

Organised by:



International Association
of Insurance Supervisors

Hosted by:



**IAIS Insurance Groups and Cross-sectoral Issues Subcommittee
Roundtable on Group-wide Supervision
for ASEAN+3 Insurance Supervisors**

29 November 2010, Singapore

Meeting Venue:

Monetary Authority of Singapore
10 Shenton Way
Singapore

Agenda

9.00 – 9.15 a.m.

Opening remarks

- *Luz Foo*
Executive Director, Monetary Authority of Singapore
- *Craig Swan*
*Chair, IAIS Insurance Groups and Cross-sectoral
Issues Subcommittee*

Session I: Lessons from the financial crisis – gaps in group-wide supervision

Overview of selected group-wide supervision frameworks

9.15 – 9.30 a.m.

- *Australia – Keith Chapman, APRA, Australia*

9.30 – 9.45 a.m.

- *US – David Vacca, NAIC*

9.45 – 10.00 a.m.

- *EU – Nick Cook, FSA, United Kingdom*

10.00 – 11.15 a.m.

Discussion

Participants are invited to share their observations on the impact of the global financial crisis on their local insurance markets from the perspective of group-wide supervision. Jurisdictions currently developing a group-wide supervision framework can share the challenges faced and discuss how other insurance supervisors or the IAIS may assist.

11.15 – 11.30 a.m.

Coffee break

Session II: Identifying the scope of group-wide supervision

11.30 a.m. – 12.00 p.m. **Draft IAIS Standard on Scope of Group, Supervisory Power and Legal Authority**
- Shinya Kobayashi, FSA Japan

12.00 – 1.00 p.m. **Discussion**
Participants are invited to comment on how they might put into practice the IAIS definition of scope of group-wide supervision.

1.00 – 2.00 p.m. Lunch break

Session III: Enhancing cooperation through supervisory colleges

2.00 – 2.15 p.m. **Group-wide supervisor perspective**
- Urs Halbeisen, FINMA Switzerland

2.15 – 2.30 p.m. **Host supervisor perspective**
- Beng Du Maniar, MAS Singapore

2.30 – 3.30 p.m. **Discussion**
Participants will share their actual experience from their participation in supervisory colleges meetings and provide recommendations on ways to improve the effectiveness of colleges as a supervisory tool.

3.30 – 3.45 p.m. Coffee break

Session IV: Managing a cross-border crisis through supervisory cooperation

3.45 – 4.00 p.m. **Cross-border cooperation on crisis management**
- Stefan Andresen, BaFin Germany

4.00 – 4.15 p.m. **Exchange of information – IAIS MMoU**
- Stefan Andresen, BaFin, Germany

4.15 – 5.15 p.m. **Discussion**
Participants will analyse the regional experience from the recent global financial crisis and discuss possible ways to improve preparedness to face future cross-border crisis involving insurance groups.

5.15 – 6.00 p.m. **Final discussion and concluding remarks**

Roundtable on Group-wide Supervision
for Asian Insurance Supervisors



Craig Swan
Chair
Insurance Groups and Cross-sectoral Issues
Subcommittee

Singapore, 29 November 2010



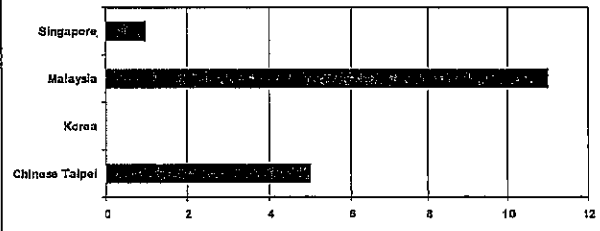
Agenda

1. Summary of pre-meeting feedback
2. IGSC workplan
3. ComFrame

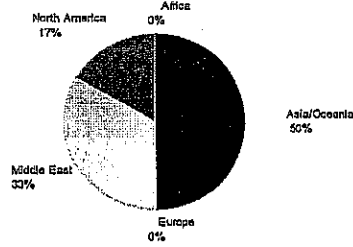


Home supervisor perspective

Number of parent/holding companies domiciled in local jurisdiction



Geographical spread of operations of parent/holding companies domiciled in local jurisdiction



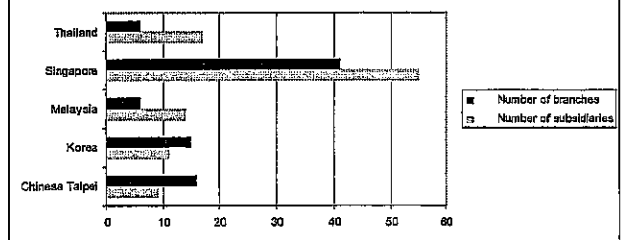
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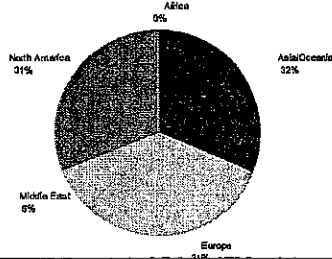


Host supervisor perspective

Number of subsidiaries/branches



Geographical spread of location of parents of subsidiaries/branches in local jurisdiction



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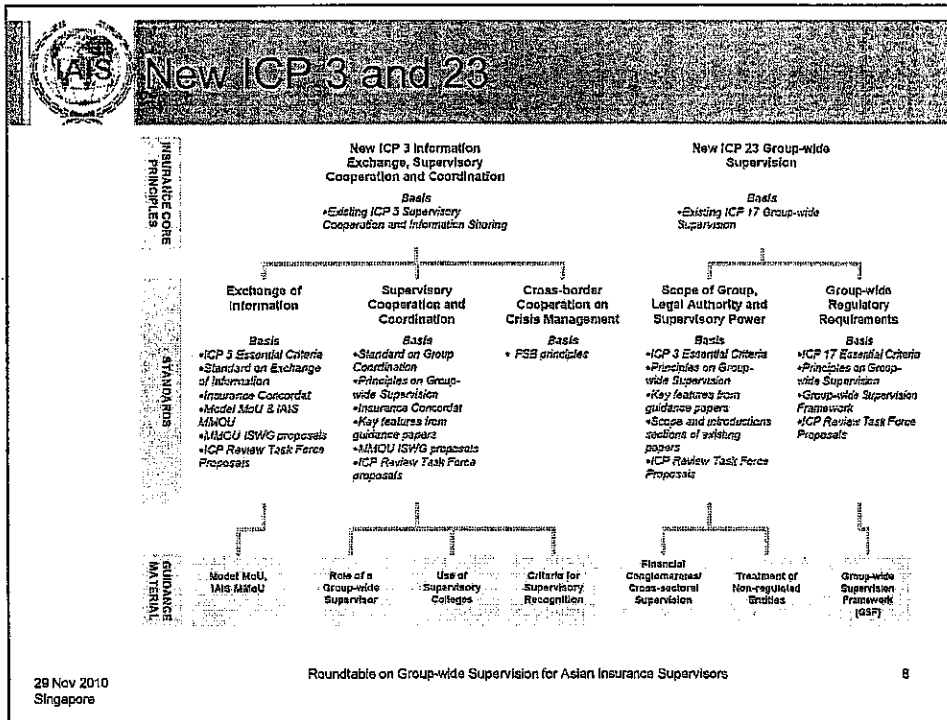
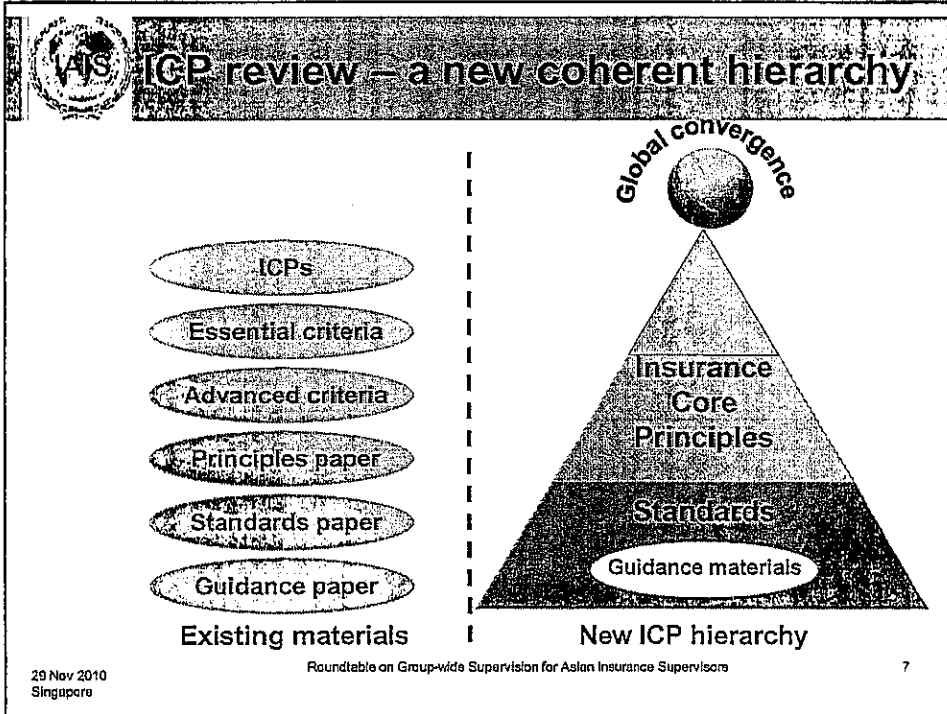
Other observations

- Only 1 jurisdiction reported problems with its local subsidiaries/branches during the recent financial crisis.
- Only 1 jurisdiction has requirements on insurance groups.
- Only 1 jurisdiction addresses non-regulated entities as part of its supervisory framework.
- 3 jurisdictions are members of supervisory colleges and have participated in their meetings.
- 2 jurisdictions reported difficulties in obtaining information from foreign supervisors.



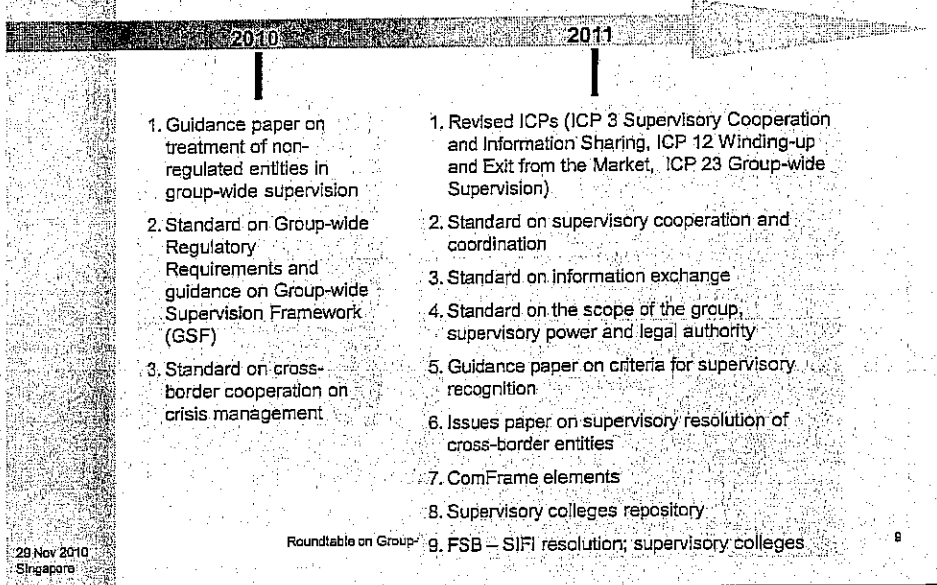
Agenda

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2. IGSC workplan
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Expected ICP deliverables by IGSC in 2010-2011



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Roundtable on Group-

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Agenda

1. Summary of pre-meeting feedback
2. IGSC workplan
3. ComFrame

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Roundtable on Group-wide Supervision for Asian Insurance Supervisors

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Common Framework for the Supervision Of Internationally Active Insurance Groups (ComFrame)

OBJECTIVES OF COMFRAME

Effective supervision of IAIGs

Comprehensive framework

Global convergence

Multilateral tool; specific but not rules-based

Module 1
Scope of application

Module 2
Group structure and business

Module 3
Quantitative & qualitative requirements

Module 4
Supervisory cooperation and interaction

Module 5
Jurisdictional matters

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Thank you for your attention.
Any questions/ comments?



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Supervision of Conglomerate Groups

The Level 3 framework

Keith Chapman

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Overview of presentation

- Introduction
- Identification of Level 3 groups
- Group risk management and governance
- Group capital adequacy
- Supervisory approach and next steps
- Questions

2

Reasons to focus on conglomerates

- 10 - 12 conglomerates control about 75% of prudentially regulated assets in Australia
- Can fail for obscure reasons, e.g. AIG
- Can fail due to contagion risk, e.g. Fortis, Dexia and ING
- Management concentration
- Conglomerates are structurally complicated

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How to address these risks?

- Ensure APRA has a Group-wide as well as regulated entity view
- Qualitative risk management requirements
- Flexible capital rules
- Supervisory discretion
- Substance over form approach

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Objectives of conglomerate supervision

- Legislative mandate to allow any corporate structure, any industry combination
 - Using a fairly simple framework - based on existing industry frameworks
- Prevent failure of conglomerate groups
 - Level 1 and Level 2 - focus on depositor/policyholder/member protection
 - Level 3 - failure prevention and systemic stability
- Capture risks not covered by Level 1 or Level 2
- Holistic view of group activities, intra-group relationships and large exposures

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Simplifying assumptions to reach an outcome

- No credit for cross-industry diversification benefits
- Management concentration risk
- 0.25 % charge at group level in respect of RSE licensees and unregulated funds management entities
- Determining conglomerate groups
- Surplus and transferable capital

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APRA's supervision hierarchy

Level 1

- Individual operating companies authorised by APRA
- ADIs, general insurers, life companies and RSE licensees

Level 2

- Specialist groups operating primarily in one industry
- ADI and general insurance groups or groups with authorised NOHCs
- Not in place for life insurance groups

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Limitations of Level 2

- Not adequate for subsidiaries outside the core industry - particularly unregulated subsidiaries
- Open to structural manipulation
- May not account for double gearing or excessive leverage in deconsolidated entities

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Identifying Level 3 groups

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Identifying Level 3 groups

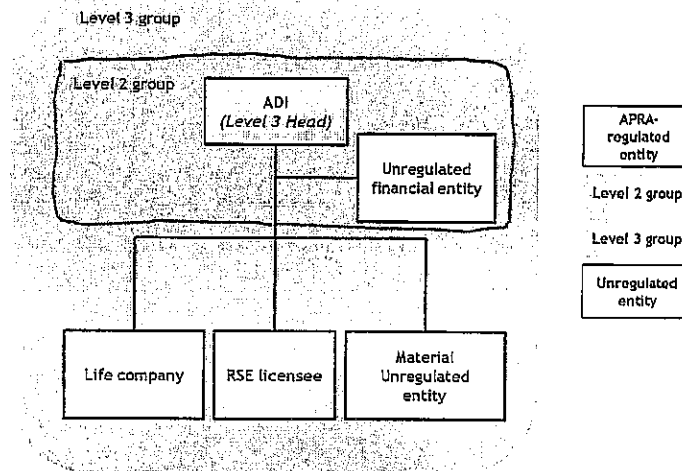
APRA determines the groups subject to Level 3 supervision

Level 3 will generally apply to groups:

- containing entities in two or more APRA-regulated industries; and/or
- containing material unregulated entities; and/or
- that otherwise merit Level 3 supervision

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Simplified Level 3 group structure



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Distinctions within the Level 3 group

Level 3 Head

- Determined by APRA
- An APRA-regulated entity (including authorised NOHCs)
- If an authorised NOHC, limited activities and the capacity to raise capital

Level 3 group

- Level 3 Head and all material subsidiaries (APRA-regulated and unregulated)
- APRA determines criteria for materiality

Unregulated entities

- Level 3 entities not regulated by APRA – but could be financial entities

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Group governance & risk management

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Level 3 governance & risk management

- Most governance & risk management standards replicate existing Level 1 and Level 2 standards – risk management the exception
- Apply to the Level 3 Head and, in some cases, the Head will be required to ensure broader compliance by group entities
- APRA-regulated entities must continue to comply with existing Level 1 and Level 2 Prudential Standards

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Level 3 risk concentration and intra-group exposures

- Apply to Level 3 Head
- Level 3 Head to ensure that Level 3 group conform to key elements
- Existing Levels 1 and 2 requirements continue to apply to APRA-regulated group entities
- Qualitative in nature to supplement quantitative requirements at Levels 1 and 2
- No quantitative limits proposed at Level 3

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Group Capital Adequacy

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Key concepts

- Explicit requirement for a board approved group capital management plan
- Equity-equivalent (Tier 1) approach to capital
- 'Building block' approach to calculation for required capital at Level 3
- Two candidate methods for calculating eligible capital at Level 3 - 'top down' and 'building block'.
 - Feedback sought on both methods during consultation.
- Surplus and transferable capital
- Pillar II add-ons for capital at Level 3

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Group capital management plan

Level 3 Board responsibility

- Maintain group capital management plan
- Ultimately responsible for appropriate quantity and quality of capital
- Extension of requirement at Levels 1 or 2

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Group capital management plan

Must include:

- Systems to manage risks arising from group's activities
- Processes to determine and maintain group target surplus
- Steps to ensure APRA-regulated entities meet existing capital adequacy requirements
- Understanding of the nature of transferable capital and transferability assessment
- Arrangements for unregulated entities to have sufficient capital or ready access to sufficient capital

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Level 3 capital adequacy components

- Required capital at Level 3 - Minimum capital held within the group
- Eligible capital at Level 3 - Actual regulatory capital held within the group
- Surplus capital - Excess of eligible capital over required capital
- Target surplus - Internal targeted amount of eligible capital in excess of required capital (determined by the Level 3 Head) – NOT an APRA requirement

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Measurement of required capital

'Building block' approach

- 'Block' - Level 2 group, sub-group of entities or single entity
- Level 2 capital requirement used as basis for Level 3 requirement, otherwise Level 1
- Required capital for every 'block' in the group determined and added to give group required capital

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Measurement of required capital

Required capital of a Level 3 group is the sum of:

- Equity-equivalent capital requirements of all blocks within the group
- Any additional requirements set by APRA at Level 3
- Level 3 required capital adjustments

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Required capital - funds management entities

Required capital greatest of:

- 0.25% of funds under management on account balances not invested in life insurance policies or bank deposits of a related party; or
 - any regulatory capital requirement; or
 - capital requirement calculated by entity's/group's internal capital allocation.
- Includes RSE licensees and material unregulated entities engaged in funds management
 - Capital does not need to be held in the entity but must be available to the entity if required

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Required capital - unregulated entities

Required capital greatest of:

- Level 3 group's internal capital allocation; or
 - Amount determined by APRA
- Entities operating in banking, insurance or superannuation industries overseas: the home regulator's capital requirement is a proxy
 - Capital does not need to be held in the entity but must be available to the entity if required
 - Supervisory increase if the capital is insufficient—LBOs/Private equity

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Measurement of eligible capital at Level 3

Method 1 (Top down approach)

- Level 3 group's consolidated accounts
- Net of all adjustments

Method 2 ('Building block' approach)

- Sum of eligible capital for each block of the Level 3 group
- Net of all adjustments

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Next steps

- Public consultation on discussion paper
 - Released in March
 - 3 months consultation
- Impact study for candidate Level 3 groups - underway (did a preliminary 'any issues' release)
- Draft prudential standards and guidance
- Draft reporting standards and forms and instructions
- Further public consultation
- Finalise framework
- Implementation coordinated with Basel and LAGIC project - 2013

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Supervision of Conglomerate Groups

The Level 3 framework

Keith Chapman

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US Approach to Group Supervision

David A. Vacca, CPA
Assistant Director
Insurance Analysis & Information Services
NAIC Regulatory Services Division

Presentation Overview

- U.S. Group Supervision Framework
- Current Efforts for Enhancement to Laws and Monitoring
- Key Group Supervision Considerations

U.S. Insurance Group Supervision Framework

Statistics

- Out of ~7,800 risk-bearing insurance legal entities regulated and supervised by the state insurance departments, 78% of the insurance legal entities are part of a holding company system

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U.S. Group Supervision Framework

- U.S. statutory holding company laws apply directly to individual insurers and indirectly to holding companies
 - Provides for a Windows and Walls approach
 - The US insurance regulatory framework requires strong walls between insurers and other legal entities operating within a group and windows to enhance understanding of risks within a group

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U.S. Group Supervision Framework

WALLS

- Quarterly risk-focused financial analysis
- Conservative statutory accounting and extensive reporting (public and regulator only)
- Dividend review and approval
- Acquisition review
- Approval of material affiliated transactions between insurer and affiliates
- Legal entity approach – ring fencing
- Risk-focused examinations based on risk rating
- Corporate governance

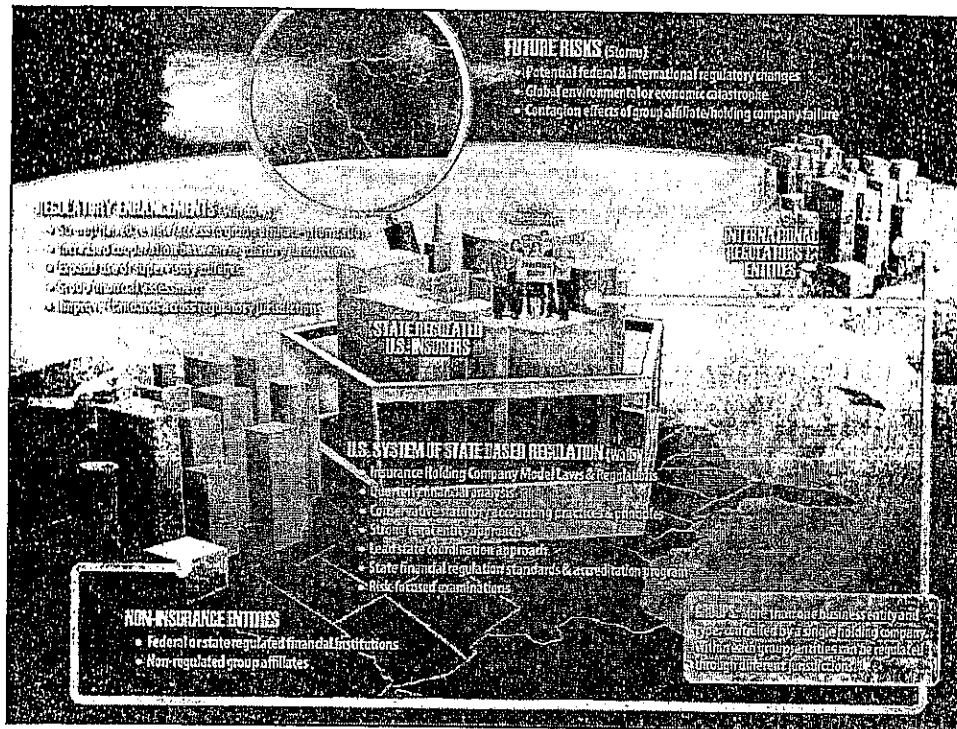
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U.S. Group Supervision Framework

Windows

- Access to information, such as unregulated entities and non-operating holding companies
- Strong reporting and disclosure requirements related to groups and affiliated activities
- Cooperation between regulatory jurisdictions and other functional and international regulators

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Current Efforts for Enhancement to Laws and Monitoring

- Strengthening holding company laws and regulations
 - Enterprise risk disclosure on group activities
 - Corporate governance
 - Enhanced access to affiliate books and records
- Developing additional best practices for group supervision
 - Group capital analysis
 - New documentation requirements for supervisors on holding company analysis
- Increase supervisory colleges activities
- Providing more input into IAIS activities
- Establishment of Federal Insurance Office and new regulations to wind down systemically important institutions

Key Group Supervision Considerations

- Enhanced supervisory cooperation and coordination
- Enhanced reporting and transparency
- Enhanced supervisory monitoring activities

Group-wide Supervision

Nick Cook
UK FSA

Overview

- EU Framework
- Current reforms
- Key aspects of group-wide supervision

EU Framework for Group-wide Supervision

- Insurance Groups Directive
- Financial Conglomerates Directive

Reform of EU Framework for Group-wide Supervision

- Solvency II
- Review of FCD

Key aspects of group-wide supervision

- Scope
- Supervisory co-operation & co-ordination
- Group-wide prudential requirements
- ORSA & Supervisory Review

Scope

- Direct & indirect risks from all group entities including:
 - Regulated (insurance & cross sector)
 - Non-regulated:
 - Non-operating holding companies
 - Non-regulated operating entities
 - SPVs
- Risks from complexity & inter-connectedness of group structures
 - Contagion (financial, reputational)
 - Resolution

Supervisory co-operation & co-ordination

- Flexible & proportionate
- Group-wide supervisor
- Supervisory colleges
- Exchange of information
- Supervisory recognition

Group-wide prudential requirements

- Solvency
 - Group-level focus
 - Legal entity focus
 - Internal models
- Risk management
- Governance
- ORSA & supervisory review

Identifying the Scope of Group-wide Supervision

*IAIS Draft Standard on Scope of Group,
Supervisory Power and Legal Authority
and
Group-wide Supervision in Japan*

29 November 2010

Asian Regulators Roundtable on Group-wide Supervision

Shinya Kobayashi
Financial Services Agency, Japan

Contents

I. IAIS draft Standard on Scope of Group, Supervisory Power and Legal Authority

1. Structure of Group-related ICPs
2. ICP 23
3. How to Define the Scope of Groups
4. Standard 23.1
5. Standard 23.2
6. Standard 23.5
7. Standard 23.6
8. How to Apply
9. Next Steps

II. Group-wide Supervision in Japan

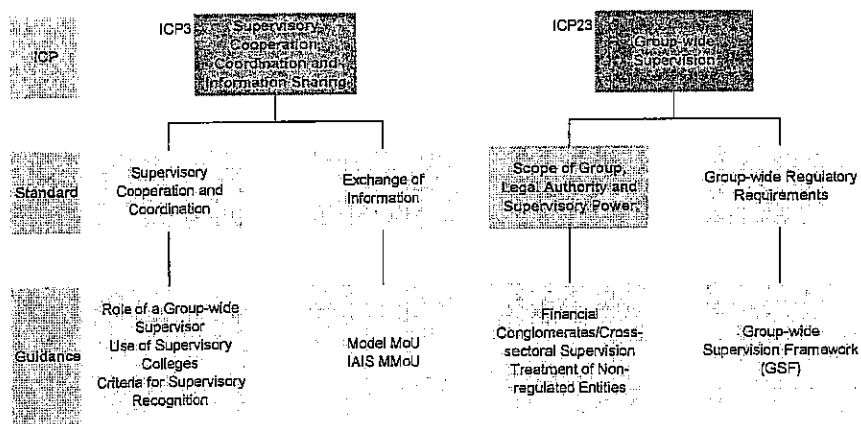
1. Scope of Group-wide Supervision
2. Supervisory Tools
3. Legal Aspects
4. Supervisory Policy
5. Empirical Implications

I. IAIS draft Standard on Scope of Group, Supervisory Power and Legal Authority

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1. Structure of Group-related ICPs

Proposed New ICP 3 and 23 Structure



(Note) New ICP structure: https://extranet.iaisweb.org/_temp/Revision_of_the_ICPs_-_Process_for_Review_and_Consultation.pdf

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2. ICP 23

ICP 23: The supervisor supervises insurers on a solo and group-wide basis.

How can we identify the scope of groups?

How can we apply principles and standards to groups?

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3. How to identify the Scope of Groups?

Principle-based Approach

Rule-based Approach

High-level
and
Flexible

Specific
and
Crisp (seemingly)

Consideration: Applicability and Assessability

Principle-based approach is taken in the current draft.

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4. Standard 23.1

23.1 Where an insurer is part of a group, **the supervisor**, in cooperation with other involved supervisors as necessary, **must identify the scope of the group to be subject to group-wide supervision.**

[Key points]

- Constrained discretion by supervisors (Guidance 23.1.1 and Standard 23.3)
- Scope for group-wide supervision
- Cooperation with involved supervisors

(Note*) G23.1.1 A supervisor should be accountable for the appropriateness of the identified scope of the group to be subject to group-wide supervision.

(Note**) S23.3 The lack of legal authority and/or supervisory power of a supervisor must not be a reason for narrowing the identified scope of the group.

5. Standard 23.2

23.2 **The identified group**, regarded as an insurance group for the purpose of group-wide supervision by insurance supervisors, **must cover all relevant entities**. In deciding which entities are relevant consideration should be given to, at least:

- operating and non-operating holding companies (including intermediate holding companies);
- insurers (including sister or subsidiary insurers);
- other regulated entities such as banks and/or securities companies;
- **non-regulated entities** (including parent companies, their subsidiary companies and companies substantially controlled or managed by entities within the group); and/or
- special purpose entities.

taking into account, at a minimum, **the following elements related to the insurance activities**:

- (direct or indirect) participation, influence and/or other contractual obligations;
- interconnectedness;
- risk exposure;
- risk concentration;
- risk transfer, and/or
- intra-group transactions and exposures.

5. Standard 23.2 (cont.)

[Key points]

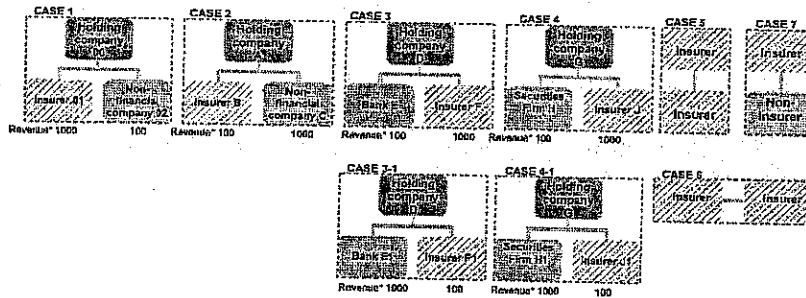
- Entity-basis AND element-basis
- Definition is in Guidance 23.2.2

23.2.2 ... insurance groups to be subject to group-wide supervision by insurance supervisors are the groups (i) in which there are two or more entities of which at least one has a significant influence on an insurer and (ii) in which entities and activities of those entities meet the criteria in Standard 23.2.

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5. Standard 23.2 (cont.)

Illustration of group structures intended to be captured under the definition of an Insurance group



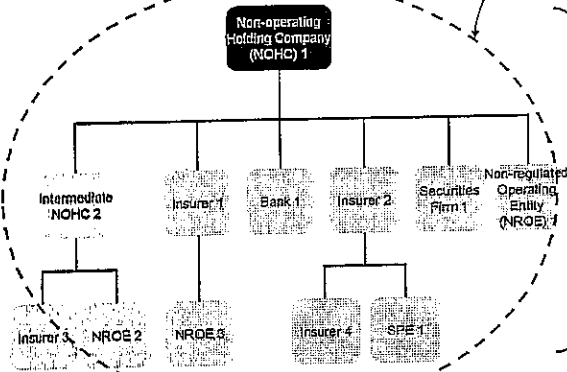
Note: * Revenue is used only to represent the scale of insurance activity within the group.

[Key points]

- A group in which insurance activities are smaller than others within the group is also regarded as an insurance group.

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5. Standard 23.2 (cont.)



1. Supervisors must set the perimeter of group-wide supervision in cooperation with other supervisors

2. The minimum types of "relevant entities" that should be included

3. Minimum elements with respect to insurance activities to consider when setting the scope

- Participation, influence
- Interconnectedness
- Risk exposure
- Risk concentration
- Risk transfer
- Intra-group transactions

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6. Standard 23.5

23.5 The supervisor must require that the structures of the insurance group be sufficiently transparent so that supervision of the insurance group will not be hindered.

[Key points]

- "Supervisability"
- Not necessarily mean that the requirement is done lawfully.

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7. Standard 23.6

23.6 *The supervisor must have legal authority, supervisory power and legal protection in order to exercise supervision on a group-wide basis.*

[Key points]

- Supervisory approach (e.g. direct or indirect) could vary.

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8. How to apply

Application Guidance: G23.0.1 to G23.0.6

G23.0.4 *All supervisory requirements applied to an insurance legal entity do not necessarily have to be applied to all entities within the insurance group, including non-regulated entities, and/or the insurance group as a whole. Supervisory approaches/requirements to be applied to entities/activities within the insurance group may vary depending on their, for example, types of business, legal status and/or nature, scale and complexity of risks. At the same time, however, the insurance group as a whole should be subject to group-wide supervision.*

[Key points]

- Flexibility of application (including proportionality)
- Group-wide supervision to a group as a whole

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9. Next Steps

October 2010: Consultation for members and observers

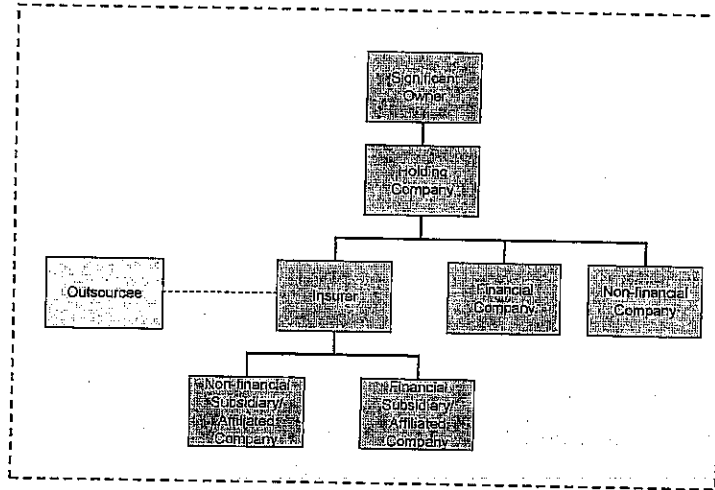
February 2011: To be approved at Exco

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II. Group-wide Supervision in Japan

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1. Scope of Group-wide Supervision



2. Supervisory Tools

	Quantitative	Qualitative						
	Capital Requirements	License/Approval	Reporting	On-site Inspection	Business Suspension	Business Improvement	Constraints on Business	Fit & Proper
Significant Owner	TBD*	○	△***	△	×	△	×	○
Holding Company	TBD*	○	△	△	×	○	○	○
Insurer	○	○	○	○	○	○	○	○
Financial Company, Subsidiary/Affiliated Company	TBD*	□**	□	□	□	□	□	□
Non-financial Company, Subsidiary/Affiliated Company	TBD*	×	△	△	×	×	○	×
Outsorcee	TBD*	×	△	△	×	×	×	×

(Note*) Capital requirements on a consolidated basis will be effective from FY2012. Details are still under consideration.

(Note**) □ means that they are supervised based on laws and regulations for their sector.

(Note***) △ means that those requirements are applied to the extent necessary.

3. Legal Aspects

- FSA Japan = Integrated regulator/supervisor
- Supervisory authority to not only insurers but also holding/subsidiary companies
- Supervisory tools: both qualitative and quantitative
- Limitation on business to be engaged by subsidiaries



✓ *Comprehensive and effective supervision*

✓ *Less complex group structure*

(Note*) The JFSA is currently undertaking field tests with the aim of introducing an economic value-based solvency regime. For details, see JFSA's website. <http://www.fsa.go.jp/en/news/2010/20100917-1.html>

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4. Supervisory Policy

Policy for the Supervision of Insurers in BY 2010

- Group-wide supervision = One of the prioritised areas
 - > Better understanding of the business activities and risk profile of a group as a whole
 - > Review of risk management system at the group level
 - > Review of appropriateness of businesses and financial soundness of a group as a whole
 - > Cooperation with foreign supervisors

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5. Empirical Implications

Empirical Implications

- Do not focus excessively on “solo entities”: Both solo and group-wide supervision are important
- Quantification of risks is NOT the sole, perfect approach: Pillar I + II + III
- Communication: Cross-sector and cross-border

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Annex

Insurance Business Act

<http://www.japaneselawtranslation.go.jp/law/detail/?ft=1&re=01&dn=1&co=01&ky=%E4%BF%9D%E9%99%BA&page=6>

Inspection Manual for Insurance Companies

http://www.fsa.go.jp/en/refer/manual/hoken_e/h-all.pdf

Comprehensive Guidelines for Supervision of Insurance Companies*

Comprehensive Guidelines for Supervision of Financial Conglomerates*

Inspection Manual for Financial Holding Companies*

(Note) These are available only in Japanese.*

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Thank you.

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Questions for Discussion

- Do you have insurance groups in your jurisdictions?
- How do you define insurance groups?
- Is the definition in line with the IAIS ICP?
- Would it be possible to apply the IAIS ICP 23?
- How do you conduct group-wide supervision?
- What kind of authority/power do you have and to which entities within groups can you exercise the authority/power?

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Enhancing cooperation through
supervisory colleges
- Group-wide supervisor perspective



Urs Halbeisen
Swiss Financial Market Supervisory Authority (FINMA)

IAIS Insurance Groups and Cross-sectoral Issues
Subcommittee - Roundtable on Group-wide Supervision

Singapore, 29 November 2010



Agenda

1. What is a supervisory college?
2. Types of supervisory colleges
3. Key activities of supervisory colleges
4. Key tasks of group-wide supervisor
5. Swiss college experience
6. Benefits for group-wide supervisor



What is a supervisory college?

- 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 a group.
- Facilitates the **supervision of the group** as a whole on a group-wide basis and improving the **solo supervision** of the entities within the group.

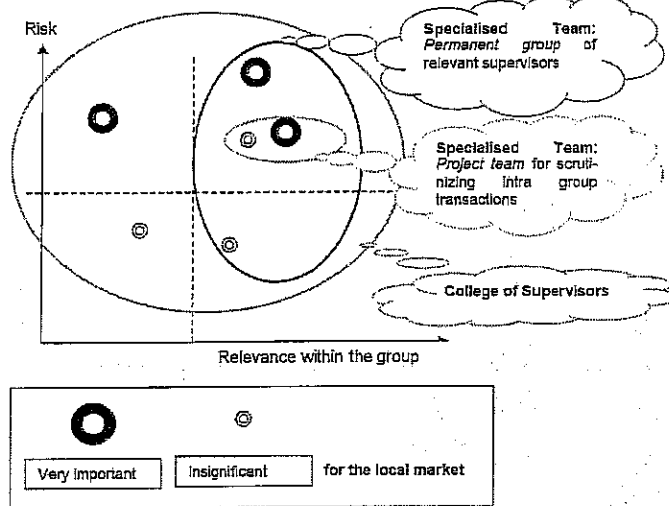


Types of supervisory colleges

- Global Colleges
- Regional Colleges (US, EU)
- Multiple tier Colleges
- Crisis Colleges



Example of a college arrangement (from CEOPS)



Key activities of supervisory colleges

- Information sharing
- Assessment of risk exposures, financial soundness, capital adequacy, group governance including risk management and internal control
- Coordinated supervisory activities (for example, joint inspections)
- Specialization, special focus teams
- Liaison with insurer management
- Regular assessment of effectiveness



Key tasks of group-wide supervisor in respect to supervisory colleges

- Establishment of a college
- Organisation of information exchange
 - Collect data from each jurisdiction about most important local issues (usually prior physical college)
 - Leads the discussion amongst supervisors
 - Enables local supervisors to meet with group manag.
 - Responsible for proper minutes
 - Keeps list of participating countries & supervisors up-to-date and keep all college participants informed about
- Organisation of physical colleges (at least one per year)
- Organisation of colleges via telconf (e.g. quarterly)
- Organisation of ad-hoc meetings if issue arises

29 Nov. 2010
Singapore

Enhancing cooperation through supervisory colleges - Group-wide supervisor perspective

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Swiss college experience

FINMA organizes as group-wide supervisor:

- 2 global colleges
 - Zurich
 - Swiss Re
- 6 regional colleges (EU)
 - Zurich (EU-lead UK/Ireland)
 - Swiss Re (EU-lead Luxemburg)
 - Swiss Life (EU-lead France)
 - Baloise (EU-lead Luxemburg)
 - Helvetia
 - Nationale Suisse

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Enhancing cooperation through supervisory colleges - Group-wide supervisor perspective

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Benefits for group-wide supervisor

- Detailed information about local group entities, not filtered by group management
- Early experience about local issues
- Exchange of thoughts with other supervisors about group
- Coordinated measures (e.g. joint inspection)
- Established communication channels in case of a crisis

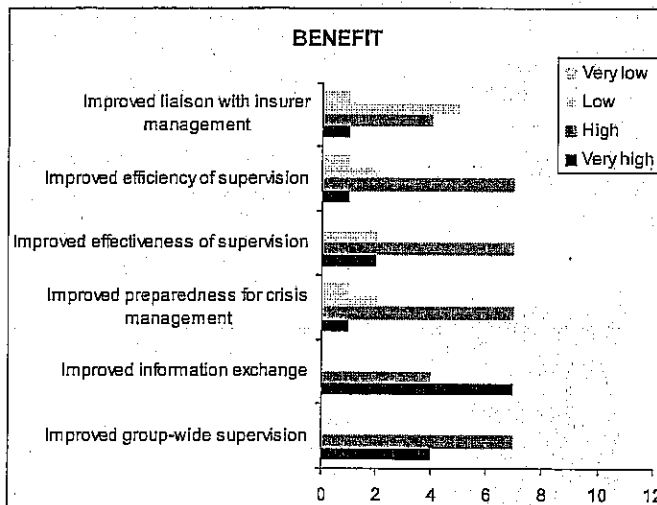
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Cost-benefit analysis of supervisory colleges from group-wide supervisor perspective



Source: IAIS survey, April 2010

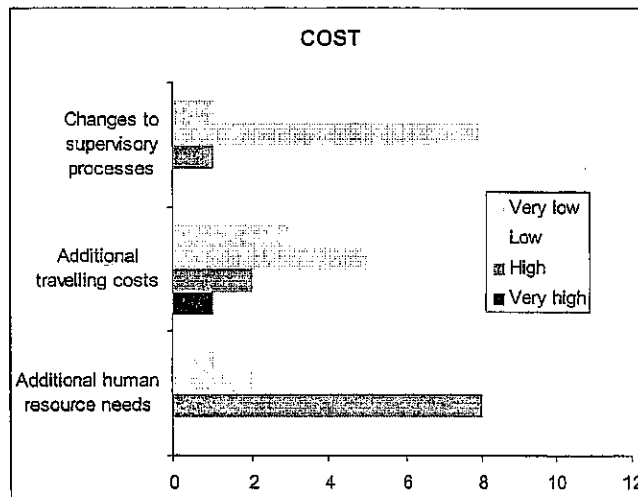
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Cost-benefit analysis of supervisory colleges from group-wide supervisor perspective



Source: IAIS survey, April 2010

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International recommendations on supervisory colleges



- "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." (*Washington D.C. Summit, Nov 2008*)

- "We remain focused on the medium term actions, and make recommendations to the London Summit to ensure strengthened international cooperation to prevent and resolve crises, including through supervisory colleges..." (*London Summit, Apr 2009*)

- "Substantial progress has been made in strengthening prudential oversight, improving risk management, strengthening transparency, promoting market integrity, establishing supervisory colleges, and reinforcing international cooperation." (*Pittsburgh Summit, Sep 2009*)



- "The use of international colleges of supervisors should be expanded so that, by end-2008, a college exists for each of the largest global financial institutions." (*Apr 2008*)



- "The BCBS, IOSCO, and IAIS should work together to enhance the consistency of supervisory colleges across sectors and ensure that cross-sectoral issues are effectively reviewed within supervisory colleges, where needed and not already in place." (*Jan 2010*)

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Key features of the use of supervisory colleges in group-wide supervision

SUPERVISORY COLLEGE

ROLES	<ul style="list-style-type: none"> • Facilitate group-wide supervision • Improve solo supervision • Permanent cooperation forum • Improve understanding of supervisory practices • Facilitate crisis management 	<ul style="list-style-type: none"> • Relevance to financial stability • Nature, scale and complexity of group • Relevance in local market • Operational and management approach • Similarities of supervisory practices 	WHEN
	<ul style="list-style-type: none"> • Information sharing • Assessment of risk exposure, capital adequacy, group governance incl. risk management • Coordinated supervisory activities • Specialisation (focus team) • Liaison with insurer management • Assessment of effectiveness 	<ul style="list-style-type: none"> • Membership based on joint agreement • Inclusiveness and effectiveness • Tiered college <ul style="list-style-type: none"> • Materiality of entities to the group, local market • Risk of entities • Group-wide supervisor as key coordinator/chairman - initiator 	

Mutual trust and confidence

Flexibility

Info sharing agreements



Thank you for your attention.
Any questions/ comments?



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Enhancing cooperation through supervisory colleges
- Host Supervisors Perspective

IAIS Insurance Groups and Cross-sectoral Issues Subcommittee
*Roundtable on Group-wide Supervision for
ASEAN+3 Insurance Supervisors*

Beng Du Maniar
Monetary Authority of Singapore
29 Nov 2010

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Host Supervisors Perspective:
- Supervisory Colleges

- One of the mechanism for facilitating cooperation and exchange of information and effective coordination and communication among involved supervisors on a group basis to supplement solo level supervision.
- *Principles : effective and efficient*
 - <> *Different approaches to supervision*
 - <> *Need for flexibility*
 - <> *Supplementing solo supervision*
 - <> *mutual trust and confidence*

2

Host Supervisors Perspective: Supervisory Colleges

- Evolving Concept and Work – not new, informal
- Existing Relationships with Home regulators:
- Contacts and communication on companies, products, structures, individuals, regulatory actions :
 - A) Licensing and shareholdings
 - B) Routine Supervisory- off-site /on-site
 - C) Run-off /Liquidation
 - D) Crisis
- Letters, emails, websites, teleconferences, visits, meetings

3

Host Supervisors Perspective Current Realities in Singapore

Type of insurers supervised by the MAS:

	Foreign Owned	Locally Owned	TOTAL
Branches	55	n.a.	55
Subsidiaries	41	19	60
TOTAL	96	19	115

Out of the 115 insurers supervised by the MAS, 96 (83.5%) are foreign-owned and 19 (16.5%) are locally-owned

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Host Supervisors Perspective

- How do we decide which supervisory college to attend?

- Some criteria needed to determine which supervisory colleges to attend
- Attendance could be in person, via teleconference or are there other means?
- Criteria should be based on the host supervisors perspective or the group supervisors perspective?

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Host Supervisors Perspective

- Usefulness of supervisory colleges

- Better understanding of the group legal structure and group management structure of the insurance groups
- Where home regulatory had issues understanding structures or entities in the host's market place, there were immediate conversation by telephone following the meetings
- Good platform for supervisors to identify common concerns, key risks etc

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Host Supervisors Perspective

- Usefulness of supervisory colleges

- There were spin-offs on other key developmental areas, eg. participate in Solvency II European regulators conference and inspections
- Host countries can assist the home regulator in their inspection of the operations in the host countries and for the host country to get assurance on the outsourced functions at home or other host locations

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Host Supervisors Perspective

- KEY CHALLENGES –DEFINING ROLES AND SCOPE

Defining the respective responsibilities of the various supervisors

The IAIS Guidance on Supervisory Colleges states that one of the key features of the use of Sup Colleges is that: "The roles and functions of the supervisory college and the respective roles of the involved supervisors should be agreed and clearly defined to avoid unnecessary duplication of supervision"

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Host Supervisors Perspective

- KEY CHALLENGES –DEFINING ROLES AND SCOPE

Important to avoid any duplication; have to avoid gaps too

Group supervisor's responsibility to take the lead to map out the roles and responsibilities

Roles and responsibilities of each jurisdiction will be affected by their own mandate, legal structure and local legislations

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Host Supervisors Perspective

- KEY CHALLENGES – DEFINING ROLES AND SCOPE

To consider the basis for determining responsibilities:

- Branches vs subsidiaries?
- Capital?
- Exposure? Liabilities? Premiums (gross or net)?
- Should holding company be a shell company, which will be the parent entity?
- Outsourced activities and functions

1
0

Host Supervisors Perspective

- KEY CHALLENGES – OPERATIONAL ISSUES

Host regulators' resource management – financial, manpower, budget and planning

Legislative powers – various parentage, MOUs, framework

Market conduct issues - beyond prudential and financials area ; distribution channels (cross border issues); reputational and contagion risks

1
1

Host Supervisors Perspective:

- SUPERVISORY COLLEGES

- 13 key features:
 - 1) Flexibility in Establishment
 - 2) Nature, Scale, Complexities
 - 3) No legal or binding authority as a decision making body
 - 4) Permanent, integral part of group wide supervision
 - 5) Mutual trust and confidence

1
2

Host Supervisors Perspective: - SUPERVISORY COLLEGES

- 6) Key functions defined : Assessment on group basis – risk exposure, capital adequacy, governance (risk mgt and internal controls)
- 7) Information Sharing Agreements – sharing of confidential information in secure environment
- 8) Group-wide supervisor responsible for initiating a supervisory college and act as key coordinator or chairman of the supervisory college
- 9) Roles and Functions – to be agreed and clearly defined to avoid unnecessary duplication

1
3

Host Supervisors Perspective: - SUPERVISORY COLLEGES

- 10) To meet on regular basis, appropriate to nature scale and complexity of group (Financial stability : annually)
- 11) Opportunity to discuss issues with management at Group level
- 12) Regular assessment of effectiveness
- 13) Role in Crisis Management

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Host Supervisors Perspective

- Immediate Tasks Necessary to improve effectiveness of supervisory colleges

- To identify and formalize structures and responsibilities of home and host countries
- To scheduled regular meetings and dialogues for supervisory college meetings

[Organize Conference or Forum by Regulators rather than Entities]

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Host Supervisors Perspective

- Recommendations for On-going and Open Communication

- Have a directory of regulatory officers for the various groups so that it would facilitate conversations and contacts
- Create a secured website for each group to post agreed regulatory actions for the insurance group
- Have modern communication channels (Facebook, email links, blogs, etc)
- To update on regular basis regulatory changes and deliberations.

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Host Supervisors Perspective: - Summary Supervisory Framework

- Permanent and Open Forum
- Improved mutual understanding (supervisory approach and tools)
- Coordinated Supervisory Activities and Action
- Improve solo supervision
- No gaps in supervision

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THANK YOU

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Exchange of information – IAIS MMoU



Stefan Andresen
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)

IAIS Insurance Groups and Cross-sectoral Issues
Subcommittee - Roundtable on Group-wide Supervision

Singapore, 29 November 2010



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- Final remarks



The journey so far

- February 2007: IAIS MMoU adopted in Dubai
- June 2009: IAIS MMoU becomes operational in Chinese Taipei (3 signatories)
- October 2010: 14 signatories so far
- October 2010: Launch of the MMoU online tool in Dubai (*went live on 10th November 2010*)

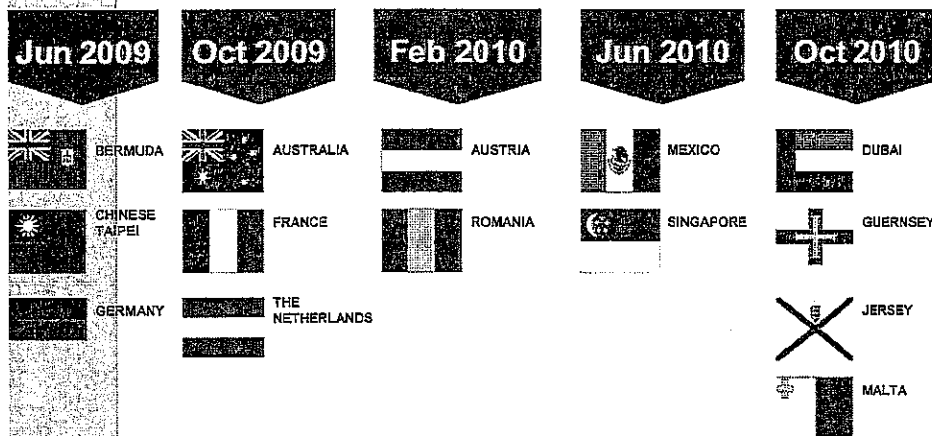
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IAIS MMoU– list of signatories to date



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IAIS MMoU Framework

- IAIS MMoU Text including
 - Annex A: List of Signatory Authorities to the IAIS MMoU
 - Annex B: IAIS MMoU Confidentiality Regime
 - Annex C: Application and Accession to the IAIS MMoU
 - Annex D: IAIS MMoU Request Sheet
- Administration and Accession Procedures of the IAIS MMoU
- IAIS MMoU FAQs



Objective and scope

- Establish a formal basis for cross-border cooperation and information
- All issues related to the supervision of insurers, other regulated entities and AML/CFT matters
- Not intended to create legally binding obligations or modify/supersede jurisdictional laws
- MMoU does not:
 - create any directly/indirectly enforceable rights
 - affect any provisions under other multilateral or bilateral agreements
 - affect freedom of signatories to cooperate and exchange information on an informal basis or beyond the scope of the MMoU



Backbones of MMoU framework

- Accession to MMoU is **voluntary**
- Open to **insurance industry supervisor** who is an IAIS Member or represented by an IAIS Member
- Signatory Authorities must **fulfil accession requirements** - *fulfilment of requirements will be validated*
- Only a **list of signatories** exists (Annex 1) - *no list of non-signatories is maintained*

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Backbones of MMoU framework

- Adherence to a **strict confidentiality regime** is fundamental
- Information **request** itself shall be treated as confidential
- Prior **explicit consent** before passing on information
- **Discretion** to fulfil information request lies with Requested Authority
- **No automatic** 'notification of regulated entity'

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Accession procedures

- **Relevant Competent IAIS Bodies**
 - **Implementation Committee (IC)**
 - **Signatories Working Group (SWG)** – Signatories to MMoU automatically become members of SWG
 - SWG appoints validation teams, acts as intermediary between its members and IAIS bodies and assesses reports of validation teams on individual applications
 - **High Level Committee (HLC)**
 - chairs of ExCo, TC and IC
 - final endorsement of new signatories
 - carrying out its role in the mediation procedure



Accession procedures

- **Validation**
 - **Validators**
 - SWG maintains a panel of validators
 - nominated by potential Signatory Authorities
 - well-versed in legal processes and procedures, insurance laws and regulations
 - **Validation team**
 - SWG will appoint validation team comprising of 4 validators from the panel (based on knowledge/experience, geographical balance).



Accession procedures

- **Decision making**

- If SWG has not raised any issues which prevent the applicant from becoming a signatory to the MMoU, the Chairman of the SWG will recommend to HLC that the applicant should become a signatory
 - applicant will become signatory immediately on approval by HLC
- If SWG and validation team are unable to agree to the applicant becoming a signatory the validation team will either advise applicant
 - what changes are needed for it to become a signatory
 - that it may activate the mediation process provided that the validation processes have been completed



MMoU Online Tool

- User friendly
- Web based
- User rights are managed through the IAIS website:
 - Members
 - Applicant
 - Signatories
 - Validation team
 - Secretariat
 - Observers



MMoU Online Tool

- Only online application is accepted
- To access IAIS website and MMoU online tool
 - Login details are required
 - Request can be made:
<https://extranet.iaisweb.org/index.cfm>
- Who can fill out the application?
 - Nominated IAIS main representative only (as per world directory) or proxy to be nominated in writing to mmou@bis.org
- What should you do before filling in the application?
 - Read the MMoU text and procedures
 - Read the FAQ
 - Look at the pdf sample application



Summary

- The MMoU provides a formal basis for cross-border cooperation and information.
- MMoU is a very useful and helpful tool to foster group-wide supervision.
- Up and running since mid 2009 and has proven to be effective.
- Only online application can be accepted.



Thank you for your attention.
Any questions/ comments?



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