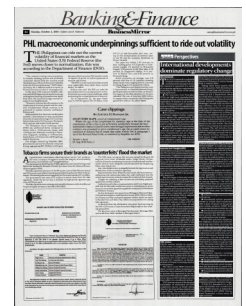


Headline	International developments dominate regulatory change		
MediaTitle	Business Mirror		
Date	03 Oct 2016	Color	Black/white
Section	Banking and Finance	Circulation	82,600
Page No	B4	Readership	82,600
Language	English	ArticleSize	470 cm ²



KPMG Perspectives

International developments dominate regulatory change

IAIS Framework

THE IAIS Framework is a globally accepted framework for the supervision of the insurance sector. The material is structured in a series of increasing regulatory requirements depending on the nature of the entity being supervised:

- The Insurance Core Principles (ICPs) are high-level principles-based standards that are to be followed for the supervision of insurers in all jurisdictions. These mainly apply to regulated insurance entities, but are supplemented by five group ICPs that apply to the wider insurance group.

- The Common Framework for IAIGs (ComFrame) applies further requirements against the approximately 50 insurance groups that meet the IAIG definition. This population of firms will need to comply with the insurance capital standard that the IAIS is developing.

- The G-SII population (nine groups currently) must comply with all of the above requirements and are subject to enhanced supervision due to their perceived systemic risk. This includes both additional capital requirements and recovery and resolution planning measures.

Insurance Core Principles (ICPs)

IAIS members are expected to implement the ICPs into their national supervisory frameworks. Compliance is assessed by the International Monetary Fund (IMF) and World Bank who conduct annual financial sector assessment program (FSAP) reviews on both a mandatory and voluntary basis. Mandatory FSAP assessments are required every five years for countries whose financial systems have been deemed by the IMF to be systemically important.

The IAIS began a three-year review of all ICPs in 2015, starting with a self-assessment and peer review of ICP 4 (licensing), ICP 5 (suitability of persons), ICP 7 (corporate governance), ICP 8 (risk management and internal controls), ICP

23 (group-wide supervision) and ICP 25 (supervisory cooperation and Coordination). In November 2015 it adopted revisions to each of these ICPs.

In January 2016 it began the self-assessment and peer review of ICP 13 (reinsurance and other forms of risk transfer) and ICP 24 (macroprudential surveillance and insurance supervision).

The IAIS also announced in January 2016 that it plans to issue a consultation document in mid-2016 proposing the application of recovery and resolution planning requirements applicable to all insurers. To date, only the nine G-SIIs have been subject to such requirements and the announcement of this extension has surprised many, with significant concerns regarding how this will be constructed to ensure it is proportionate to the rest of the insurance sector. We await this paper with interest.

FSAP reviews

THESE reviews include an analysis of the extent of compliance with relevant international standards, which, for the insurance sector, means an assessment of compliance with ICPs. The result has been a global drive among regulators over recent years to demonstrate ICP compliance, as demonstrated in Chapter 3 covering country developments.

The most recent FSAP review for those countries whose financial systems have been deemed by the IMF to be systemically important is set out. Finland and Norway were added to the list in January 2014 and have not yet been subject to a mandatory review.

2015 saw the release of the detailed assessment of observance on ICP's compliance reports on South Africa (March), the United States (April) and Ireland (May). The results for Ireland reflect the regulatory regime in force at the time of the assessment and, therefore, do not reflect the revisions to the regime resulting from the intro-

duction of Solvency II within Europe from 1 January 2016.

Taking these three reports with the four issued in 2014 (Switzerland, Canada, Hong Kong and Denmark), a consistent area of perceived weakness relates to ICP 2 (supervisor), where six of the seven countries scored only partial observation. Areas of concern raised included independence and challenges around staff recruitment and retention. For ICP 23 (group-wide supervision), five countries were graded partial observation, although most of these regimes are evolving in this area. In addition, all four of the 2014 reviews also reported only partial observation in relation to ICP 19 (conduct of business), which is not reflected in the 2015 results. The 2016 FSAP review program was announced in January. This will include a focus of systemic risks and macroprudential policies. Highlights are expected to be the reviews of China, Germany, Ireland, Russia, Sweden, Turkey and the United Kingdom.

Common Framework for IAIGs (ComFrame)

DEVELOPMENT of ComFrame began in 2009. There is an ongoing program of field testing, which started in 2014 and will continue through to its planned approval at the end of 2019. Current plans are for implementation in early 2020, although an earlier version of the insurance capital standard (ICS) will be finalized by mid-2017 to be used for private reporting to the group supervisors from 2017.

While the ICPs apply to the supervision of all insurance entities, ComFrame is only applicable to those insurance groups identified as an Internationally Active Insurance Group (IAIG) by its national supervisor. The IAIS has indicated that there are approximately 50 global insurance groups classified as IAIGs, although no lists are published.

An IAIG must meet the following broad criteria:

Headline	International developments dominate regulatory change		
MediaTitle	Business Mirror		
Date	03 Oct 2016	Color	Black/white
Section	Banking and Finance	Circulation	82,600
Page No	B4	Readership	82,600
Language	English	ArticleSize	470 cm ²

■ at least one large insurance entity in the group;

■ international activity: premiums written in at least three jurisdictions with at least 10 person of the group's gross written premium (GWP) being from outside the home jurisdiction; and

■ size of insurance activity: broadly GWP of not less than \$10 billion or total assets not less than \$50 billion, based on a rolling three-year average.

Due to their perceived complexity, this additional framework will facilitate group supervision, ensuring that group-wide risks are appropriately as-

essed and regulatory gaps are avoided. ComFrame will enable supervisory cooperation and coordination and effective information sharing between supervisors, with the group-wide supervisor responsible for the supervision of the IAIG as a whole on a group-wide basis. The group-wide supervisor will be able to exercise some "direct" powers at the level of the head of the insurance group, including:

Information requests, including related to subsidiaries relevant to the overall risk of the IAIG;

■ On-site inspections; and

■ Formal discussions with members of the governing body, senior management and key persons in control functions of the head of the insurance group

■ Fit and proper assessments of these individuals

The article was taken from KPMG's publication, entitled "International developments dominate regulatory change."

© 2016 R.G. Manabat & Co., a Philippine partnership and a member-firm of the KPMG network of independent firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.