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**IAIS adopts package of reforms in relation to internationally active insurance groups and mitigation of systemic risk**

The International Association of Insurance Supervisors (the “IAIS”) has adopted an extensive package of reforms intended to facilitate the effective cross-border supervision of insurance groups and to contribute to global financial stability. There are three main elements to the package:

**ComFrame**

- The “Common Framework” ("ComFrame") is a set of international supervisory standards and guidance on the effective group-wide supervision of insurance groups that exceed certain thresholds on international activity and size, referred to by the IAIS as “internationally active insurance groups” or “IAIGs”.

- ComFrame provides minimum qualitative and quantitative supervisory requirements, tailored to the international activity and size of IAIGs. It expands upon the high-level standards and guidance currently embodied in the IAIS’ Insurance Core Principles (“ICPs”), which set out the fundamentals of effective insurance supervision for insurance and reinsurance supervisors in all jurisdictions.

- The ICPs generally apply to all insurance legal entities and insurance groups. However, the IAIS believes that IAIGs require tailored and more coordinated supervision across jurisdictions, due to their complexity and international activity. Since 2010, it has therefore been developing ComFrame, which will apply specifically to IAIGs. The IAIS expects that ComFrame will provide a suitable framework to help supervisors in collectively addressing group-wide activities and risks, identifying and avoiding supervisory gaps and coordinating supervisory activities under the aegis of a group-wide supervisor.

- ComFrame will operate as an overlay to the ICPs. As such, ComFrame material is presented in blue boxes within the relevant ICP material.

- As with all of its supervisory material, the IAIS expects that ComFrame will be implemented by all IAIS members taking into account specific
market circumstances. The IAIS says that current supervisory practices are already in line with ComFrame in a number of areas but that, nevertheless, jurisdictions are likely to need some time to implement the framework. The IAIS will initially focus on supporting members’ efforts in the implementation of ComFrame, first concentrating on the identification of IAIGs and supervisory cooperation and coordination. From early 2020, the IAIS will compile a public register of IAIGs that have been publicly disclosed by group-wide supervisors.

Insurance Capital Standard

- The quantitative component of ComFrame is a risk-based, globally comparable insurance capital standard (“ICS”) for IAIGs, which has been developed to create a common language for supervisory discussions of group solvency of IAIGs and to enhance global convergence among group capital standards. The key elements of the ICS (Version 2.0 of which has been agreed by the IAIS) include valuation, capital resources and capital requirements.

- The ICS is currently presented as a stand-alone document, although it will eventually be integrated within ComFrame. It will be used during a five year monitoring period for confidential reporting to group-wide supervisors and discussion in supervisory colleges. That monitoring period will begin in January 2020.

- At present, the IAIS has published a “Level 1” document in relation to the ICS, which sets out the overarching principles and concepts which will apply during the monitoring period. A more detailed “Level 2” document will be issued in early 2020. Levels 1 and 2 together form ICS Version 2.0 for the monitoring period. Further “Level 3” documents will also be issued.

- The ICS will not be used as a group-wide Prescribed Capital Requirement (“PCR”), nor will it trigger supervisory action, during the monitoring period. The purpose of the five year monitoring period is to provide feedback to the IAIS on the design and performance of the ICS. This may result in further refinements to the ICS. In the second phase of implementation, after the monitoring period, the ICS will be implemented as a group-wide PCR for IAIGs as part of ComFrame. The IAIS has indicated that it intends to adopt the ICS as a PCR in the fourth quarter of 2024.

Holistic Framework

- A Holistic Framework has been developed with the aim of assessing and mitigating the potential build-up of systemic risk in the global insurance sector. It will be implemented from the beginning of 2020.

- The framework recognises that systemic risk can arise both from sector-wide trends with regard to specific activities and exposures, as well as from a concentration of these activities and exposures in individual insurers. It consists of an enhanced set of supervisory policy measures and powers of intervention, an annual IAIS global monitoring exercise.
and collective discussion on the outcomes and appropriate supervisory responses, and an implementation assessment.

The IAIS explains that the Holistic Framework moves away from the previous binary approach, which saw a set of pre-determined policy measures applied only to a small group of identified Global Systemically Important Insurers ("G-SIIs"), toward a proportionate application of an enhanced set of policy measures to a broader portion of the insurance sector. Therefore, the Holistic Framework material is contained in the ICPs and ComFrame and has a broader application. As a result of this departure, the Financial Stability Board has decided to suspend the identification of G-SIIs from 2020. This decision will be reviewed by the FSB in November 2022.

Key materials: press release; Insurance Core Principles and ComFrame; explanatory note on ComFrame; ComFrame FAQs; Level 1 Document for ICS Version 2.0 for the monitoring period; explanatory note on the ICS and Comparability Assessment; Holistic Framework for systemic risk; explanatory note on Holistic Framework for systemic risk.