

INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS



GUIDANCE PAPER ON THE USE OF SUPERVISORY COLLEGES IN GROUP-WIDE SUPERVISION

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This document was prepared by the Insurance Groups and Cross-sectoral Issues Subcommittee in consultation with IAIS members and observers.

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Preamble

The IAIS Insurance Core Principles (ICPs) establish the fundamental requirement for supervision on a group-wide basis: “the supervisory authority supervises its insurers on a solo and a group-wide basis” (ICP 17). The Principles on group-wide supervision elaborate on the requirements of ICP 17, with the purpose of establishing an internationally acceptable framework that contributes to ensuring appropriate streamlining, consistency, effectiveness and efficiency of supervision on a group-wide basis.

This Guidance paper is part of a first stage in the IAIS’s work on the development of global standards and guidance on group-wide supervision and complements the IAIS Guidance paper on the role and responsibilities of a group-wide supervisor.

These papers are necessarily evolutionary in their approach. In light of the current financial crisis it is recognised that timely development of enhanced communication and cooperation among supervisors involved in the supervision of a group on a group-wide basis is critical. Papers focussing on such coordination initiatives – the role of a group-wide supervisor and supervisory colleges – are therefore important foundation pieces. This work will also support the IAIS implementation of the Financial Stability Forum (FSF)¹ recommendations and the IAIS response to the G20 declarations.

For reasons of cross-sectoral consistency and supervisory convergence, close coordination with approaches chosen in other financial services sectors (in particular banking) is essential. However, it is equally important that all participating sectoral supervisors recognize and acknowledge the differences inherent in the business models for banking and insurance.

Following the approval of the Issues Paper on group-wide solvency assessment in March 2009 - developed jointly by the Insurance Groups and Cross-sectoral Issues Subcommittee and the Solvency and Actuarial Issues Subcommittee - the agenda of the IAIS on group-wide supervision has developed. In particular, over the period 2009-2011, standards setting work will progress on aspects of solvency assessment on a group-wide basis as well as on issues of treatment of non regulated entities and establishing criteria for equivalence assessment.

As the IAIS takes forward this agenda, there are many complex issues and challenges to be considered, including :

- balancing the needs and views of its 140 member jurisdictions, recognising the diversity of regulatory and supervisory approaches and frameworks*
- acknowledging that some aspects of regulation - contract, insolvency and consumer protection legislation - may extend beyond the direct control of the insurance supervisor or the IAIS.*

¹ Now renamed the Financial Stability Board (FSB)

Guidance paper on the use of supervisory colleges in group-wide supervision

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1. Introduction

IAIS developments on group issues

1. Since its inception in 1994, the IAIS has developed a number of principles, standards and guidance papers to help promote the development, globally, of well-regulated insurance markets, consistent with one of its objectives under the IAIS By-laws. A further objective of the IAIS under the By-laws is to contribute to broader stability of the financial system.

2. The IAIS Insurance Core Principles (ICPs) establish the fundamental requirement for supervision on a group-wide basis. ICP 17 states that “the supervisory authority supervises its insurers on a solo and a group-wide basis”. Essential criteria (d) of ICP 17 indicates minimum aspects of supervision to be covered by group-wide supervision, “as a supplement to solo supervision”. Essential criteria (b) of ICP 17 goes on to require that supervisors, in meeting this fundamental requirement, “cooperate to avoid unnecessary duplication”.

3. The IAIS *Principles on group-wide supervision* (the Principles) elaborate on the requirements of ICP 17, with the purpose of establishing an internationally acceptable framework that contributes to ensuring appropriate streamlining, consistency, effectiveness and efficiency² of supervision on a group-wide basis.

4. The IAIS *Multilateral Memorandum of Understanding on Cooperation and Information Exchange* (IAIS MMoU) establishes a formal basis for cross-border cooperation and information exchange among supervisors, and hence covers the circumstances of supervision at group level.

² Where the concepts of effectiveness and efficiency of supervision are used, it is intended to mean effectiveness and efficiency in achieving the objectives of prudential supervision. In this context, effectiveness of supervision would take primacy over issues of efficiency alone, albeit the dual objectives may be achievable simultaneously.

5. The IAIS *Guidance paper on the role and responsibilities of a group-wide supervisor* supports the Principles, and provides guidance on one possible element of an international framework for group-wide supervision – the designation of a group-wide supervisor to promote efficient and coordinated group-wide supervision – while also referring to the use of supervisory colleges as another element.

6. The IAIS *Issues Paper on group-wide solvency assessment and supervision* (March 2009) is an exploration of the issues associated with developing a framework for group-wide supervision and has contributed to defining the forward agenda of the IAIS in this area. In particular, standard-setting work will progress on aspects of solvency assessment on a group-wide basis as well as on the issue of treatment of non regulated entities (including non operating holding companies) and on establishing criteria for equivalence assessment of supervisory regimes.

7. This guidance paper further complements this suite of papers on group-wide supervision. It provides guidance on the use of a supervisory college as a further element of an international framework for group-wide supervision – as a mechanism to facilitate cooperation and exchange of information among involved supervisors³ and coordination of supervisory activities on a group-wide basis in normal and crisis situations.

Developments in the Insurance Industry

8. Most internationally active insurers are organised in the form of groups with insurers within the group incorporated according to the legal framework in their respective local jurisdiction. The financial position, risk profile and governance (including risk management and control) of an insurer may be affected by its belonging to a group, with the possibility of both positive and negative effects⁴ on the prudential situation of the individual entities and the group as a whole.

9. In groups, risk management and control functions are often established at group level. Significant strategic and policy decisions are generally taken at the head of the group. Taking this into account, it is important to consider the management and governance structure of the group and the quality of risk management and internal controls on a group-wide basis.

10. It is, therefore, important for supervisors of insurers within a group to be able to form a comprehensive view of the business strategy, financial position, legal and regulatory position, risk exposure and risk management and governance processes of the insurance group as a whole, and to assess (and react to, as necessary) the prudential situation and solvency of the respective insurers within the group. Where the insurance business of the group is carried out in a number of jurisdictions and a number of different supervisors are involved, this makes the task of supervising on a group-wide basis more challenging and the coordination of supervisory activities more important.

11. The IAIS recognises that effective group-wide supervision can contribute to sound insurance markets, improved management of group-wide risk and capital and enhanced policyholder protection. At the same time, solo supervision will remain integral as the legal obligation to policyholders is established at the legal entity level. Therefore, to be effective and efficient, supervision of a group should be undertaken in a manner which recognises the respective requirements for solo and group-wide supervision, establishes common understanding and coordination among supervisors and avoids unnecessary duplication of supervision.

³ The determination of the involved supervisors will depend on the circumstances of the particular group and jurisdictions in which it operates, but could be all supervisors involved in the supervision of insurers within the group. Refer to section 6.2 on the Form and operational structure of a supervisory college.

⁴ The positive and negative effects are detailed in the *Issues paper on group-wide supervision* (Mar 2009)

12. The growing internationalisation of insurance business makes it appropriate and timely to explore mechanisms to achieve more effective and coordinated supervision on a group-wide basis, as a supplement to the solo supervision of each insurer within the group.

International developments in relation to financial stability issues

13. In the light of the financial market crisis which commenced in mid 2007, there has been an increased focus on issues of financial stability, and the risks associated with large financial organisations operating on a cross-border and/or cross-sector basis.

14. In the recommendations of the Financial Stability Forum (FSF) in April 2008 and the statements of the G20 (November 2008⁵) – there has been particular reference to the important role of supervisory colleges in enhancing supervisory cooperation and coordination of internationally active groups and as one mechanism for crisis management⁶. Protocols for the establishment of supervisory colleges for the major global financial institutions have been developed by a subgroup of the FSF working group on market and institutional resilience. The London summit of the G20 reinforced this work by demanding the FSB⁷ “set guidelines for, and support the establishment, functioning of, and participation in, supervisory colleges”⁸.

15. In developing this guidance, due regard has been had for these recent developments and recommendations in respect of supervisory colleges. As a member of the FSB, the IAIS provides this guidance paper as the basis of its initial input to the development of guidelines for supervisory colleges.

16. Consideration has also been given to the important work of the Joint Forum in the supervision of financial conglomerates – in particular, the Coordinator Paper and the Framework for Supervisory Information Exchange Paper. The experience of the banking sector in the establishment and use of global supervisory colleges has also been considered.

17. It is recognised that there is established experience within the insurance sector in the use of supervisory colleges, including in the European concept of coordinating committees and the US process for supervisory cooperation across its state based regulation system. The IAIS has undertaken a survey among members to gather information on their experiences with supervisory colleges in practice – the information gathered from that survey was used to inform the development of this paper and the results confirm and reinforce the guidance provided.

⁵ The G20 declaration from November 2008 states: “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.”

⁶ The November declaration further states that: “Regulators should take all steps necessary to strengthen cross-border crisis management arrangements, including on cooperation and communication with each other and with appropriate authorities, and develop comprehensive contact lists and conduct simulation exercises as appropriate.”

⁷ One of the outcomes from the April 2009 London Summit, was the expansion of the scope and responsibilities of the FSF – now named the Financial Stability Board (FSB).

⁸ From the “Declaration on strengthening the financial system – London, 2 April 2009”.

2. Scope and purpose

2.1 Scope of the paper

18. Consistent with the identified scope of the Principles, the groups covered by this paper are those whose main activity is insurance, including reinsurance groups and an insurance subgroup within a financial conglomerate⁹. The guidance is intended to apply to insurance groups operating in multiple jurisdictions.

19. The Principles do not establish a detailed supervisory regime for group-wide supervision, but rather establish a framework within which group-wide supervision can be undertaken in an effective and efficient manner. The Principles acknowledge that there may be different approaches to group-wide supervision. Similarly, this guidance paper presents the use of a supervisory college as one mechanism for facilitating cooperation and exchange of information and effective coordination and communication among involved supervisors. While recognising the need for flexibility, the paper discusses factors to consider in the implementation of a supervisory college framework, the role and range of functions of a supervisory college, the establishment and operational activity of a supervisory college, including its form and membership and the interrelationship between the supervisory college and a designated group-wide supervisor.

20. In providing guidance on the use of a supervisory college in group-wide supervision, it is not the intention of this paper to lessen the importance of solo supervision or to replace the role of the solo supervisor in respect of insurers within its jurisdiction.

21. This guidance paper does not modify or supersede any legal or regulatory requirements in force in, or applying to, the respective jurisdictions of involved supervisors.

2.2 Purpose of the paper

22. As mentioned, this paper provides guidance on an international framework that contributes to ensuring appropriate consistency, effectiveness and efficiency of group-wide supervision and a streamlining of supervisory activities on a group-wide basis.

23. Such a framework will assist supervisors to collaborate at an international level in supervising the cross-border activities of a group: this in turn will contribute to the protection of policyholders and to overall financial market stability.

24. This paper considers the situation of establishing a supervisory college to facilitate cooperation and exchange of information, communication and coordination of supervisory activities on a group-wide basis as a supplement to the solo level supervision of the entities within the group.

25. The effective operation of a supervisory college is based on mutual trust and confidence among the involved supervisors. Group-wide supervision will be most effective where all involved supervisors act with a common understanding and commitment to cooperation and appropriate information exchange based on generally accepted and agreed supervisory principles and practices.

⁹ While not directly within the scope of this paper, the IAIS acknowledges the relevance of financial conglomerates and the importance of considering mechanisms for supervisory communication and coordination on a cross-sectoral basis.

26. Mechanisms for enhanced cooperation and information exchange based on such mutual trust and common understanding can further contribute to the long-term objectives of convergence, equivalence assessment and recognition of supervisory practices within the insurance sector as well as cross-sectoral supervisory convergence. All involved supervisors share the ultimate aim of ensuring optimal, effective and efficient group-wide supervision and hence enhancing and making more effective solo supervision.

27. Supervisory colleges also provide an important mechanism for enhanced communication among involved supervisors and the insurer, giving supervisors a valuable opportunity to discuss relevant issues with top management of the group.

28. A benefit of establishing a supervisory college lies in promoting coordination of supervisory activities among involved supervisors, which assists in avoiding unnecessary overlaps and duplication of work and maintains necessary levels of protection for policyholders and stability of financial markets overall. The effective operation of a supervisory college may also avoid unnecessary supervisory burden for industry.

29. The establishment of a supervisory college does not remove the need for effective regular communication between supervisors involved in the supervision of a group, including the possibility of establishing other mechanisms to facilitate such communication (such as bilateral agreements, MoUs etc.)

3. Summary of Key Features in the use of Supervisory Colleges

30. This section identifies thirteen key features in relation to the use of a supervisory college in group-wide supervision. These key features have been extracted from the sections which follow, as a summary of that more detailed guidance material. The key features are:

1. Appropriate flexibility in the establishment of a supervisory college - both when to establish and the form of its establishment - to reflect its particular role and functions is important.
2. Where established, a supervisory college should be organised in accordance with the nature, scale and complexity of the group; its form should be commensurate with the legal and organisational structure and business activities of the group.
3. A supervisory college has no legal or binding authority as a decision making body, nevertheless it should promote common understanding and agreement on supervisory activities in relation to group-wide issues.
4. Where a supervisory college is established, to be most effective it should generally be established as a permanent, integral part of the group-wide supervision process.
5. The effective operation of a supervisory college is based on mutual trust and confidence among the involved supervisors.
6. The key functions of a supervisory college should be defined, and may include assessment, on a group-wide basis, of risk exposures, capital adequacy and governance including risk management and internal controls.
7. It is vital that appropriate information sharing agreements are in place between the members of the supervisory college to ensure that confidential information can be shared in a secure environment.

8. The group-wide supervisor is expected to take the responsibility for initiating a supervisory college and to act as the key coordinator or chairman of the supervisory college, to the extent practicable.
9. 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.
10. A supervisory college is expected to meet on a regular basis, appropriate to the nature, scale and complexity of the group. In the case of a group which is relevant to overall financial stability the supervisory college should meet at least annually to be most effective.
11. The supervisory college provides involved supervisors an opportunity for discussion of issues with management at the group level.
12. Regular assessment of the effectiveness of a supervisory college in achieving its role and functions should be conducted. Where supervisory colleges at subgroup level are established regular assessment of the effectiveness of the coordination between the various supervisory colleges for the group should be conducted.
13. A supervisory college also has an important role in facilitating crisis management.

4. Interrelationship between group-wide supervisor and Supervisory College

31. The operational effectiveness of a group-wide supervisor may be enhanced considerably through the establishment of a supervisory college¹⁰ as a mechanism for enhancing cooperation and information exchange among involved supervisors. Also, effectiveness and efficiency of the supervisory college may be improved further through an awareness and understanding of the quality of relationship possible between the group-wide supervisor and other members.

32. This paper identifies a number of areas in respect of the operation of a supervisory college where the group-wide supervisor is expected to take an important role. These can be summarised as follows:

- initiating the establishment of a supervisory college
- clarifying the membership/participation of involved supervisors in the supervisory college, including considering the establishment of subgroup colleges to enhance the overall effectiveness of the college
- clarifying the functions of the supervisory college and the role of involved supervisors, including of the group-wide supervisor, which may be formalised in a terms of reference
- coordinating the ongoing activities of the supervisory college, including planning meetings, supervisory activities, processes of information exchange
- establishing a crisis management plan.

¹⁰

As noted in the *Guidance paper on the role and responsibilities of a group-wide supervisor*, "The benefits of designation of a group-wide supervisor can be further enhanced through mechanisms such asestablishment of a "college" of involved supervisors".

33. In all of these areas, while the group-wide supervisor would be expected to take the initiative as the coordinator or chair of the supervisory college, the group-wide supervisor must necessarily work in collaboration with involved supervisors and seek, to the extent possible, agreement among involved supervisors. In this respect, establishing early agreement and clarity of understanding on the operational aspects of the college will contribute to establishing good relationships among the involved supervisors from the commencement.

34. An important role of the group-wide supervisor will be the continued management of these relationships with and among supervisory college members. The group-wide supervisor should be mindful of the expectations of involved supervisors from the supervisory college, and their expectations of the role of the group-wide supervisor. Awareness of these expectations could play a pivotal role, especially in times of a crisis. This awareness should also include legal and internationally relevant facts and relationships, which may be critical to the supervisory actions taken in particular circumstances including crisis.

35. An efficient and harmonious relationship may only be possible when a mutual respect and trust is established and observed among involved supervisors. The group-wide supervisor should regularly consider opportunities to improve relationships and to reinforce mutual trust.

36. Access to relevant information for involved supervisors will be one important measure of the effectiveness of the supervisory college. While the group-wide supervisor will have a clear role in the gathering of relevant information, an equally important consideration will be the appropriate and timely dissemination of that information consistent with applicable confidentiality requirements. Interim information that has been received and may be of importance to the supervisory work of the other involved supervisors, should be made available to those supervisors. This will encourage mutual trust, sharing of information, and further collaboration and cooperation among all involved supervisors.

37. While the management of internal relationships is important, the group-wide supervisor should also play a role in establishing appropriate contacts with other associated participants who may be of assistance to the supervisory college, for example other sector participants in the case of a financial conglomerate. When identifying such participants the group-wide supervisor should take into consideration the impact and/or influence that they may have on the existing relationship between college members and should weigh these issues against the value of information and wealth of experience these additional members may be able to provide.

5. Role of a Supervisory College

5.1 General rationale

38. A supervisory college is generally established for the fundamental purpose of facilitating the effectiveness of supervision of entities which belong to a group; both facilitating supervision of the group as a whole on a group-wide basis and improving the solo supervision of the entities within the group¹¹. A supervisory college serves this purpose by providing a permanent forum for cooperation and communication between the involved supervisors. Through the sharing of information and discussion of supervisory issues, involved supervisors gain an improved mutual understanding of supervisory practices, which may contribute to enhanced convergence of supervisory practice on a global basis.

39. The form, membership and operations of a particular supervisory college can be expected to vary according to the circumstances of the group and of the jurisdictions in which it operates. Appropriate flexibility in the establishment of a supervisory college, and the determination of its functions and operational structure, to reflect its particular circumstances is therefore important. A supervisory college should be organised in accordance with the nature, scale and complexity of the group; its form should be commensurate with the legal and organisational structure and business activities of the group¹².

40. Although a supervisory college has no legal or binding authority as a decision making body, in establishing the role and functions of a supervisory college, consideration should be given to the facilitation of coordinated supervisory activities. To the extent agreed among involved supervisors, and to the extent possible given any legal constraints in particular jurisdictions, this could include the delegation of tasks (but not legal responsibilities) and, where necessary, consistent and coordinated supervisory interventions. Ultimately any supervisory activity (including delegation of tasks) and coordinated supervisory interventions undertaken by a supervisory college will rely on cooperation among involved supervisors and does not override the various individual jurisdictions' legal responsibilities or existing supervisory relationships.

To facilitate group supervision

41. A supervisory college contributes to the coordinated supervision of the group and facilitates discussion and action on a collaborative approach to supervising a group, subject to any restrictions or requirements under each jurisdiction's legal framework.

42. A supervisory college supports the role of a group-wide supervisor, where designated, and assists the group-wide supervisor in undertaking its functions. A supervisory college facilitates information collection and analysis at the group level, including compiling and analysing information available on risk exposures, financial soundness and governance of group entities. With access to such aggregated information, a supervisory college may also enhance supervisory assessment of systemic risks.

To improve solo supervision

43. Through information collection and sharing, analysis and discussion, a supervisory college facilitates the transfer of knowledge and expertise among involved supervisors, and hence can contribute to improved supervision of the individual entities

¹¹ Where reference is made to the entities within a group throughout this paper, consideration should be given to the circumstances of subsidiaries and/or branches, reflecting the inherent differences in their nature, to the extent appropriate.

¹² Refer to recommendation V6 of the FSF Recommendations, April 2008.

within the group. For example, effective cooperation may provide additional knowledge of the intra-group risks affecting an entity as a result of being a member of the group and may precipitate pre-emptive supervisory activities at the solo level.

As a permanent forum for cooperation

44. Where a supervisory college is established, to be most effective it should generally be established as a permanent, integral part of the group-wide supervision process. A supervisory college would generally be an ongoing mechanism, contributing to the ongoing protection of policyholders interests. As such, an effectively operating supervisory college should contribute to the prevention of financial loss or crisis (as well as being an important mechanism to foster better crisis management in the circumstances of financial crisis – refer to section 5.3).

45. A supervisory college provides a formal and effective permanent forum for supervisors to build relationships and engender greater cohesiveness in cooperating with each other and coordinating supervisory activities in relation to the group and the entities within the group both on a going-concern basis and in situations of crisis management.

To facilitate improved understanding of supervisory practices and effectiveness of supervision

46. There may be significant variances in supervisory practices across jurisdictions, caused by the diversity of market environments and the specific features of a market which are better understood by the local supervisor. As supervisors work together through a supervisory college, they gain a greater understanding of the nature of the group and its risks. A supervisory college facilitates the transfer of knowledge and expertise to other supervisors allowing involved supervisors to become aware of different supervisory tools and approaches.

47. An important consequence of improving the understanding of supervisory practices among involved supervisors is the potential for enhanced supervisory convergence on a global basis. Also more effective and efficient group-wide supervision should result, with enhanced policyholder protection and a possible consequence of minimising regulatory burden on the industry.

5.2 The range of functions of a supervisory college

48. There is a range of functions which a supervisory college may undertake, depending on its role and the reasons for its establishment. The circumstances of the particular group and the legal and supervisory structures in the involved jurisdictions can also influence the range of functions of a supervisory college.

49. Ultimately, the involved supervisors should establish among themselves the appropriate functions of the supervisory college given its role, and the allocation of those functions among the involved supervisors. Where there is a designated group-wide supervisor for the group, that group-wide supervisor would be expected to play an integral and transparent role in the establishment and ongoing operation of the supervisory college, including taking the initiative in establishing and coordinating the functions of the supervisory college, in consensus with other involved supervisors. (Refer to section 4 on the interaction between the group-wide supervisor and the operations of a supervisory college).

50. The roles and functions of the supervisory college and the respective roles of the involved supervisors should be clearly defined to avoid unnecessary duplication of supervisory tasks and to ensure no gaps exist in the supervision of the group. For example, at its establishment the functions of a supervisory college may be set out in its

terms of reference (refer to section 6.2) and the ongoing operations and activities of the supervisory college detailed in a supervisory plan. Where agreed among involved supervisors, delegation of supervisory tasks can be an appropriate means to increase efficiency of the work of a supervisory college.

51. In establishing the functions of a supervisory college, some of the key activities which should be considered include:

- information sharing
- assessment of risk exposures, financial soundness and capital adequacy and group governance, including risk management and internal control
- coordinated supervisory activities (for example, joint inspections)
- specialisation, special focus teams
- liaison with insurer management
- regular assessment of effectiveness.

Information sharing¹³

52. A main function of a supervisory college will be to facilitate enhanced supervision of the group and the legal entities within the group by providing greater access for involved supervisors to information and knowledge about the group and the environment in which it operates. Adequate information sharing arrangements are intended to provide supervisors with a vehicle to achieving a comprehensive understanding of the group and its risks while also protecting confidential information so that the group can be appropriately supervised.

53. As noted, effective group-wide supervision requires trust among supervisors. This is particularly the case in terms of sharing and exchanging information. As information is shared and exchanged in a secure and controlled environment, it both requires and encourages mutual trust. The supervisory college facilitates this relationship ultimately leading to greater cooperation.

54. The ability of each supervisor to share information must be determined to ensure that information remains confidential. The need to establish information sharing agreements¹⁴ should be considered to ensure confidentiality and define the parameters in which the information can be used. Supervisors are encouraged to initiate dialogue among themselves in order to identify ways in which they can foster an environment of cooperation and trust. Establishment of MoUs among involved supervisors could enhance the effectiveness of the supervisory college. Jurisdictions that are part of the IAIS MMoU will have had their legislative regimes assessed to ensure strict confidentiality requirements are met as a precondition for effective cooperation and coordination of joint supervisory activity.

Assessment of risks exposures, financial soundness and group governance

55. As described in section 4.2 of the *Guidance paper on the role and responsibilities of a group-wide supervisor*, the range of functions of a group-wide supervisor could include consideration of the following issues on a group-wide basis: risk analysis and capital adequacy assessment (including the sufficiency and adequacy of allocation of capital), fit and proper requirements and corporate governance and internal controls. As a mechanism for cooperation and coordination among involved supervisors and a forum

¹³ For further details on information sharing refer also to the Joint forum paper 'Framework for Supervisory Information Exchange' (1999) and the IAIS *Standard on the exchange of information*. (Jan 2002)

¹⁴ Information sharing agreements, such as MoUs, are mechanisms to share information, engender cooperation and trust, and ensure confidentiality.

for information exchange, an effective supervisory college may allow involved supervisors to gain an enhanced understanding of the group, its inherent risks, financial position and its business activities.

56. In the case where the group operates as a single economic entity, with management decisions being taken at the head of the group, and ERM frameworks and internal models being established and operated on a group basis, it is important for the involved supervisors to have a group-wide understanding of these aspects to complement their supervision of the entities within the group. The supervisory college provides a forum for involved supervisors to focus on risk assessment and capital management from a group-wide perspective.

57. A group-wide review and assessment of risks to which the group and its entities are or might be exposed can ensure a prospective focus of supervision and foster early warning of major risks to the extent possible. It can facilitate consideration of the impact of a group on the insurance industry, on other sectors of an economy, and any systemic risks which a group may present.

Coordinated supervisory activities

58. Through a supervisory college, joint activities among involved supervisors may be organised and coordinated where appropriate and as agreed on a voluntary basis between the involved supervisors, subject to any legislative requirements/restrictions. An example of a joint supervisory activity may be joint inspections of one or more group entities, or joint inspection of a particular aspect of the groups functions such as internal audit, actuarial function or risk management processes. Through joint activities, all involved supervisors can benefit from the shared information and expertise, and use this to enhance the supervision of their local insurer. The undertaking of joint activities should not be taken to imply joint decision making or any delegation of an individual supervisor's responsibilities.

Specialisation, special focus teams

59. A supervisory college may facilitate the formation of special focus teams to evaluate areas of particular concern or importance to the supervisors, or to bring together the requisite expertise to examine a specialised aspect of the group's operations. As an example, a specialised focus team may be established through the supervisory college to assess a group's internal model and to share that information with all involved supervisors.

Liaison with insurer management

60. The supervisory college provides a forum for the supervisors and the insurer to engage in face-to-face dialogue. The insurer is afforded the opportunity to provide clarity with respect to its operations and its business strategies at a group-wide level. For the supervisors, the opportunity to discuss issues with management at the group level, and with a group-wide focus is valuable.

Regular assessment of effectiveness

61. Where a supervisory college is established, regular assessment of the effectiveness of the supervisory college in achieving its agreed role and functions should be conducted. Where a group-wide supervisor is designated, it would be expected that the group-wide supervisor would organise the assessment, ensuring input from all involved supervisors as well as considering the benefit of seeking input from the supervised insurers, to the extent appropriate.

5.3 The role of a supervisory college in crisis management

62. Supervisory colleges can be an effective tool in reducing the likelihood of crises and averting them. In fact, they are a tool for crisis prevention that contributes to the safeguarding of overall financial stability. While, there may be circumstances where a supervisory college is established purely or exclusively as a vehicle for crisis management this would be expected to be the exception in practice (refer to paragraphs 44 and 45). Nevertheless, a high level of cooperation between supervisors is necessary for good crisis management which could be facilitated by the establishment of a supervisory college.

63. Since a supervisory college is a forum to engender cooperation and mutual trust among supervisors, an effectively operating supervisory college would result in established relationships which would be beneficial particularly in times of financial distress or a crisis. Regular cooperation and communication can, in fact, facilitate efficient action in times of crisis. Where a crisis situation arises, an existing supervisory college could function, and should be well positioned, to contribute to the management of that situation and to finding coordinated and agreed solutions.

64. It is important to be flexible in the use of a supervisory college with regards to crisis management. In fact the approach chosen needs to be able to adapt to the particular and individual situation. Other mechanisms of coordination might also be considered or needed.

65. To be effective in crisis management, it is essential for a supervisory college to provide mechanisms to exchange and communicate important information effectively and efficiently. The timely exchange of information is crucial, while always preserving confidentiality requirements. This may mean that, under very exceptional circumstances, highly sensitive information is only exchanged on a “need to know” basis. In addition, requirements to consult widely on supervisory actions which may be appropriate in normal times may need to be limited in crisis situations to ensure necessary timely responses.

66. A supervisory college can also be used for the sharing of experiences and lessons learnt about crisis management i.e. more from the retrospective view. This way it can provide members with examples of good practices of crisis management.

Infrastructure in case of emergency/crisis management

67. While it is not expected to be the ultimate focus of a supervisory college, a crisis management plan should be discussed. In establishing the role and functions of any supervisory college it is important to consider the scenario of a crisis and the expected role of the college in that situation.

68. A supervisory college should consider, in advance, the due process of cooperation and coordination during emergency situations in order to benefit from well established information and cooperation channels and procedures once the crisis occurs (refer to paragraph 66 of the *Guidance paper on the role and responsibilities of a group-wide supervisor*). The channels for communication with the head of the group as well as other parts of the group should be clearly established in case a crisis emerges. The group-wide supervisor, where designated, should establish close liaison channels with group management and the board of directors as well as the owners of the group.

69. The supervisory college should have procedures in place which help involved supervisors to provide and receive all necessary information in a timely manner to facilitate well informed decisions within their own jurisdictions. Furthermore, there should be mechanisms in place related to the sharing of information on a voluntary basis.

70. The supervisory college may assist in performing and sharing crisis assessments as well as contribute to the management of a crisis. Therefore, comprehensive and up-to-date contact lists as well as realistic simulation exercises should be developed to increase crisis-resilience.

71. The approach to a crisis situation should appropriately reflect the nature, size and complexity of the group and the particular crisis situation. It may be the supervisory college, as a whole, which responds to a crisis or a crisis management team. Alternatively, the supervisory college may establish a subgroup whose focus would be on crisis management aspects and, therefore, may be better capable to assess systemic risks.

72. The supervisory college should remain aware of the important role it will play in supporting the group-wide supervisor, especially in times of financial stress or crisis. Also the benefit of such a holistic approach is to provide the supervisory college with solutions for the best overall result for all jurisdictions and not just some. Members of the supervisory college should proactively identify, where possible, any conflicts of interest that may occur between their own jurisdictions and the relevant objectives of the supervisory college, and agree upon processes within the college to minimise any adverse and biased effect that may arise.

73. A supervisory college could also be a means for involved supervisors to coordinate on the timing and content of information that could be disclosed to/communicated with third parties (such as local supervisory/regulatory bodies, international organisations or the public where appropriate) and the insurance group, both on an ongoing basis and/or in a crisis situation and in particular where systemic risks exist taking into account confidentiality requirements. The supervisory college should identify any potential areas where the interests of third parties, in a crisis situation, may be in conflict with the relevant objectives of the college. As an example, confidentiality rules which determine the ability of individual authorities to communicate firm specific information may be a conflict.

6. Establishment of a Supervisory College

6.1 Whether and when to establish a supervisory college

74. There is a high level of divergence in the insurance industry regarding the nature of organisations, the nature of regulation and supervision, and the development of markets and supervisory regimes in different jurisdictions. While enhanced convergence of supervisory practice is expected over time, there is currently a need for flexibility in the considerations of both whether and when to establish a supervisory college.

75. As a general premise, the establishment of a supervisory college should be considered where it is necessary to improve the effectiveness and efficiency of supervision – for example, when significant cross-border activities and/or intra-group transactions are conducted; where effective group-wide supervision is essential to the protection of policyholders; and/or where effective group-wide supervision is essential to the financial stability of the financial market as a whole.

76. Consideration should be given to the circumstances and/or other factors that could be considered in determining whether and when to establish a supervisory college. Also the principle of materiality and proportionality should be applied in this determination. Further a jurisdiction may determine that there are particular circumstances or minimum criteria which suggest that the establishment of a supervisory college should be a requirement.

77. The factors which are relevant in this context include the following (it is noted that these factors are also relevant to considerations on the form and operational structure of a supervisory college, addressed in section 6.2):

- Relevance of the group to overall financial stability
 - where effective group-wide supervision of a particular insurance group is relevant to overall financial stability, the establishment of a supervisory college is expected.
 - the relevance of a group to overall financial stability would be highly dependant on the nature, scale and complexity of the cross-border activities and/or intra-group transactions and associated risks of the group.
- The nature and complexity of the business undertaken by the group
 - where the cross-border activities of the group are highly complex - through intra-group transactions etc - the effectiveness of pure solo supervision can be limited without appropriate cooperation and information exchange with related supervisors. Therefore, the establishment of a supervisory college is expected.
- Relevance of the group in specific insurance market
 - where a particular group has significant market share in one or more specific jurisdictions, the establishment of a supervisory college may be expected.
- Similarity of supervisory practices (such as risk and capital assessment, governance assessment and other key supervisory practices) among the involved supervisors
 - where the group operates mainly in jurisdictions with similar supervisory frameworks and practices (e.g. the EEA), the establishment of a supervisory college would be more practicable, and therefore may be expected.
- The operational and management approach of the group:
 - where the group functions - risk management, capital management, corporate governance and internal controls - are centralised, the establishment of a supervisory college should be encouraged to facilitate dialogue between the involved supervisors and management of the group.
- Legal constraints limiting the effectiveness of supervisory college in the involved jurisdictions
 - Ensuring professional secrecy and confidentiality are vital elements in allowing supervisors to share and exchange relevant information. Where, there are legal constraints to information exchange, the effectiveness of a supervisory college would be limited. In such a case, in considering the establishment of a supervisory college, supervisors should be encouraged to address any such legal constraints.

78. As a general point, where a supervisory college already exists in practice, but may not be comprehensive in its coverage (e.g. a regional college), that college may be adapted to meet the needs of the wider number of involved supervisors to the extent practicable. Involved supervisors should seek to avoid establishing duplicate supervisory colleges.

6.2 Form and operational structure of a supervisory college

79. The criteria discussed in section 6.1 are important considerations not only in determining whether and when to establish a supervisory college, but also where a college is established, in informing the definition of the form and operational structure of that college, its membership and the focus of its work.

Overall approach

80. The legal and regulatory frameworks that exist in the jurisdictions where the group operates may vary considerably. This will place limitations on how each supervisor carries out its supervision of solo entities and the scope of its authority. This in turn will have an impact on any work that a supervisory college agrees to carry out. In particular, a supervisory college will need to ensure that any work planned does not go beyond the authority of a supervisor or exceed the legal framework that exists in a jurisdiction.

81. The resources and capabilities of each supervisor involved in a supervisory college may vary considerably. As such the supervisory college will need to ensure that the activities agreed to are appropriate and realistic for all of the involved supervisors. This may require that:

- any tasks allocated are achievable for the supervisor carrying out the work; and
- the supervisory college focuses on the areas of greatest risk.

82. Supervisory approaches may differ by jurisdiction, for example some have adopted a risk-based/principles approach to supervision while others use a rules based approach. These differences will need to be considered and appropriately reflected in the form and operations of a supervisory college.

83. As already stated, supervisory colleges would generally be expected to be established on a permanent basis. However, there may be circumstances where a supervisory college is established on an ad-hoc basis in order to coordinate a particular issue with regard to the group in question (e.g. crisis management).

Membership of, and participation in, a supervisory college¹⁵

84. The membership of a supervisory college would be expected to comprise representatives of each of the supervisors responsible for the day-to-day supervision of the insurers which are part of the group. While participation in a supervisory college is generally voluntary, broad involvement by the supervisors of the more significant entities is critical to the effective operation of that college.

85. To facilitate effectiveness and efficiency, careful consideration should be given as to how to approach the participation of members at meetings and in other activities of the supervisory college. There is a need to balance the desire for an inclusive membership approach with the need to maintain manageable operational structures and to avoid the supervisory college becoming unwieldy and unworkable.

86. The basis of participation should be agreed among involved supervisors having due regard for the particular circumstances of the group. However, pragmatic solutions should be found to facilitate the operational functioning of the supervisory college in an effective and efficient manner.

¹⁵ The terms membership and participation should be interpreted in the context of these sections and in terms of every day usage. It is recognised that within the regulatory regimes of certain jurisdictions the terms may be defined for particular purposes and so take different meanings.

87. In the case of a large group with entities operating in many jurisdictions, the number of involved supervisors may make it impracticable to involve all members in supervisory college meetings. A structured approach to participation could be considered where for example, participation in the supervisory college meeting is on the basis of regional representatives, where that representative is responsible for communication to and from other regional supervisors. Another option may be to adopt a multiple tier structure of supervisory colleges, with subgroups of members identified and meetings organised to facilitate discussions at the subgroup levels (refer to below section on supervisory colleges at subgroup level).

88. Where participation in supervisory college meetings is limited, it is vital that other mechanisms such as secure members-only website be adopted to ensure the flow of information to and from all involved supervisors.

89. Further, clear criteria should be established for defining the basis of participation. Issues which should be considered in establishing these criteria include:

- the relative size and/or materiality of the entities relative to the group as a whole
- the relative size or materiality of the entity relative to its local market
- the level of risk in a particular entity
- the role of the supervisory college and its relevance to the particular entity.

90. Regardless of the approach to participation in a supervisory college, each involved supervisor is expected to make every reasonable effort to cooperate and coordinate in a spirit of mutual trust, to ensure the protection of confidential information shared and to avoid unwarranted supervisory duplication and unnecessary supervisory burden for both the insurers and supervisors involved.

91. The membership and participation approach of a supervisory college should be reviewed on a regular basis, to reflect changing circumstances in the group and the effectiveness of the operational structures.

Supervisory colleges at subgroup level

92. Within a group, it is recognised that subgroups may be, or are required to be, identified to reflect various structural, operational or supervisory objectives. Such subgroups may exist within a jurisdiction or on a cross-border basis.

93. There may be circumstances where it is appropriate to establish a supervisory college at the level of such a subgroup (for example on a regional basis or sectoral basis, as in the case of an insurance group within a financial conglomerate). In the case of large groups, with many involved supervisors, such an approach may bring benefits in facilitating the involvement of all supervisors at an appropriate level (as described in paragraphs 84 – 91).

94. When it is considered necessary to establish colleges at a subgroup level, supervisors should carefully consider the appropriate form and operational structure of the subgroup college, having regard to the circumstances of the group and supervisory structure, to facilitate its effective operation. In particular, supervisors may consider the following practical aspects of implementation:

- whether the subgroup college is established on a temporary or a permanent basis
- the interrelationships between the various supervisory colleges for a group, as well as the interrelationship with a designated group-wide supervisor

- mechanisms to facilitate effective and efficient information sharing and coordination between the various colleges
- ensuring the best dialogue with the industry without unnecessarily duplicating regulatory intervention (e.g. a dialogue at subgroup level).

95. Further, in these considerations supervisors should be aware of establishing mechanisms or processes to avoid the potential inefficiencies that may arise in a structure of subgroup colleges, such as:

- withholding material information at the subgroup level
- insufficient coordinated action/interventions at the subgroup level
- potential conflicts of interest between the subgroup and whole group
- duplication of supervision, by adding another layer.

96. Where supervisory colleges at subgroup level are implemented, regular assessment of their effectiveness and, in particular, the effectiveness of coordination between the various supervisory colleges for the group should be conducted.

Coordination and chairmanship

97. There may be various circumstances in which the establishment of a supervisory college is initiated, and depending on purpose and membership, various ways in which the roles of involved supervisors - including chairmanship – are determined. In general, the group-wide supervisor, where designated, would be expected to take the responsibility for initiating a supervisory college and to act as the key coordinator or chairman of the supervisory college, to the extent practicable.¹⁶

98. The chairman should ensure the prerequisites for the effective operation of a supervisory college exist, such as coordinating meeting schedules; confidentiality agreements etc. A supervisory college would be expected to meet on a regular basis appropriate to the nature, scale and complexity of the group. In the case of a group which is relevant to overall financial stability, it would be expected that the supervisory college should meet at least annually to be most effective.

99. The chairman should propose the agenda for supervisory college meetings, but should incorporate the views and opinions of other members. The agenda may be set to discuss specific issues, or wide ranging issues depending on what is happening globally and/or in respect of a particular group.

100. Supervisory college meetings should be planned with clarity of the outcomes that are being sought and, based on this, should clearly record the outcomes that are achieved, including :

- action points arising from any meeting(s);
- the individual(s) to whom a task has been assigned; and
- the deadline when an action should be complete.

It will be the responsibility of the supervisory college to track individual items to make sure that the necessary action has been carried out.

¹⁶ Refer to the IAIS *Guidance paper on the role & responsibilities of a group-wide supervisor* (Oct 2008).

Mechanisms to facilitate information sharing and co-operation within a supervisory college

101. The importance of mutual trust and confidence, in particular with respect to the exchange of sensitive supervisory information, to establishing successful cooperation within a supervisory college has been noted. Further the need to ensure the protection of confidential information has been established.

102. There is no global law or regulation on confidential information; it is the responsibility of each supervisor within the supervisory college to ensure the safe handling of confidential information. Each member of the supervisory college must consider carefully the consequences of unintentional divulgence of information. Therefore, it is vital that appropriate information sharing agreements are in place between the members of the supervisory college to ensure that information can be shared in a secure environment.

103. There are two principal methods with which this could be achieved:

- Each authority involved in the supervisory college establishes a memorandum of understanding (MoU) on a bilateral basis with the other members of a supervisory college. It is feasible that in many instances such MoUs already exist so this may not be as onerous as it first appears.
- The members of the supervisory college sign up to the IAIS MMoU which requires the compatibility and the commitment to a strict confidentiality regime.

Where confidential information, shared within a supervisory college, is also communicated to other supervisory authorities there also needs to be a formal mechanism in place with these supervisors to ensure the protection of the confidential information. Mechanisms could be included in MoU's or via direct arrangement by the supervisory college members.

Terms of reference of a supervisory college

104. When a supervisory college is first established the involved supervisors may seek to underpin its establishment with a formal document - terms of reference - which sets out the agreed terms of operation of the supervisory college. While recognising the need to allow for flexibility in the operation of a supervisory college, the terms of reference could generally cover the following matters (this is not an exhaustive list):

- The membership of the supervisory college – including the approach to participation of members in the college.
- The process for appointing a supervisor for chairing the college. (This would typically but not necessarily be the group-wide supervisor, where designated.)
- Roles and functions of the supervisory college and of the members of the supervisory college, including expectations of the chair/designated group-wide supervisor¹⁷.
- Frequency and locations of meetings – The supervisory college should agree locations that are likely to ensure the participation of as many of the members as possible. Where it is not feasible for supervisors to be present at a meeting, best endeavours should be made with the arrangements, so that where possible, people can participate by other means – for example by a conference call or electronic means.

¹⁷ Further information can be found in the IAIS *Guidance Paper on the role and responsibilities of a group-wide supervisor* (Oct 2008).

- Scope of the activities of the supervisory college – It is likely that the supervisory college will focus on the following issues at a group level:
 - the solvency and financial stability of the insurance group;
 - the assessment of intra-group transactions and exposures;
 - internal control and risk management within the insurance group; and
 - appropriate actions to mitigate risks identified.

To be most effective in considering these issues, the supervisory college may develop a shared view of risk.

- The regular information collected by the supervisory college and any notifications that should be made to it (from both supervisors and the group). The supervisory college should agree the frequency at which information is provided. This should be coordinated in a way so as to avoid duplicative requests and to reduce the burden on a group. The supervisory college should have an overview of an insurance group's strategic plans.
- Procedures for dealing with emergencies (including breaches of solvency positions or the crystallising of risk).
- Procedures for facilitating crisis management.