

ComFrame at a glance

The purpose of this paper is to provide an executive summary of the first draft of ComFrame recently issued by the International Association of Insurance Supervisors (IAIS). Once adopted, ComFrame will have an impact on (re)insurance groups' risk management policies and procedures. These changes will have impacts on those (re)insurance companies deemed Internationally Active Insurance Groups (IAIG).

In light of recent and proposed national and multinational regulations, the IAIS has developed this common approach to provide a more integrated, multilateral framework for groupwide supervision with a well-structured approach that increases cooperation and information sharing across supervisory jurisdictions.



Module 1 Scope of ComFrame	Module 2 The IAIG	Module 3 The Supervisors	Module 4 Implementation of ComFrame	<p>The primary goals of ComFrame include:</p> <ul style="list-style-type: none"> Improving sharing of regulatory information among home and host supervisors to set grounds for better cooperation, to obtain a holistic picture of an IAIG, and to address unique and relevant complexities Standardizing methods of operating groupwide supervision of IAIGs by using the guidance of the Insurance Core Principles (ICPs) in conjunction with the common framework Establishing a comprehensive framework for supervisors to address groupwide activities and risks while minimizing overlap and duplication of effort Fostering global convergence of regulatory and supervisory measures and approaches.
<p>M1E1 Identification of IAIGs</p> <p>M1E2 Process of identifying IAIGs</p> <p>M1E3 Scope of ComFrame supervision</p> <p>M1E4 Identification of the groupwide supervisor and involved supervisors</p>	<p>Group Governance</p> <p>M2E1 Governance</p> <p>Group ERM</p> <p>M2E2 Enterprise risk management</p> <p>Group Structure and Strategy</p> <p>M2E3 IAIG's legal and management structures from an ERM perspective</p> <p>M2E4 IAIG's strategy from an ERM perspective</p> <p>M2E5 Intragroup transactions and exposures from an ERM perspective</p> <p>Group Financial Condition</p> <p>M2E6 Liabilities/technical provisions and assets/investments</p> <p>M2E7 Valuation</p> <p>M2E8 Group capital adequacy assessment</p> <p>Group Reporting and Disclosure</p> <p>M2E9 Reporting and disclosure</p>	<p>Group Supervisory Process</p> <p>M3E1 Supervisory process</p> <p>Supervisory Cooperation</p> <p>M3E2 Cooperation and coordination</p> <p>M3E3 Roles of groupwide supervisor and involved supervisors</p> <p>M3E4 Use of supervisory colleges</p> <p>Crisis Management and Resolution</p> <p>M3E5 Crisis management among supervisors</p> <p>M3E6 IAIGs and resolution</p>	<p>M4E1 Applicability of ComFrame to all IAIS jurisdictions</p> <p>M4E2* Peer review and peer assistance mechanism</p> <p>M4E3* ComFrame data compilation platform/mechanism for macroprudential surveillance purposes</p> <p><small>*Placeholder with the possibility of referring these issues to relevant working parties</small></p>	

Module 1 – Scope of ComFrame

The scope is broken into four elements: (these are considered minimal benchmarks)

1. Identification of IAIGs (ICP 23 sets out a general definition of an insurance group)

- a. An IAIG is a group which includes at least one insurance legal entity and which fulfills the ComFrame criteria. However, under specific circumstances, insurance groups that meet the ComFrame criteria may be excluded while insurance groups that do not meet the criteria may be included. This caveat is known as “constrained supervisory discretion.”
- b. The ComFrame criteria consist of:
 - i. International activity criteria – premiums written in not less than three jurisdictions, and the percentage of gross premiums written outside the home jurisdiction is not less than 10 percent of the group’s total gross written premium
 - ii. Size criteria (based on a rolling three-year average) – total assets of not less than USD 50 Billion or gross written premiums of not less than USD 10 Billion.

2. Process of identifying IAIGs

- a. The supervisory college will be the mechanism for the identification of an IAIG and must reach a joint decision.
- b. Involved supervisors must explain the appropriateness of the designations.
- c. Reviews of IAIG statuses will be conducted annually. If an entity does not meet the standards for three consecutive years, its status as an IAIG will no longer be considered.

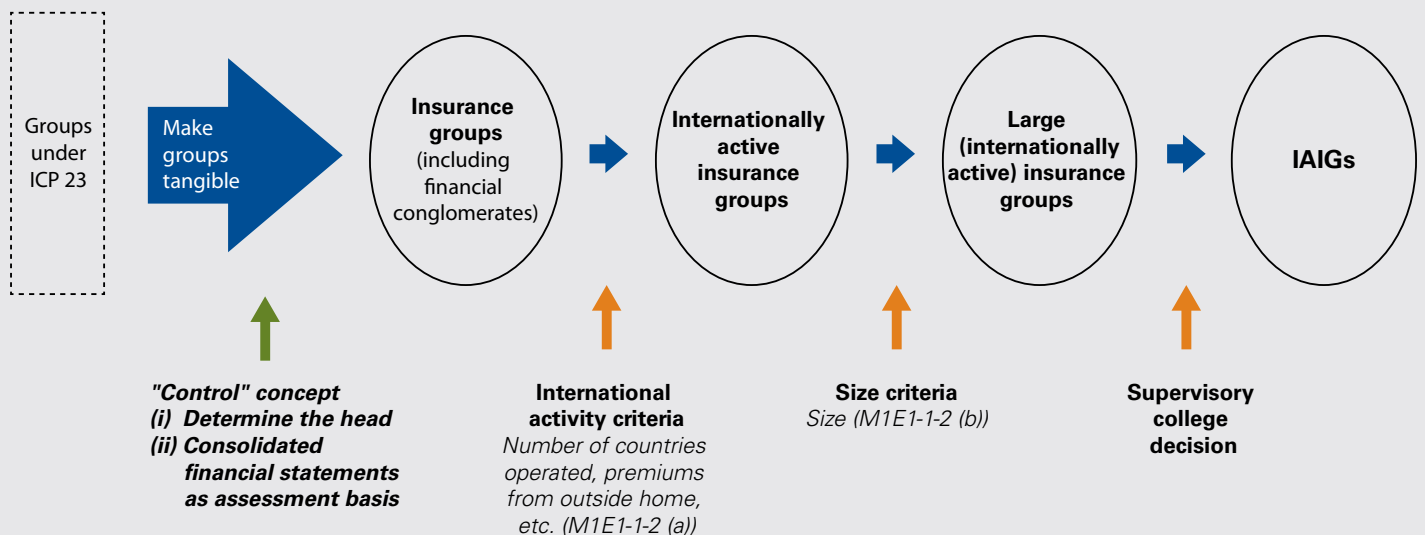
3. Scope of ComFrame supervision

- a. Control and risk will be taken into consideration when determining the scope of supervision.
- b. Both consolidated and nonconsolidated entities will be considered.
- c. While the groupwide supervisor leads the effort to determine scope, other identified supervisors must agree and be able to explain the appropriateness of the scope.

4. Identification of the groupwide supervisor and involved supervisors

- a. The groupwide supervisor has responsibility for supervising the IAIG as a whole.
- b. If the head of the IAIG does not have operational control of the IAIG, then other factors (i.e., where risks are underwritten) are considered to identify an appropriate groupwide supervisor.

Illustration of the Process and Criteria for Identifying an IAIG



Module 2 – The IAIG

This module sets forth the requirements that form the basis for the supervisory process and other requirements of supervisors. This module addresses five elements:

1. Group Governance

- a. The head of the IAIG must be identified, along with the legal entities. The governance framework must protect above all the interests of the policyholders, and take into account the overall risk strategy and appetite of the IAIG.

2. Group ERM

- a. The ERM framework demonstrates the processes, controls, and procedures set up for managing risk, taking into account the IAIG's business strategy and day-to-day operations. The framework should also outline the quantitative and qualitative measures used to identify and manage risk. It is expected that an ORSA for the IAIG is performed on a regular basis.

3. Group Structure and Strategy

- a. The IAIG must describe its legal and management structures which demonstrate a high level of transparency in the group structure, and include parameters that highlight the interrelationships within the IAIG.
- b. It is expected that the groupwide supervisor understands the strategy and business activities of the IAIG, and has a process in place to be notified of material changes to the strategy.
- c. There is a requirement that material transactions and exposures within the IAIG are sufficiently understood and demonstrated to the groupwide supervisor.

4. Group Financial Condition

- a. This section addresses technical provisions and focuses on the disciplines established by the IAIG for maintenance of the total balance sheet. This section is not fully developed in this first draft and will be better defined later.
- b. To reduce the demands on IAIGs for reporting purposes, the IAIS believes the methodologies for calculating items in the general purpose financial reports can be used for, or are substantially consistent with, the methodologies used for regulatory reporting purposes, with as few changes as possible to satisfy regulatory requirements. For example, valuation is based on IFRS or reconciliation to IFRS.
- c. The group capital assessment has three key components that will need to be prescribed in the groupwide Supervisor's jurisdiction—the group regulatory capital requirement, allowable group capital resources, and the capital adequacy assessment calculation and process.

5. Group Reporting and Disclosure

- a. Annual and interim supervisory reporting packages contain a common set of reported elements that address the qualitative and quantitative items in a format that can be shared with host supervisors. A sharable format could include publicly disclosed financial statements as well as a subset of reports used by IAIG management.

Module 3 – The Supervisors

Module 3 expands upon the requirements in Module 2 by capturing the cooperation and interaction requirements needed between involved supervisors. It addresses three key elements of the role of the supervisors.

1. Group Supervisory Process

- a. The objective of the supervisory process is to proactively identify and mitigate risks. This is accomplished through the gathering of relevant information, analysis of risk assessments and planning, and the enforcement of decisions as necessary.

2. Supervisory Cooperation

- a. The supervisors involved with the IAIG will coordinate efforts and incorporate cross-border issues affecting the IAIG.
- b. The sharing of information regarding the IAIGs will be proactive among the supervisors and will be exchanged as it becomes available. The groupwide supervisor is responsible for supervisory activities related to the IAIG as a whole.
- c. The purpose of establishing the supervisory college is to facilitate groupwide supervision of the IAIG, and communication among the supervisors.

3. Crisis Management and Resolution

- a. The groupwide supervisor together with the supervisory college will develop and maintain emergency plans and tools designed to remove barriers to efficient, effective, and internationally coordinated resolutions for handling any crisis within the IAIG.
- b. While the procedures for the exiting of an insurer from the marketplace are defined in legislation, ComFrame outlines the procedures to help minimize the impact on policyholders and establish an efficient process for the provision of benefits.

Module 4 – Implementation of ComFrame

Module 4 sets out the jurisdictional requirements to implement ComFrame. Element 1 sets out base ComFrame prerequisites for all supervisors and addresses groupwide supervisor prerequisites applicable to those IAIS members carrying out this role.

IAIS members will implement ComFrame on a predetermined start date once it is established that they meet the ComFrame supervisory or group supervisory prerequisites as appropriate. The outline for these prerequisites is based on powers and responsibilities, technical competence and capabilities, organizational process, and resources available.

IAIS recognizes that the implementation of ComFrame may vary across jurisdictions depending on the supervisory powers and structure within a certain jurisdiction. IAIS has established direct and indirect approaches to groupwide supervision.

- Under the direct approach, the supervisor has powers over the parent and other entities in the IAIG and can impose relevant supervisory measures directly on such entities.
- Under the indirect approach, supervisory powers focus on the insurance legal entities, and measures are applied to those entities to address the groupwide risks posed by other entities within the IAIG. There may also be different combinations of elements of the direct and indirect approaches.

In closing

ComFrame is now in its third year of development. This working draft lays out in substantial detail the proposed requirements of IAIGs and supervisors. The comment period for industry consultants and professionals to provide feedback closed on August 31, 2012. The full paper is located at www.iaisweb.org along with the press release and other related information.



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