



To: Dr. Monica Mächler
Chair ComFrame Task Force
International Association of Insurance Supervisors (IAIS)
Vice-Chairwoman of the Board of Directors
Swiss Financial Market Supervisory Authority (FINMA)
Einsteinstrasse 2
CH - 3003 Berne
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Your
reference: -
Our
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Subject: ComFrame

Brussels, 19 June 2012

Dear Dr. Mächler,

At the outset Insurance Europe welcomed the International Association of Insurance Supervisors (IAIS) initiative to develop a common framework (ComFrame) for supervision of Internationally Active Insurance Groups (IAIGs); however, as the project nears the end of the second year of its development phase, Insurance Europe's support for the project is more measured due to significant concerns about the current direction of the project.

As further detailed in the annex to this letter, although, we still see potential benefits for supervisors and industry alike, we are increasingly concerned that ComFrame will result in two-tier regulation with additional and duplicative requirements applied to certain insurance groups (IAIGs). The IAIS should take pride in its work to date in developing a comprehensive set of ICPs which provide a firm basis for well-coordinated and consistent insurance supervision, and not underestimate the value of what has already been achieved. Changes and further refinements will be needed as experience is gained in implementing the ICPs. However, in order to avoid a two-tier regulatory system it is important that amendments follow a careful assessment of where gaps exist and are first addressed in the ICPs with practical elaboration where necessary included in ComFrame.

Insurance Europe has the following key concerns with ComFrame:

- Relationship between ComFrame and the IAIS Insurance Core Principles (ICPs) should be guided by practical experience of group supervision
- It is unclear how ComFrame affects existing regulatory and legal requirements that meet the ComFrame's principles
- ComFrame is too prescriptive
- The scope of ComFrame is too wide, as it includes entities which are not groups
- ComFrame should focus on what is 'material' for a group and should not seek to replicate/be confused with supervision of legal entities
- ComFrame should not set new global standards for capital, solvency and valuation

To address these concerns Insurance Europe believes that ComFrame should be phased in:

- Phase 1: The ComFrame 'development phase' should focus on supervisory cooperation and coordination, as set out in Module 3. Module 2 should be based on the principles contained in the ICPs without further detail or specification at this point.
- Phase 2: After this as part of ComFrame's 'calibration phase' and following further implementation and embedding of the ICPs, any gaps in available information should be identified including areas where greater specification may be needed.
- Phase 3: A potential third phase would then see the development of additional requirements in the ICPs and further practical elaboration of the ICPs where necessary in the ComFrame. These would be developed based on practical experience and the results of the second phase.

We believe that phasing in of ComFrame in this manner will facilitate early implementation, as development will not be held up by difficulties in reaching agreement in areas such as capital requirements.

Insurance Europe welcomes the opportunity to provide these comments, and continues to believe that a robust well-coordinated approach to group supervision, as potentially facilitated through ComFrame, will help to ensure that the insurance sector remains financially resilient and well positioned to identify, manage and monitor emerging risks.

Insurance Europe intends to provide more detailed feedback on the draft ComFrame paper during this summer's public consultation. We are happy to answer any questions you have in relation to this submission in advance.

Yours sincerely



Olav Jones

Potential benefits of ComFrame

We believe that, if ComFrame is carefully designed and implemented, it has the potential to deliver effective, streamlined supervision of insurance groups trading internationally, reducing duplications in supervisory efforts and bringing greater consistency to the way a group is supervised. We also believe that supervisors cooperating, coordinating and sharing their insight on entities based in their jurisdictions with other involved supervisors will enable a group-wide supervisor to gain a more holistic understanding of a group and ensure that all material entities are included within the regulatory perimeter. ComFrame could also provide a clear framework for cooperation and coordination with other sectoral supervisors to ensure gaps in regulation are appropriately addressed. These are desirable goals, however, these benefits cannot be achieved over-night and it is important that time is allowed for change to occur, and in-line with this view we have the following concerns about the current direction of the ComFrame project.

Key concerns with current direction of ComFrame

- Relationship between ComFrame and the IAIS Insurance Core Principles (ICPs) should be guided by practical experience of group supervision. The IAIS has clarified that ComFrame is intended to further develop and specify the ICPs. However, the revised ICPs were only adopted in October 2011, including ICP 23 focused on group supervision. The IAIS should focus on the implementation and embedding of the ICPs and identify any gaps or shortcomings with the current ICPs through the practical experience of their application before developing additional specifications. It is these gaps or shortcomings in practical implementation of the ICPs in a group context that ComFrame should address. Consideration should always be given to revising the ICPs rather than introducing new requirements in ComFrame.
- It is still unclear how ComFrame relates to regulatory/legal requirements that meet the overall principles covered by ComFrame. Although, the IAIS has repeatedly stated that, if local rules embody the ComFrame requirements then no change is needed, this is not clearly reflected in the draft ComFrame document. This is highlighted by the highly prescriptive nature of some requirements, which make it unlikely that even the robust group supervision regime forthcoming under Solvency II will satisfy the ComFrame requirements. Insurance Europe believes that it is important that ComFrame clearly recognises and enables coordination with existing and forthcoming supervisory regimes.
- ComFrame is too prescriptive. The recent ComFrame draft (June 6th) most clearly demonstrates this in the area of corporate governance, but it is also true for other parts of the paper. The focus should instead be on ensuring that a group identifies and deals with risks without specifying exactly how it does so. ComFrame's approach should build on existing and forthcoming supervisory regimes at national and regional level.
- The Scope of ComFrame is too wide, as it includes entities which are not groups. Solo entities operating internationally on a cross-border basis should not fall within ComFrame's scope. ComFrame is a framework for group supervision, designed to address risks arising from the corporate and financial structures and governance processes of groups with separate legal entities in different jurisdictions.
- ComFrame should focus on what is 'material' for a group and should not seek to replicate/be confused with supervision of legal entities. As a result of a desire for supervisors to create a 'common language' and facilitate a greater reliance on each other's supervision ComFrame's focus has switched from addressing gaps in group supervision to designing a more intrusive supervisory regime for legal entities within groups. This is not only at odds with ComFrame's original aim, to create a framework for group supervision, but will place an unnecessary and significant additional regulatory burden on

groups and risks considerable delays to agreement and implementation of the framework. ComFrame should facilitate supervisory dialogue on material risks arising from being part of a group structure.

- ComFrame should not set new global standards for capital, solvency and valuation. Insurance Europe recognises that there are significant variations in local/regional regulatory frameworks for capital, solvency and valuation, but strongly believes that deference should be given to the standards as defined in the legislative framework of a jurisdiction. We understand that IAIS wants greater consistency in these areas so that it can compare different IAIGs. However, this will require new standards to be agreed and consistently implemented locally in all three areas – the solvency of a company can only be assessed by comparing the local definition of available capital with the local definition of required capital – otherwise, the figures are meaningless. The current divergences in approaches, on-going developments and deep reservations from jurisdictions about change means that addressing this topic at the outset could block progress on the initiative as a whole, which would be undesirable. Existing processes are already in place to amend solvency standards in various jurisdictions and it is unlikely to be productive to leapfrog these via prescription in ComFrame. Likewise, harmonization of valuation standards is an issue that goes far wider than insurance, and again it would be unwise to tie the progress of ComFrame to agreement on this issue.

As a result of the concerns expressed above Insurance Europe believes that ComFrame would benefit from a phased approach to its implementation as explained in more detail below.

Phased approach to ComFrame implementation

As outlined by Insurance Europe at the ComFrame Dialogue held in Washington on May 8th, we believe that a phased approach should be based on the two initial phases outlined below, plus potential additional phases, depending on lessons learnt during implementation of the first two phases:

- Phase 1: Supervisory cooperation and coordination
- Phase 2: Identification of gaps in available information and areas where greater specification might be needed in the ICPs
- Phase 3: Further refinement of ICPs and more detailed practical elaboration in ComFrame.

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

In addition, Insurance Europe believes that the IAIS should carry out impact assessments of the costs and resources required by supervisors and IAIG's to implement ComFrame during the development phase and again if new requirements are introduced during the calibration phase. This will help to ensure that the impact on supervisors and industry is understood in advance, with changes made where required. This would also facilitate consistent implementation of ComFrame.

Phase 1: Supervisory cooperation and coordination

The first phase should focus on organisational aspects of ensuring strong global group supervision, including the closure of supervisory gaps, minimising overlaps, allocation of responsibilities and developing cooperation processes. This globally coordinated approach to supervision should in the first instance operate on the basis of IAIS ICPs as implemented in local jurisdictions' legislation. ComFrame should enhance the functioning of the

ICPs by providing guidance on coordination and cooperation between supervisors, particularly in the following areas:

- Identification of one group-wide supervisor
- Clear definitions of the roles and responsibilities of group-wide and involved supervisors
- A clear understanding of the data which is already available and provided by the insurance group to different supervisors in the college.
- Organisational arrangements which provide an effective decision making process between supervisors, taking into account the materiality of a group's business in a jurisdiction. Supervisors in jurisdictions where a group has more substantial operations should have a more significant say.
- Mindful of the fact that more than one supervisory college may exist for certain groups, ComFrame should aim to facilitate convergence towards one core supervisory college per group.
- Cross-sectoral co-ordination and cooperation is important and the current draft of ComFrame needs to be further developed in this respect.

Phase 2: Identification of gaps in available information and areas where greater specification may be needed in the ICPs

The second phase should focus on ensuring that any additional information needed for adequate group supervision is determined and made available. Insurance Europe believes that it is very likely that much of requisite information will be available from existing reporting. However, it is only once supervisory colleges are fully operational that it will be clear exactly where additional specification or/and greater standardisation may be needed.

Phase 3: Further refinement of ICPs and more detailed practical elaboration in ComFrame

It is too early at this point to anticipate what Phase 3 might include. However, if as a result of lessons learnt during Phase 2 it is clear that further information is needed, changes should be made to the ICPs where appropriate with further practical elaboration where necessary included in ComFrame.