Purpose:

The purpose of this document is to articulate the views of U.S. state insurance regulators toward the IAIS Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) and to help guide their ongoing work and input during its development. This document is also intended to identify the characteristics of ComFrame that are necessary for U.S. state insurance regulators to support its implementation in our national system of state-based insurance regulation.

Background:

ComFrame has the goal of establishing a comprehensive framework for supervisors to address group-wide activities and risks of internationally active insurance groups (IAIGs) and also lay the groundwork for better supervisory cooperation and coordination. The IAIS initiated ComFrame to build on individual member efforts to improve group supervision and provide better insights to regulators on how IAIGs operate. In recognition of the growing presence of IAIGs as part of the global insurance market and the evolving nature of their supervision, the IAIS determined that a more integrated, multilateral framework for group-wide supervision of IAIGs was needed and thus decided to develop ComFrame.

U.S. Regulator Views:

U.S. insurance regulators support the development of ComFrame to the extent that it results in an outcomes-focused framework that enhances supervision of IAIGs. We would oppose ComFrame to the extent that it results in prescriptive and duplicative layers of global requirements that mandate changes to U.S. supervision inconsistent with the best interest of U.S. insurance companies or consumers.

The following general views guide U.S. state insurance regulators’ overall approach and expectations for ComFrame:

- There is great potential for ComFrame as a framework for international supervisory cooperation based on the IAIS Insurance Core Principles (ICPs) and used by supervisory colleges to improve the effectiveness and efficiency of international group supervision.

- ComFrame does not exist in a vacuum and should leverage, not duplicate or contradict, the existing foundation of the IAIS ICPs.

- The purpose of fostering global convergence should be to arrive at a common degree of regulatory effectiveness and understanding for IAIGs without necessarily creating a need for identical rules.

- Given the different regulatory approaches and legal systems among IAIS members, ComFrame must be a dynamic and flexible framework focused on regulatory collaboration.
Identification of an IAIG:

- The criteria used to identify IAIGs should be clear and focused on identifying those entities which have a large presence internationally. The criteria should be simple and allow the involved supervisors to adjust using their discretion if circumstances necessitate a different answer.

Corporate governance:

- ComFrame should allow an IAIG the flexibility to structure corporate governance functions and processes in a manner that best suits the specific needs of the IAIG. The objectives of a group-wide corporate governance framework are to ensure that systems, policies and procedures are in place to effectively and efficiently provide for sound management and oversight of a group's business. An IAIG’s corporate governance framework should take into account and manage specific and/or additional risks to which it may be exposed due to its international activities.

Enterprise Risk Management:

- ComFrame should identify the main components of effective ERM that addresses all relevant and material risks without prescribing a particular form to the IAIG. An IAIG should have an enterprise-wide risk management framework which addresses all relevant and material risks.

Own Risk and Solvency Assessment (ORSA)

- The ORSA should be sufficiently flexible in its form and content to accurately reflect the IAIG’s nature, scale, and complexity. The ORSA should reflect a clear assessment of the IAIG’s risk management and its current (and likely future) group solvency position. The ORSA should provide a clear understanding of the material exposures of the group.

Group Capital:

- The IAIS has committed to develop a risk based global insurance capital standard (ICS) within ComFrame and to build the ICS on the foundations set out in the current draft of Module 2 Element 5, Capital Adequacy Assessment. While U.S. state insurance regulators continue to have serious concerns about the timing, necessity, and complexity of developing a global capital standard, we believe that an ICS should be risk-based in substance and appropriately reflect the risk characteristics of the underlying business; it must not undermine the legal entity capital requirements as established by the individual jurisdiction’s supervisors. While a global ICS should contain various components of a group capital requirement, its construction should not be overly detailed and prescriptive, and must allow for some flexibility in its implementation and overall monitoring. In the development of the ICS, the IAIS should consider the usefulness of stress and scenario-based testing (as originally intended in ComFrame), an assessment of intra-group transactions, and real-world considerations regarding the nature and fungibility of capital. As has been the case over the past three years of development of all of ComFrame, it is critically important that the development of an ICS include as many appropriate participants as practicable (e.g., supervisors, insurance groups, professional organizations) and meetings be conducted in an open and collegial manner, not in a closed process.

Accounting and Valuation:

- The IASB & FASB have both issued exposure drafts (EDs) on insurance contracts with comment periods ending October 2013 and are both estimating new standards by the end of 2014. The two Boards have publicly committed to working towards greater convergence of the two sets of proposals after the comment period. Both EDs contain a degree of constrained market consistency.
Since IAIGs will need to begin implementing the proposals in the EDs and the standards during the period up to 2018, testing these bases would be less disruptive and more useful for ComFrame.

**Group Supervision:**

- Insurance group supervision in the U.S. is a multi-jurisdictional approach that leverages a group-wide perspective on risk with legal entity level application of regulation. Under such an approach, a single all-powerful group regulator is neither advantageous nor necessary. ComFrame must respect different jurisdictional approaches to group supervision and focus on a common outcome of providing group-wide information and perspective to all relevant supervisors.

- The group-wide supervisor must obtain a clear understanding of the IAIG’s group-wide business activities and risks posed to the insurance group. The group-wide supervisor must obtain an understanding of the IAIG’s strategies, which includes among other things, the business model, market share and geographic emphasis, capital allocation plan, and non-insurance business activities.

**Role of Home/Host Supervisors:**

Home and host supervisors should be proactive in their interaction and coordination of supervisory activities. Home and host supervisors cooperate on cross-border issues in an effort to effectively address issues that may adversely impact the group.