate and appropriate.* *The Governing Body should undertake, at appropriate intervals, a review of the IAIG's business objectives and strategies in light of any changes in internal or external conditions, such as the legal, political or market environment, in which the IAIG's businesses operate.*
Parameter M2E2-2-3 The Governing Body establishes and maintains clear and objective performance goals and measures to be met by the Governing Body and Senior Management to achieve the IAIG's business objectives and strategies.	*Guideline M2E2-2-3-1* *The Governing Body should undertake, at least annually, an assessment of how the IAIG, the Governing Body and the Senior Management meet the performance goals and measures adopted.*

<table>
<tr><td colspan="2">ComFrame Standard M2E2-3

Standard 7.2
"The supervisor requires the insurer's Board to:
• ensure that the roles and responsibilities allocated to the Board, Senior Management and Key Persons in Control Functions are clearly defined so as to promote an appropriate separation of the oversight function from the management responsibilities; and
• provide adequate oversight of the Senior Management."</td></tr>
<tr><td rowspan="3">Parameter M2E2-3-1
The IAIG's Governing Body establishes a well-defined group-wide governance structure which includes clear reporting lines and promotes effective oversight of the IAIG's group-wide operations.</td><td>Guideline M2E2-3-1-1
The Governing Body should not allocate any group-wide oversight responsibilities to those individuals involved in the day-to-day management of the operations of entities within the IAIG.</td></tr>
<tr><td>Guideline M2E2-3-1-2
Where individuals undertake similar functions for more than one entity within the IAIG, the Governing Body adopts appropriate measures so that there is no conflict between the different roles to be performed by such individuals.</td></tr>
<tr><td>Guideline M2E2-3-1-3
The Governing Body should establish clear reporting lines between the IAIG's Governing Body, Senior Management and Key Persons in Control Functions (on the one hand), and the Boards, Senior Management and Key Persons in Control Functions of entities within the IAIG (on the other hand). Similar reporting lines should also be established between and among the entities within the IAIG, as appropriate.</td></tr>
</table>

Parameter M2E2-3-2 The Governing Body establishes processes for identifying and addressing any risks to the proper implementation of the IAIG's objectives and strategies, including any emerging risks.	
ComFrame Standard M2E2-4 **Standard 7.3** **"The supervisor requires the insurer's Board to have, on an on-going basis:** • **an appropriate number and mix of individuals to ensure that there is an overall adequate level of knowledge, skills and expertise at the Board level commensurate with the governance structure and the nature, scale and complexity of the insurer's business;** • **appropriate internal governance practices and procedures to support the work of the Board in a manner that promotes the efficient, objective and independent judgment and decision making by the Board; and** • **adequate powers and resources to be able to discharge its duties fully and effectively."**	
Parameter M2E2-4-1 The IAIG's Governing Body collectively has the relevant knowledge, skill and expertise relating to the business of the IAIG to provide effective oversight of the IAIG's operations. The Governing Body also has adequate powers and resources to be able to discharge its group-wide role in respect of the IAIG.	*Guideline M2E2-4-1-1* *The collective knowledge, skills and expertise of the Governing Body should include an understanding of:* • *the governance and corporate structure of the IAIG* • *the business of the entities within the IAIG including associated risks* • *the supervisory regimes applicable to entities within the IAIG* • *the issues that arise from any cross-border business and international transactions.* *They should also have experience in the governance, risk, compliance, auditing, and related areas that allow them to provide oversight in these areas and of the Control Functions.* *Depending on the group structure of the IAIG, the Governing Body will exercise its powers in different ways.*

Parameter M2E2-4-2 An adequate number of the members of the Governing Body are independent of the entities within the IAIG.	*Guideline M2E2-4-2-1* *The number of members of the Governing Body who are independent of the entities within the IAIG could vary, depending on the governance structure of the IAIG. The IAIG should be able to demonstrate that the number of independent members on the Governing Body is sufficient, in light of its risk profile and operations, to be able to bring an adequate degree of objectivity to the decision making process.*
Parameter M2E2-4-3 The Governing Body has adequate internal governance procedures, structures and arrangements appropriate to its business and operations.	*Guideline M2E2-4-3-1* *The Governing Body is generally expected to establish committees of the Governing Body with clear reporting lines. These committees should exercise adequate oversight over, among other things, audit, compliance, risk management and remuneration, both at the group-wide and entity level.* *Where the Governing Body does not establish committees, it is expected to demonstrate to the group-wide supervisor that the Governing Board as a whole can effectively carry out the functions with sufficient attention and depth.*
ComFrame Standard M2E2-5 **Standard 7.6** **"The supervisor requires the insurer's Board to:** • **adopt and oversee the effective implementation of a remuneration policy, which does not induce excessive or inappropriate risk taking, is in line with the identified risk appetite and long term interests of the insurer, and has proper regard to the interests of its stakeholders; and** • **ensure that such a remuneration policy, at a minimum, covers those individuals who are members of the Board, Senior Management, Key Persons in Control Functions and other employees whose actions may have a material impact on the risk exposure of the insurer (major risk–taking staff)."**	

Parameter M2E2-5-1 The IAIG's group-wide remuneration policy: • is consistent with the group-wide business objectives and strategies and any jurisdictional requirements applicable to the entities within the IAIG • does not contain incentives for excessive or inappropriate risk taking by major risk-taking staff of any entities within the IAIG • has proper regard to the interests of policyholders of insurance entities within the IAIG.	*Guideline M2E2-5-1-1* *The group-wide remuneration policy may have a structure which contains elements of group-wide and entity based remuneration policies and practices.* *The Governing Body should:* • *undertake at least annually an assessment of the effectiveness and appropriateness of the group-wide remuneration policy to ascertain that it is implemented effectively and is operating as intended* • *include within its assessment any entity specific remuneration policy or practice* • *address promptly and effectively any identified gaps or deficiencies in the remuneration policies or practices at the group-wide or entity level.*
ComFrame Standard M2E2-6 **Standard 7.8** **"The supervisor requires the insurer's Board to have systems and controls to ensure the promotion of appropriate, timely and effective communications with the supervisor and relevant stakeholders on the governance of the insurer."**	
Parameter M2E2-6-1 The IAIG's Governing Body adopts and implements a group-wide communication strategy which: • provides adequate information to the group-wide supervisor and other involved supervisors relating to the group governance of the IAIG as a whole • takes account of the jurisdictional legal, supervisory and other requirements applicable to entities within the IAIG as appropriate.	

Parameter M2E2-6-2 The Governing Body designates individual(s) at an appropriate level of seniority as having responsibility for the accuracy and timeliness of the group-wide reporting to supervisors and of disclosures to the public.	
Parameter M2E2-6-3 The IAIG's group-wide communication strategy includes policies and processes for communication of information to its external stakeholders, including to the public where required and as necessary. The policy clearly identifies who the relevant stakeholders are to whom information, and what type of information, needs to be provided.	*Guideline M2E2-6-3-1* *The type of stakeholders of the IAIG and entities within the IAIG may not always be the same, although there could be some common stakeholders.*
ComFrame Standard M2E2-7 **Standard 8.1** **"The supervisor requires the insurer to establish, and operate within, effective systems of risk management and internal controls".**	
Parameter M2E2-7-1 The IAIG's Governing Body oversees the effective group-wide implementation of the IAIG's risk management and internal control systems.	*Guideline M2E2-7-1-1* *The risk management and internal control systems should take into account the legal and governance requirements of jurisdictions where the entities within the IAIG are established or operate.*
Parameter M2E2-7-2 The IAIG's risk management system: • is integrated in its organisational structure, decision making processes, business operations and culture	

• is clearly defined and well documented • takes into account the IAIG's overall business strategy, including risk appetite, relevant objectives and the proper allocation of responsibilities for risks across the activities and organisational units within the IAIG • contains appropriate written policies and processes for the identification, assessment, monitoring and reporting of group-wide risks and for taking risk into account in decision-making at the IAIG level and entity levels • is reviewed periodically and improved as necessary.	
Parameter M2E2-7-3 The IAIG's internal control system: • provides appropriate controls for group-wide processes and risks, including those arising from intra-group transactions • is a coordinated group-wide framework that takes into account the control environment across the IAIG • has controls in respect of risks from the process or transactional level to that of the entity level and to the group level.	
ComFrame Standard M2E2-8 **Standard 8.2** **"The supervisor requires the insurer to have effective Control Functions with the necessary authority, independence and resources."**	

Parameter M2E2-8-1 As part of the IAIG's checks and balances, the Governing Body establishes group-wide control functions for risk management, compliance, actuarial matters and internal audit and organises those functions in a manner that does not diminish either: • each entity's responsibility and ability to fulfil its own legal and regulatory obligations, including to policyholders or • each control function's ability to effectively discharge its respective group-wide responsibilities.	*Guideline M2E2-8-1-1* *The IAIG may locate its group-wide control functions within the Head of the IAIG, or in an entity.*
	Guideline M2E2-8-1-2 *The IAIG should not combine control functions except under exceptional circumstances. The Governing Body should approve and periodically review the effectiveness of any arrangement where there is a combination of control functions.*
Parameter M2E2-8-2 All control functions are properly authorised, positioned, and resourced and have unrestricted access, and periodically report, to the Governing Body or one of its committees.	*Guideline M2E2-8-2-1* *The IAIG's control functions should possess sufficient knowledge regarding the markets where the IAIG is active and the risks to which it is exposed. Their authority to access people and information should include information on a group-wide or entity level as is necessary to carry out their respective group-wide duties. Control functions should be subject to periodic evaluations (by an external evaluator where appropriate) and engage in continuing improvement of their respective areas.*

<table>
<tr><th colspan="2">ComFrame Standard M2E2-9

Standard 8.3
"The supervisor requires the insurer to have an effective risk management function capable of assisting the insurer to identify, assess, monitor, manage and report on its key risks in a timely way."</th></tr>
<tr><td>Parameter M2E2-9-1
At a minimum, the IAIG's group-wide risk management function:
coordinates and monitors consistent implementation of the IAIG's risk management mechanisms and activities throughout the IAIG at both the entity level and at the overall group-wide level
coordinates the Enterprise Risk Management (ERM) activity across the IAIG and is responsible for ensuring that the group-wide ERM policy is adhered to within the ERM Framework and that the ERM Framework is implemented and operational
promotes an appropriate risk culture.
The risk management function ensures that risk management and risk control activities are separated from risk taking activities.</td><td>Guideline M2E2-9-1-1
The group-wide risk management function should:
set out the expectations relating to the responsibilities and reporting requirements of the risk management function of each entity within the IAIG, as applicable
set procedures and processes for effective interaction between the risk management functions of the entities within the IAIG and that of the Head of the IAIG
assess the risk strategy of the IAIG and ensure that this risk strategy and policy are implemented at the group-wide level, as appropriate
conduct an assessment of risks at the group-wide level, entity and key business/unit/product level,
take other actions as required by the Governing Body, and
establish an annual group-wide risk management plans for approval of the Governing Body.</td></tr>
<tr><td></td><td>Guideline M2E2-9-1-2
The IAIG's group-wide risk management function is generally led by a senior-level Group Chief Risk Officer (Group CRO) (or similar designation), who has direct access to the Governing Body and who focuses on group-wide risks and the ERM framework.</td></tr>
</table>

	Guideline M2E2-9-1-3 *The IAIG's group-wide risk management function should report on its key activities to the Governing Body or one of its committees.* *The reporting should also include information on the steps the IAIG is taking to address the material risks to which the IAIG is, or may be, exposed.*
ComFrame Standard M2E2-10 **Standard 8.4** **"The supervisor requires the insurer to have an effective compliance function capable of assisting the insurer to meet its legal and regulatory obligations and promote and sustain a corporate culture of compliance and integrity."**	
Parameter M2E2-10-1 At a minimum, the IAIG's group-wide compliance function: • establishes the framework for the group-wide compliance function, including appropriate policies and a code of conduct • coordinates and monitors consistent implementation of the IAIG's group-wide compliance mechanisms and activities throughout the IAIG at the group-wide and entity level • contributes to the setting of the group-wide corporate culture and values.	*Guideline M2E2-10-1-1* *The IAIG's group-wide compliance function should:* • *conduct assessments of the material compliance risks of the IAIG at least annually and as required by the Governing Body* • *establish an annual group-wide compliance plan for approval by the Governing Body.*
	Guideline M2E2-10-1-2 *The IAIG's group-wide compliance function is normally led by a Group Chief Compliance Officer (Group CCO) (or similar designation) who has direct access to the Governing Body and who focuses on group-wide compliance matters and risks.*

	Guideline M2E2-10-1-3 *The IAIG's group-wide compliance function should provide to the Governing Body, or one of its committees, reports covering its key activities. The reporting should also include information on:* • *investigations and material compliance violations or concerns, or any compliance issues involving individuals in Senior Management or in Key control functions,* • *material fines or other disciplinary actions taken by any supervisor in respect of any entity or employee of such entities within the IAIG.*
ComFrame Standard M2E2-11 **Standard 8.5** **"The supervisor requires that there is an effective actuarial function capable of evaluating and providing advice to the insurer regarding, at a minimum, technical provisions, premium and pricing activities, and compliance with related statutory and regulatory requirements."**	
Parameter M2E2-11-1 The IAIG has an effective group-wide actuarial function which provides an overview of the actuarial matters and advice to the Governing Body on actuarial activities, functions and risks arising within or emanating from insurance entities within the IAIG.	*Guideline M2E2-11-1-1* *The IAIG's group-wide actuarial function should aggregate and review actuarial information at the group level. The form and implementation of a group-wide actuarial function may vary but should be designed to have an overview of the actuarial activities, function and risks of the insurance entities within the IAIG as a whole.*

	Guideline M2E2-11-1-2 *The IAIG's group-wide actuarial function could provide an overview and advice on matters such as:* • *the group-wide risks of the IAIG* • *the investment policies and the valuation of assets* • *the IAIG's solvency position, including a calculation of regulatory capital requirements and technical provisions* • *actuarial policies and controls* • *distribution of dividends or other benefits* • *product development and design, including the terms and conditions of insurance contracts* • *actuarial-related risk modelling in a group Own Risk and Solvency Assessment (ORSA) and use of internal models* • *appropriateness of the group-wide ALM policy.*
Parameter M2E2-11-2 The IAIG's group-wide actuarial function cooperates with actuarial functions at the insurance entity level.	*Guideline M2E2-11-2-1* *The group-wide actuarial function should focus on group-wide reporting and disclosure as well as group-wide internal management reporting.* *The tasks and responsibilities of the IAIG's group-wide actuarial function should be well defined and should not duplicate, limit or restrict the tasks and responsibilities of actuarial functions at an insurance entity level.*
Parameter M2E2-11-3 The IAIG's group-wide actuarial function provides independent advice to the Governing Body of the IAIG without that advice being subject to filtering by other members of Senior Management or other control functions at the group-wide and insurance entity levels.	

ComFrame Standard M2E2-12 **Standard 8.6** **"The supervisor requires the insurer to have an effective internal audit function capable of providing the Board with independent assurance in respect of the insurer's governance, including its risk management and internal controls."**	
Parameter M2E2-12-1 The IAIG's internal audit function provides independent assurance to the Governing Body.	*Guideline M2E2-12-1-1* *The IAIG's group internal audit function is normally led by a Group Internal Auditor (or a similar designation) who focuses on group-wide internal audit matters and effective functioning of local audit functions.*
	Guideline M2E2-12-1-2 *Such assurances are obtained through general and specific audits, reviews, testing and other techniques, which cover both group-wide and entity related issues.*
	Guideline M2E2-12-1-3 *Activities of the IAIG's internal audit function should cover both the group-wide perspective and the entity perspective and should include:* • *reviewing and evaluating the adequacy and effectiveness of the IAIG's group-wide policies, processes, and controls* • *reviewing and evaluating documentation of the IAIG's group-wide policies, processes, and controls* • *monitoring and evaluating the effectiveness of the IAIG's other control functions,* • *coordinating with the external auditors of the entities within the IAIG.*

Parameter M2E2-12-2 The group-wide internal audit function is independent of the management of the IAIG and the entities within the IAIG, and has sufficient authority relating to group internal audit matters.	*Guideline M2E2-12-2-1* *The group-wide internal audit function should cover such matters as:* • *the establishment of minimum requirements regarding internal audit at the entity level* • *the reliability, integrity and completeness of the accounting, financial reporting, management information and information technology systems* • *the design and operational effectiveness of the IAIG's risk management and internal controls systems.*
ComFrame Standard M2E2-13 **Standard 8.7** **"The supervisor requires the insurer to retain at least the same degree of oversight of, and accountability for, any outsourced material activity or function (such as a Control Function) as applies to non-outsourced activities or functions."**	
Parameter M2E2-13-1 The IAIG has a consistent group-wide policy for the outsourcing of activities or functions, and retains appropriate documentation for all such outsourcing. It should be accountable at a group level for its outsourcing activities in order to provide control over the process and effectively aggregate the impact these activities may have on group-wide governance and ERM.	*Guideline M2E2-13-1-1* *The IAIG may outsource activities or functions of the entities within the IAIG to entities outside the IAIG ("external" outsourcing) or to one or more entities within the IAIG ("intra-group" outsourcing).* *Where the IAIG outsources any activities or functions of insurance entities within the IAIG, it should have in place adequate policies and procedures relating to its outsourcing, commensurate with the IAIG's business and operations and the type of outsourcing arrangements it adopts. These policies and procedures should:* • *distinguish clearly between intra-group and external outsourcing* • *require all material outsourcing arrangements to be governed by written contracts* • *describe how the IAIG as a whole and the relevant entities within the IAIG will be affected in terms of the risk levels both at the entity level and IAIG as a whole*

	• *require an assessment of:*
	  – *the service providers' service capability and financial viability*
	  – *risks arising from outsourcing multiple activities to the same outsourcing provider*
	• *provide for group-wide monitoring and oversight of the outsourced (intra-group or external) activities*
	• *contain adequate guidance for the types of contractual and risk issues to consider, including any terms changing or terminating the outsourcing arrangement and the need for continuity of services in event of an insolvency*
	• *contain adequate terms and conditions such that when the IAIG outsources any data or record keeping functions, the relevant legal entity is able to access data relevant to its business and operations*
	• *be subject to periodic reviews, including by internal audit.*

Parameter M2E2-13-2 The IAIG's policy and processes are designed to ensure that outsourcing arrangements do not diminish the IAIG's or the individual insurance entities' ability to fulfil their respective legal and regulatory obligations.	

ComFrame Standard M2E2-14

Standard 7.7
"The supervisor requires the insurer's Board to ensure there is a reliable financial reporting process for both public and supervisory purposes which is supported by clearly defined roles and responsibilities of the Board, Senior Management and the external auditor."

<table>
<tr><td>Parameter M2E2-14-1
The IAIG has systems and structures in place to fulfil reporting and disclosure needs on a group-wide basis.

The group-wide reporting structure of the IAIG:
• fully meets any jurisdictional legal or other requirements applicable to the Head of the IAIG and the entities within the IAIG
• is subject to adequate safeguards and controls and provides unrestricted access and adequate flow of information for the purposes of group-wide financial reporting within and across the entities within the IAIG.</td><td>Guideline M2E2-14-1-1
The IAIG has in place processes to identify jurisdictional differences in financial reporting requirements applicable to entities within the IAIG and to make appropriate adjustments and intra-group eliminations for the general purpose consolidated financial reporting of the IAIG. The group-wide reporting structure contains adequate financial controls to enable reliable reporting and the identification of potential risks and weaknesses in the financial reporting processes at the group level and the entity level so that these can be properly addressed and remediated on a timely basis.</td></tr>
<tr><td rowspan="2">Parameter M2E2-14-2
The IAIG’s annual and interim reports to the group-wide supervisor are submitted on a timely basis and in a form suitable for the group-wide supervisor to share with other involved supervisors.</td><td>Guideline M2E2-14-2-1
Appropriate timeframes for the submission of reporting information would be:
• 90 days after the financial year end for annual information
• 60 days after the end of the reporting period for interim information.</td></tr>
<tr><td>Guideline M2E2-14-2-2
Reports submitted on an interim basis may be less comprehensive than the annual reports.</td></tr>
<tr><td>Parameter M2E2-14-3
The IAIG provides a reconciliation of the material differences between its reporting for capital adequacy purposes and the reporting used in its public financial statements.</td><td></td></tr>
</table>

Parameter M2E2-14-4 The IAIG provides a clear explanation of its strategy and governance structure in sufficient detail to allow the group-wide supervisor to understand the direction of the IAIG and its key entities and business lines.	*Guideline M2E2-14-4-1* *The IAIG's strategy explanation includes matters such as:* • *the overall business model* • *material lines of business and how they are likely to develop* • *non-insurance business the IAIG is likely to pursue* • *the geographic emphasis of the IAIG and any likely changes* • *anticipated changes in market share.*
	Guideline M2E2-14-4-2 *The explanation that the IAIG provides should include matters such as:* • *the rationale for the business model the IAIG has chosen* • *the consequences (financial or otherwise) of achieving, or not achieving, the strategy* • *an explanation of how the strategy ensures the IAIG will have the ability to fulfil its obligations to policyholders.*
Parameter M2E2-14-5 The IAIG informs the group-wide supervisor of changes in: • legal structures	*Guideline M2E2-14-5-1* *The IAIG should provide information relating to changes in matters such as:*

• management structures • governance structure • affiliations with other groups and • domicile of entities.	• *business objectives and strategies of the IAIG as a whole and any entities within the IAIG as relevant, including any significant changes to those objectives and strategies* • *the IAIG's governance structure, such as allocation of oversight and management responsibilities within the IAIG* • *processes in place to evaluate the effectiveness of the governance structure* • *the group-wide remuneration policy, in particular its design, operation and implementation* • *any significant affiliations with other entities or groups.*
Parameter M2E2-14-6 The IAIG notifies the group-wide supervisor of significant changes to its strategy, business model and activities, and those of its entities. These include changes in: • strategy • risk tolerances • business activities.	
Parameter M2E2-14-7 The IAIG reports all material intra-group transactions and exposures to the group-wide supervisor.	*Guideline M2E2-14-7-1* *The requirement to report material intra-group transactions to the group-wide supervisor does not interfere with or replace reporting requirements set by supervisors at the entity level.*

Module 2, Element 3
Enterprise Risk Management (ERM)

ComFrame Standard M2E3-1 **Standard 16.1** **"The supervisor requires the insurer's enterprise risk management framework to provide for the identification and quantification of risk under a sufficiently wide range of outcomes using techniques which are appropriate to the nature, scale and complexity of the risks the insurer bears and adequate for risk and capital management and for solvency purposes."** **The IAIG has a group-wide ERM Framework that addresses all relevant and material risks at both the insurance entity and IAIG level and enables the IAIG to assess its solvency requirements.**	
Parameter M2E3-1-1 Through its ERM Framework, the IAIG provides for: • determination of the IAIG's risk appetite and risk tolerance • risk measurement and risk management • capital management • an assessment of economic and regulatory capital • the IAIG's own risk and solvency assessment (ORSA).	*Guideline M2E3-1-1-1* *The IAIG may decide to set up centralised or decentralised ERM functions. Where the function is decentralised, the ERM operations should comply with the broader ERM Framework of the IAIG.* *The IAIG should be able to demonstrate its rationale for implementing centralised or decentralised operations of the ERM Framework.*
Parameter M2E3-1-2 The IAIG comprehensively documents its ERM Framework, emphasising differences that may apply to different entities within the IAIG, due to the nature, scale and complexity of the risks associated with business conducted locally.	*Guideline M2E3-1-2-1* *The ERM Framework should contain written policies that include a definition and categorisation of the material risks to which the IAIG is exposed and the levels of acceptable risk; and taking into account relevant local business risks as well as group-wide risks.* *The documentation should include explanations of why certain approaches or assumptions may not apply to each and every entity within the IAIG.*

	Guideline M2E3-1-2-2 *The IAIG's ERM Framework should facilitate communication of its risk appetite and tolerance, and approach to risk management, within the IAIG and externally.*
Parameter M2E3-1-3 The IAIG's ERM Framework reflects changes in the IAIG's business strategy and emerging risks. It takes account of all material changes at an entity level that may have an impact on how the IAIG measures and mitigates risk at a group level. Such internal and external changes will affect the IAIG's risk profile.	*Guideline M2E3-1-3-1* *The IAIG should be aware that a change in one entity may have an impact only locally, or within the region, or on a selected few entities and that this may not be immediately apparent on a group-wide basis but may affect the IAIG's risk profile.*
	Guideline M2E3-1-3-2 *The ERM Framework enables the IAIG to take the necessary action, whether on a group-wide basis or at an entity level, in a timely manner.*
	Guideline M2E3-1-3-3 *The IAIG's culture should support open communication of emerging risks that may be significant to the IAIG and its entities.*
Parameter M2E3-1-4 The IAIG's ERM Framework is independently reviewed on a regular basis, at least once every three years, in order to ascertain that the ERM Framework itself remains fit for purpose.	*Guideline M2E3-1-4-1* *The review may be carried out by an internal or external body but the independent reviewer should not be responsible for, nor have been actively involved in, the part of the ERM Framework that it reviews.*
Parameter M2E3-1-5 The IAIG determines its risk appetite and makes use of its risk tolerance in its business strategy, both on an insurance entity and group-wide basis. Its defined risk tolerance is embedded in its day-to-day operations via its risk management policies and procedures.	

Parameter M2E3-1-6 The IAIG articulates its risk appetite by establishing and maintaining a risk tolerance statement for the group which: • sets out its overall qualitative and quantitative risk tolerance and • defines risk tolerance that take into account all relevant and material risk, both on an insurance entity and group wide basis.	*Guideline M2E3-1-6-1* *Where the risk tolerance approach is different for individual insurance entities, the IAIG should be able to provide explanations for the reasoning behind this.* *The risk tolerance statement should take into account non-regulated entities within the group.*
ComFrame Standard M2E3-2 **Standard 16.3** **"The supervisor requires the insurer to have a risk management policy which outlines how all relevant and material categories of risk are managed, both in the insurer's business strategy and its day-to-day operations"** **Within the group-wide ERM Framework, the IAIG develops a comprehensive group-wide ERM policy which addresses the risks on both an insurance entity and group-wide basis.**	
Parameter M2E3-2-1 Through its group-wide ERM policy, the IAIG defines the basis for how it determines the relationship between the IAIG's risk tolerance, regulatory capital requirements, economic capital and the processes and methods for monitoring risk.	*Guideline M2E3-2-1-1* *When describing such relationships, particular note should be made of the IAIG's reinsurance arrangements and how they:* • *reflect the IAIG's risk tolerance levels* • *play a role in mitigating risk* • *impact the IAIG's capital requirements.* *The use of any non-traditional forms of reinsurance (e.g. finite reinsurance) should also be addressed.*

	Guideline M2E3-2-1-2 *In order to achieve appropriate mitigation of counterparty risk and concentration risk, it is important that there is robust risk management of all reinsurance arrangements, regardless of the identity of the reinsurer and whether internal or external.* *Contract certainty should be provided through the appropriate documentation, duly approved.*
Parameter M2E3-2-2 The IAIG implements its group-wide ERM policy by establishing procedures and monitoring practices for the use of sufficient, reliable and relevant data for its underwriting, pricing, reserving and reinsurance processes.	*Guideline M2E3-2-2-1* *The IAIG should clarify whether the data used is based on consolidation or on another aggregation method of the IAIG's various entities. The IAIG should take into consideration the implications and inherent risks of the selected methodology when developing its group-wide ERM policy. For example, intra-group transactions may be eliminated in consolidation and may not be reflected in the consolidated financial statement of the IAIG at the top level.* *In using the consolidation basis for setting group-wide ERM policy, the IAIG may be able to account, and take credit for, diversification of risk. Conversely, using another aggregation method may facilitate a more granular recording of risk.*
Parameter M2E3-2-3 The group-wide ERM policy identifies and describes any of the IAIG entities whose requirements or processes are deemed to be an outlier within the IAIG's group-wide ERM policy.	*Guideline M2E3-2-3-1* *The IAIG should be able to explain why a particular entity is substantially different from the majority of the other entities, although it stills conforms to the policy.*
Parameter M2E3-2-4 The group-wide ERM policy addresses the risk from operating in different jurisdictions and different regulatory environments and considers operations through various entities.	

Parameter M2E3-2-5 The IAIG reflects any material changes to its structure and/or strategy by updating its group-wide ERM policy accordingly and formally reviewing it on an annual basis.	
Parameter M2E3-2-6 The group-wide ERM policy includes an explicit group-wide asset-liability management (ALM) policy which clearly specifies the nature, role and extent of ALM activities and their relationship with investment management and, where applicable, product development and pricing functions.	*Guideline M2E3-2-6-1* *The IAIG should take account of any legal restrictions that may apply to the treatment of assets and liabilities within different jurisdictions.* *Any differences in approach within different insurance entities/business units should be documented.*
Parameter M2E3-2-7 The group-wide ERM policy reflects an explicit investment policy which specifies the nature, role and extent of the IAIG's investment activities and establishes explicit risk management procedures, limits or other requirements.	
Parameter M2E3-2-8 The group-wide ERM policy includes an explicit group-wide intra-group transactions (IGT) policy which clearly specifies the mechanisms to keep track of intra-group transactions that are of substantial importance to, and have a significant consequence on, the IAIG. The IGT policy considers the risks arising from intra-group transactions and places appropriate qualitative and quantitative restrictions on them.	*Guideline M2E3-2-8-1* *Intra-group transactions and exposures may include, but are not limited to:* • *loans* • *guarantees* • *issuance of contingent capital* • *payment of dividends* • *cost sharing structures* • *service contracts* • *management arrangements and outsourcing* • *reinsurance* • *transactions among financial services entities of different sectors within the IAIG* • *equity holdings*

	Guideline M2E3-2-8-2 *On a consolidated or another aggregated basis the risks to the IAIG of intra-group transactions may not be evident. The IAIG's risk assessment as regards to intra-group transactions should consider, amongst other things:* • *mobility and fungibility of assets and of capital* • *correlation or concentration of risk* • *practical issues, including the time needed, to reallocate risk, and risk mitigants, amongst entities* • *pathways for contagion within the group.*
	Guideline M2E3-2-8-3 *The IAIG should be aware of, and take account of, the risk of support being withdrawn by one part of the IAIG due to adverse publicity, poor results or operational inefficiencies in another part of the IAIG.*
	Guideline M2E3-2-8-4 *Particular note should be made by the IAIG of any financial or other activities (e.g. maturity transformation, securities lending) being undertaken by individual entities, that might change the risk profile of the group. For example, in securities lending transactions, the group-wide ERM policy may provide that high quality assets not be swapped with low quality assets, that appropriate arrangements for the provisioning of collateral are in place or that the maturity of the swapped assets do not significantly increase the risk profile of the IAIG.*
	Guideline M2E3-2-8-5 *The IAIG should also take account of the aggregation of exposures to external parties across the IAIG.*

<table>
<tr><td colspan="2">ComFrame Standard M2E3-3

The IAIG establishes, within its ERM Framework, effective means for identifying, measuring, reporting and managing risk on a group-wide basis.</td></tr>
<tr><td rowspan="3">Parameter M2E3-3-1
The IAIG’s ERM Framework covers at least the following risks and the management of these risks in a cross-border context:
• insurance risk
• market risk
• credit risk
• liquidity risk
• concentration risk
• operational risk
• group risks (including contagion and reputational risk)
• strategic risk.

In measuring these risks, the IAIG also considers the net risk, taking into account any risk mitigation techniques applied, including reinsurance.</td><td>Guideline M2E3-3-1-1
In this context, cross-border refers to the aggregation or consolidation of risks that may affect the IAIG due to its operations across various jurisdictions. The IAIG should take note of intra-group dependencies and diversifications and adjust its risk tolerance accordingly. In particular, the materiality and concentration risk of any intra-group reinsurance arrangements will be of a different nature or contain different terms than that of external facilities.</td></tr>
<tr><td>Guideline M2E3-3-1-2
Although group risk may be an integral part of several other risks and considered therein, the IAIG should also recognise it as a separate risk in its ERM Framework. For example, when one of the subsidiaries or branches of the IAIG is under stress, it could damage the IAIG as a whole.</td></tr>
<tr><td>Guideline M2E3-3-1-3
The IAIG should make note of how reinsurers are used within the IAIG in the mitigation of risk. Of particular concern is the knock-on effect any failure of these reinsurers would have on the solvency position of the various group entities making use of their facilities and on the IAIG</td></tr>
</table>

	itself.
Parameter M2E3-3-2 The IAIG's ERM Framework comprises group-wide strategies, processes and reporting procedures necessary to identify, measure and report on those risks and their interdependencies on a continuous basis, at both an individual and aggregate level.	*Guideline M2E3-3-2-1* *The IAIG should have an established process for assessing the security of its (potential) reinsurance, credit and outsourcing arrangements, based on up-to-date, well-informed and comprehensive information.*
Parameter M2E3-3-3 The IAIG, in order to measure its risks, builds and maintains an economic capital model, which takes account of the risks the IAIG faces with group operations in distinctly different sectors, jurisdictions and economic environments.	*Guideline M2E3-3-3-1* *The economic capital model should be based on techniques that:* • *demonstrate control processes for the input data* • *estimate the amount of capital needed in adverse situations that the IAIG is or might be exposed to; to the extent it is reasonably foreseeable.* *The economic capital model is used to drive or validate major management decisions and focuses deeper attention on owners' capital.*
Parameter M2E3-3-4 The IAIG uses the output of its own economic capital model, and regulatory capital requirements, as inputs to its capital planning, which covers at least the IAIG's business planning period.	
Parameter M2E3-3-5 The IAIG ranks and quantifies its risks in a consistent, reliable and valid manner using appropriate means.	*Guideline M2E3-3-5-1* *Appropriate means include the use of an economic capital model.*
Parameter M2E3-3-6 The IAIG's risk identification and measurement includes stress (and reverse stress) testing and scenario analysis using scenarios identified by the IAIG. It captures group risk, including risks from unregulated activities, and risk from international operations, taking	*Guideline M2E3-3-6-1* *Stress and scenario testing should reflect the IAIG's own risk profile and are an important element of the ERM, used in assessing the financial strength of an insurance entity/group, under stressed circumstances. Although predominantly quantitative in nature, stress*

note of key differences in risk in the various jurisdictions in which it operates and any potential contagion risk.	*tests are based on important qualitative components, such as key assumptions and (the limitations of) available data.* *The IAIG should document the methodologies, key assumptions and limitations related to its stress and scenario testing, and communicate these internally as well as to the group-wide supervisor.*
	Guideline M2E3-3-6-2 *The IAIG should identify stresses in the risk transfer markets that could have an adverse effect on its business model.* *As an example, the IAIG should consider, when developing its stresses, reinsurance capacity and related risk transfer costs in future periods after a catastrophic event.*
ComFrame Standard M2E3-4 **Standard 16.11** **"The supervisor requires the insurer to perform its own risk and solvency assessment (ORSA) regularly to assess the adequacy of its risk management and current, and likely future, solvency position."** **The IAIG conducts a group-wide ORSA to monitor and manage its overall solvency.**	
Parameter M2E3-4-1 The IAIG performs a group-wide ORSA, using both quantitative and qualitative approaches, which considers: • the legal and management structures of the group • restrictions on capital movements • group-wide economic capital models • risk aggregation • the transferability of assets between jurisdictions and the fungibility of capital	*Guideline M2E3-4-1-1* *ORSAs should be largely driven by how an IAIG is structured and how it manages itself. When operating in a decentralised environment, the group-wide ORSA should take into account all its insurance entities' ORSAs in the group context.* *The IAIG may perform ORSAs at an insurance entity level for internal management reasons, but this does not exempt it from conducting a group-wide ORSA.*

• both the outputs of the economic capital model and the regulatory capital requirements.	
	Guideline M2E3-4-1-2 *In conducting its group-wide ORSA, the IAIG should be able to account for diversification in the IAIG. Moreover, the IAIG should be able to demonstrate how much of the diversification benefit would be maintained in a stress situation.*
Parameter M2E3-4-2 Through its ORSA, the IAIG provides: • a determination of its overall financial resources • a basis for its risk management actions • an analysis of its ability to continue in business.	*Guideline M2E3-4-2-1* *The ORSA should include:* • *a determination of the overall financial resources given its own risk tolerance levels and business plans and a demonstration that all supervisory requirements (applicable to any entity within the IAIG, and, where applicable, to the group as a whole) are met on a continuous basis* • *a basis for its risk management actions on consideration of its economic capital, regulatory capital requirements and financial resources, an assessment of the quality and adequacy of its qualifying capital resources to meet the current (and reasonably foreseeable future) capital benchmark and regulatory capital requirements and any additional capital needs, whether set by the group-wide supervisor/college or individual jurisdictions in which it operates* • *the IAIG's analysis of its ability to continue in business, and the financial resources required to do so over the business planning horizon*.
Parameter M2E3-4-3 The IAIG takes its ORSA into account on an on-going basis in its strategic decisions.	
Parameter M2E3-4-4	*Guideline M2E3-4-4-1*

Through its ORSA, the IAIG considers all reasonably foreseeable and relevant material risks on a group-wide basis including, as a minimum: • insurance risk • market risk • credit risk • group risk • operational risk.	*In conducting its ORSA, the IAIG should consider risks arising from insurance and other entities, including non-regulated ones.* *Some other risks that are important to consider are:* • *liquidity risk* • *reputational risk.* *Not all of the risks that are covered by the IAIG's ERM Framework will necessarily be encompassed in the ORSA. The ORSA should explicitly state and address such differences between the quantifiable and non-quantifiable risks.*
Parameter M2E3-4-5 The IAIG identifies and considers the risks arising from its strategy as part of its ORSA.	*Guideline M2E3-4-5-1* *These risks should include, but not be limited to:* • *the ability of the IAIG and entities to handle significant or unusual growth or shifts in business volumes* • *expertise and resources required to manage proposed new lines of business or operations in new jurisdictions.*
Parameter M2E3-4-6 The IAIG uses the output of the ORSA in reviewing its group-wide ERM policy, amending it as appropriate.	

Module 2, Element 4
Enterprise Risk Management (ERM) policies

<table>
<tr><td colspan="2">ComFrame Standard M2E4-1

Standard 15.5
“The supervisor requires the insurer to invest only in assets whose risks it can properly assess and manage.”

The IAIG develops and implements a group-wide investment policy that clearly defines its investment objectives, ensuring that these are consistent with any legislative restrictions.</td></tr>
<tr><td rowspan="2">Parameter M2E4-1-1
The group-wide investment policy establishes limits or other requirements that are applicable to its investment activities.

The group-wide investment policy applies to the whole portfolio of investments of the IAIG and requires that:
• investments of an IAIG are appropriate to the nature of its liabilities
• the IAIG invests only in assets whose risks it can properly assess and manage.</td><td>Guideline M2E4-1-1-1
The IAIG should select investments that are appropriate to the nature of its liabilities in order to enable its entities to use the proceeds of these investments to pay the policyholders and other creditors, as and when the payments to them fall due.</td></tr>
<tr><td>Guideline M2E4-1-1-2
Due consideration should be paid to match currencies and investment durations to the nature of the liabilities held by the IAIG so that assets can be liquidated in a timely manner in the jurisdiction where they are required to make payments.

Strict, one-for-one asset to liability matching is not expected, but the portfolio, including hedging activities, should have adequate scope and flexibility to enable an IAIG to meet its obligations.</td></tr>
</table>

Parameter M2E4-1-2 The IAIG has access to the requisite knowledge and skills needed to assess and manage the risks of its investments. In managing the investments, due regard is paid to the needs of the individual insurance entities in addition to the needs of the IAIG as a whole.	*Guideline M2E4-1-2-1* *Where an IAIG manages all or some of its investments internally, the investment management function should have the requisite knowledge and skills.* *When using external investment advisors/managers, the IAIG is responsible for determining that those parties are knowledgeable and have the requisite skills to manage the IAIG's investments.*
Parameter M2E4-1-3 The group-wide investment policy establishes limits on the nature and total value of intra-group participations.	*Guideline M2E4-1-3-1* *Limits on such participations should have regard to:* • *their lack of liquidity* • *contagion or reputational risk* • *valuation uncertainty* • *potential impact on capital resources.*
Parameter M2E4-1-4 The IAIG avoids placing undue reliance on credit rating agencies and conducts its own due diligence.	*Guideline M2E4-1-4-1* *The IAIG should establish a methodology for assessing the credit standing of counterparties to investments using various sources of information and its own expertise in order to arrive at its own risk assessment.*
ComFrame Standard M2E4-2 **The IAIG's group-wide investment policy establishes criteria pertaining to the quality of its investments.**	
Parameter M2E4-2-1 The group-wide investment policy addresses the selection of, and/or exposure to, low-quality investments or investments whose security is difficult to assess.	*Guideline M2E4-2-1-1* *The group-wide investment policy should consider different jurisdictional supervisory requirements related to investments in low-quality assets.*
Parameter M2E4-2-2	*Guideline M2E4-2-2-1*

The IAIG monitors investments on a group-wide basis to identify inappropriate levels of exposure to certain investments compared to the group-wide investment policy.	*Group-wide exposures which exceed limits or any other instances of non-compliance should be reported periodically to the Governing Body.* *Reports to the Governing Body should also include exposures that, even if within limits, could create financial difficulties within the IAIG if the value or liquidity of the investments decreases.*
Parameter M2E4-2-3 The group-wide investment policy sets minimum criteria for the liquidity and location of its investment portfolio so that it can make payments to policyholders or creditors when and where they fall due.	*Guideline M2E4-2-3-1* *The IAIG should consider its liquidity needs, transferability of assets and the fungibility of its capital in a stressed environment when determining the minimum criteria for liquidity of its investment portfolio.*
Parameter M2E4-2-4 The group-wide investment policy takes account of the nature of the potential legal and practical impediments to cross-border transfer of capital and assets as well as any potential effect those impediments might have, particularly during periods when the IAIG is under stress and in the winding up of a group entity or several entities.	*Guideline M2E4-2-4-1* *The IAIG should document any specific legislative restrictions that apply to the transfer of capital and assets from one jurisdiction to another, and what, if any, additional restrictions apply in the case of insolvency or winding-up of an entity.* *The IAIG should also have documented procedures on actions to be taken to affect the cross-border transfer of capital and assets in normal and stressed times.*
Parameter M2E4-2-5 The group-wide investment policy sets limits or other requirements so that assets are properly diversified and asset concentration risk is mitigated.	*Guideline M2E4-2-5-1* *The IAIG should avoid excessive concentrations in any particular:* • *type of asset* • *issuer/counterparty or related entities of an issuer/ counterparty* • *market* • *industry* • *geographic area*.

ComFrame Standard M2E4-3 **The IAIG's group-wide investment policy addresses investments in particularly complex classes of assets, less transparent classes of assets and markets or instruments that are subject to less governance or regulation on a jurisdictional basis.**	
Parameter M2E4-3-1 The group-wide investment policy establishes quantitative and qualitative requirements for investment in assets that are complex, less transparent or subject to less governance or regulation.	*Guideline M2E4-3-1-1* *For example, an IAIG could set an investment limit on complex investments by type of instrument or establish policies outlining the circumstances in which derivative instruments can be used.*
Parameter M2E4-3-2 Investments by IAIGs are sufficiently transparent so as to allow for an assessment of the nature, scale and complexity of the associated risks.	*Guideline M2E4-3-2-1* *The IAIG should assess the risk profile of those assets which are less transparent. The IAIG should look at the underlying exposure of the investment as well as considering the additional risks introduced by, and inherent in, the investment structure.*
	Guideline M2E4-3-2-2 *In developing its own methodology for assessing structured investment products and derivatives, the IAIG should give consideration to underlying risks including credit and market risks and other analyses such as assessments from credit rating agencies.*
ComFrame Standard M2E4-4 **The IAIG maintains a group-wide underwriting policy.**	
Parameter M2E4-4-1 The group-wide underwriting policy addresses the following issues: • the IAIG's willingness to bear underwriting risk according to the IAIG's risk appetite and risk tolerance levels • the nature of risks to be underwritten	*Guideline M2E4-4-1-1* *In addressing the nature and amount of risks to be underwritten the group-wide underwriting policy should cover, at a minimum:* • *product classes the IAIG and its insurance entities are willing to write*

• aggregation limits on particular types of risk • the interaction of the group-wide underwriting policy with the IAIG's reinsurance/risk transfer strategy • interactions with risk pricing and premium setting functions.	• *relevant exposure limits (e.g. geographical, counterparty, economic sector)* • *a process for setting underwriting limits (this may be at the insurance entity rather than individual underwriters in an IAIG).*
	Guideline M2E4-4-1-2 *The group-wide underwriting policy should include:* • *an analysis of emerging risks in the underwritten portfolio* • *a feedback loop to ensure emerging risks are considered in modifying underwriting practices.*
	Guideline M2E4-4-1-3 *When setting aggregation limits on particular types of risks, consideration should be given to the design of the IAIG's reinsurance programme to ensure the balance sheet of the IAIG does not bear risks beyond its risk tolerance levels.*
	Guideline M2E4-4-1-4 *The group-wide underwriting policy should describe interactions with the reinsurance/risk transfer strategy and should include details of the relationship of certain product classes or particular risks to the availability of reinsurance cover.*
ComFrame Standard M2E4-5 **The IAIG maintains a group-wide claims management policy.**	
Parameter M2E4-5-1 The group-wide claims management policy establishes procedures to manage reputational risk through: • delegations of authority for claims settlement • criteria for accepting or rejecting claims • a procedure for escalating claims beyond the individual entity.	*Guideline M2E4-5-1-1* *Delegations of authority for claims settlement may be at a high level within an IAIG, for example, at the level of senior management of entities or business units within the IAIG. Although further delegation of authority is likely to be left to the discretion of local senior management, it should be done within a group-wide framework in*

	order to ensure appropriate control and responsibility for decisions made.
	Guideline M2E4-5-1-2 *Criteria for accepting or rejecting claims are likely to be heavily influenced by legal requirements in particular jurisdictions. The IAIG should have a general group-wide policy on accepting and rejecting claims with a view to managing its claims incurred and protecting its reputation in the markets in which it operates.*
	Guideline M2E4-5-1-3 *The escalation procedure for claims data from an entity to the group should specify the transmission of information about sudden increases in claim amounts, slowness in settlement and rejections to the group entity that bears the responsibility for group wide risk management.*
Parameter M2E4-5-2 The group-wide claims management policy addresses the potential impact on the IAIG's balance sheet by providing: • a procedure for claims estimation and settlement • a feedback procedure into the group-wide underwriting policy and reinsurance/risk transfer strategy • a procedure for claims data reporting for group analysis.	*Guideline M2E4-5-2-1* *Claims settlement procedures should include loss estimation and investigation procedures at a general level to be implemented in a more detailed fashion at the entity or business unit level. A clear, consistent loss estimation process is a vital component in establishing the amount of claims incurred to be reported on the IAIG's balance sheet.*
	Guideline M2E4-5-2-2 *A process for claims estimation and settlement should include an analysis of claims trends that will feed back into the group-wide underwriting policy and reinsurance/risk transfer strategy.*

ComFrame Standard M2E4-6

Standard 13.1
"The supervisor requires that cedants have reinsurance and risk transfer strategies that are appropriate to the nature, scale and complexity of their business, and which are part of their wider underwriting and risk and capital management strategies. The supervisor also requires that cedants have systems and procedures for ensuring that such strategies are implemented and complied with, and that cedants have in place appropriate systems and controls over their risk transfer transactions."

The IAIG maintains a group-wide reinsurance and risk transfer strategy.

Parameter M2E4-6-1
The group-wide reinsurance strategy addresses the following issues:

- the interaction of the group-wide underwriting policy with the IAIG's reinsurance strategy
- how the IAIG's risk appetite and risk tolerance levels are achieved, on both a gross limit and net retention basis
- the IAIG's appetite for reinsurer credit risk, including approved security criteria for reinsurance transactions and aggregate exposure criteria to individual or related reinsurers
- where individual insurance entities are authorised or required to enter into some reinsurance arrangements on their own account, the management of these exposures in the group-wide context
- procedures for managing reinsurance recoverables, including required reporting from reinsurers.
- intra-group reinsurance strategy and practice.

Guideline M2E4-6-1-1
A significant issue to consider in the interaction of the group-wide underwriting policy with the IAIG's reinsurance strategy is any material differences between risks underwritten and the provisions of reinsurance contracts covering those risks. In particular any material differences in exclusions between policies issued by the IAIG and reinsurance contracts covering those risks should be addressed. Where there are material differences in contractual terms these should be considered in the context of the IAIG's risk tolerance levels.

Guideline M2E4-6-1-2
In developing the approved security criteria for reinsurance transactions, the overall approach to credit risk set out in the group-wide ERM Framework should be used.

	Guideline M2E4-6-1-3 *Where individual insurance entities are authorised to enter into reinsurance arrangements on their own account, the manner in which reinsurance arrangements are managed locally and how that ties to the IAIG's reinsurance strategy, particularly with regard to aggregate exposure criteria to individual and related reinsurers, should be considered.*
Parameter M2E4-6-2 The IAIG's reinsurance strategy covers the use of alternative risk transfers, including capital markets risk transfer products.	
ComFrame Standard M2E4-7 **The IAIG maintains a group-wide actuarial policy, which includes a group-wide insurance liability valuation policy.**	
Parameter M2E4-7-1 The IAIG's group-wide actuarial policy sets out procedures for: • coordinating the calculation of technical provisions at the group-wide level • coordinating the calculation of reinsurance recoverable assets at the group-wide level • assessing the appropriateness, at the group-wide level, of the methodologies and underlying models used as well as the assumptions made in the calculation of those technical provisions.	*Guideline M2E4-7-1-1* *The process of ensuring the appropriateness of the methodologies and underlying models used, as well as the assumptions made in the calculation of technical provisions, may be achieved through a number of means including providing advice on, and assessing compliance with, the group-wide insurance liability valuation policy.*
	Guideline M2E4-7-1-2 *If the IAIG's group-wide actuarial function becomes aware that:* • *any matter has, or is likely to have, a materially adverse effect on the solvency, reserves or financial condition of one of the insurance entities or the IAIG as a whole*

	or • *one of the insurance entities or the IAIG as a whole does not, or is unlikely to, comply with the applicable jurisdictional requirements* *it should inform the Governing Body and/or the relevant Board or Key Persons in Control Functions at the insurance entity level, as appropriate, for suitable action.*
Parameter M2E4-7-2 The group-wide actuarial policy documents the insurance liability valuation policy across the group, which includes at a minimum: • a framework for determining assumptions to be used in valuations • a methodology for calculating the gross insurance liabilities • a methodology for calculating the reinsurance recoverable asset at the group-wide level taking into account the design of the reinsurance programme under the reinsurance strategy of the IAIG • data quality standards within the IAIG.	*Guideline M2E4-7-2-1* *Differences may exist (for example, in reporting) at the insurance entity level to comply with jurisdictional requirements. The policy should focus on group-wide reporting requirements for both internal management purposes and for reporting and disclosure purposes.* *Guideline M2E4-7-2-2* *The framework for determining assumptions to be used in valuations should include:* • *a process of incorporating the actual experience of the IAIG/ insurance entities in determining assumptions* • *a process of developing assumptions if the IAIG does not have enough direct experience in a particular business line or market to use its own experience to develop valuation assumptions.*
Parameter M2E4-7-3 The group-wide actuarial policy requires an annual actuarial opinion, report, advice or review (whether certified or not) to be provided to the Governing Body. The actuarial opinion, report, advice or review covers at least the following subjects: • a prospective analysis of the financial situation of the IAIG which goes beyond the current balance sheet of the IAIG	*Guideline M2E4-7-3-1* *The IAIG may use the underlying actuarial reports submitted locally by the individual insurance entities as input to its annual actuarial opinion, report, advice or review to the Governing Body.* *Further examples of issues that could be addressed in the annual actuarial opinion, report, advice or review include:* • *the assumptions used by all of the insurance entities in the group and the consolidation/aggregation method applied at the*

• the reliability and sufficiency of the technical provisions • the adequacy of reinsurance credit for technical provisions • consideration of non-insurance entities and non-regulated entities.	*group level* • *the methodologies used to determine current estimates by each insurance entity and the consolidation/ aggregation method applied at the group level* • *the methodologies used to determine the margin over current estimate (MOCE)s by each insurance entity and the consolidation/aggregation method applied at the group level* • *the availability and appropriateness of data used in valuations* • *back testing of assumptions and valuations* • *uncertainty in current estimates used by both insurance entities and the aggregated/consolidated group level* • *the adequacy of pricing, taking into account the underwriting policies, at the appropriate unit level and at the insurance entity level and the group level* • *the performance of the IAIG's insurance portfolios and analysis of any changes in business volumes, exposures, mix of business and pricing during the year* • *asset/liability management under the group-wide investment policy* • *suitability and adequacy of reinsurance/risk transfer arrangements taking into account the strategies for underwriting and claims management as well as the overall financial condition of the IAIG and the Governing Body's risk tolerance* • *the extent to which the actuary relies on the values provided by non-insurance entities.*
	Guideline M2E4-7-3-2 *The IAIG should obtain an analysis of the current and future financial condition of the IAIG given recent experience and the group-wide underwriting policy, group-wide claims management policy, reinsurance strategy and group-wide investment policy.*

Module 2, Element 5

Capital adequacy assessment

Introductory comments

The IAIS is aiming for a partly harmonised approach to many of the components of the capital adequacy assessment. Therefore, there is inherent flexibility in the way that jurisdictions can implement some of the standards.

There are a number of key steps to the capital adequacy assessment:

- The IAIG uses a total balance sheet approach and determines an amount of qualifying capital resources and a capital benchmark.
- The qualifying capital resources are determined by considering the quality and quantity of financial instruments and capital elements other than financial instruments on the balance sheet.
- The capital benchmark is determined using a scenario-based approach which includes measuring the impacts of key relevant risks facing the IAIG using multiple individual stresses and/or severe but plausible adverse scenarios.
- The group capital adequacy assessment is done by comparing the amount of qualifying capital resources to the capital benchmark.

The review of capital elements that are to be included or excluded from the amount of qualifying capital resources will continue during the field testing phase and may result in changes to qualifying core and additional capital elements.

In Module 3, the supervisory process that is used to examine the capital adequacy of the group is set out and will require review of the IAIG's application of the framework for group capital adequacy assessment set out here in Module 2.

ComFrame Standard M2E5-1 **The IAIG assesses its capital adequacy by comparing its qualifying capital resources to the capital benchmark.**	
Parameter M2E5-1-1 The IAIG assesses its capital adequacy by comparing to its capital	

benchmark both: • its core capital resources and • its total capital resources.	
ComFrame Standard M2E5-2 **For the purposes of the capital adequacy assessment, the IAIG applies a total balance sheet approach to assess all the material risks to which it is exposed.**	
Parameter M2E5-2-1 The IAIG's total balance sheet approach includes all entities as defined within the scope of the group. The treatment of entities within that group will differ depending on their legal regulatory status.	*Guideline M2E5-2-1-1* *The approach taken to capital adequacy assessment may be based on a consolidated basis or on the aggregation of the entities.*
	Guideline M2E5-2-1-2 *Where an IAIG has excluded (e.g. deconsolidated or not aggregated) a non-insurance financial institution subject to risk-based capital requirements (non-insurance FI) in calculating its qualifying capital resources and capital benchmark, the IAIG should perform a group capital adequacy assessment. This should be done by aggregating the non-insurance FI sector-specific qualifying capital resources and the sector-specific capital requirements with the qualifying capital resources and the capital benchmark, respectively, determined under this element.* *When assessing its overall capital adequacy, an IAIG should make adequate adjustments for the elimination of intra-group creation of capital and other group considerations, as appropriate.*
	Guideline M2E5-2-1-3 *The assessment of the insurance operations of the group should be applied to the Head of the IAIG, together with entities thereunder.*

The following should apply for the capital adequacy assessment:

- *the capital adequacy assessment considers the capital resources and risks of insurance entities, other financial sector entities and relevant non-regulated entities*
- *for insurance entities within the IAIG that are subject to direct insurance supervision, the qualifying and other criteria for capital resources and the scenario-based capital benchmark are used for the capital adequacy assessment*
- *for entities subject to regulation in other financial sectors, the capital resources and capital benchmark of the respective sectors are assessed by other financial supervisors and should be considered by the IAIG in a proportionate manner. For example, the entity would be excluded from the scenario-based process.*
- *non-regulated entities are included in the group capital adequacy assessment if their capital resources or risks are material to the insurance operations. Such risks would need to be separately assessed by the IAIG on the quantitative basis that is relevant to the entity's operations. If not deemed material, risks may be considered on a qualitative basis. Capital resources should be considered by the IAIG in a proportionate manner.*
- *there may be situations where an insurance entity within an IAIG does not significantly contribute to the total group risks. In such a case excluding this entity altogether or using a simplified adjustment factor might be appropriate when determining the capital benchmark under the scenario-based approach, provided that the aggregation of all entities*

	excluded for this reason remains insignificant compared to the total group risks.
	Guideline M2E5-2-1-4 *The following additional considerations would apply for an entity approach:* • *the impact of risks emanating from being part of a group, including intra-group transactions* • *the valuation basis being applied to each entity is consistent within the group.*
ComFrame Standard M2E5-3 **The IAIG determines, from all of its potential capital resources, the amount that qualifies for the purpose of the capital adequacy assessment.**	
Parameter M2E5-3-1 The IAIG determines its amount of qualifying capital resources through an assessment of the nature, quality and suitability of all potential capital resources and the consideration of qualifying criteria and application of specified inclusions, exclusions, deductions, adjustments and limits.	*Guideline M2E5-3-1-1* *Capital resources should be assessed on the basis of the valuation methodology used.*
	Guideline M2E5-3-1-2 *Exclusion(s) from capital contained in these standards, parameters and guidelines should be applied by adjusting the value of the related qualifying capital resource element or by using an equivalent scenario-based impact when determining the capital benchmark.* *For example, if an asset item is excluded from contributing to qualifying capital resources, the IAIG could:* • *adjust the value of the asset to zero (write off the asset) with corresponding adjustments to deferred taxes, if any, retained earnings and other affected accounts to convert the balance sheet directly* *or* • *deduct the value of the asset, net of deferred taxes, from the*

	related capital element in the appropriate category of capital. For example, the exclusion is applied as a reduction of the value of retained earnings taken from the balance sheet and included in qualifying core capital without a corresponding adjustment being made on the balance sheet that may be used for other than regulatory or capital assessment purposes *or* • *increase the capital benchmark such that the capital adequacy assessment result of the IAIG is not materially different.* *It is also possible that the exclusion requires no adjustment because the balance sheet used for determining qualifying capital resources does not recognise the asset or, if recognised, gives it a value of zero.*
ComFrame Standard M2E5-4 **The IAIG classifies its qualifying capital resource elements into at least two categories of capital (core capital and additional capital), based on their ability to absorb losses on a going-concern and winding-up basis.**	
Parameter M2E5-4-1 The IAIG's core capital is comprised of qualifying financial instruments and capital elements other than financial instruments that contribute to financial strength, absorb losses both on a going-concern and winding-up basis and otherwise contribute to survival through periods when the IAIG is under stress. In order to qualify as core capital, financial instruments are permanent, available to absorb losses on both a going concern and winding-up basis, subordinated and free of both encumbrances and mandatory distributions that reduce shareholders' equity or members'	*Guideline M2E5-4-1-1* *Core capital should allow the Head of the IAIG and the insurance entities within the IAIG to continue their activities during periods when they are under stress and reduce their likelihood of insolvency. The ability to continue as a going concern enables the fulfilment of all eventual policyholder and creditor claims.* *Core capital should be largely comprised of higher quality equity elements (e.g. common/ordinary share capital and retained earnings) and should exclude items not considered to be readily available to absorb losses in periods when the IAIG is under stress (e.g. financial*

surplus.	*instruments that have mandatory fixed charges or are not permanent). Core capital should exclude specified assets that are subject to write-down during periods when the IAIG is under stress, a time when core capital resources are most likely to be needed.*
Parameter M2E5-4-2 The IAIG's additional capital is comprised of qualifying financial instruments and capital elements, other than financial instruments, that protect policyholders in winding-up. The key characteristics of capital instruments that qualify as additional capital are subordination and availability to absorb losses in winding-up.	*Guideline M2E5-4-2-1* *Additional capital should allow the IAIG to pay claims in the event of a winding-up. It can include forms of lower-quality financial instruments and other capital resource elements, including, for example, certain types of hybrid financial instruments and subordinated debt.*
ComFrame Standard M2E5-5 **The IAIG assesses the ability of its financial instruments to absorb losses, taking into consideration the following prudential quality and suitability criteria: permanence, availability, subordination and absence of both encumbrances and mandatory servicing costs.**	
Parameter M2E5-5-1 The IAIG excludes a financial instrument from its core and additional capital: • if it does not satisfy, both in form and in substance, all applicable criteria and requirements of this element of ComFrame • if that instrument, considered in conjunction with other related transactions or agreements that affect its overall economic substance, could be reasonably considered not to satisfy the applicable criteria and requirements of this element of ComFrame.	
Parameter M2E5-5-2 The IAIG's financial instruments that qualify as core capital do not	*Guideline M2E5-5-2-1* *Financial instruments that qualify as core capital should be available*

have a maturity date.	*to protect against losses through business cycles and in periods when the IAIG is under stress.*
Parameter M2E5-5-3 The IAIG's financial instruments that qualify as additional capital have an initial term of at least five years.	*Guideline M2E5-5-3-1* *The initial term of a financial instrument is defined as the time length between the issuance date and the effective maturity date.*
Parameter M2E5-5-4 The IAIG complies with supervisory criteria that recognise the limited protection that a financial instrument that qualifies as additional capital provides as it nears its effective maturity.	*Guideline M2E5-5-4-1* *For example, the IAIG's financial instruments that qualify as additional capital may need to be amortised on a straight-line basis in the final five years to maturity.*
Parameter M2E5-5-5 The effective maturity date of an IAIG's financial instrument is the earlier of: • the first occurrence of an incentive to redeem the instrument, including a step-up; or • the contractual maturity date fixed in the instrument's terms and conditions.	*Guideline M2E5-5-5-1* *An incentive to redeem effectively sets the maturity date of a financial instrument. Such instruments therefore do not qualify as core capital because qualifying instruments are not allowed to have a maturity date.* *An incentive to redeem is a feature which, in conjunction with a call option, would make the IAIG more likely to redeem an instrument. Incentives to redeem include, but are not limited to:* • *a call option combined with a step-up* • *a call option combined with a mechanism to convert the instrument into common shares of the issuer if the call is not exercised.* *A step-up can be defined as a pre-set increase in the initial credit spread of the instrument at a future date. Conversion from a fixed rate to a floating rate (or vice versa) in combination with a call option without any increase in credit spread would not usually constitute an incentive to redeem.* *Redemption is the return of an investor's principal in a financial*

	instrument at the IAIG's option at any time prior to maturity.
Parameter M2E5-5-6 The IAIG's financial instruments that qualify as core or additional capital are not retractable by the holder.	*Guideline M2E5-5-6-1* *Retraction rights give the holder of the financial instrument the right to require the IAIG to buy back the instrument from the investor. Retraction rights may also be understood as repayment rights.*
Parameter M2E5-5-7 The IAIG's financial instruments that qualify as core capital are not redeemable within the first five years after issuance.	
Parameter M2E5-5-8 The IAIG obtains prior review or approval from the relevant supervisor before the redemption of financial instruments that qualify as core or additional capital.	*Guideline M2E5-5-8-1* *The IAIG should comply with the redemption criteria and conditions established by the relevant supervisor. Capital resources should not be subtracted from the IAIG at an inopportune time without their replacement or the fulfilment of other compensating conditions.*
Parameter M2E5-5-9 The IAIG's financial instruments that qualify as core capital are fully paid-up.	*Guideline M2E7M2E5-5-9-1* *Non-paid-up financial instruments are subject to counterparty risk and should not be included in core capital.*
Parameter M2E5-5-10 The IAIG's additional capital includes non-paid-up financial instruments that contain legally binding commitments that increase the amount of qualifying paid-up capital at the discretion of the IAIG, at any time. The IAIG's eligible non-paid-up financial instruments are limited to an amount not greater than 10% of its capital benchmark.	
Parameter M2E5-5-11 The IAIG's non-paid-up financial instruments that qualify as additional capital and all "in-kind" (non-cash) payments are subject to	*Guideline M2E5-5-11-1* *Some types of in-kind payments may be subject to uncertain and/or complex valuation (e.g. real estate, structured products, and non-*

supervisory review or approval.	*publicly traded shares) and, as such, should be subject to review or approval by the relevant supervisor.*
Parameter M2E5-5-12 The IAIG's financial instruments that qualify as core or additional capital are available to absorb losses, are subordinated, and are neither undermined nor rendered ineffective by encumbrances.	*Guideline M2E5-5-12-1* *Availability to absorb losses and subordination may be encumbered if there is any arrangement or connected transaction that prevents the financial instrument from meeting the criteria.* *For example:* • *availability to absorb losses could be encumbered if an arrangement gives the holder of a financial instrument a right of set-off or ability to net or offset claims on the holder of the instrument* • *subordination may be encumbered where the holder of the financial instrument has security or if an arrangement permits netting such that the holder can use the financial instrument during a winding-up to offset an amount it owes to the IAIG.*
Parameter M2E5-5-13 The IAIG's financial instruments that qualify as core or additional capital are subordinated to the rights of its policyholders in an insolvency or winding-up.	
Parameter M2E5-5-14 The IAIG's financial instruments that qualify as core or additional capital are not secured or covered by a guarantee given by either the IAIG or another related entity unless subject to policyholder priority.	*Guideline M2E5-5-14-1* *Policyholder priority order should not be compromised by guarantees or security arrangements for the benefit of capital instrument holders.*
Parameter M2E5-5-15 The IAIG is able to cancel distributions of financial instruments that qualify as core capital without the risk of invoking default and triggering legal insolvency. The distributions of financial instruments that qualify as core capital are non-cumulative.	*Guideline M2E5-5-15-1* *Absence of both encumbrances and mandatory servicing costs is the extent to which a financial instrument is free from charges, claims or other hindrances and does not include a right by the holder to receive compulsory payments.*

	Guideline M2E5-5-15-2 *Distributions include, for example, dividends and coupon payments.* *The presence of fixed servicing costs (including fixed interest payments and principal repayment) in financial instruments that qualify as core capital could affect the IAIG's ability to absorb losses on a going-concern basis. For example, if the payment of a servicing cost results in the IAIG falling below its capital benchmark, this could accelerate insolvency.*
Parameter M2E5-5-16 The IAIG's financial instruments that qualify as core or additional capital have a level of distributions that is neither tied nor linked to the credit standing of the issuer.	*Guideline M2E5-5-16-1* *Distributions that are linked to the financial condition of the issuer may accelerate insolvency since the amount of distributions increase as the financial condition of the institution worsens.*
Parameter M2E5-5-17 The IAIG's financial instruments that qualify as additional capital do not give holders rights to accelerate the repayment of future scheduled principal or interest payments, except in bankruptcy, insolvency, winding-up or liquidation.	
ComFrame Standard M2E5-6 **The IAIG assesses the ability of its capital elements, other than financial instruments, to absorb losses on both a going-concern and winding-up basis.**	
Parameter M2E5-6-1 The IAIG includes in core capital the net income from operations that is retained by the IAIG rather than accrued for the benefit of its owners, members or policyholders.	*Guideline M2E5-6-1-1* *This capital element may be reported on the balance sheet using a variety of terms including retained earnings, surplus funds, participating account, non-participating account, unappropriated profit or loss, or unassigned funds.*

Parameter M2E5-6-2 The IAIG includes in core capital the funds from non-operational sources that are retained by the IAIG rather than accrued for the benefit of its owners, members or policyholders.	*Guideline M2E5-6-2-1* *This capital element may be reported on the balance sheet using a variety of terms including contributed surplus or surplus funds.*
ComFrame Standard M2E5-7 **The IAIG's amount of qualifying capital resources is determined after the application of inclusions and exclusions to reflect that some capital elements' basis of valuation or recognition may not be appropriate for capital adequacy assessment.**	
Parameter M2E5-7-1 The IAIG's core capital excludes the value of goodwill and intangibles (including computer software intangibles).	*Guideline M2E5-7-1-1* *Goodwill and intangibles (including computer software intangibles) may be subject to write-down in periods when the IAIG is under stress and their values are therefore excluded from core capital.* *Examples of other intangible assets include: trade names, distribution channels and client lists.*
Parameter M2E5-7-2 The IAIG's additional capital includes the portion of the value of computer software intangibles that is determined to be realisable in a winding-up.	*Guideline M2E5-7-2-1* *It may be determined in a winding-up process that computer software has a realisable value and that the proceeds could be used to pay the claims of policyholders. On this basis, some of its value can be included in additional capital.*
Parameter M2E5-7-3 The IAIG's core capital excludes the value of those deferred tax assets (DTAs), net of deferred tax liabilities (DTLs) that rely on the IAIG being profitable in the future. DTAs may be netted with associated DTLs only if the DTAs and DTLs relate to taxes levied by the same taxation authority and offsetting is permitted by the relevant taxation authority.	*Guideline M2E5-7-3-1* *The inherent value of some DTAs is only valid to the extent that the IAIG will report profits and need to pay less tax in the future. DTAs can arise from either unused loss carry-forwards or can be due to temporary (timing) differences. DTAs that are dependent on the IAIG generating future profits for their realisation are subject to write-down during periods when the IAIG is under stress and their values are therefore excluded from core capital. DTAs that do not depend on*

DTAs, net of DTLs, that do not depend on future profit for their realisation, are not required to be excluded from core capital.	*future profit for their realisation are less likely to be written down and their values may be included in core capital, up to a limit established by the relevant supervisor.* *It is not prudent to recognise the values of DTAs that rely on future profits as the amounts could be written-down and cause or contribute to insolvency during periods when the IAIG is under stress, especially if there is uncertainty with respect to the IAIG's ability to generate profits for a number of future periods or with respect to its ability to continue as a going concern.*
Parameter M2E5-7-4 The IAIG includes in its additional capital the value of the portion of DTAs, net of DTLs, that relies on the IAIG being profitable in the future and that is excluded from core capital, to the extent that the DTAs are determined to have realisable value in a winding-up.	*Guideline M2E5-7-4-1* *It may be determined in a winding-up process (after insolvency) that DTAs, net of DTLs, have a realisable value which could be used to pay the claims of policyholders. On this basis, some of its value can be included in additional capital.* *The value of DTAs, net of DTLs, included in additional capital should never exceed the current estimated realisable value.*
Parameter M2E5-7-5 The IAIG excludes from core or additional capital, as appropriate, the value of its own financial instruments that it holds directly or indirectly as assets on its balance sheet.	*Guideline M2E5-7-5-1* *An IAIG would be double counting capital if it were to hold its own financial instruments as assets on its balance sheet. The holding of own financial instruments increases the excess of assets over liabilities, without increasing the amount of assets available for its operations or for the payment of claims.*
Parameter M2E5-7-6 The IAIG's core capital excludes the amount of each pension plan asset, net of associated DTLs, which cannot be easily and promptly accessed for its own use in its on-going operations.	*Guideline M2E5-7-6-1* *Assets arising on the balance sheet from pension fund surpluses may be subject to restrictions and may not be easily withdrawn for use in on-going operations.* *In order to prove that it can easily and promptly access the pension*

	plan surplus assets, the IAIG should be able to demonstrate that it has clear entitlement, and unrestricted and unfettered access, to the assets. Supporting evidence may include, among other things, an independent legal opinion and prior authorisation from pension plan members and the pension plan regulator.
	Guideline M2E5-7-6-2 *It may be determined that in a winding-up the net pension plan asset excluded from core capital has a realisable value. On this basis, up to 50% of the value excluded from core capital can be included in additional capital.*
Parameter M2E5-7-7 The IAIG's core capital excludes the value of reinsurance assets arising from arrangements deemed to constitute non-qualifying reinsurance. The exclusion from core capital is reduced to the extent that collateral has been posted to cover the ceded liabilities. The IAIG's core capital also excludes the value of reinsurance assets arising from arrangements that are either: • not legally binding, or • not executed within a six-month grace period from the effective date of reinsurance coverage.	*Guideline M2E5-7-7-1* *Non-qualifying reinsurance refers to agreements:* • *with reinsurers that are neither regulated nor subject to risk-based solvency supervision, including appropriate capital requirements,* • *that do not provide a sufficient transfer of risk.* *In order to not be excluded from core capital, the reinsurance asset should have an associated reinsurance arrangement that is executed within a six-month grace period after the effective date of reinsurance coverage.*
Parameter M2E5-7-8 The IAIG's core capital excludes the value of secured assets that exceed the sum of: • the value of the IAIG's on-balance sheet liabilities secured by the (encumbered) assets; plus • the value of the IAIG's incremental supervisory capital requirements for liabilities secured by the (encumbered) assets; plus • the value of the IAIG's incremental supervisory capital	*Guideline M2E5-7-8-1* *When an asset is used as a form of collateral in order to secure a debt or other contract, it may change the priority of payments. It may therefore not be available during a winding-up to pay other claims, which may have a priority ranking.*

requirements for secured (encumbered) assets. No deduction is required for encumbered assets relating to off-balance sheet securities financing transactions (e.g. securities lending and borrowing, repos and reverse repos) that do not give rise to any liability on the balance sheet.	
ComFrame Standard M2E5-8 **The IAIG determines the amount of its qualifying capital resources subject to limits.**	
Parameter M2E5-8-1 The IAIG's core capital, net of exclusions, must be at least 50% of its capital benchmark.	
ComFrame Standard M2E5-9 **The IAIG determines the availability of its qualifying capital resources to absorb losses by addressing key group-wide factors including at a minimum:** • **multiple gearing** • **intra-group creation of capital** • **fungibility and transferability.**	
Parameter M2E5-9-1 The Head of the IAIG consolidates/aggregates investments in insurance financial institutions and other entities that it controls to determine its qualifying capital resources. Any multiple gearing and intra-group transactions that create capital are eliminated.	*Guideline M2E5-9-1-1* *Capital resources at the Head of the IAIG, after consolidation or aggregation, should consist of financial instruments that have been issued and that are held by third parties.* *Although some capital instruments may qualify as capital resources for capital adequacy purposes for an entity in the group, all down/up*

	streamed capital should be eliminated in the determination of the qualifying capital resources at the Head of the IAIG.
	Guideline M2E5-9-1-2 *Elimination of capital created through intra-group transactions may be achieved through adjustments of the financial statements, exclusions or deductions from capital, or through equivalent risk charges included in the capital benchmark.*
Parameter M2E5-9-2 The IAIG excludes any "non-insurance financial institutions subject to risk-based capital requirements" (non-insurance FI) that it controls from its qualifying capital resources. Investments in the capital resources of non-insurance FIs controlled by the IAIG are excluded from the equivalent corresponding category of capital (core or additional) for which the investments would qualify if it were issued by the IAIG.	*Guideline M2E5-9-2-1* *A non-insurance FI controlled by the IAIG is normally consolidated in the group-wide financial statements of the Head of the IAIG. To exclude such an entity, it may be necessary to "deconsolidate" the entity and determine the value of the ownership interest and other individual investments in financial instruments. These are assessed against the core and additional capital resources criteria to determine the value of the exclusion from each category of capital.*
Parameter M2E5-9-3 The IAIG excludes in full all reciprocal cross holdings of core and additional capital that are designed to artificially inflate the capital positions of IAIGs, arranged either directly or indirectly between financial institutions.	*Guideline M2E5-9-3-1* *Exclusion may be achieved through an adjustment of the financial statements that eliminates the financial instrument, a deduction from capital, or through an equivalent risk charge included in the capital benchmark. The exclusion or risk charge should impact the same category of capital as that for which the investment would qualify if it was issued by the IAIG itself.*
Parameter M2E5-9-4 The IAIG considers restrictions on the fungibility and transferability of capital between entities when determining the amount of qualifying capital resources.	*Guideline M2E5-9-4-1* *If a consolidated approach is used, because it treats the IAIG as a single entity, restrictions of fungibility and transferability should be carefully considered when determining qualifying capital resources.* *If an entity approach is used, fungibility issues may be addressed by*

	limiting group diversification benefits for subsidiaries to legally binding contracts between group entities.
ComFrame Standard M2E5-10 **The IAIG determines its group-wide capital benchmark by assessing and measuring the total amount of relevant and material risk to which the IAIG is exposed. The capital benchmark is based on the target criteria.**	
Parameter M2E5-10-1 The target criteria determine the level of unexpected loss that an IAIG will be expected to be able to absorb. The target criteria encompass: • a risk measure • a basis of measurement and • a time horizon The approach also takes into account the method for determining technical provisions and the assumptions used in so doing.	*Guideline M2E5-10-1-1* *The target criteria should provide a basis for measuring and comparing the strength of scenarios to which the IAIG is being subjected. Such scenarios may be described as infrequent and severe and are intended to imply a set of situations for which the IAIG should have enough capital, without endangering its ability to meet policyholders' obligations.* *Examples of risk measures are:* • *Value at Risk (VaR)* • *Conditional Tail Expectation (CTE)* *An example of a basis of measurement is:* • *0.5%/1% for the probability of occurrence* *For illustration purposes, the lower bound of a narrow range of target criteria may be founded on an event or combination of events that is estimated to have a probability of occurrence, for example, 0.5% or 1%, or could have, for example, about one chance in 200 of occurring in any given year. The upper bound would not be defined but would naturally limit the choice of scenarios to those that are severe but still plausible.* *Application of the target criteria may require the use of expert judgement to assess the risk measure, due to the limitations of*

	statistical methodologies and/or data. For example, when comprehensive historical data does not exist or is not relevant, expert judgement may be applied to provide a future extreme outcome. *The time horizon is the period of time over which the assumed probability of occurrence is valid.*
	Guideline M2E5-10-1-2 *The information base used to calibrate a particular individual stress or event-based scenario needs to be reliable and relevant for the purpose of the intended calibration.* *For example, a "one chance in 200 over a year horizon" does not mean that 200 years of data are needed to derive the calibration of a particular stress or scenario; even if 200 years of data were both available and reliable, they may not be relevant for the exercise*.
ComFrame Standard M2E5-11 **In determining the group capital benchmark, the IAIG addresses the key categories of risk (including risk concentrations) which are: insurance risk, market risk, credit risk, group risk and operational risk.** **It also addresses the dependencies and inter-relationships between the risks.**	
Parameter M2E5-11-1 The IAIG's group capital benchmark addresses all material risks to which the group is exposed. The group capital benchmark is based on the potential adverse changes in capital resources resulting from unexpected changes in material risks.	*Guideline M2E5-11-1-1* *In this context unexpected changes means changes that are not foreseen and have not been taken into account in the valuation of assets and liabilities.* *Such changes are considered within the boundaries of the target criteria.*
Parameter M2E5-11-2	*Guideline M2E5-11-2-1*

For the purposes of calculating the capital benchmark, the key insurance risks are considered to be: • mortality risk: the risk of adverse change in the value of capital resources due to unexpected changes in the level, trend or volatility of mortality rates, where an increase in the mortality rate leads to a decrease in the value of capital resources • longevity risk: the risk of adverse change in the value of capital resources due to unexpected changes in the level, trend or volatility of mortality rates, where a decrease in the mortality rate leads to a decrease in the value of capital resources • morbidity/disability risk: the risk of adverse change in the value of capital resources due to unexpected changes in the level, trend or volatility of disability, sickness and morbidity rates • lapse risk: the risk of adverse change in the value of capital resources due to unexpected changes in the level or volatility of rates of policy lapses, terminations, renewals and surrenders • premium risk: the risk of adverse change in the value of capital resources due to changes in the timing, frequency and severity of future insured events, resulting in higher claims amounts or occurrence than expected • claim reserve risk/revision risk: the risk of adverse change in the value of capital resources due to changes in expected future payments for all claims • catastrophe risk: the risk of adverse change in the value of capital resources, resulting from the occurrence of low frequency and high severity event*s.*	*Morbidity/disability risk can also arise due to medical inflation, which affects the expected level of medical expenses to be incurred.* *Lapse risk intends to capture all legal or contractual policyholder rights to fully or partly terminate, surrender, decrease, restrict or suspend insurance cover or permit the insurance policy to lapse.* *An example of premium risk is where premiums charged for a group of policies, along with the investment income earned on those premiums, will be inadequate to cover the cost of the coverage provided by those policies and to provide the level of profit that was built into the premium rates.* *An example of claim reserve risk is where recorded estimates of liabilities for unpaid claims and claims settlement expenses will prove to be inadequate.* *An example of revision risk is where an annuity in payment is revised.* *Guideline M2E5-11-2-2* *As catastrophe risk could occur in many of the different insurance risks, it should be dealt with separately and should not be included with other insurance risk when calculating the capital benchmark. For non-life products, catastrophe risk includes natural, man-made and mass torts. For life products catastrophe risk includes mortality catastrophe and morbidity catastrophe risks.*
Parameter M2E5-11-3 The key market risks to be considered are: • interest rate risk: the risk of adverse change in the value of	*Guideline M2E5-11-3-1* *Liquidity risk is not specified as a risk to be addressed in the group capital benchmark as capital may not always be the best way to deal*

capital resources resulting from changes in the level or volatility of interest rates • equity risk: the risk of adverse change in the value of capital resources resulting from changes in the level or volatility of market prices of equities • real estate risk: the risk of adverse change in the value of capital resources resulting from changes in the level or volatility of market prices of real estate or from the amount and timing of cash-flows from investments in real estate • spread risk: the risk of adverse change in the value of capital resources resulting from changes in the level or volatility of credit spreads over the risk-free interest rate term structure • currency (FX) risk: the risk of adverse change in the value of capital resources resulting from changes in the level or volatility of currency exchange rates • asset concentration risk: the risk of adverse change in the value of capital resources resulting from lack of diversification in the asset portfolio or from large exposure to default risk by a single issuer of securities or a group of related issuers.	*with this risk. The group-wide supervisor may decide to include this risk in the calculation of the capital benchmark if the circumstances warrant that treatment. Liquidity risk should be subject to an assessment by the IAIG, such assessment being adequately documented. This risk may also be addressed in ERM and the ORSA process.* *Separate risk categories for volatilities of market risks have not been included in these high-level definitions of risk as they are taken into account in each particular risk category. Migration risk is included in spread risk.*
Parameter M2E5-11-4 The key credit risk to be considered is the risk of adverse change in the value of capital resources due to unexpected counterparty default, including their inability or unwillingness to meet contractual obligations in a timely manner.	
Parameter M2E5-11-5 The key group risks to be considered are: • intra-group transactions • capital fungibility • contagion/reputational • non-insurance group entities • cross-jurisdictional issues	*Guideline M2E5-11-5-1* *The IAIG should give due consideration to the quantification and analysis of group-wide diversification effects.*

• partial ownership and minority interests • non-regulated group entities, including activities outside supervised entities.	
Parameter M2E5-11-6 The key operational risk to be considered is the risk of adverse change in the value of capital resources resulting from operational events such as inadequacy or failure of internal systems, personnel, procedures or controls, as well as external events.	*Guideline M2E5-11-6-1* *The IAIG should give due consideration to the reputational risk that may arise from operational failure in a particular entity of the group, and from political or catastrophic events occurring in a particular jurisdiction which could have an indirect impact on other entities within the IAIG.*
	Guideline M2E5-11-6-2 *The IAIG should give due consideration to the risks arising from an individual entity's use of models and from any assumptions made in establishing those models.*
ComFrame Standard M2E5-12 **The IAIG, for the purposes of calculating its group capital benchmark, uses a scenario-based approach.**	
Parameter M2E5-12-1 The IAIG applies the scenarios to a balance sheet which responds to the changes in the risk factors that are represented in a range of stresses and scenarios.	
Parameter M2E5-12-2 In applying the scenario-based approach, the IAIG considers the financial impact of scenarios designed in accordance with the target criteria. The scenarios will be constructed as follows: • an event-based approach where a number of risk factors are stressed at the same time and where events have a likely occurrence in the future; or • individual stresses, where risk factors are stressed	*Guideline M2E5-12-2-1* *The methodologies for designing relevant scenarios may be based on:* • *analysis and calibration of relevant and reliable data sets* • *expert judgment* *and/or* • *analysis of data from IAIGs internal models.*

individually; or • a hybrid approach, which is a combination of event-based and individual stresses.	*Reverse scenarios and historical scenarios are also used.*
Parameter M2E5-12-3 When an event-based approach is used, the IAIG calculates the impact of scenarios incorporating key risks affecting an IAIG from: • financial crises, • catastrophes, and • pandemics.	*Guideline M2E5-12-3-1* *In calculating the impact of the scenarios, the IAIG needs to take into consideration the potential secondary effects of a crisis or stress. For example:* • *a financial crisis could lead to high unemployment, deteriorating health and civil unrest, increased social burden on the state* • *catastrophes could lead to shortage of resources, including housing, and massive migration of skilled workforce.* *Secondary effects should be consistent with the target criteria time horizon.*
Parameter M2E5-12-4 When applying the event-based financial crisis scenario, the IAIG determines the impact on its balance sheet due to changes in the global economic environment.	*Guideline M2E5-12-4-1* *Financial crisis scenarios can be either historical or synthetic.* *Historical scenarios mimic events which happened in the past. For example, the event "Financial Crisis 2008" could be specified as changes in the following risk factors:* • *decrease in interest rates* • *increase in credit spreads* • *increase in swap-government spreads* • *decrease in equity indices* • *increase in equity implied volatility* • *decrease in real estate indices.* *A synthetic scenario is based on hypothetical events. For example, the hypothetical event "Deflation with spread widening" could be specified as a change in the following risk factors:*

	• *decrease in interest rates* • *increase in credit spreads.*
Parameter M2E5-12-5 When applying the event-based catastrophe scenario, the IAIG determines the impact on its balance sheet of specific catastrophe scenarios, consistent with the target criteria. The IAIG considers natural and man-made catastrophes, including accidents, industrial incidents, and terrorist attacks, as well as "mass torts" which may emerge slowly over time. The IAIG considers all types of catastrophes for which its exposure is material and employs catastrophe models tailored to assess each hazard in each relevant region.	*Guideline M2E5-12-5-1* *The IAIG should have a good understanding of the state of the art of catastrophe modelling for each peril to which it has material exposure. It should develop catastrophe risk models and scenarios by peril on a regional basis, where it has material exposures.* *The IAIG should recognise that the insured loss from a natural catastrophe is dependent on the specific locations of insured risks relative to the location of the event, and should recognise that natural catastrophe risk may not be adequately assessed by a small set of scenarios. The IAIG should ensure the accuracy and completeness of exposure data used for catastrophe modelling.* *The IAIG should recognise that while many historical "mass torts" have been excluded from coverage in insurance policies, others will emerge in the future, so catastrophe scenario construction should be based on expert judgment.*
	Guideline M2E5-12-5-2 *The IAIG should identify any exposure concentration problems it may have by applying modelling in a comprehensive manner and carefully reviewing the more adverse modelled scenarios for each peril in each region.* *For example, a specific scenario approach that identifies a characteristic event of sufficient severity could be tested by the IAIG over the full range of geographic locations in which it has exposure. The resultant set of modelled loss amounts can then be examined to identify those event locations that produce the highest losses. These scenarios will identify exposure concentrations the standard models*

	are less likely to identify.
	Guideline M2E5-12-5-3 *The IAIG should evaluate the full range of insurance risks that a catastrophic event can produce, including direct and indirect property loss, injury, and loss of life.* *The IAIG should also consider the other risks that may be impacted, including credit risk associated with large reinsurance receivables, operational risk associated with disruption of facilities and workforce, and market risk associated with downturns in regional economies.*
	Guideline M2E5-12-5-4 *The IAIG should combine the results of the multiple catastrophe models and scenarios it uses in order to develop an overall assessment of its material catastrophe risks. It should consider any correlation between individual hazards to the extent possible while developing its overall assessment.*
Parameter M2E5-12-6 When applying the event-based pandemic scenario, the IAIG determines the impact on its balance sheet(s) due to potential serious effects on mortality and morbidity rates (plus subsequent effects) caused by major infections and other disease-related scenarios.	*Guideline M2E5-12-6-1* *The pandemic scenario should assess the impact on the IAIG in respect of the following areas:* • *insurance risk:* - *increase in morbidity rates* - *increase in medical intervention increase in mortality rates* - *decrease in longevity rates* - *increase in termination rates for (predominantly) savings or investment policies* - *decrease in new business premiums* *and* • *operational risks, mainly in relation to failure of internal systems and their effects on the business model.*

	There may also be a "knock-on" effect, on the financial market risk factors: • *reduction in equity values* • *reduction in property values* • *increase and/or decrease in sovereign yield curve* • *widening of credit spreads* • *depreciation in local currency against major currencies* *and other risk factors such as a reduction in new business, a decrease in reinsurance recoverables due to the reinsurer facing difficulties itself, and group risk.*
Parameter M2E5-12-7 When applying an individual stresses approach, the IAIG determines the financial impact of individual stresses on its balance sheet by applying stresses for: • insurance risk • market risk • credit risk • group risk • operational risk as well as other material risks to which the IAIG is exposed.	*Guideline M2E5-12-7-1* *The stresses to be applied are instantaneous shocks and should be applied to the balance sheet. However, this does not pre-empt the risk mitigants currently in place having an effect on future management decisions (e.g. decision with respect to adjustable or risk participating products), based on currently available resources. The stresses should be calibrated in accordance with the target criteria and should assess the impact on the IAIG in such areas as:* • *insurance risk factors* - *mortality rate* - *longevity rate* - *morbidity/disability rate* - *lapse rate* - *claims volatility for premiums and reserves* - *frequency and severity of catastrophes* • *market risk factors:* - *volatility and implied volatility of interest rates* - *volatility and implied volatility of equity prices* - *real estate/property* - *spread* - *currency/FX*

	- *concentration* • *credit risk:* - *default rate and loss given default* *and* • *operational risks being affected by the inadequacy or failure of internal systems personnel, procedures and controls.* *The stresses will also assess the impact of risk factors on aspects of group risk, such as*: • *intra-group transactions* • *capital fungibility* • *contagion/reputational* • *non-insurance group entities* • *cross-jurisdictional issues* • *partial ownership and minority interests* • *non-regulated group entities, including activities outside supervised entities.*
ComFrame Standard M2E5-13 **The IAIG combines the results of the different components of the scenario-based approach in line with the target criteria in order to obtain a group-wide capital benchmark.**	
Parameter M2E5-13-1 When combining the results of the various components to obtain an overall capital benchmark, the IAIG considers the degree of dependence of the risks underlying the various scenario indications.	*Guideline M2E5-13-1-1* *Scenarios should have both individual probabilities of occurrence (or weights) and joint probabilities assigned to them, or correlations where appropriate. These are based on data, the use of models and expert judgement.*
Parameter M2E5-13-2 When applying the event-based scenario approach, the IAIG obtains its capital benchmark by using scenarios whereby multiple risk factors	*Guideline M2E5-13-2-1* *The event-based approach may result in an onerous assessment, as no diversification is assumed between the various scenarios.*

are stressed simultaneously.	*However, not all risks will have an impact on the assessment, and thus may lead to an underestimation of the overall risk in the assessment. This balance will depend on the number of scenarios that are added together - the more scenarios that are added together, the more onerous the capital adequacy assessment.*
Parameter M2E5-13-3 When applying the individual stresses approach, the IAIG obtains its capital benchmark by stressing all the risk factors separately, and aggregating the results. The IAIG combines the stresses consistently with the target criteria.	*Guideline M2E5-13-3-1* *For example, the combined result may be obtained by using:* • *a linear correlation matrix* *and/or* • *copula functions* *and/or* • *another appropriate dependency structure.* *The correlations set out in the matrix should describe the extent to which the various risks are likely to occur at the same time.* *Each of the stresses is calibrated to the target criteria and, as long as the appropriate correlations are used, the resulting capital benchmark would be at the target criteria.*
Parameter M2E5-13-4 When applying the hybrid approach, the IAIG obtains its capital benchmark by combining the results of the event-based scenarios and the individual stresses in various ways. When applying this approach, it is essential to have the same probability of occurrence for the scenario and the individual risks, in order to ensure consistency with the target criteria, and to take into account any potential under/double counting between the results derived from the scenario and the individual risks.	
Parameter M2E5-13-5	*Guideline M2E5-13-5-1*

The IAIG documents its scenario and stress testing including a detailed description of: • the scenarios/stresses • the probability of the scenarios/stresses occurring, with a focus on how the fatness of the tails are defined over the probabilities • how the different scenarios/stresses combine to produce a comprehensive coverage of the risks and • algorithms used in the scenarios/stresses in order to assess the IAIG's capital benchmark.	*Particular note should be taken to determine scenarios which are relevant, i.e. scenarios which would have significant impact on the insurance industry. Careful consideration should be given to whether or not historic scenarios are still relevant in today's economic environment.* *The IAIG may also be required to conduct additional scenario testing set out by the group-wide supervisor. These scenarios are designed to cover risks particular to the IAIG that may not be picked up in the scenarios described in other parts of this standard.*

INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

Module 3

The supervisors

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Module 3, Element 1
Group-wide supervisory process

ComFrame Standard M3E1-1 **Standard 9.2** **"The supervisor has a documented framework for supervisory review and reporting which takes into account the nature, scale and complexity of insurers. The framework encompasses a supervisory plan that sets priorities and determines the appropriate depth and level of off-site monitoring and on-site inspection activity."** **The group-wide supervisor is responsible for the on-going supervisory process for the IAIG on a group-wide basis.**	
Parameter M3E1-1-1 The group-wide supervisor, in cooperation with the other involved supervisors, carries out the process of supervisory review and reporting to assess the IAIG, including addressing the matters described in Module 2.	*Guideline M3E1-1-1-1* *The group-wide supervisory process is shaped by the structure of the IAIG and the degree to which its entities are autonomous.*
Parameter M3E1-1-2 The group-wide supervisor determines the appropriate level of supervisory intensity for the IAIG overall and identifies specific risks or activities that may require heightened supervisory focus.	*Guideline M3E1-1-2-1* *Determination of the supervisory intensity assists the group-wide supervisor and other involved supervisors in allocating resources effectively and efficiently.*
Parameter M3E1-1-3 The group-wide supervisor establishes a supervisory plan for the IAIG, in cooperation with other involved supervisors, taking into account all information available and adapted according to changing circumstances.	*Guideline M3E1-1-3-1* *The supervisory plan should take into account a long-term perspective as well as a short-term perspective. This should result in a comprehensive analysis of risks and operations, over a period of time, as well as enabling a focus on current significant risks.*

Parameter M3E1-1-4 The group-wide supervisor analyses information submitted by the IAIG. Where the need for additional information is identified, the group-wide supervisor requires the IAIG to provide the necessary information on a group-wide and/or entity basis. The group-wide supervisor communicates such information to the other involved supervisors, where appropriate.	*Guideline M3E1-1-4-1* *Where required, involved supervisors should request their respective local entities to provide the necessary information to the involved supervisor for onward submission to the group-wide supervisor.* *The group-wide supervisor should take into consideration information in the public domain such as market data, press reports, research papers and other publications at both the group and entity level.*
Parameter M3E1-1-5 The group-wide supervisor communicates with the Head of the IAIG on a regular basis.	*Guideline M3E1-1-5-1* *The significance of the issues should determine whether the communication is with the Governing Body, the Senior Management or Key Persons in Control Functions.*
Parameter M3E1-1-6 The group-wide supervisor conducts off-site monitoring at the group-wide level.	*Guideline M3E1-1-6-1* *Off-site monitoring should cover the entire scope of the group. Other involved supervisors should be able to provide a perspective on individual entities and make their analysis available to the group-wide supervisor to the extent that their analysis contains issues material at the group-wide level.*
Parameter M3E1-1-7 The group-wide supervisor performs any on-site inspections at the level of the Head of the IAIG. The group-wide supervisor or other involved supervisors can join on-site inspections of an entity in another jurisdiction with prior consent from the relevant involved supervisor. Involved supervisors coordinate their on-site activities where relevant.	*Guideline M3E1-1-7-1* *The group-wide supervisor's on-site inspections should consider group-wide activities that impact entities within the scope of the group.*
	Guideline M3E1-1-7-2

	On-site inspections require access to Key Persons in Control Functions and Senior Management responsible for the group-wide functions no matter in which entity these functions are performed.
	Guideline M3E1-1-7-3 *Other involved supervisors should inform the group-wide supervisor of planned on-site inspections and communicate the main findings to the extent that they contain issues material at the group-wide level.* *Joint on-site inspections should be arranged whenever involved supervisors have a reasonable supervisory interest and whenever this avoids duplication of work.*
Parameter M3E1-1-8 The group-wide supervisor in conjunction with other involved supervisors regularly reviews the adequacy of the group-wide supervisory process for the IAIG.	*Guideline M3E1-1-8-1* *The group-wide supervisor, in conjunction with other involved supervisors, should take into consideration market developments and the potential impact to policyholders of the risks assumed by the IAIG, when reviewing or updating the supervisory process.*
ComFrame Standard M3E1-2 **The group-wide supervisor undertakes a group-wide risk assessment of the IAIG in cooperation with other involved supervisors.**	
Parameter M3E1-2-1 In assessing the possible impact of developments on an IAIG, the group-wide supervisor considers the potential consequences for policyholders and other involved stakeholders, and the overall stability of the markets in which the IAIG operates.	*Guideline M3E1-2-1-1* *This assessment should consider the:* • *size of the IAIG* • *market share at entity and group level* • *impact on policyholders in different jurisdictions* • *overall market capacity* • *activities undertaken* • *resolvability of the IAIG.*

	Guideline M3E1-2-1-2 *Where other involved supervisors identify risks that may be relevant to the supervision of the IAIG at the group level, they should share this information with the group-wide supervisor. The group-wide supervisor should share and discuss the information with the supervisory college to determine and coordinate the supervisory action to be taken.*
	Guideline M3E1-2-1-3 *Horizontal reviews may be useful in identifying market developments. They may be conducted by the group-wide supervisor in cooperation with group-wide supervisors of other IAIGs. Horizontal reviews should be subject to confidentiality requirements and should be conducted in a way such that they:* • *provide a point of comparison so that risk assessment of each IAIG is not made in isolation* • *assess the impact of market-wide risks or identify market-wide risks* • *provide input into macroprudential surveillance and also use information derived from other macroprudential surveillance activities.* *Horizontal reviews compare and identify good practices amongst IAIGs and amongst their supervisors.* *Peer groups for horizontal reviews may be determined using factors including:* • *similarity of business models* • *size, type and structure of IAIGs and* • *geographic scope.*

Parameter M3E1-2-2 The group-wide supervisor assesses the risk arising from the group structure, strategy and material intra-group transactions of the IAIG. Other involved supervisors assist the group-wide supervisor to assess how risks arising from the IAIG's entities fit into the group structure, strategy and material intra-group transactions from the entity perspective.	*Guideline M3E1-2-2-1* *Some considerations for supervisors in assessing the structure, strategy and intra-group transactions of an IAIG include:* • *Where is growth occurring within the IAIG?* • *What business is done via unregulated entities?* • *What are the limits on fungibility of capital within the group?* • *What assumptions has the group made about fungibility of capital and are these assumptions realistic?* • *Where there is surplus capital in the group, has the group relied on this surplus capital for multiple business lines?*
Parameter M3E1-2-3 The group-wide supervisor assesses the adequacy and effectiveness of governance and internal controls of the IAIG.	
Parameter M3E1-2-4 The group-wide supervisor assesses the ERM Framework of the IAIG at the group level in order to: • test its robustness • compare the results and methodology with any other IAIGs under its supervision • judge its appropriateness for the IAIG business model.	*Guideline M3E1-2-4-1* *Some considerations for supervisors in assessing the ERM Framework of an IAIG include:* • *What major risks is the IAIG exposed to?* • *What is the time horizon associated with these major risks and what would the regulatory actions be if there was a significant deterioration in these risks?* • *How are tail risks quantified, ignored or assessed for the major risks of the IAIG?* • *How does the IAIG define the fatness of the risk tails for each of these risks?* • *What is the sensitivity of major assumptions used for the ORSA?* • *What are the risk limits/capital allocations for entities or business units?*

	• *How are these risk limits/capital allocations set for the entities or business units?* • *Are risk limits/capital allocations adhered to by the entities or business units?* • *What actions did the IAIG take due to changing market conditions in the prior period?*
Parameter M3E1-2-5 The group-wide supervisor assesses the ERM policies of the IAIG: • investment policy • underwriting policy • claims management policy • insurance liability valuation policy • reinsurance and risk transfer strategy • actuarial policy. Other involved supervisors assist the group-wide supervisor to assess the liabilities/technical provisions and assets/investments of the respective entities they supervise.	
Parameter M3E1-2-6 The group-wide supervisor assesses the valuation and capital adequacy of the IAIG, as well as its leverage and liquidity.	*Guideline M3E1-2-6-1* *The group-wide supervisor should carry out an assessment of the financial condition of the IAIG using whatever information is helpful in making such an assessment. This would include assessing the:* • *consolidated financial statements of the entire group* • *comparisons of outcomes with prior year business plans* • *proposed major transactions* • *methodology in deriving group ORSA* • *group-wide regulatory capital calculation* • *quality of capital resources after considering multiple gearing*

	and fungibility.
ComFrame Standard M3E1-3 **The group-wide supervisor is responsible for determining any preventive or corrective measures that need to be taken at the group level.**	
Parameter M3E1-3-1 The group-wide supervisor and other involved supervisors affected by, or involved in, a specific measure coordinate preventive and corrective measures that will have an effect at the group and/or entity level.	
Parameter M3E1-3-2 The group-wide supervisor communicates to the Head of the IAIG any preventive or corrective measure that needs to be taken as a result of its group-wide assessment. The other involved supervisors are responsible for communicating the preventive and corrective measures, resulting from the group-wide assessment, to the affected entities they supervise.	*Guideline M3E1-3-2-1* *The group-wide supervisor in cooperation with other involved supervisors should develop an appropriate communication strategy, having regard to their legal responsibilities for preventive and corrective measures, specifying the type of information to be shared by when and by whom.*
	Guideline M3E1-3-2-2 *The group-wide supervisor should communicate the findings to the IAIG before taking any action. This does not prevent the group-wide supervisor from taking immediate action when required.*
Parameter M3E1-3-3 Involved supervisors do not take decisions in isolation which would destabilise the IAIG, adversely impact another entity within the IAIG or weaken the position of its policyholders.	*Guideline M3E1-3-3-1* *The need for such decisions should be discussed at the earliest opportunity. However, there may be exceptional circumstances where involved supervisors must make quick decisions due to time or regulatory constraints. In such circumstances, and where the*

	action could be expected to have an impact on the IAIG as a whole or another entity within the IAIG, the supervisor should inform other involved supervisors of the decision made, or action taken, and the supporting rationale as soon as possible.

Module 3, Element 2

Supervisory colleges, cooperation and coordination

ComFrame Standard M3E2-1 **A supervisory college is established as a forum for the on-going supervision of the IAIG.**	
Parameter M3E2-1-1 The group-wide supervisor establishes the supervisory college in a form that is reflective of the structure and business model of the IAIG.	*Guideline M3E2-1-1-1* *Supervisory colleges should aim to achieve common agreements and to promote common understanding on group-wide risks assessments and group-wide supervisory activities in relation to the supervision of the IAIG.* *The decisions of a supervisory college are not legally binding.* *The supervisory college primarily facilitates the supervision of the IAIG as a whole but also improves the supervision of the entities within the IAIG.*
	Guideline M3E2-1-1-2 *The structure and business model of the IAIG may require flexibility in establishing the supervisory college, for example by setting up*

	subgroups of involved supervisors.
Parameter M3E2-1-2 The group-wide supervisor is responsible for managing the supervisory college.	*Guideline M3E2-1-2-1* *If a supervisory college does not already exist, one should be formed and its first meeting should take place in a timely manner after the identification of the IAIG.*
	Guideline M3E2-1-2-2 *The initial supervisory college meeting should:* • *confirm the designation of the group-wide supervisor* • *describe the scope of group-wide supervision including, where applicable, an explanation from the group-wide supervisor of its decision to exclude an entity from the scope of group-wide supervision* • *discuss the proposed coordination arrangements in order to determine the organisational structure of the supervisory college and the means of exchange of information among involved supervisors.*
Parameter M3E2-1-3 The group-wide supervisor, in cooperation with other involved supervisors, determines who participates in the supervisory college.	*Guideline M3E2-1-3-1* *Issues which should be considered in determining participation include the:* • *size and/or materiality of the entities relative to the group as a whole* • *size or materiality of the entity relative to its local market* • *jurisdiction and risk profile of a particular entity.*
	Guideline M3E2-1-3-2 *The number of involved supervisors may make it impracticable to include them all in supervisory college meetings.*

	Guideline M3E2-1-3-3 *The supervisors of non-insurance regulated entities of the IAIG may be invited to participate in the supervisory college.*
Parameter M3E2-1-4 The group-wide supervisor convenes a supervisory college meeting at least annually.	*Guideline M3E2-1-4-1* *The group-wide supervisor should set the agenda of supervisory college meetings which covers the most relevant elements of the group-wide supervisory process and the supervisory plan. In particular, the agenda provides for discussion of group-wide governance, ERM and the IAIG's financial condition.* *In setting the agenda, the group-wide supervisor should coordinate with involved supervisors to ensure that matters pertinent at an entity level are appropriately raised.*
Parameter M3E2-1-5 The roles of the group-wide supervisor and other involved supervisors are agreed on within the supervisory college.	*Guideline M3E2-1-5-1* *Responsibilities of the group-wide supervisor may include:* • *initiating and chairing of the supervisory college* • *aggregation of group-wide information* • *preparation of supervisory plans* • *group-wide supervisory assessment* • *leadership, planning and coordination of group-wide supervisory activities* • *determination of the scope of IAIG supervision* • *preparation and discussion of group-wide supervisory analysis* • *coordination of information sharing procedures amongst other involved supervisors* • *decision making on group-wide issues in consultation with other involved supervisors* • *implementation of group-wide supervisory decisions including preventive and corrective actions*

	• *implementation and coordination of group-wide enforcement activities* • *identification of gaps in supervision* • *oversight of group capital management.*
	Guideline M3E2-1-5-2 *Responsibilities of other involved supervisors may include:* • *supervising their entity taking into account its relationship with the rest of the group* • *informing the group-wide supervisor and, if necessary, other involved supervisors, of material findings affecting their entity that could affect entities in other jurisdictions* • *sharing all relevant information with the group-wide supervisor to assist with supervision at the group-wide level and discussing findings and concerns at the group level with the group-wide supervisor* • *cooperating in the analysis and decision making as well as implementation and enforcement* • *identifying gaps in supervision* • *actively participating in the supervisory process as determined by the supervisory college* • *analysing information received from the group-wide supervisor* • *assisting the group-wide supervisor in reaching agreements on supervisory process at the group level.*
Parameter M3E2-1-6 The group-wide supervisor and the other involved supervisors come to joint decisions, where possible. If a joint decision, or timely decision, is not possible the group-wide supervisor is responsible for making the decision.	

Parameter M3E2-1-7 An involved supervisor, where appropriate, challenges the opinions and analysis of other involved supervisors, including the group-wide supervisor.	*Guideline M3E2-1-7-1* *If an involved supervisor decides not to implement a decision of the supervisory college, the involved supervisor should inform the other involved supervisors of its decision and its rationale.*
ComFrame Standard M3E2-2 **The supervisory college operates, communicates and exchanges information subject to confidentiality requirements.**	
Parameter M3E2-2-1 Involved supervisors cooperate and communicate throughout the group-wide supervisory process and enter into an agreement for information exchange and supervisory cooperation which addresses confidentiality requirements.	*Guideline M3E2-2-1-1* *Information should be exchanged in accordance with the confidentiality requirements of the college, whereby the involved supervisors have either signed the IAIS Multilateral Memorandum of Understanding (MMoU) or have demonstrated that their confidentiality regime is as robust and reliable as the IAIS MMoU.*

Module 3, Element 3

Crisis management and resolution measures among supervisors

The work done to date on Module 3 Element 3 is not included in this consultation as the IAIS is considering the FSB Key Attributes and in particular the final version of the Insurance Annex to the Key Attributes. The general approach is to consider carefully whether and to what extent the FSB Key Attributes are appropriate for IAIGs and to align the terminology. The IAIS plans to consult on this Element in 2014.