MUNQSMUN '14

9-11 October 2014

International Association of Insurance Supervisors Background Guide

Letter from the Executive Board:

Greetings delegates,

It's indeed our honor to be presiding on the General Meeting of **International Association of Insurance Supervisors** to be held at MUNQSMUN 2014, hosted by Delhi Public School, Mathura Road. We welcome you to the same, and hope that this simulation proves to an enriching and unforgettable learning experience for you.

The agenda for this meeting "**Promoting 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**" is a huge agenda in it's true essence, involving multiple technicalities of insurances and most importantly working of the IAIS. Therefore, this background guide shall try to simplify most of these concepts and put basic concepts in one place to ensure clear fundamental understanding. However, at no point, the background guide shall substitute to the research and analysis required for this agenda. We strongly urge you to have eclectic research for this agenda. A lot of hyperlinks are given in the background guide itself to ease the job a bit, giving you more opportunity and time for analysis.

When we say the agenda is "huge", it's because of the requirement of exploration of multiple facets to the agenda. This agenda requires debate on an individual as well as at industry level. The agenda, in other words, in asking you to propose policies, methods, principles, guidelines and standards which may be globally applicable, to supervise insurance markets to maintain its safety and stability and then question these policies itself; if they shall be applicable and effective in protecting the interests of and benefiting the policyholders.
While we understand that all the terms used in the background guide, or in the committee may not be clear to you from your existing knowledge, we cannot also provide definitions for all the terms, which is why were request you to kindly use the Glossary (http://www.iaisweb.org/Supervisory-Material/Glossary-47) for any term you do not understand. You may download a PDF version of the same, from the given hyperlink, for using it in the committee.

Also, please feel free to contacts us if you’ve any queries or need any clarifications. We shall be delighted to assist.
With that note, we would like to wish you luck for the committee.

Regards,
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About the International Association of Insurance Supervisors

Overview:

The International Association of Insurance Supervisors (IAIS) is a voluntary membership organization of insurance supervisors and regulators from more than 200 jurisdictions in nearly 140 countries. The mission of the IAIS is 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 to contribute to global financial stability.
Established in 1994, the IAIS is the international standard setting body responsible for developing principles, standards and other supporting material for the supervision of the insurance sector and assisting in their implementation. The IAIS also provides a forum for Members to share their experiences and understanding of insurance supervision and insurance markets. In addition to active participation of its Members, the IAIS benefits from input in select IAIS activities from Observers representing international institutions, professional associations and insurance and reinsurance companies, as well as consultants and other professionals.
The IAIS is the international standard setting body responsible for developing and assisting in the implementation of principles, standards and other supporting material for the supervision of the insurance sector. The IAIS also provides a forum for Members and Observers to share their experiences and understanding of insurance supervision and insurance markets. In recognition of its collective expertise, the IAIS is routinely called upon by the G20 leaders and other international standard setting bodies.
The IAIS coordinates its work with other international financial policymakers and associations of supervisors or regulators, and assists in shaping financial systems globally. In particular, the IAIS is a member of the Financial Stability Board (FSB), founding member and co-parent of the Joint Forum, along with the Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissions (IOSCO), member of the Standards Advisory Council of the International Accounting Standards Board (IASB), and partner in the Access to Insurance Initiative (A2ii). In recognition of its collective expertise, the IAIS also is routinely called upon by the G20 leaders and other

international standard setting bodies for input on insurance issues as well as on issues related to the regulation and supervision of the global financial sector.

Objectives of IAIS:

Its primary objectives 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 to
- Contribute to global financial stability

Having said that, the IAIS has three-pillars of activities:

Activities undertaken in furtherance of its mission can be divided into three categories:

1. ***Standard setting*****:** The IAIS develops supervisory material (principles, standards and guidance) for effective supervision of insurance-related activities. The IAIS also prepares supporting papers (such as issues' papers) that provide background on specific areas of interest to insurance supervisors.
2. ***Implementation*****:** The IAIS actively promotes the implementation of its supervisory material. Working closely with international organizations, regional groups and supervisors, it supports training seminars and conferences and addresses financial inclusion. In addition, the IAIS conducts assessments and peer reviews of observance of supervisory material, consistent with the Financial Sector Assessment Program (FSAP) conducted by the International Monetary Fund (IMF) and the World Bank.
3. ***Financial stability*****:** The IAIS plays a central role in financial stability issues, including developing a methodology for the identification of any global systemically important insurers (G-SIIs). It assists its Members in developing enhanced macro-prudential surveillance tools.

Prudential, in its literal terms means taking care of something (especially in a business). Applying that on a macro level (on a larger scale) means to about taking care of system of work, or conditions of work. The market-wide perspective is taken care of.

This gives the meaning of macro-prudential surveillance, in context of insurances, activities of investigation and monitoring the risk indicators in the market with the identified vulnerabilities in insurances. The guide shall talk about this in detail at a later stage.

The IAIS Committee System

Under the direction of its Members, the IAIS conducts activities through a Committee system designed to achieve its mandate and objectives. The IAIS Committee system is led by an Executive Committee whose members come from different regions of the world. It is supported by five Committees established by the By-Laws – the Audit and Risk, Budget, Financial Stability, Implementation, and Technical Committees – as well as by the Supervisory Forum. Committees may establish subcommittees or working parties to help carry out their duties.
Click here (http://www.iaisweb.org/Organisational-Structure-33) for a figure outlining current Committees and Working Parties.

The Secretariat of IAIS

The activities of the IAIS are supported by its Secretariat located in Basel and headed by a Secretary General. A figure outlining the Secretariat Structure is available here (http://www.iaisweb.org/Secretariat-Structure-317).

Production and publishing by the IAIS

Although, a lot of information is kept confidential and under secrecy by the IAIS, under the Memorandum of Understanding (http://www.iaisweb.org/Supervisory-Material/MMoU/MMoU-381), yet there are sufficient material published by IAIS to establish clear understanding; research will therefore require more analysis than just facts. This background guide shall provide the facts from various credible sources. The sources provided below shall allow for establish your analysis and innovative use of the mandate of the organization towards the agenda.

Insurance Core Principles

The Insurance Core Principles (ICPs) provide a globally accepted framework for the supervision of the insurance sector. The ICP material is presented according to a hierarchy of supervisory material. The ICP statements are the highest level in the hierarchy and prescribe the essential elements that must be present in the supervisory regime in order to promote a financially sound insurance sector and provide an adequate level of policyholder protection. Standards are the next level in the hierarchy and are linked to specific ICP statements. Standards set out key high level requirements that are fundamental to the implementation of the ICP statement and should be met for a supervisory authority to demonstrate observance with the particular ICP. Guidance material is the lowest level in the hierarchy and typically supports the ICP statement and/or standards. Guidance material provides detail on how to implement an ICP statement or standard. Guidance material does not prescribe new requirements but describes what is meant by the ICP statement or standard and, where possible, provides examples of ways to implement the requirements.

The ICP material is presented in order that the hierarchy can be clearly understood, as follows:

- ICP statements – numbered and presented in a box with bold font
- Standards – linked to an ICP statement and presented in bold font, with the number of the applicable principle statement followed by the standard number. e.g. the second standard under ICP statement 3 appears as 3.2
- Guidance material – linked to a particular ICP statement and/or standard. Guidance material is presented in regular font, with the number of the ICP statement and standard followed by the guidance number, e.g. the second paragraph of guidance under Standard 1.3 appears as 1.3.2.

The ICPs apply to insurance supervision in all jurisdictions regardless of the level of development or sophistication of the insurance markets and the type of insurance products or services being supervised. Nevertheless, supervisory measures should be appropriate to attain the supervisory objectives of a jurisdiction and should not go beyond what is necessary to achieve those objectives. It is recognized that supervisors need to tailor certain supervisory requirements and actions in accordance with the nature, scale and complexity of individual insurers. In this regard, supervisors should have the flexibility to tailor supervisory requirements and actions so that they are commensurate with the risks posed by individual insurers as well as the potential risks posed by insurers to the insurance sector or the financial system as a whole. This is provided for in the ICPs and standards where relevant.

The ICPs apply to the supervision of all insurers whether private or government-controlled insurers that compete with private enterprises, wherever their business is conducted, including through e-commerce. Where the principles do not apply to reinsurers, this is indicated in the text. The ICPs do not normally apply to the supervision of intermediaries but where they do, this is specifically indicated.

The ICPs can be used to establish or enhance a jurisdiction's supervisory system. They can also serve as the basis for assessing the existing supervisory system and in so doing may identify weaknesses, some of which could affect policyholder protection and market stability. The Assessment Methodology sets out factors that should be considered when using or implementing these ICPs and describes how observance should be evaluated.

When implementing the ICPs and standards in a jurisdiction, it is important to take into account the domestic context, industry structure and developmental stage of the financial system and overall macroeconomic conditions. The methods of implementation will vary across jurisdictions, and while established implementation practices should be kept in mind, there is no mandated method of implementation. In the ICPs, the term "legislation" is used to include both primary legislation (which generally requires full legislative consent) and secondary and other forms of legislation, including rules and regulations which have the legal force of law but are usually the responsibility of the supervisor.

ICP 1 Objectives, Powers and Responsibilities of the Supervisor: The authority (or authorities) responsible for insurance supervision, and the objectives of insurance supervision are clearly defined.

Click here (http://www.iaisweb.org/index.cfm?pageID=689&icpAction=listIcps&icp_id=8&showStandard=1&showGuidance=1&showIntroGuidance=1) to read about standards and guidance in detail for ICP 1.

ICP 2 Supervisor: The supervisor, in the exercise of its functions and powers:

- is operationally independent, accountable and transparent
- protects confidential information
- has appropriate legal protection
- has adequate resources
- meets high professional standards

Click here (http://www.iaisweb.org/index.cfm?pageID=689&icpAction=listIcps&icp_id=9&showStandard=1&showGuidance=1&showIntroGuidance=1) to read about standards and guidance for ICP 2.

ICP 3 Information Exchange and Confidentiality Requirements: The supervisor exchanges information with other relevant supervisors and authorities subject to confidentiality, purpose and use requirements.

Click here (http://www.iaisweb.org/index.cfm?pageID=689&icpAction=listIcps&icp_id=10&showStandard=1&showGuidance=1&showIntroGuidance=1) to read about standards and guidance for ICP 3.

ICP 4 Licensing: A legal entity which intends to engage in insurance activities must be licensed before it can operate within a jurisdiction. The requirements and procedures for licensing must be clear, objective and public, and be consistently applied.

Click here (http://www.iaisweb.org/index.cfm?pageID=689&icpAction=listIcps&icp_id=5&showStandard=1&showGuidance=1&showIntroGuidance=1) to read about standards and guidance for ICP 4.

ICP 5 Suitability of Persons: The supervisor requires Board Members, Senior Management, Key Persons in Control Functions and Significant Owners of an insurer to be and remain suitable to fulfil their respective roles.

Click here (http://www.iaisweb.org/index.cfm?pageID=689&icpAction=listIcps&icp_id=6&showStandard=1&showGuidance=1&showIntroGuidance=1) to read about standards and guidance for ICP 5.

ICP 6 Changes in Control and Portfolio Transfers: Supervisory approval is required for proposals to acquire significant ownership or an interest in an insurer that results in that person (legal or natural), directly or indirectly, alone or with an associate, exercising control over the insurer. The same applies to portfolio transfers or mergers of insurers.

Click here (http://www.iaisweb.org/index.cfm?pageID=689&icpAction=listIcps&icp_id=11&showStandard=1&showGuidance=1&showIntroGuidance=1) to read about standards and guidance for ICP 6.

ICP 7 Corporate Governance: The supervisor requires insurers to establish and implement a corporate governance framework which provides for sound and prudent management and oversight of the insurer's business and adequately recognizes and protects the interests of policyholders.

Click here (http://www.iaisweb.org/index.cfm?pageID=689&icpAction=listIcps&icp_id=12&showStandard=1&showGuidance=1&showIntroGuidance=1) to read about standards and guidance for ICP 7.

ICP 8 Risk Management and Internal Controls: The supervisor requires an insurer to have, as part of its overall corporate governance framework, effective systems of risk management and internal controls, including effective functions for risk management, compliance, actuarial matters and internal audit.

Click here (http://www.iaisweb.org/index.cfm?pageID=689&icpAction=listIcps&icp_id=13&showStandard=1&showGuidance=1&showIntroGuidance=1) to read about standards and guidance for ICP 8.

ICP 9 Supervisory Review and Reporting: The supervisor takes a risk-based approach to supervision that uses both off-site monitoring and on-site inspections to examine the business of each insurer, evaluate its condition, risk profile and conduct, the quality and effectiveness of its corporate governance and its compliance with relevant legislation and supervisory requirements. The supervisor obtains the necessary information to conduct effective supervision of insurers and evaluate the insurance market.

Click here (http://www.iaisweb.org/index.cfm?pageID=689&icpAction=listIcps&icp_id=14&showStandard=1&showGuidance=1&showIntroGuidance=1) to read about standards and guidance for ICP 9.

ICP 10 Preventive and Corrective Measures:

The supervisor takes preventive and corrective measures that are timely, suitable and necessary to achieve the objectives of insurance supervision.

Click here (http://www.iaisweb.org/index.cfm?pageID=689&icpAction=listIcps&icp_id=15&showStandard=1&showGuidance=1&showIntroGuidance=1) to read about standards and guidance for ICP 10.

ICP 11 Enforcement: The supervisor enforces corrective action and, where needed, imposes sanctions based on clear and objective criteria that are publicly disclosed.

Click here (http://www.iaisweb.org/index.cfm?pageID=689&icpAction=listIcps&icp_id=16&showStandard=1&showGuidance=1&showIntroGuidance=1) to read about standards and guidance for ICP 11.

ICP 12 Winding-up and Exit from the Market: The legislation defines a range of options for the exit of insurance legal entities from the market. It defines insolvency and establishes the criteria and procedure for dealing with insolvency of insurance legal entities. In the event of winding-up proceedings of insurance legal entities, the legal framework gives priority to the protection of policyholders and aims at minimizing disruption to the timely provision of benefits to policyholders.

Click here (http://www.iaisweb.org/index.cfm?pageID=689&icpAction=listIcps&icp_id=17&showStandard=1&showGuidance=1&showIntroGuidance=1) to read about standards and guidance for ICP 12.

ICP 13 Reinsurance and Other Forms of Risk Transfer: The supervisor sets standards for the use of reinsurance and other forms of risk transfer, ensuring that insurers adequately control and transparently report their risk transfer programs. The supervisor takes into account the nature of reinsurance business when supervising reinsurers based in its jurisdiction.

Click here (http://www.iaisweb.org/index.cfm?pageID=689&icpAction=listIcps&icp_id=7&showStandard=1&showGuidance=1&showIntroGuidance=1) to read about standards and guidance for ICP 13.

ICP 14 Valuation: The supervisor establishes requirements for the valuation of assets and liabilities for solvency purposes.

Click here (http://www.iaisweb.org/index.cfm?pageID=689&icpAction=listIcps&icp_id=18&showStandard=1&showGuidance=1&showIntroGuidance=1) to read about standards and guidance for ICP 14.

ICP 15 Investment: The supervisor establishes requirements for solvency purposes on the investment activities of insurers in order to address the risks faced by insurers.

Click here (http://www.iaisweb.org/index.cfm?pageID=689&icpAction=listIcps&icp_id=2&showStandard=1&showGuidance=1&showIntroGuidance=1) to read about standards and guidance for ICP 15.

ICP 16 Enterprise Risk Management for Solvency Purposes: The supervisor establishes enterprise risk management requirements for solvency purposes that require insurers to address all relevant and material risks.

Click here (http://www.iaisweb.org/index.cfm?pageID=689&icpAction=listIcps&icp_id=3&showStandard=1&showGuidance=1&showIntroGuidance=1) to read about standards and guidance for ICP 16.

ICP 17 Capital Adequacy: The supervisor establishes capital adequacy requirements for solvency purposes so that insurers can absorb significant unforeseen losses and to provide for degrees of supervisory intervention.

Click here (http://www.iaisweb.org/index.cfm?pageID=689&icpAction=listIcps&icp_id=1&showStandard=1&showGuidance=1&showIntroGuidance=1) to read about standards and guidance for ICP 17.

ICP 18 Intermediaries: The supervisor sets and enforces requirements for the conduct of insurance intermediaries, to ensure that they conduct business in a professional and transparent manner.

Click here (http://www.iaisweb.org/index.cfm?pageID=689&icpAction=listIcps&icp_id=19&showStandard=1&showGuidance=1&showIntroGuidance=1) to read about standards and guidance for ICP 18.

ICP 19 Conduct of Business: The supervisor sets requirements for the conduct of the business of insurance to ensure customers are treated fairly, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied.

Click here (http://www.iaisweb.org/index.cfm?pageID=689&icpAction=listIcps&icp_id=20&showStandard=1&showGuidance=1&showIntroGuidance=1) to read about standards and guidance for ICP 19.

ICP 20 Public Disclosure: The supervisor requires insurers to disclose relevant, comprehensive and adequate information on a timely basis in order to give policyholders and market participants a clear view of their business activities, performance and financial position. This is expected to enhance market discipline and understanding of the risks to which an insurer is exposed and the manner in which those risks are managed.

Click here (http://www.iaisweb.org/index.cfm?pageID=689&icpAction=listIcps&icp_id=21&showStandard=1&showGuidance=1&showIntroGuidance=1) to read about standards and guidance for ICP 20.

ICP 21 Countering Fraud in Insurance: The supervisor requires that insurers and intermediaries take effective measures to deter, prevent, detect, report and remedy fraud in insurance.

Click here (http://www.iaisweb.org/index.cfm?pageID=689&icpAction=listIcps&icp_id=22&showStandard=1&showGuidance=1&showIntroGuidance=1) to read about standards and guidance for ICP 21.

ICP 22 Anti-Money Laundering and Combating the Financing of Terrorism: The supervisor requires insurers and intermediaries to take effective measures to combat money laundering and the financing of terrorism. In addition, the supervisor takes effective measures to combat money laundering and the financing of terrorism.

Click here (http://www.iaisweb.org/index.cfm?pageID=689&icpAction=listIcps&icp_id=23&showStandard=1&showGuidance=1&showIntroGuidance=1) to read about standards and guidance for ICP 22.

ICP 23 Group-wide Supervision: The supervisor supervises insurers on a legal entity and group-wide basis.

Click here (http://www.iaisweb.org/index.cfm?pageID=689&icpAction=listIcps&icp_id=24&showStandard=1&showGuidance=1&showIntroGuidance=1) to read about standards and guidance for ICP 23.

ICP 24 Macro-prudential Surveillance and Insurance Supervision: The supervisor identifies, monitors and analyses market and financial developments and other environmental factors that may impact insurers and insurance markets and uses this information in the supervision of individual insurers. Such tasks should, where appropriate, utilize information from, and insights gained by, other national authorities.

Click here (http://www.iaisweb.org/index.cfm?pageID=689&icpAction=listIcps&icp_id=25&showStandard=1&showGuidance=1&showIntroGuidance=1) to read about standards and guidance for ICP 24.

ICP 25 Supervisory Cooperation and Coordination: The supervisor cooperates and coordinates with other relevant supervisors and authorities subject to confidentiality requirements.

Click here (http://www.iaisweb.org/index.cfm?pageID=689&icpAction=listIcps&icp_id=26&showStandard=1&showGuidance=1&showIntroGuidance=1) to read about standards and guidance for ICP 25.

ICP 26 Cross-border Cooperation and Coordination on Crisis Management: The supervisor cooperates and coordinates with other relevant supervisors and authorities such that a cross-border crisis involving a specific insurer can be managed effectively.

Click here to read about standards and guidance for ICP 26.

Global Insurance Market Report (GIMAR)

The GIMAR collects and reports data reflecting the performance of primary insurers and reinsurers as well as key developments in the global insurance market. It builds on the previously issued Global Reinsurance Market Report, which has been incorporated as an integral part of the GIMAR. Publication of the GIMAR by the IAIS Secretariat began in October 2012.

The GIMAR is based on publicly available data as well as confidential data submitted to the IAIS by about 50 reinsurance companies.

GIMAR reports can be found here (http://www.iaisweb.org/News/Global-Insurance-Market-Report-GIMAR-962).

Guidance Papers

Guidance paper on anti-money laundering and combating the financing of terrorism (AML/CFT): The paper explains the vulnerability of the insurance sector with respect to money laundering and terrorist financing and provides case studies on money laundering. It presents measures and procedures to control these risks, including customer due diligence. It also provides guidance to the supervisor in monitoring compliance with AML/CFT standards and stresses the need for cooperation with other organizations involved in AML/CFT.

The guidance paper can be found here (http://www.iaisweb.org/Supervisory-Material/Guidance-papers-817).

Application Papers

Application papers provide actual examples or case studies pertaining to areas covered by supervisory material for the practical application of principles and standards. Application papers could be provided in circumstances where there is significant variance throughout the world in the practical application of principles and standards. Application papers could also provide assistance to regulators in area such as information gathering and analysis. For example, a paper on information gathering could provide examples of the type of financial information that supervisors could collect and how they could assess the data including key ratios, trend analysis, etc. In contrast to guidance paper, application papers are primarily descriptive and not meant to create expectations on how to give guidance to supervisors and provide an opportunity to explore issues of implementation.

The application papers can be found here (http://www.iaisweb.org/Supervisory-Material/Application-papers-763).

Issues papers

Issues papers provide background on particular topics, describe current practices and/or identify related regulatory and supervisory issues. Issues papers often form part of the preparatory work for developing standards.

Issues papers on multiple issues such as the following can be found here (http://www.iaisweb.org/Supervisory-Material/Issues-papers-48).

- Policyholders protection schemes,
- Regulation of Mutuals, cooperatives, and other community-based organizations in increasing access to insurance markets,
- Regulation and supervision of micro-insurances,

- Regulation and supervision of Islamic Insurances (Takaful).
- Life insurance securitization.
- Supervision of cross-border operations through branches.

The Supervisory Forum

The Supervisory Forum was established by the Executive Committee in 2011 to strengthen the effectiveness of insurance supervision and to foster convergence of supervisory practices. It has successfully developed into a forum in which fruitful discussion takes place between its members on topical issues from a front-line supervisory perspective. Its meetings are themed around specific topics, which are identified and prepared for in advance. The Forum also acts as a sounding board and stands ready to discuss issues and questions raised by other working parties, and to provide feedback and input into other IAIS work streams.

In order to achieve the right environment for its work, and in view of any potential confidentiality issues that might arise, the group is restricted. In view of this, in order to communicate its work with the wider IAIS membership, the Forum intends to prepare high-level summaries of the key discussion points from its meetings. At its most recent meeting the group discussed governance and longevity risk.

Agenda:

Promoting 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

Principles of effective insurance supervision

The IAIS sets out principles that are fundamental to effective insurance supervision. Principles identify areas in which the insurance supervisor should have authority or control and that form the basis on which standards are developed.
The IAIS is sincerely committed towards the formation and evaluation of new plans and policies that effectively guide and direct the operations of the organisations which are recognized by the association as indemnifiers of their customers and provide assurance to the various stakeholders.
The following main testaments signify the basic policies that outline the basis of the functioning of the association, and thus form as an essential foundation of interpreting any major decisions that the association has, or may take in the future to accomplish its objectives and establish a stable, secure and safe insurance market to benefit the policyholders:

- The Insurance Core Principles and Methodology –

The *Insurance core principles and methodology* consist of

- Essential principles that need to be in place for a supervisory system to be effective
- Explanatory notes that set out the rationale underlying each principle
- Criteria to facilitate comprehensive and consistent assessments.

The *Insurance core principles* (ICPs; refer above) provide a globally-accepted framework for the regulation and supervision of the insurance sector. IAIS principles, standards and guidance papers expand on various aspects. They provide the basis for evaluating insurance legislation, and supervisory systems and procedures. The principles that the association abides by, are completely self-complacent in itself and deals with all aspects of the insurance sector, from basic supervision to addressing grievances, and from customer welfare to tackling fraud allegations. The notable feature in such principles is that once a party is said to be an “observer” as per Principle 1 of the association under its scope, then all the approved principles apply to the government and private insurers alike in all its affiliates.

- Insurance Concordant – December 1999

One of the major drawbacks of the insurance sector till the early 1990s was considered to be the limited coverage of the policyholders, which was confined to a particular geographical area. This had several implications. The supervisory implications of the same were also disruptive, and had been limited to the number of registered insurance companies, who took the pains of going through the tedious process of getting themselves registered. This problem was more visible in the Least Developed Nations and the economically backward nations, as the number of policyholders complaining of being exploited were constantly on the rise. Also, the basic motive of any operative economic sector, being collaboration of operations worldwide, were also in jeopardy. Efforts were made to apply the principle of “Uberrima Fides” in this sector, but the politicisation of the issue led to its dismal failure. The IAIS then, in 1999, came up with a set of guidelines which was considered to be the first successful attempt to make the principles of insurance universal, and widened the scope of insurance to a multinational concept. However, the dynamics of the Political, Social, Economic, Technological and Legal Business Environment requires constant discussions and deliberations for regularly updating such regulations as mentioned in this document

- Capital Adequacy and Solvency:

The general misconception that took the form of resistance against the growth on insurance sector on a large scale, especially in the early 60s in some countries, was the fact that this sector does more harm than good, and this was precisely why the sector wasn’t allowed to access the facilities of government redemption plans. However, this misconception soon became obsolete, and gradually the stakeholders started chalking out a path to collaborate the sector on a global level. However, in spite of such desperate attempts, the cases of improper indemnification of policies are not rare. Moreover, over the last decade, the deliberations in the association turned on to the subordination of general welfare to economic gains, and the main motives behind such aims were the reduced level of ICR and DSCR due to reduced profits. And hence for safeguarding their interest, and to ensure that the breakeven analysis avoids abnormal losses, the IAIS brought up the Capital Adequacy and Solvency Principle to relieve their concerns

- Supervision of Insurance activities on the internet:

The development of electronic commerce, particularly on the Internet, presents insurance supervisors and regulators, as well as insurers and insurance intermediaries, with new kinds of opportunities, challenges and questions. The use of the Internet will undoubtedly affect the ways in which insurance companies, intermediaries and insurance supervisors function in the future. For example, the number of cross border insurance transactions will increase.
In principle, there are considerable benefits for insurers, intermediaries and consumers alike from the development of the Internet. The use of information networks has the potential to make the offering of insurance products more efficient and less costly than before. Insurance companies and intermediaries are provided with the technical capability to reach many millions of potential policyholders with good quality information on their products and services. Consumers increasingly have access to more and more sophisticated programmes for searching for, identifying and purchasing insurance products.

However, whilst the Internet creates a new environment in which insurance products can be advertised, sold and delivered, it does not alter the fundamental principles of insurance, insurance intermediation and insurance supervision. It is a new medium through which to transact business.
Current concerns over the security of concluding contracts over the Internet are being addressed, but there remain substantial risks to consumers. Sales over the Internet extend the opportunities for insurance fraud, money laundering and mis-selling of insurance products. It presents insurance supervisors with new challenges in delivering the level of protection that consumers in their jurisdiction expect. In particular, it raises questions for consumers and insurance supervisors alike over the applicable contract law,

and means of redress where there is a dispute between the insurer and insured. Unless consumers are confident that these issues are adequately addressed the full potential of the Internet as a channel for distributing insurance products may not be realised.
One of the most important tasks of insurance supervision is the protection of policyholders and potential policyholders through the maintenance of efficient, fair, safe and stable insurance markets. The Internet does not change this basic premise. Where it helps is in offering insurance supervisors a new kind of medium for cooperation.
The primary responsibility for the supervision of insurance activities rests with the supervisor in the jurisdiction in which the insurer (or intermediary) is established and from which it conducts its Internet activities. The IAIS Insurance Core Principles and Methodology and the principles should be applied for the supervision of insurance activities on the Internet.
There are the following principles outlaid by IAIS for supervision of insurance activities over the internet.
Principle 1: Consistency of Approach
The supervisory approach to insurance activities on the Internet should be consistent with that applied to insurance activities through other media.
Principle 2: Transperancy and disclosure
Insurance supervisors should require insurers and intermediaries over which they exercise jurisdiction to ensure that the principles of transparency and disclosure applied to Internet insurance activities are equivalent to those applied to insurance activities through other media.
Principle 3: Effective supervision of Internet activities based on cooperation
Supervisors should cooperate with one another, as necessary, in supervising insurance activities on the Internet.

Standards of effective insurance supervision

Standards focus on particular issues. They describe best or most prudent practices. In some cases, standards set out best practices for a supervisory authority; in others, they describe the practices a well-managed insurer would be expected to follow and thereby assist supervisors in assessing the practices that companies in their jurisdictions have in place.
The IAIS closely monitors the functioning of the various affiliates and concerned multilateral parties that play a role in the insurance

sector, which includes, but is not restricted to, indemnifiers, stakeholders, capital market brokers and service providers ranging from the initiative marketing to policy redemption. And for their smooth functioning of its affiliates, it has already has major ICPs to help keep the insurers in tandem. But one must realize that principles and standards differ in two major ways, first of them being that the legislation on the basis of such ideals as mentioned in the principles is not executable, as the principles only form a basis for interpreting any further plan of actions or rules and regulations made by the association. To put the principles in concrete form, it is necessary that they should be put in a form which not only provides an easier means for implementation, but also provides ease of monitoring progress reports, identify and analyse the deviations, and take corrective action. That is where standards come in. So one can easily say that standards are a means of enforcing the ideals as mentioned in the principle, make the normative beliefs as positive realities, and ensure a secure and stable insurance market. And in formulation of the same, the association has been consistently striving to formulate such standards which make the policies more comprehensible and acceptable, sufficing the varied needs of the diverse global macro economies. The following standards have been the major pillars that have brought a literal revolution in the sector of insurance, and have also be a basis for further standards.

Supervisory standard on licensing, October 1998 (http://www.iaisweb.org/view/element_href.cfm?src=1/100.pdf)	Licensing plays an important role in ensuring efficiency and stability in the insurance market. This standard deals with the prudential aspects of licensing and contains requirements that should be met by an insurer seeking a licence, and the principles that apply to the licensing procedure itself, including the review of changes in the control of a licensed company.
Supervisory standard on on-site inspections, October 1998 (http://www.iaisweb.org/view/element_href.cfm?src=1/101.pdf)	On-site inspection is an important part of the supervisory process, closely related to the ongoing monitoring process. This standard lays down the objectives of on-site inspection, the on-site inspection procedure and organisation of the on-site inspection process.

Supervisory standard on derivatives, October 1998 (http://www.iaisweb.org/view/element_href.cfm?src=1/102.pdf)	This standard provides guidance to supervisors in assessing how insurers control risks in derivatives. It sets out risk management controls for insurers active in derivatives and a reporting framework, applicable across the full range of potential activities.
Supervisory standard on group coordination, October 2000 (http://www.iaisweb.org/view/element_href.cfm?src=1/104.pdf)	Based on the Coordinator paper issued by the Joint Forum in 1999, which sets the general principles for the role of a coordinator regarding the supervision of financial conglomerates, this standard presents the principles covering the insurance sector in more concrete form.
Supervisory standard on the exchange of information, January 2002 (http://www.iaisweb.org/view/element_href.cfm?src=1/105.pdf)	This paper sets out a standard for efficient and regular exchange of information between supervisory bodies, both within the insurance sector and between different financial services sectors. Information exchange is crucial for the effective supervision of internationally active insurers, insurance groups and financial conglomerates
Supervisory standard on the evaluation of the reinsurance cover of primary insurers & the security of their reinsurers, January 2002 (http://www.iaisweb.org/view/element_href.cfm?src=1/106.pdf)	This standard covers the indirect supervision of reinsurance. Ist main purpose is to ensure that the reinsurance arrangements that primary insurers conclude are fully assessed, and consequently that a judgment can be made on the levels of security provided by the reinsurance programme.
Standard on disclosures concerning technical performance and risks for non-life insurers and reinsurers, October 2004 (http://www.iaisweb.or	This standard deals with public disclosures that non-life insurers and reinsurers should make in respect of technical performance. Key areas covered by this standard include the disclosure of pricing adequacy, provision adequacy, claims experience, risk concentrations, reinsurance arrangements, capital, key assumptions

g/view/element_href.cfm?src=1/108.pdf)	used in valuation, and sensitivity testing.
Supervisory standard on fit and proper requirements and assessment for insurers (http://www.iaisweb.org/view/element_href.cfm?src=1/109.pdf)	This standard extends the scope of the Joint Forum paper Fit and Proper Principles, to single insurance entities and to insurance groups. The objective is to ensure that significant owners and key functionaries do not pose a risk to the interests of present and future policyholders and beneficiaries of these entities.
Disclosures concerning investment risks and performance for insurers and reinsurers (http://www.iaisweb.org/view/element_href.cfm?src=1/110.pdf)	This standard explains minimum requirements on the insurers and reinsurers to disclose the information concerning investment risks and performance. The standard emphasis on qualitative information, such as investment policies, risk tolerance and risk mitigation, asset-liability matching, and sensitivity analysis or scenario tests. As a complementary measure, they should also disclose quantitative information on the status of each class of assets and the results of investment performance.

Preconditions for effective insurance supervision

An effective system of insurance supervision needs a number of external elements, or preconditions, on which to rely as they can have a direct impact on supervision in practice. The preconditions include:

- sound and sustainable macroeconomic and financial sector policies;
- a well-developed public infrastructure;
- effective market discipline in financial markets;
- mechanisms for providing an appropriate level of protection (or public safety net); and
- Efficient financial markets.

As these preconditions are normally outside the control or influence of the supervisor, the supervisor should not be assessed against these preconditions. However, the preconditions can have a direct impact on the effectiveness of supervision in practice. Therefore, where shortcomings exist, the supervisor should make the government aware of these and their actual or potential negative repercussions for the supervisory objectives and should seek to mitigate the effects of such shortcomings on the effectiveness of supervision. The supervisor should have the necessary powers to make rules and establish procedures to address shortcomings. Where the preconditions for effective insurance supervision are not yet met, the supervisor should have additional powers or adopt other measures to address the weaknesses.

Sound macroeconomic policies must be the foundation of a stable financial system. This is not within the mandate of supervisors, although they will need to react if they perceive that existing policies are undermining the safety and soundness of the financial system. In addition, financial sector supervision needs to be undertaken within a transparent government policy framework aimed at ensuring financial stability, including effective supervision of the insurance and other financial sectors.

A well-developed public infrastructure needs to comprise the following elements, which if not adequately provided, can contribute to the weakening of financial systems and markets or frustrate their improvement:

- a system of business laws, including corporate, insolvency, contract, consumer protection and private property laws, which is consistently enforced and provides a mechanism for the fair resolution of disputes;
- an efficient and independent judiciary;
- comprehensive and well defined accounting principles and rules that command wide international acceptance;
- a system of independent audits for companies, to ensure that users of financial statements, including insurers, have independent assurance that the accounts provide a true and fair view of the financial position of the company and are prepared according to established accounting principles, with auditors held accountable for their work;

- the availability of skilled, competent, independent and experienced actuaries, accountants and auditors, whose work complies with transparent technical and ethical standards set and enforced by official or professional bodies in line with international standards and is subject to appropriate oversight;
- well defined rules governing, and adequate supervision of, other financial sectors and, where appropriate, their participants;
- a secure payment and clearing system for the settlement of financial transactions where counterparty risks are controlled; and
- The availability (to the supervisor, financial services and public) of basic economic, financial and social statistics.

Effective market discipline depends, in part, on adequate flows of information to market participants, appropriate financial incentives to reward well managed institutions, and arrangements that ensure that investors are not insulated from the consequences of their decisions. Among the issues to be addressed are the existence of appropriate corporate governance frameworks and ensuring that accurate, meaningful, transparent and timely information is provided by borrowers to investors and creditors. In general, deciding on the appropriate level of policyholder protection is a policy question to be addressed by the relevant authorities, particularly if it may result in a commitment of public funds. Supervisors will normally have a role to play because of their in-depth knowledge of the entities involved. They should be prepared, as far as possible, and equipped to manage crises involving insurers. Such mechanisms of protection could include a system of policyholder compensation in the event of insolvency of an insurer. Provided such a system is carefully designed to limit moral hazard, it can contribute to public confidence in the system. Efficient financial markets are important to provide for both long-term and short-term investment opportunities for insurers. They facilitate the assessment of the financial and risk position of insurers and execution of their investment and risk management strategies. When the financial market loses its efficiency, assessment of financial and risk positions can be more challenging for both insurers and supervisors. Therefore, supervisors will need to give due consideration to the impact of financial market efficiency on the effectiveness of their supervisory measures.

Implementation of Basel Accords to (supervision of) Insurances

The Basel Accords refer to the banking supervision Accords (recommendations on banking regulations)—Basel I, Basel II and Basel III—issued by the Basel Committee on Banking Supervision (BCBS). The Basel Accords is a set of recommendations for regulations in the banking industry.

Basel III increases the quality and quantity of regulatory capital through measures including, but not limited to, the following:

- increasing minimum risk-based capital ratios and introducing a new common equity risk-based capital ratio;
- introducing capital buffers above the minimum risk-based capital ratios;
- limiting the types of instruments that qualify as capital for regulatory purposes;
- introducing new regulatory adjustments to and deductions from capital, which focus regulatory capital on tangible common equity;
- increasing the capital charge for a certain types of assets, exposures and transactions; and
- Introducing a leverage ratio that takes into account both on- and off-balance sheet assets and exposures.

Common Framework

The Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) is a set of international supervisory requirements focusing on the effective group-wide supervision of internationally active insurance groups (IAIGs).

ComFrame is built and expands upon the high level requirements and guidance currently set out in the IAIS Insurance Core Principles (ICPs), which generally apply on both a legal entity and group-wide level.
The ICPs are the globally accepted requirements 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 activity. This necessitates a specific framework to assist supervisors in collectively addressing group-wide activities and risks, identifying and avoiding regulatory gaps and coordinating supervisory activities under the aegis of a group-wide supervisor.

ComFrame is primarily intended to be a framework for supervisors to efficiently and effectively cooperate and coordinate by providing a basis for comparability of IAIG regulation and supervisory processes. By coordinating supervisory activities and information about IAIGs at the group-wide level and between group-wide and host supervisors, ComFrame will reduce compliance and reporting demands on IAIGs.

The Development Phase of ComFrame began in 2010 and is set to conclude by the end of 2013. In developing ComFrame, the IAIS has utilized an open and transparent process involving both Members and insurance professionals. A Concept Paper was issued for public consultation in 2011 with the Draft ComFrame similarly being issued for public consultation in 2012. Over the last two years, the IAIS has also held numerous meetings and dialogues with industry participants in order to obtain and incorporate actual business experiences.

In the third quarter of 2013, another Draft ComFrame was issued for public consultation. Based on the results of this consultation and subsequent meetings and dialogues with industry participants, the IAIS will finalize ComFrame for the purposes of Field Testing.

Beginning in 2014, field testing will begin wherein ComFrame was evaluated in practice so that it can be modified as necessary prior to formal adoption. The IAIS established a Field Testing Task Force in January 2013 to prepare for this phase.
The IAIS is currently scheduled to formally adopt ComFrame in 2018, with its Members to begin implementing ComFrame thereafter.

ComFrame is concerned with the on-going supervision of large and complex internationally active insurance groups and is not focused on whether an insurance group presents risk to the global financial system, which is the focus of the IAIS work on G-SIIs.

Road Map for 2012-2014

The roadmap contains the activities that the IAIS and more specifically its committees, subcommittees and working groups supported by its Secretariat have decided to undertake to fulfil the mission of the IAIS.

The IAIS is a strategy-focused organization whereby all initiatives are guided by a five-year strategic plan articulating clearly the mission statement, high level goals, strategies and action plans set forth in the Strategic Plan and Financial Outlook 2011-2015. These strategies are operationalized through the roadmap which sets out the planned activities for the next two years. Because the high-level goals, strategies and action plans cover a five year period, there may be additional activities planned in future years. The roadmap will be updated every year to ensure planned initiatives continue to align with the strategic plan.

The IAIS has identified the following five key areas of activity and corresponding high level goals:

1. *Standard setting*

Promote effective and transparent supervision of insurance markets through global, sustainable and coherent supervisory principles, standards and guidance, while minimizing opportunities for regulatory arbitrage.

2. *Standard implementation*

Promote the development of fair, safe and stable insurance markets through the implementation of supervisory principles, standards and guidance, the assessment of their implementation, and cooperation among insurance supervisors.

3. *Financial and insurance market stability*

Contribute to global financial stability and foster stable insurance markets for the protection of policyholders.

4. *External interaction*

Optimize the achievement of IAIS objectives and achieve recognition as the thought leader for insurance supervision by engaging with and managing relationships with external bodies.

5. *Effectiveness and efficiency*

Enhance and maintain effectiveness and efficiency of the IAIS.

Strategic Goals and Action Plans

Within each of the five high level goals, the IAIS has identified the following strategic goals and action plans.

1. Standard setting

Strategy 1: Complete and update the comprehensive set of high-level principles-based supervisory material (Insurance Core Principles (ICP), standards, guidance).

Key area reference	Action plan
SS1.2	Develop further supervisory material in accordance with a work-plan that is specific, comprehensive and timely.

Strategy 2: Provide adequate IAIS standard-setting response to developments within industry structures, financial markets, business practices, and policyholder needs.

Key area reference	Action plan
SS2.1	Revise IAIS supervisory material (ICPs, standards and guidance) beyond 2011, including to reflect lessons learned from the financial crisis and to reflect, where appropriate, changes in industry structures, financial markets and business practices, as well as policyholders' needs or outcome of implementation exercises.
SS2.2	Establish mechanisms to assess the impact of emerging issues from external bodies on IAIS standard-setting activities, and take relevant action.

Strategy 3: Establish a common framework for the supervision of internationally active insurance groups (IAIG).

Key area reference	Action plan
SS3.1	Develop a Common Framework for the supervision of IAIGs that will provide parameters for assessing group structures and group business from a risk management perspective; set out quantitative and qualitative requirements that are specific and focused but not rules-based; and cover the necessary areas of supervisory cooperation and coordination.
SS3.2	Execute calibration and impact assessment.
SS3.3	Ensure consistency with supervision of locally active insurance groups, where appropriate.

2. Standard implementation

Strategy 1: Enhance supervisors' knowledge and understanding of IAIS supervisory principles, standards and guidance.

Key area reference	Action plan
SI1.1	Provide learning opportunities (e.g. translate IAIS principles and other papers, organize seminars).

Strategy 2: Strengthen cooperation and exchange of information among supervisors.

Key area reference	**Action plan**
SI2.1	Promote, assess applications to and reinforce IAIS Multilateral Memorandum of Understanding (MMoU).
SI2.2	Foster supervisory cooperation and information exchange in practice.
SI2.3	Strengthen implementation of supervisory colleges and crisis management.

Strategy 3: Address the application of insurance supervisory standards in specific circumstances.

Key area reference	**Action plan**
SI3.1	Promote, in particular in emerging markets, the implementation of IAIS ICPs to foster inclusive insurance markets, takaful and other specific forms of insurance in support of the work of third-party organizations.
SI3.2	Coordinate with the Access to Insurance Initiative, G20 initiatives and other initiatives that help to develop and maintain sound insurance markets.

Strategy 4: Enhance observance and assessment of IAIS ICPs and standards.

Key area reference	**Action plan**
SI4.1	Provide appropriate training materials related to the supervisory material.
SI4.2	Provide subject matter experts to assist with implementation efforts.
SI4.3	Respond to deficiencies or inconsistencies identified in IAIS implementation efforts and draw conclusions on their implications for supervisory material.
SI4.4	Develop assessment mechanisms including methodology and tools (e.g. online assessment system) that help assess observance including both legal aspects and supervisory practice.

SI4.5	Carry out self-assessment of all ICPs.
SI4.6	Conduct thematic peer reviews for all ICPs to further the implementation efforts of the IAIS.
SI4.7	Provide or facilitate support and technical assistance to emerging markets, maximizing partnerships with third-party organizations.

3. Financial stability

Strategy 1: Identify the role of insurance within the context of global financial stability

Key area reference	**Action plan**
FS1.1	Identify insurance supervisory concerns related to financial stability.
FS1.2	Contribute a global insurance perspective to Financial Stability Board (FSB) discussions about potential systemic risks arising from the insurance sector and to FSB macro-prudential surveillance considerations.
FS1.3	Assess the exposure and/or contribution of the insurance sector to potential systemic risk and/or threats to financial stability.
FS1.4	Assist members to develop suitable methodologies and policy measures to identify and deal with potentially systemically important insurers.

Strategy 2: Promote macro-prudential surveillance

Key area reference	**Action plan**
FS2.1	Build appropriate economic expertise within the IAIS and establish a network of external experts on macro-prudential surveillance in insurance and other financial sectors.
FS2.2	Develop a global framework for macro-prudential surveillance for supervisors including recommendations for macro stress testing.
FS2.3	Leverage information from and through close cooperation with other sources, (such as individual and regional supervisory groups and the IMF) about

	emerging macroeconomic and financial risks impacting on insurance.

<u>Strategy 3</u>: Assess and mitigate risks and vulnerabilities both arising within the global insurance sector and originating from other sectors

Key area reference	**Action plan**
FS3.1	Develop and disseminate to supervisors periodic and timely analyses of emerging risks impacting the insurance sector in a macro-prudential perspective.
FS3.2	Develop measures for supervisors to mitigate macro-prudential risks impacting the insurance sector as well as measures to mitigate potential systemic risk emanating from the insurance sector.

4. External interaction

<u>Strategy 1</u>: Raise awareness of insurance supervisors' views and improve the understanding of insurance business by relevant stakeholders, including policyholders, the media and other market participants.

Key area reference	**Action plan**
EI1.1	Establish a mechanism to identify and communicate effectively key IAIS messages and priorities, including the views and perspectives of insurance supervisors.
EI1.2	Communicate effectively the commonalities and differences between insurance business and that of other financial sectors.
EI1.3	Monitor industry developments and views and report to Members.

<u>Strategy 2</u>: Represent effectively and efficiently insurance supervision in relevant international and cross-sectoral forums.

Key area reference	Action plan
EI2.1	Identify relevant bodies and agree on IAIS representation and procedures for prioritizing and resourcing.
EI2.2	Represent IAIS views effectively and efficiently on an ongoing basis.
EI2.3	Improve supervisory and general purpose financial reporting by insurers by influencing relevant international actuarial and accounting standards.

Strategy 3: Manage relations with others to further the achievement of IAIS objectives.

Key area reference	Action plan
EI3.1	Proactively use synergies with partners that facilitate the achievement of IAIS goals.
EI3.2	Use synergies and leverage on existing information sources in advancing IAIS work.

Strategy 4: Promote consistency between insurance supervision and that in other financial sectors.

Key area reference	Action plan
EI4.1	Support initiatives that contribute to financial stability and cross-sectoral consistency.
EI4.2	Through the Joint Forum and other standard setters develop and align principles, standards and guidance that affect cross-sectoral regulation and supervision, while at the same time safeguarding insurance specificities.

5. Effectiveness and efficiency

Strategy 1: Review the effectiveness and efficiency of IAIS strategic direction.

Key area reference	Action plan
EE1.1	Monitor the effectiveness and efficiency of the IAIS strategies and action plans, and arrange a review as

	necessary.

Strategy 2: Review the effectiveness and efficiency of IAIS management and resource allocation.

Key area reference	**Action plan**
EE2.1	Monitor the organizational structure and modify as necessary to ensure that it: - promotes effective strategic leadership and management of the IAIS - promotes effective, transparent and efficient decision making - optimizes the use of regional structures and responds to regional issues - enables the IAIS to address urgent issues as they arise - promotes effective leadership of working parties - promotes effective working party structures and coordination between relevant work streams.
EE2.2	Maintain and monitor effective and efficient work processes that - ensure the timely delivery of papers and completion of projects - structure meetings to utilize IAIS time resources effectively and minimize travel costs - are appropriately documented in the organizational and operational procedures
EE2.3	Monitor and modify as necessary the Secretariat structure and management, as well as quality and adequacy of resourcing, to ensure that these promote work effectiveness and efficiency.

Strategy 3: Review the effectiveness and efficiency of the IAIS's involvement of Observers.

Key area reference	Action plan
EE3.1	Monitor and address as necessary the role of Observers to - optimize use of their expertise to further the objectives of the IAIS - optimize the meaningful participation of Observers in IAIS activities.

Strategy 4: Ensure that structures and processes remain effective and efficient.

Key area reference	Action plan
EE4.1	Reinforce effectiveness of decisions through follow-up review of progress.
EE4.2	Regularly review structures and processes, and modify these as necessary, to ensure that they remain effective and efficient.

Global Systemically Important Insurers (G-SIIs)

The severity of the 2008 global financial crisis underscored the interconnected nature of financial institutions, as well as the risks they pose to the financial system when they are in distress. Phrases like “too big to fail” and “systemically important” continuously made news headlines in the midst of the crisis. While the insurance industry was not the root cause for of the financial crisis, insurance markets have become increasingly global and interconnected, and activities they engage in have become increasingly tied to the financial markets. As such, the FSB asked the IAIS to set up a process to assess insurers’ systemic riskiness and to recommend policy measures designed to prevent catastrophic failure in the sector.
On July 18, 2013, the FSB announced a list of multinational insurance groups it considers to be global systemically important insurers (G-SIIs). This means if they were to become insolvent and fail in a disorderly manner there could be a negative impact on the stability of the global financial system. The FSB has identified nine insurers, including three based in the U.S, as G-SIIs It is important to note the action taken by the FSB is advisory only and is non-binding. State insurance regulators and the National Association of Insurance Commissioners (NAIC) have been engaged through the

International Association of Insurance Supervisors (IAIS) Executive and Financial Stability committees in this work, and domestic state regulators have been involved on a company-by-company basis.

The G-SII list is determined by the FSB on an annual basis, based on information provided by the IAIS. Any potential G-SII determinations with respect to reinsurers have been deferred by the FSB until 2015, pending further analysis. The FSB and IAIS are also developing a package of measures that will be applied to G-SIIs, including capital buffers, systemic risk management plans, crisis management plans, and resolution plans.

Insurance regulation in some nations is approached from the group rather than the entity level as in the U.S. These nations also tend to have consolidated regulators covering insurance, banking and securities. As a result, it is not surprising the FSB is pushing the IAIS to adopt international insurance group capital standards to apply to G-SIIs. The IAIS plans to develop backstop capital requirements (BCRs) in 2014 which will eventually serve as a basis for work on higher loss absorbency (HLA) capital measures for G-SIIs.

Financial Stability and Macro-Prudential Surveillance

The International Association of Insurance Supervisors (IAIS) is participating in a global initiative, along with other standard setters, central banks and financial sector supervisors, and under the purview of the Financial Stability Board (FSB) and G20, to identify global systemically important financial institutions (G-SIFIs). The focus of IAIS analysis is in relation to potential global systemically important insurers (G-SIIs).

To this end, the IAIS has developed an initial assessment methodology to identify any insurers whose distress or disorderly failure, because of their size, complexity and interconnectedness, would cause significant disruption to the global financial system and economic activity. Any such insurers should be regarded as systemically important on a global basis.

The IAIS has also developed a framework of policy measures for G-SIIs. The framework is based upon the general framework published by the FSB with adjustments to reflect the distinct features of the insurance sector. As with the assessment methodology, the policy measures framework reflects the factors that make insurers, and the reasons why they might be systemic, different from other financial institutions.

In parallel to the work toward identifying potential G-SIIs, the IAIS has developed a framework for Macro-prudential Policy and Surveillance (MPS) in insurance. This work builds on the foundation laid down in the Insurance Core Principles (ICPs) approved in October 2011, and in particular on ICP 24, which provides the principles and standards for MPS to be implemented by supervisors.

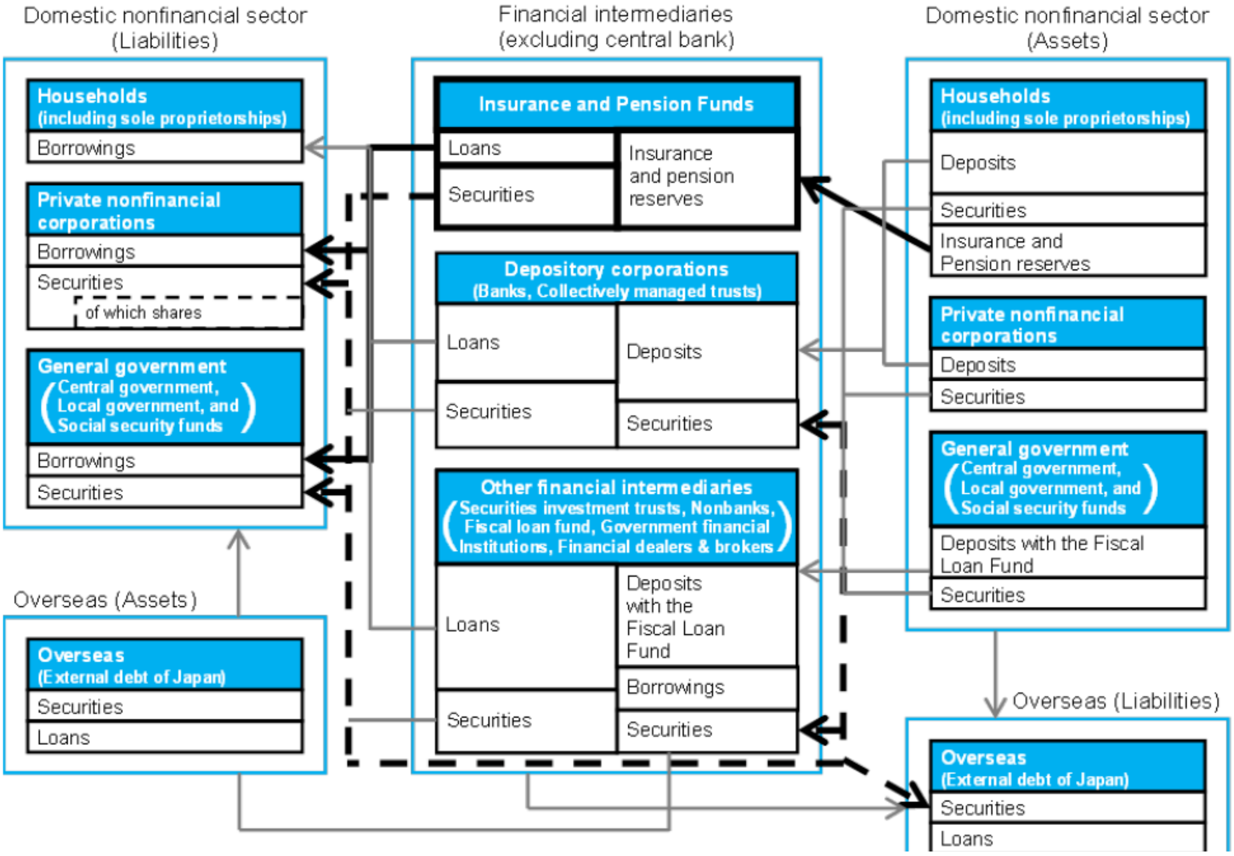
Macro-Prudential Policy and Surveillance (MPS)

The primary objective of MPS is to limit or mitigate systemic risks with the goal of maintaining financial stability and minimizing the incidence and impact of disruptions in the provision of key financial products and services that can have adverse consequences for the real economy (and broader implications for economic growth).

Such risk to financial stability arises from fault lines in the architecture of the financial system, for instance between banking and non-banking financial sector activities, and the collective impact of common shocks on a material number of firms, possibly amplified by market failures. Such market failures may arise from risk externalities across financial institutions as well as between financial institutions and the real economy. These externalities could be mitigated through the use of existing policy instruments, which would avoid non-trivial political challenges of macro-prudential measures aimed at smoothing financial cycles.

Systemic risk arises from individual or collective financial arrangements - both institutional and market-based - that could either lead directly to a system-wide distress in the financial sector or significantly amplify its consequences with adverse effects on the real economy. The propagation of such distress, which can be triggered by general or institution-specific shocks, happens via existing and/or new risk transmission channels within a particular sector or, more importantly, across different sectors of the financial system. The effects of this moves from one sector to another, or in other words, there is spill-over effect on the various sectors operating.

An exam of movement from one economy to other is show below.



These disruptions due to shocks originating outside and within the financial system generate externalities that raise the aggregate risk profile of affected entities whose reactions impact economic activity. The scope of such risk transmission then results in the impairment of the flow of financial services and situations where the cost of obtaining the financial services rises sharply.
As an integral element in the design and implementation of MPS, systemic risk should guide the choice of measures and indicators of causes of material financial sector distress. The proper identification, monitoring and mitigation of systemic risk requires a profoundly macro-prudential view. Ideally, systemic risk measures should support, or be linked to, Macro-prudential policy

objectives, by providing information on the build-up of system-wide vulnerabilities in both the time and cross-sectional dimensions with an acceptable level of accuracy and forecasting power for financial instability.

Macro-prudential surveillance is predicated on:

I. the assessment of system-wide vulnerabilities and the accurate identification of threats arising from the build-up and unwinding of financial imbalances;
II. The assessment of system-wide vulnerabilities from shared exposures to macro-financial shocks;
III. Possible contagion or spillover effects from individual institutions and markets due to direct or indirect connectedness.

It needs to be sufficiently forward-looking and administered reliably to justify effective remedial actions in a timely manner. Surveillance carried out by national supervisors not only involves monitoring the compliance of these institutions with safety and soundness standards, but also entails evaluating whether these standards are sufficient to protect the rest of the economy adequately from financial distress.

Macro-prudential policy builds on insights gained from the monitoring of trends and developments in designing instruments that help reduce the cyclical impact of systemic risk and enhance system-wide resilience to macro-financial shocks within a sector and across the financial system. The supervisory implications of such efforts go beyond the perimeter of firm-specific safety and soundness standards. They may require a broader evaluation of institutional, legal, and fiscal regimes, especially as to their capacity to protect the rest of the economy adequately from financial distress in a systemically important firm.

Micro-prudential Policies & Surveillance

Macro-prudential and micro-prudential approaches to policy and surveillance in insurance supervision are two sides of the same coin. Whereas the primary motive of Micro-prudential supervision is policyholder or consumer protection, it also indirectly endeavors to preserve financial stability. In this view, the interests of policyholders are protected best when insurers are financially sound and solvent, and a collection of solvent firms subject to individual distress is viewed as not posing a threat of financial instability. However, the financial crisis has demonstrated that the actions of individual firms may be optimal at the level of the firm but suboptimal from a macro-prudential standpoint and, thus, individual firm solvency is not, on its own, adequate to protect against the risk of financial instability.

The micro-prudential approach to surveillance and supervision needs to be complemented by MPS. The classical micro-prudential approach to financial stability analysis concentrates analytical efforts on the identification of vulnerabilities prior to stress from individual failures, with a firm-specific focus. In contrast, the potential build-up of system-wide vulnerabilities warrants a comprehensive monitoring of developments beyond institutional fragility in areas where the impact of disruptions to financial stability is deemed most severe and wide-spread - and especially in areas of economic significance to both the financial sector participants (including insurers) and the real economy. Forward-looking MPS endeavors to identify those risks to individual insurers arising from interconnections with other parts of the financial system and the real economy. By properly identifying these interconnections as well as identifying the vulnerabilities and risks that may arise therefrom, MPS contributes to financial system stability.

The Differences Between Macro- and Micro-Prudential Perspectives of Financial Stability

	Macro-Prudential	**Micro-Prudential**
Proximate objective	Limit impact of system-wide distress (anticipate and prevent system-wide failure).	Limit impact of individual distress on policyholders through an efficient run-off/effective resolution in case of failure.
Characterization of risk	"endogenous" (dependent on collective behavior)	"exogenous" (independent of firm behavior)
Consideration of Inter-linkages between firms and common exposures	essential ("firm-to-firm" and "firm-to-aggregate" linkages)	Optional
Calibration of	in terms of system-	in terms of

prudential controls	wide risk; top-down	individual risk; bottom-up

For Micro-prudential supervisors, the general scope of macro-prudential analysis of a particular sector, as well as its interactions with the real economy, includes:

I. Comprehensively detecting and monitoring system-wide vulnerabilities and risks based on established processes to collect and process prudential and market data; and
II. Limiting the build-up of systemic risk by identifying sources of macro-financial shocks as well as common exposures, risk concentrations, and interdependencies that are sources of spillover and contagion risks that may jeopardize the functioning of the financial system (or a particular sector).

For Macro-Prudential policy makers, the analysis further includes:

III. Assessing risks to the stability of the financial system as a whole (and of a particular sector) in order to preserve financial stability as MPS interacts with other public policies; and
IV. Mitigating the impact of systemic risks by establishing suitable defenses capable of containing the severity and duration of adverse effects within the insurance sector and potential knock-on effects on other financial sector participants and the real economy.

In this manner, MPS builds upon and complements micro-prudential supervision.

End Document(s) of the Meeting

The end document for the meeting will depend simply on the level of progress of the committee, in terms of debate.
As mentioned in the letter, this agenda is huge. There are a lot of facets to this agenda which need to be discussion. There may even be a trade-off, due to paucity of time, between depths at which an issue is debated on, with the wide array of issue which needs to be discussed under this agenda. The direction of debate needs to be a collective decision of the committee, and not the Executive Board. The Executive Board will serve as mere moderators.

The nature of end documentation will therefore be influenced by the direction of the meeting. If the meeting decides to have a discussion where the issues are debated in depth, while other issues remaining untouched, or relatively not debated enough; in that case, a draft policy paper, issues paper, guidance paper or comment letters may be the most apt documentation for the committee. There aforementioned documents, if prepared and produced, could be prepared in its complete or partial form; if the members of the meeting believe that they have discussed enough to write a complete document, they may do so. But even if a partial document (which would be in that case referred to as a draft), is prepared, it would be accepted with equal credibility.

However, if the committee touches all or most of the facets to the agenda, a press release, brief notes, communiqué, articles of newsletters, and other forms of notes and letters would be more perhaps betters. The committee may also issue directives at the anytime, as it may deem necessary, for example, to give directives or instruction to sub-committees of IAIS.

An advisory paper, which entities advisory opinions may also be viable. This may be instructed to a be particular body of IAIS, or its member(s) or any organization linked to IAIS, such as the Financial Stability Board, or the Basel Committee on Banking Supervision.

Please bear in mind that the format of the documents is of great importance as well, and will depend on the nature of document produced. Therefore, due to abundance of possible documents, the Executive Board will not be providing with the format for each type of possible end document. The delegate needs to prepare the format themselves after reading similar reports of those formats. Any minor corrections will be made by the Executive Board. Yet, we strongly encourage that the delegates get the format approved by the Deputy Secretary General, before started.

Also, please understand the fact that IAIS is a standard setting body; its quality of documents determine its quality of operations. Therefore, the quality (and not the quantity) shall be ought to be given utmost importance.

Further Reading:

1. By-Laws of IAIS: http://www.iaisweb.org/About-the-IAIS/By-laws-45
2. http://www.iaisweb.org/db/content/1/Insurance_Core_Principles__Standards__Guidance_and_Assessment_Methodology__October_2011__revised_October_2013_.pdf.pdf
3. http://www.iaisweb.org/Supervisory-Material/Comment-letters-766
4. http://www.actuaries.org/CTTEES_INSREG/Documents/2-Year_Roadmap_for_IAIS_Activities_2013-2014.pdf
5. A Framework for Macro-prudential Surveillance in Insurance: www.iaisweb.org/view/element_href.cfm?src=1/19149.pdf
6. https://www.genevaassociation.org/media/871838/ga_30th_progres_seminar_von-dahlen.pdf
7. http://www.financialstabilityboard.org/index.htm
8. http://www.oecd.org/finance/insurance/1813504.pdf
9. http://www.naic.org/cipr_key_issues.htm
10. http://newsletter.iaisweb.org/newsletterlink-381?newsid=1374
11. ComFrame: http://www.iaisweb.org/Common-Framework--765