

No. 13, February 2014

## ComFrame—Quo Vadis?

By Kathrin Hoppe<sup>+</sup> and Kunihisa Kawasaki<sup>++</sup>

It all started in 2009/2010 with an International Association of Insurance Supervisors (IAIS) task force at the time chaired by Monica Mächler. The objective of ComFrame, as was envisioned by the task force back then, was to make cross-border group-wide supervision more consistent and effective. The recommended means to achieve this objective came in the form of a set of categorically-grouped approaches aimed to better monitor group solvency, group structures, group business mix and intra-group transactions<sup>1</sup> of Internationally Active Insurance Groups (IAIGs). The task force successfully completed its initial task and the recommendations therein were approved by the IAIS Executive Committee who then further mandated the task force to continue working on shaping ComFrame. Already at the time it was clear that ComFrame would set specific quantitative and qualitative requirements, but nobody knew how detailed and prescriptive they would be. Target dates were also set: there would be a comprehensive concept paper in 2011, a first draft in 2012 and a final version at the end of 2013 followed by impact assessments—today better known as ComFrame field tests.

The target dates were met and the insurance industry had an opportunity to comment on the concept paper in summer 2011. The industry at the time was still unsure about the objectives of ComFrame, worried about an additional layer of regulation and feared that overly prescriptive standards<sup>2</sup> would be introduced. They continuously engaged with the IAIS in discussions on the development of ComFrame modules. In the course of the discussion the majority of industry representatives embraced the necessity of better supervisory coordination and cooperation. Discussions not only at industry level, but also at supervisory level were primarily ignited when what is now Module Two was discussed. Module Two addresses a whole range of requirements on the part of the IAIG, but most importantly capital adequacy—the most sensitive issue. Whoever followed the discussions could easily understand where the difficulty lay: different solvency regulation under way in different countries and regions of the world and there was no common valuation basis. Not surprisingly, many wished to see a standard which interferes as little as possible with the existing national one whilst only a few welcomed the idea of a global group-solvency measurement. The IAIS made significant progress in all areas of ComFrame, but Module Two remained the biggest challenge—not least because the IAIS Executive Committee wished to consider as many options as possible to identify the best way forward.

After endless rounds of discussions on the solvency requirement piece, the industry was ready to focus on considering whether one or two selected ideas of the IAIS could work for ComFrame going forward. Plans were underway to sort out and test the pending technical issues in the field test phase when the IAIS announced in October 2013 that it would develop a global insurance capital standard by 2016 to be applied to IAIGs from 2019. Combined with a separate yet closely related announcement that the IAIS would also develop in 2014 a basic capital requirement (previously called a back-stop capital requirement) for G-SIIs (global systemically important insurers), the industry is now faced with two workstreams: The first is a short-term (and perhaps even a temporary) initiative, the basic capital requirement, which is expected to be a non risk-based (i.e. a factor-based) requirement applicable to G-SIIs; the second is what was originally the ComFrame solvency requirement—now called the global insurance capital standard—a mid-term initiative, which was originally expected to come in the form of a risk-

<sup>+</sup> Insurance Regulation and Supervision Expert, The Geneva Association.

<sup>++</sup> Manager, Corporate Risk Management Department, Mitsui Sumitomo Insurance Co., Ltd.

<sup>1</sup> IAIS (2010). *IAIS approves development of a Common Framework for the Supervision of Internationally Active Insurance Groups*, press release, 19 January 2010.

<sup>2</sup> The Geneva Association (2011). *Geneva Association Intervention at IAIS ComFrame dialogue in Seoul*, 27 September 2011. Geneva: The Geneva Association.

based and economic value based requirement (perhaps as a scenario-based requirement based on sensitivity/stress tests). How and in what way the IAIS advanced its ideas on the latter still remain unclear. While the ComFrame project was always rightly kept separate from G-SII regulation, the new developments are now linked (at least in terms of the underlying valuation method), since the ComFrame field tests will also be used to test the basic capital requirement. The results will among others form the basis for developing a global insurance capital standard. Many recognise the need for the IAIS to rapidly sort out the increasing cluster of issues and similar-yet-different projects and streamline its deliverables. Nevertheless, the recent developments brought industry experts and supervisors together to consider and determine milestones to meet the very challenging timeline.

It is unclear today, for instance, whether the basic capital requirement is going to continue to exist once the global insurance capital standard is in place. The overall interplay between the different global capital standards and even more so its interplay with national capital requirements are questions the industry is seeking answers to. Supervisors, on the one hand, are struggling to find the adequate granularity as they need to appropriately reflect all risks in order to secure comparability, while, on the other hand, contain to keep the framework. Supervisors are moving step by step relying heavily on the ComFrame field tests to answer some of the outstanding questions.

Apart from the capital discussions, also the ComFrame Module Three is undergoing further work with regard to recovery and resolution planning. The Financial Stability Board, which had established Key Attributes of Effective Resolution Regimes to Non-Bank Financial Institutions, published a consultation paper with a suggested Annex to its original paper for Insurance. The Geneva Association answered to the FSB consultation<sup>3</sup> as did many other stakeholders. As the reconciliation of the insurance annex with the comments was still pending, the IAIS excluded the relevant parts of ComFrame from the consultation.

Even though the consultation phase on the 2013 ComFrame draft has closed, further additions have now been moved into the ComFrame field testing phase.

The ComFrame project has therefore reached a different level from when it started and has caught significant interest of the Financial Stability Board and the banking community. We can expect Central Bankers to very closely monitor the future developments on capital adequacy and recovery and resolution planning—hopefully with the intention to clearly differentiate the different business models of insurers and banks.

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<sup>3</sup> The Geneva Association (2013). *The Geneva Association Response to the FSB Consultation, 12 August 2013*. Geneva: The Geneva Association.