

Supervisory Cooperation and Collaboration and Crisis Management

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Background

- Financial markets are global in scope and interconnected.
- Essential for effective oversight in an integrated financial system.
- In 2009 the working group of the NAIC Solvency Modernization Initiative endorsed the IAIS *Guidance Paper on the Use of Supervisory Colleges in Group-Wide Supervision*.
- Supervisory Colleges foster cooperation, promote common understanding, and facilitate coordination for group-wide supervision.

International Expectations

- International regulators have determined that increased communication, coordination and cooperation among regulators at Supervisory Colleges is vital to understanding risk trends.
- The objective is to further information exchange, cooperation, and coordination to enhance the supervision of cross-border financial institutions.

International Expectations

- The primary role of the group-wide supervisor is to facilitate coordination and communication between regulators.
- The role of a group-wide supervisor in a Supervisory College will depend on the jurisdictions involved and should be specifically outlined at the outset to meet the expectations of the members of the Supervisory College.
- In the U.S., the *Insurance Holding Company System Regulatory Act* (#440) provides a more specific approach to be used when determining a group-wide supervisor

Insurance Core Principles (ICPs)

- The various ICPs include standards and guidance with respect to Group-Wide Supervision.
- One key concept is that at a minimum, the group-wide supervision framework includes extension of legal entity requirements according to the relevant ICPs, on:
 - Solvency assessment (group-wide solvency)
 - Governance, risk management and internal controls (group-wide governance)
 - Market conduct (group-wide market conduct)

ICP 25-Supervisory Cooperation and Communication

- It is important that there are clear agreements between all supervisors to allow the group-wide supervisor to fulfill its tasks.
- The group-wide supervisor is responsible for initiating discussions on suitable coordination arrangements, including establishing and acting as chairman of a Supervisory College.
- The supervisor establishes coordination arrangements with involved supervisors on cross-border issues on a legal entity and a group-wide basis.

Determination of the Group-Wide Supervisor

- Per the ICPs:
 - The supervisor in the jurisdiction where the group is based and where that supervisor has the statutory responsibility to supervise should be the first considered to be the group-wide supervisor.
 - The location of the group's head office, and ready access of the group-wide supervisor to the Board and Senior Management is also an important factor.
 - Where the registered head office is not the operational head of the group, the location where the main business activities and decisions of the group are undertaken should be considered.

Supervisory College Membership

- Supervisory College members are usually the states/jurisdictions where the largest insurance entities within a group are domiciled, premium underwritten and key corporate decision-makers in the organization are located.
- In order to include a balanced group of as many members as possible, it may be appropriate to establish a tiered membership approach.
- This approach suggests that regulators that attend a Supervisory College be referred to as Tier 1 or Tier 2 jurisdiction based on if they have direct or gross premium greater than 5 percent of the entire group.

Information Sharing Agreements

- One of the most critical tasks undertaken by the group-wide supervisor is drafting, distributing and obtaining executed information sharing agreements from the participating supervisory college membership.
- The group-wide supervisor is responsible for the regular information collected by the Supervisory College and any notifications that should be made to it.
- A written information-sharing agreement between the involved supervisors must be agreed upon and entered into by all parties wishing to participate in the Supervisory College.

Chairing the Supervisory College

- An immediate expectation of the group-wide supervisor is serving as the chair of all Supervisory Colleges.
- In addition to serving as the leader for the college, the chair is expected to complete a number of activities prior to and subsequent to each college including:
 - Set the date for the meeting
 - Set the agenda for the meeting and distributing at least one week in advance.
 - Record outcomes that are achieved at each meeting including points arising from the meeting (specifically, the individual to whom each task is assigned and the deadline when an action should be complete).

Understanding Regulatory Role & Key Functions

- The regulated group's organizational structure will also direct how the group organizes and conducts itself, which can be summarized into a Terms of Reference document.
- One of the key functions of the college is to create the means to facilitate communication which begins with the actions of the group-wide supervisor.
- In Europe, the group-wide supervisor additionally holds a more defined supervision review and assessment role, and significantly more decision-making capacity.

Initial College Procedures

- Minimum set of regulatory procedures U.S. lead states use when leading a Supervisory College:
 - Begin to plan all of the relevant logistical items that are important to a successful college.
 - Identify the entities that fall within the scope of the group.
 - Determine if their jurisdiction may be considered the group-wide supervisor.
 - Make initial contact with other regulators that may also be considered the group-wide supervisor and informally suggest your state may be the group-wide supervisor.

Initial & Ongoing College Meetings

- Send information regarding the potential for a Supervisory College meeting approximately six to nine months before the intended date (2-3 months for conference calls).
- Develop a tentative agenda and distribute it eight weeks before the college to all other regulators who plan to attend, asking for changes in order to ensure each jurisdictions needs are met.
- Refine the agenda as needed and redistribute to all regulators four weeks prior to the college.

Planning & Logistics

- Setting the date for the Supervisory College is critical and requires advance notice of at least 90 days (6 months is the suggested notice).
- Another reason to schedule a college well in advance of its expected date is to ensure that senior management of the insurance group is available.
- It is critical that the CEO, CFO, CRO and Chief Legal Counsel are all available during the college when appropriate senior regulators are also in attendance.
- The scheduling of the college should begin with establishing a range of dates to ensure attendance of these officers.

Setting Agendas

- In the initial college, the focus will be on establishing the college, the group-wide supervisor, membership, the Terms of Reference document, and related details.
- Some state insurance regulators may complete these activities via conference calls, or e-mail to minimize costs and maximize effectiveness.

Setting Agendas

- Some potential agenda items for the group-wide supervisor to consider include:
 - Introductions
 - Individual college members' views regarding role and responsibilities of the group-wide supervisor.
 - Terms of Reference document.
 - Discuss material risks of the group and format for future discussion.

Next Meeting Agenda

- At the next meeting of the Supervisory College, agenda topics should include:
 - Introductions.
 - Review of the Terms of Reference document.
 - Recap on material risks of the group.
 - Secondary presentations
 - Supervisory Work Plan

Next Meeting Topics

- Secondary presentations should be given by the insurance group regarding its business plan, financing strategy, and perceived risks and risk mitigation strategies.
- Consider requesting specific presentations regarding:
 - Underwriting strategies.
 - Investment strategy.
 - Reinsurance strategy and program.
 - Capital adequacy

Crisis Management Plan

- Supervisory Colleges are most effective when mutual cooperation and trust is achieved, especially in times of financial difficulties or distress.
- At its inception, the Supervisory College should engage in a conversation about financial crises and how the college will work in these situations.
- Plans should be flexible and should consider the need to adapt to the particular individual company situation.

Effectiveness Assessment

- The group-wide supervisor should discuss the need to regularly assess the effectiveness of the Supervisory College.
- Consider the original Terms of Reference document, as this outlines the participating member expectations.
- Determine the extent to which there could be regulatory gaps in the supervisory process, or areas that have not been considered.
- The group-wide supervisor should share the results of this assessment with the college to allow the involved regulators to provide input into the assessment.

Group Risks Perspective

- The terms of reference document is intended to capture the specific expectations of each member of the Supervisory College.
- To meet the majority members' expectations it is suggested that the regulator set aside time at the very first college where each college member is afforded the time to share with the group.

Group Risks Perspective

Suggested points the college may want to ask members include:

- Presentations of the entities
- Market share
- Key financial information
- Risks
- Specific issues relevant to the insurer

Output

- College members should leave with clear outputs and agree on the primary risks of the group/how the supervisors are going to monitor them.
- Each insurance group should set up a secure website to provide an update to the various college participants.
- The group-wide supervisor should obtain contact information for each participant and share the information with all the participants during or immediately after the college.

Conclusion

- Develop and document an overall summary & conclusion regarding the college.
 - Describe college structure, attendees, key risks identified, etc.
 - Identify key observations and risk noted during the Supervisory College.
 - Coordinate follow-up on key takeaways to relevant regulators.
 - The analyst should update domestic analysis if there are observations from the college that have a material impact on the view of the group.

Contact information

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