**SUPERVISORY COLLEGES: A REGULATORY TOOL FOR ENHANCING SUPERVISORY COOPERATION AND COORDINATION**

*By Gita Timmerman, NAIC International Policy Counsel*

In its simplest form, a supervisory college is a meeting of insurance regulators or supervisors where the topic of discussion is regulatory oversight of one specific insurance group that is writing significant amounts of insurance in other jurisdictions. The purpose of this article is to introduce the concept of supervisory colleges, to explain what they are and to inform about activities within and outside the United States to develop a regulatory framework for sharing important regulatory information among international insurance regulators. The article also will discuss why it is imperative for supervisors to cooperate in sharing regulatory information and ideas for addressing issues that arise in supervising an internationally active insurance group (IAIG) and describes the various organizations influencing the public policy debate on the creation of supervisory colleges.

### INTRODUCTION AND OVERVIEW OF ENHANCED GLOBAL FOCUS ON SUPERVISORY COLLEGES

In the wake of the 2008 global financial crisis, insurance regulators worldwide are finding that increased levels of communication, coordination and cooperation among regulators at supervisory colleges, or other international fora, is vital to understanding risk trends that could impact domestic insurers and policyholders in an increasingly global insurance market. Although insurance companies and policyholders fared reasonably well during the recent global financial crisis, global policymakers see the enhancement of information exchange and cooperation and coordination amongst relevant supervisors as a key component for enhancing the supervision of cross-border financial institutions.\(^1\)

In April 2008, the Financial Stability Forum (now the Financial Stability Board, or FSB) issued a report to the G7 Finance Ministers and Central Bank Governors setting out a comprehensive set of recommendations for strengthening the global financial system. One key recommendation therein was the operationalization and expanded use of supervisory colleges for certain global financial institutions.\(^2\)

Supervisory colleges provide a permanent platform for enhancing the mutual trust and exchange of information among international regulators regarding entities within the group. Supervisory colleges allow regulators to better assess risks that are emerging beyond their borders and outside their respective authorities. The International Association of Insurance Supervisors (IAIS) defines a supervisory college as: “a forum for cooperation and communication between the involved supervisors established for the fundamental purpose of facilitating the effectiveness of supervision of entities which belong to an insurance group; facilitating both the supervision of the group as a whole on a group-wide basis and improving the legal entity supervision of the entities within the insurance group.”

The International Monetary Fund (IMF) through its Financial Sector Assessment Program (FSAP) is also assessing whether jurisdictions have enhanced regulatory cooperation and coordination through the development of supervisory colleges. The IMF 2010 FSAP of the U.S. financial sector made several recommendations for the insurance sector relating to this issue, stating that, “the U.S. should ensure that colleges of supervisors for the U.S. groups with major international operations are established and functioning effectively—and led by U.S. regulators with appropriate insurance expertise.”

### DEVELOPMENT OF IAIS GUIDANCE AND MONITORING

The IAIS has been developing guidance and best practices related to supervisory colleges at the international level through the IAIS Insurance Groups and Cross-Sectoral Subcommittee and assisting jurisdictions with the implementation and operationalization of such colleges through the IAIS Supervisory Cooperation Subcommittee. In October 2009, the IAIS issued its *Guidance Paper on the Use of Supervisory Colleges in Group-Wide Supervision* (“IAIS Guidance Paper”), which sets out initial IAIS input to the development of guidelines for supervisory colleges.

The IAIS Guidance Paper recognizes the need for flexibility in the design, membership and establishment of supervisory colleges in accommodating the organizational structure, nature, scale and complexity of the group risks, and the level of international activity and interconnectivity within the group. The IAIS Guidance Paper also discusses factors to consider in the implementation of a supervisory college framework, including its form and membership, the role and possible functions of a supervisory college, and the interrelationship between a designated group-wide supervisor and the supervisory college.

(Continued on page 3)

---

1 The statement from the G-20 Summit on Financial Markets and the World Economy, held in Washington, DC, in November 2008, states the following: “Supervisors should collaborate to establish supervisory colleges for all major cross-border financial institutions, as part of efforts to strengthen the surveillance of cross-border firms.”

While recognizing that the range of functions for supervisory colleges will depend on the institution and jurisdictions involved, some key basic functions for a supervisory college articulated in the IAIS Guidance Paper and evolved through common practice include the following: information sharing, assessment of holding company risk, contagion, risk exposure, overall financial soundness, capital adequacy, group governance, coordinated supervisory activities (including, for example, joint inspections where relevant), liaison with holding company management and establishing a role in crisis management. Supervisory colleges, however, do not affect the legal rights and responsibilities of the insurance regulatory authorities involved in the supervisory college, as they continue to be subject to their existing legal regulatory framework.

Further, the IAIS adopted its updated Insurance Core Principles (ICPs) in October 2011. Through the restructuring and revisions of this updated process, the material in the IAIS Guidance Paper was not only incorporated into the ICPs (in particular ICP 25 on Supervisory Cooperation and Coordination), but some of the content was elevated from the level of guidance to the higher level of standards. In fact, the adoption of the revised ICPs are having considerable impact and influence on jurisdictions with regard to the degree and timeliness of their ICP implementation, especially for jurisdictions subject to recurring IMF FSAPs and IAIS and FSB assessments.

In addition, the development of the IAIS Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame), which is out for public exposure from July to August 2012 (2012 ComFrame Draft), operationalizes the application of the ICPs with regard to IAIGs and provides clear expectations concerning supervisory colleges of IAIGs.\(^1\) Per the 2012 ComFrame Draft parameter M1E1-1-1, an IAIG is generally considered a group that includes at least one insurance legal entity and fulfills ComFrame criteria as set forth in parameter M1E1-1-2 (the largest insurance groups in insurance asset size and premium who conduct more than 10% of their operations outside the home jurisdiction and are operating in three jurisdictions or more).\(^4\) A supervisory college is the mechanism by which an IAIG is identified.\(^5\)

For purposes of this article, jurisdictions and countries are the same. International regulators tend to view the U.S. state-based regulatory system as a single market, instead of what it is: 56 independent regulatory jurisdictions, brought together through the NAIC as the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators of these independent regulatory jurisdictions.

Further, the IAIS Insurance Groups Subcommittee recently conducted roundtables to discuss the usefulness, potential obstacles to effectiveness and operational logistics of supervisory colleges in response to FSB recommendations for improving the operationalization of supervisory colleges.\(^6\) Three roundtables were held during 2011 and early 2012 to ensure a wide geographic coverage (i.e., North America, Europe and Asia).

The roundtables provided feedback regarding supervisory college activities including the following: (1) meeting frequency of supervisory colleges depends on the nature, scale and complexity of groups; (2) one goal of a supervisory college is to build relationships and trust between involved supervisors, thus, supervisory colleges should not be limited to only information exchange; (3) supervisory colleges need to establish clear expectations for what involved supervisors desire, as well as clear responsibilities of members; (4) flexibility is important when organizing supervisory colleges, hence they should be issue-driven and should not be based on any fixed form/template; (5) if management is invited to a portion of a college, they should be given clear and precise topics to address; (6) supervisors need to ensure that they have a common language in identifying risks; and (7) there should be two-way communication between the group-wide and host supervisors (for example, host supervisors should inform the group-wide supervisors on issues that they would like further information on).

(Continued on page 4)

\(^1\) According to the 2012 ComFrame Draft, ComFrame has three levels of text: (1) ComFrame standards, which are requirements that IAIGs or supervisors need to meet or comply with; (2) ComFrame parameters, which contemplate the standards by providing a specific list or criteria; and (3) Specifications, which provide definitions to parameters.

\(^2\) Although ComFrame allows for some supervisory discretion in this matter, the 2012 ComFrame Draft parameter M1E1-1-1 provides that “under specific circumstances insurance groups that meet the criteria set out in M1E1-1-1 may be excluded from ComFrame and insurance groups that do not meet the criteria may be included in ComFrame. This process is referred to as ‘constrained supervisory discretion.’”

\(^3\) 2012 ComFrame Draft parameter M1E2-1-1.

\(^4\) In October 2010, the FSB recommended within its paper titled, Reducing the Moral Hazard Paved by Systemically Important Financial Institutions—FSB Recommendations and Timelines, paragraph 37, that, “The Standard setting bodies should report to the FSB on how to improve the operation of supervisory colleges to ensure a more rigorous coordinated assessment of the risk facing the institution by end-2012.” Additionally, on Nov. 2, 2010, the FSB released a document titled, Intensity and Effectiveness of SIFI Supervision—Recommendations for Enhanced Supervision, which contained the following recommendation: “The work of the standard setters should continue in the area of Supervisory Colleges and Home/Host information sharing. In addition to this, the FSB recommends that by end 2012, the BCBS Standards Implementation Group and the IAIS individually engage in efforts to study the effectiveness of the improvements made to supervisory colleges which may include feedback from the home supervisors who conduct the sessions, as well as host supervisors and members of the supervised firm who participated.”
SUPERVISORY COLLEGES (CONTINUED)

**Development of NAIC Guidance and Monitoring**

In order to ensure that the international developments relating to supervisory colleges were incorporated into the U.S. regulatory framework, the NAIC included the concept of supervisory colleges into the Solvency Modernization Initiative (SMI) adopted revisions to the Insurance Holding Company System Regulatory Act (#440) and the Insurance Holding Company System Model Regulation (#450). U.S. state insurance regulators—building on the IAIS Guidance Paper that the NAIC Group Solvency Issues (EX) Working Group of the Solvency Modernization Initiative (EX) Task Force endorsed as guidance in November of 2009—drafted a Holding Company and Supervisory Colleges Best Practices document in 2011 that is embedded as an appendix of the document in 2011 that is embedded as an appendix of the 2011 edition of the Financial Analysis Handbook, and includes standards for participating in international supervisory colleges. This document provides additional references on how the key aspects identified in the IAIS Guidance Paper regarding supervisory college participation might work within the existing U.S. framework, highlighting that supervisory colleges should be used in conjunction with existing risk-focused surveillance tools.

U.S. insurance regulators understand and embrace supervisory colleges; convening supervisory colleges for many large IAIGs and regularly participating in supervisory colleges around the world. However, it should be noted that communication and coordination between regulators is not a new concept for U.S. insurance regulators, as it has always been an important component of U.S. solvency regulation. For instance, information-sharing procedures for troubled companies is a component of the NAIC Financial Regulation Standards and Accreditation Program.

While the successful operation of supervisory colleges raises unique and significant challenges as regulators around the world must attempt to develop a common understanding of the overall group-wide risk profile (despite the differing languages, regulatory, accounting, legal and corporate regimes of each involved jurisdiction), the overarching goals of an international supervisory college are quite similar to the lead state approach that has been practiced in the United States for many years for U.S. insurance legal entities within the same holding company system. The concept of a lead state is used to help states coordinate regulatory activities in their review of insurance groups and facilitates efficiencies by using one or more states to coordinate the regulatory processes of all states involved; however, it is not intended to relinquish the authority of any state, nor is it intended to increase any state’s statutory authority.

**Key Operational Aspects for a Supervisory College**

Based on IAIS materials (the IAIS Guidance Paper, the ICPs, 2012 ComFrame Draft for IAIGs, feedback from IAIS members) and the NAIC Holding Company and Supervisory Colleges Best Practices document, following is an outline of certain key functional and operational aspects regarding regulator attendance at and convening of supervisory colleges:

1. **Supervisory College Attendance**
   a. **Notification.** It is vital that the relevant regulators of an insurance group are made aware on a timely basis about the existence and details regarding relevant upcoming international colleges. For this purpose, the NAIC has built a Web-based International Supervisory Colleges Request Form (located at www.naic.org) wherein other jurisdictions can submit information about a college and the Web-based tool will notify the applicable lead state regulator, who will then coordinate the appropriate regulator participation at the supervisory college. This tool should further assist in coordinating appropriate U.S. state participation in global colleges.

   b. **Funding.** Regulators should ensure that appropriate funding is available to attend and/or convene supervisory colleges. In the United States, although the revisions to Model #440 and Model #450 allows for the billing of reasonable expenses for supervisory colleges to the insurer, there are some states that may be facing budgetary issues and have not yet adopted the revisions to Model #440 and Model #450, in which case they may request and receive NAIC funding on a case-by-case basis to ensure appropriate state regulator participation at the college.

   c. **Use of Technology.** Supervisory colleges should make appropriate use of technology (video and teleconference and secure Web-based portals) to ensure maximum participation at these colleges.

   d. **Frequency of Meetings.** The frequency of meetings will vary depending on the nature, scale and complexity of the IAIG; however, ComFrame parameter M3E4-5-1 specifies that they should, at a minimum, meet annually.

   (Continued on page 5)

---

1. [https://eapps.naic.org/ISCR/index.do](https://eapps.naic.org/ISCR/index.do)
(2) Whether a Supervisory College Should be Established
The IAIS Guidance Paper states that supervisory colleges should be considered when “significant cross-border activities and/or intra-group transactions are conducted; where effective group-wide supervision is essential to the protection of policy holders; and/or where effective group-wide supervision is essential to the financial stability of the financial market as a whole.”8 The relevant outlined factors in this analysis include, among others, the following: (1) relevance of the group to overall financial stability; (2) the nature and complexity of the business undertaken by the group; (3) relevance of the group in the specific insurance market; (4) similarity of supervisory practices among involved supervisors.9 For IAIGs, the 2012 ComFrame Draft standard M3E4-1 states that a supervisory college be established for each IAIG in order to facilitate group-wide supervision.

(3) Identification of a Group-wide Supervisor(s)
For IAIGs under the 2012 ComFrame Draft parameter M1E4 -2-2, it is proposed that the involved supervisors of the supervisory college come to a joint decision on who would be the group-wide supervisor with 2012 ComFrame Draft specification M1E4-2-2-1 stating that, in principle, the role of the group-wide supervisor is undertaken by the supervisor in the jurisdiction where: (1) the head of the IAIG is based; (2) the insurance operations of the IAIG are controlled; and (3) the supervisor has the statutory responsibility to supervise the head of the IAIG.

However, 2012 ComFrame Draft parameter M1E4-2-3 states that if the head of the IAIG does not have operational control of the IAIG, other factors should be taken into account to identify an appropriate group-wide supervisor. Those factors outlined in 2012 ComFrame Draft specification M1E4-2-3-1 include: the location where the largest proportion of the IAIG balance sheet is located; and/or the main business activities of the IAIG are undertaken; and/ or the main business decisions are taken; and/or the main risks are underwritten; and/or the supervisor who has statutory responsibility over the head of the IAIG. Generally, only one group-wide supervisor is to be identified, but, in certain exceptional circumstances, more than one group-wide supervisor may be identified, in which instance they must work cohesively together.10

(4) Role of the Lead or Group-wide Supervisor
The legal framework with regard to the role of the group-wide supervisor differs sometimes significantly from one jurisdiction to another and, therefore, the role of a group-wide supervisor within a supervisory college will depend on the jurisdictions involved and should be specifically outlined at the outset to meet the expectations of the members of the supervisory college. For instance, in the United States, a lead supervisor is considered a coordinator of the involved supervisors and a lead collaborator amongst peer insurance regulatory agencies.

A lead supervisor provides consistent communication with applicable international regulators, is available to attend supervisory colleges, gathers all applicable materials from non-lead states in preparing for international meetings and initiates conference calls with non-lead domestic regulators summarizing the supervisory college meeting and any effects on domestic companies. U.S. state insurance regulators within a group do not delegate their legal obligations with respect to regulated entities to a lead supervisor. Whereas, under Article 248 of the European Union Solvency II Directive, the group-wide supervisor, while also having a significant planning and coordination role, also has a more defined supervisory review and assessment role and significantly more decision-making capacity.

For IAIGs, the 2012 ComFrame Draft parameter M3E1-3-1 states that the group-wide supervisor has responsibility for “driving the group risk assessment and coordinates with other involved supervisors through the supervisory college process,” while the 2012 ComFrame Draft specification M3E3-1-1-1 goes further in stating that the group-wide supervisor is responsible for, at minimum: “initiating and chairing the supervisory college, aggregation of group-wide information, preparation of supervisory plans, group-wide supervisory assessment, conduct and leadership of group-wide supervisory activities, preparing and discussion of group-wide supervisory analysis, coordination of information sharing procedures amongst involved supervisors, decision-making on group-wide issues in consultation with involved supervisors, implementation of group-wide supervisory decisions, implementation and coordination of group-wide enforcement activities, identification of gaps in supervision, and oversight of group capital management.”

(Continued on page 6)

8 IAIS Guidance Paper, p. 17.
9 IAIS Guidance Paper, p. 17.
10 2012 ComFrame Draft specifications M1E4-2-1-1 and M1E4-2-2-1.
(5) Supervisory College Terms of Reference and Work Plan

Given the differing legal frameworks, backgrounds, outlooks and expectations of the members of a supervisory college, a terms-of-reference document should be agreed upon by the supervisory college members, optimally at one of the earlier meetings. A terms-of-reference document can serve as defining the expectations of the members of the purpose of the college, can include clarification on group membership (e.g., whether there will be a tiered membership), clarity on who is the lead supervisor(s) and their respective roles and responsibilities, scope of activities, agreement on frequency and location of meetings and whether there will be regional colleges or subgroups. Work plans are also noted as important to establish at the outset. For IAIIGs, 2012 ComFrame Draft Parameter M3E4-2-1 specifies that the group-wide supervisor utilizes a coordinated supervisory college work plan for the supervision of the IAIG.

(6) Supervisory College Membership (Tiered Membership) and the Establishment of Regional Colleges and Subgroups

Supervisory college members are generally the states/jurisdictions where the largest insurance entities within a group are domiciled, premium underwritten and key corporate decision-makers in the organization are located. For IAIIGs, ComFrame parameter M3E4-2-1 states that, “membership of a supervisory college is determined by the group-wide supervisor and takes into account involved supervisors from jurisdictions where material activities are undertaken.” However, the IAIG could have significant importance to a local jurisdiction, so ComFrame specification M3E4-2-1-1 states that the determination of appropriate membership criteria “takes into account the relative importance of the IAIG companies within individual jurisdictions.”

While there is a need to be as inclusive as possible, inclusivity must be balanced with the need to maintain manageable operational supervisory college structures. The establishment of a tiered membership and/or regional colleges and/or subgroups will depend on the nature, scale and complexity of a group and the functions and purpose of a college. Some topics and concerns may be specific only to certain segments of a group (such as a group’s life companies), which might lend itself to the establishment of a subgroup within a complex organizational group or specific only (for example, to Asian companies) that may lend itself to the establishment of a regional college. If a tiered structure and/or subgroup and/or regional supervisory college are established to enhance the overall effectiveness of the college, core supervisory college members need to discuss and agree upon how they will appropriately inform the other involved supervisory authorities of relevant supervisory college activities.

(7) Mechanisms for Information-sharing within a Supervisory College

As aforementioned, one of the key functional reasons for a supervisory college is to be able to exchange confidential information with other regulators at the college on an ongoing basis and in a crisis situation. As such, in order for this function to be realized, a written information-sharing agreement between the involved supervisors must be agreed upon and entered into by all parties wishing to participate in the supervisory college. This agreement can be achieved in various ways, such as: (1) through bilateral memorandums of understanding (MoUs) among all of the jurisdictions involved; (2) through a supervisory college-specific agreement; or (3) through the IAIS multilateral memorandum of understanding (MMoU) which establishes a formal basis for cross-border cooperation and information exchange amongst supervisors around the world to enhance supervision of IAIIGs.

The objective of the MMoU is for a signatory authority\(^\text{11}\) to be able to request from and provide to any other signatory authority having a legitimate interest, information on all issues relevant to supervised insurance companies (including licensing, ongoing supervision and winding-up where necessary) and to other regulated entities such as insurance intermediaries, where appropriate.

The MMoU is essentially designed as an alternative vehicle for having every jurisdiction sign a bilateral confidentiality agreement with every other jurisdiction. Further, it facilitates the exchange of confidential information in the supervisory college context. If all members of a supervisory college are also signatory authorities of the IAIS MMoU, it would effectively eliminate the need for every supervisory college member to enter into a bilateral agreement with every other supervisory college member and/or the drafting of a supervisory college specific agreement in order to ensure that confidential information can be freely exchanged between supervisory college members.

---

\(^{11}\) A “signatory authority” is defined in the IAIS MMoU Article 2 as “any insurance industry supervisor who is an IAIS member or is represented by an IAIS member [reference made here to the NAIC per the IAIS Bylaws Article 6 No. 2(b)] and following a successful qualification procedure has acceded to the MMoU by its signature.” Each U.S. state insurance regulator, as an IAIS member or represented by an IAIS member (the NAIC), is eligible to be a signatory authority.
This mechanism has the potential to significantly improve and expedite the cross-border exchange of information between supervisors, especially as the number of signatory authorities achieves a critical mass (there are currently 28 signatory authorities, including a U.S. state, and a large group of applicants and potential applicants). As information-sharing is usually limited to the weakest link, having appropriate and efficient mechanisms in place for information-sharing at a supervisory college is vital for the proper functioning of such a supervisory college.

For IAIGs, ComFrame specifies the need for regulators to be able to exchange information and to ensure that that information deemed to be confidential is maintained confidential. The 2012 ComFrame Draft parameter M3E2-2-1 states that involved supervisors have the legal power to “obtain and exchange supervisory information on all IAIG entities in their jurisdiction, including in response to a reasonable request from another supervisor” and necessitates a confidentiality regime such as what is set out in the IAIS MMoU with 2012 ComFrame Draft parameter M3E2-3-1 stating that “information, both transmitted and received, is subject to confidentiality requirements and disclosure is bound by certain preconditions (preconditions would include that the standards for treatment of confidential information must meet the standards such as those set out in the IAIS MMoU).”

**Conclusion and Next Steps**

Overall, the IAIS and its member jurisdictions have demonstrated significant progress with regard to the operation of supervisory colleges over the past four years and appear committed to achieving success with various ongoing critical work streams, including at the IAIS the development and implementation of ComFrame and the implementation of the IAIS ICPs on supervisory colleges through IAIS peer reviews. Further, the IAIS is working to ensure the operationalization of supervisory colleges by developing and implementing the IAIS Repository of Supervisory Colleges (IROSC) to serve as a central repository for insurance supervisors to obtain basic information on insurance supervisory colleges. This database continues to grow and allows the IAIS to assess the activity of new colleges and frequency of existing colleges, including potential IAIGs. In addition, other third-party assessments, such as the IMF FSAP, will help improve implementation of international standards regarding supervisory colleges.

Although supervisory colleges are still, relatively in their beginning stages of development, they have the potential to significantly enhance supervisory cooperation and coordination around the globe by building and nurturing relationships among supervisors beyond formal rules and regulations, which is the core of group supervision and, thereby, improve supervisory surveillance of large IAIGs in an ever-increasing global insurance market. While supervisory colleges are not a panacea, as they have inherent and necessary limitations, they are a valuable tool to ensure multiple sets of eyes are focused on enhancing the supervision of internationally active insurance companies.
The National Association of Insurance Commissioners (NAIC) is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia and five U.S. territories. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer review, and coordinate their regulatory oversight. NAIC staff supports these efforts and represents the collective views of state regulators domestically and internationally. NAIC members, together with the central resources of the NAIC, form the national system of state-based insurance regulation in the U.S. For more information, visit www.naic.org.

The views expressed in this publication do not necessarily represent the views of NAIC, its officers or members. All information contained in this document is obtained from sources believed by the NAIC to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided “as is” without warranty of any kind. NO WARRANTY IS MADE, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY OPINION OR INFORMATION GIVEN OR MADE IN THIS PUBLICATION.

This publication is provided solely to subscribers and then solely in connection with and in furtherance of the regulatory purposes and objectives of the NAIC and state insurance regulation. Data or information discussed or shown may be confidential and or proprietary. Further distribution of this publication by the recipient to anyone is strictly prohibited. Anyone desiring to become a subscriber should contact the Center for Insurance Policy and Research Department directly.