

INTERNATIONAL INSURANCE RELATIONS (G) COMMITTEE

International Insurance Relations (G) Committee April 6, 2019, Minutes

International Insurance Relations (G) Committee Jan. 24, 2019, Minutes (Attachment One)

NAIC Comments on IAIS Holistic Framework for Systemic Risk in the Insurance Sector (Attachment One-A)

International Insurance Relations (G) Committee Jan. 3, 2019, Minutes (Attachment Two)

NAIC Comments on IAIS Draft Application Paper on Recovery Planning (Attachment Two-A)

International Insurance Relations (G) Committee Dec. 13, 2018, Minutes (Attachment Three)

NAIC Comments on IAIS Draft Application Paper on Proactive Supervision of Corporate Governance (Attachment Three-A)

Update on International Activities (Attachment Four)

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Draft Pending Adoption

Draft: 4/22/19

International Insurance Relations (G) Committee
Orlando, Florida
April 6, 2019

The International Insurance Relations (G) Committee met in Orlando, FL, April 6, 2019. The following Committee members participated: Julie Mix McPeak, Chair (TN); Gary Anderson, Vice Chair (MA); Andrew N. Mais (CT); Stephen C. Taylor (DC); David Altmaier (FL); Colin M. Hayashida (HI); Doug Ommen (IA); James J. Donelon represented by Tom Travis (LA); Anita G. Fox (MI); Chlora Lindley-Myers represented by John Rehagen (MO); Bruce R. Ramge (NE); John G. Franchini (NM); Jillian Froment (OH); Andrew Stolfi represented by TK Keen (OR); and Jessica Altman (PA).

1. Adopted its Jan. 24, 2019; Jan. 3, 2019; Dec. 13, 2018; and 2018 Fall National Meeting Minutes

The Committee met Jan. 24, 2019; Jan. 3, 2019; Dec. 13, 2018; and Nov. 15, 2018. During its Jan. 24, 2019; Jan. 3, 2019; and Dec. 13, 2018, meetings, the Committee took the following action: 1) approved the submission of NAIC comments on the International Association of Insurance Supervisors (IAIS) draft holistic framework to assess and mitigate systemic risk in the insurance sector; 2) approved the submission of NAIC comments on the IAIS draft *Application Paper on Recovery Planning*; and 3) approved the submission of NAIC comments on the IAIS draft *Application Paper on Proactive Supervision of Corporate Governance*.

Commissioner McPeak noted that the Committee also met March 22, 2019, and Feb. 12, 2019, in regulator-to-regulator session, pursuant to paragraph 8 (consideration of strategic planning issues) of the NAIC Policy Statement on Open Meetings, to discuss key agenda items before and after the IAIS February committee meetings.

Commissioner Altmaier made a motion, seconded by Commissioner Taylor, to adopt the Committee's Jan. 24, 2019 (Attachment One); Jan. 3, 2019 (Attachment Two); Dec. 13, 2018 (Attachment Three); and Nov. 15, 2018 (*see NAIC Proceedings – Fall 2018, International Insurance Relations (G) Committee*) minutes. The motion passed unanimously.

2. Adopted the Report of the ComFrame Development and Analysis (G) Working Group

Commissioner Anderson said the ComFrame Development and Analysis (G) Working Group met prior to the Committee meeting in regulator-to-regulator session, pursuant to paragraph 8 (consideration of strategic planning issues) of the NAIC Policy Statement on Open Meetings, to discuss and provide input on issues related to the implementation of the IAIS Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) and the insurance capital standard (ICS) monitoring process. He said 2019 will be a busy year, with ComFrame scheduled for a final consultation later this summer, prior to adoption in the fall. Commissioner Anderson noted that 2019 is the last year of field testing for the ICS, which is intended to help inform decisions being made on design elements of ICS version 2.0 for the monitoring period.

Mr. Travis made a motion, seconded by Commissioner Altmaier, to adopt the report of the ComFrame Development and Analysis (G) Working Group. The motion passed unanimously.

3. Discussed IAIS Key 2019 Projects with Interested Parties

Commissioner McPeak said the majority of the meeting would focus on a discussion with interested parties on key IAIS deliverables in 2019, including the ICS and the holistic framework for systemic risk in the insurance sector. She said these projects are important at the international level and have implications domestically for state insurance regulators and insurers. She welcomed the following representatives from insurers that have either been participating or have interest in these IAIS projects to speak before the Committee: D. Keith Bell (Travelers); Bruce Byrnes (Berkshire Hathaway); Joe Engelhard (MetLife); Ed Kenealy (Liberty Mutual); Thomas Leonardi (American International Group—AIG); and Halina von dem Hagen (Manulife). She noted that additionally, representatives from the Federal Reserve Bank, the Federal Insurance Office (FIO) and the IAIS Secretariat had been invited to join the head table to take part in the discussion.

Comments made on the ICS included the following:

- If the ICS is done correctly, it should help with the comparability of internationally active insurance groups (IAIGs); however, there are four outstanding issues the IAIS needs to address before transitioning to using a reference ICS: 1) valuation; 2) non-default spread risk; 3) margin over current estimates (MOCE); and 4) tax.
- Currently, the ICS is not fit for purpose; no amount of technical fixes can address the fatal design flaws within the ICS.

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- Knowing the potential impact of the ICS is difficult without having a final product, but there are concerns about its effects. For example, all supervisors taking the same group capital approach could lead to a “lemming effect,” and certain design features could negatively impact the ability to offer long-term products and make long-term investments.
- The IAIS needs to communicate its expectations of how the ICS should and should not be used during the monitoring period; in particular, the confidential treatment of reporting the ICS to supervisory colleges. Given the number of outstanding issues with the ICS, if third parties such as rating agencies or lenders start requesting an IAIG’s ICS ratio, it could present a number of risks. Recharacterizing the monitoring period to better reflect the reality of its stage of development should be considered.
- The IAIS is trying to fix too many issues at the same time, but it is unclear how the ICS would perform as a stress test or for scenario analysis. It is like spending all the time tuning up a car’s engine when it is still missing two wheels.
- There needs to be a greater push for alternatives to the ICS, such as an aggregation method. If the ICS is not fit for purpose given a jurisdiction’s supervisory regime, the commenters asked why it would be implemented.
- Assessing comparable outcomes needs to focus on the outcomes, not simply a quantitative exercise that compares one number to another. If comparability is just quantitative, it could be difficult to reconcile with who the insurers are and the nature of their business. An assessment of comparability should look at a jurisdiction’s toolbox as a whole.
- Assessing comparable outcomes gets further complicated when the use of internal models is added to the mix.
- The ICS providing a “level playing field” is unrealistic and does not have anything to do with assessing an IAIG’s group capital position. This idea is based on the assumption that all regimes are comparable, which is not true, and that there is one global market, when, in fact, there are multiple markets depending on the type of business.

Comments made on the holistic framework included the following:

- The holistic framework is moving in the right direction, but there is more work to be done and there may be implementation challenges. There needs to be a focus on activities that pose systemic risk to the broader economy; however, in taking an activities-based approach, there is a risk of losing proportionality. There should also be an ongoing cost-benefit analysis as new elements of the framework are implemented.
- Supervisors should look at what existing tools they may have and what regulatory authorities they may need to address systemic risk.
- Macroprudential surveillance needs to be both quantitative and qualitative and should be forward-looking, as well as cross-sectoral. The NAIC’s Macroprudential Initiative is a good example of a jurisdiction being proactive and evolving its macroprudential surveillance.
- While the IAIS could be a platform to analyze information, it would be difficult to interpret what this information could mean from one jurisdiction to another.
- The global systemically important insurers exercise was frustrating and lacked transparency.

Commissioner McPeak thanked the speakers for their comments and said they raised a number of good points that the NAIC would take back to the IAIS during the ongoing discussions of these projects.

Birny Birnbaum (Center for Economic Justice—CEJ) commented that the activities-based approach is a positive addition in the holistic framework as a complement to the entities-based approach and would help get at the issue of accumulation risk. He noted that the IAIS would still need to look at how risks are transmitted.

Stephen Broadie (American Property Casualty Insurance Association—APCIA) commented that a market-adjusted valuation (MAV) approach in the ICS is not appropriate for non-life business, noting that stakeholders have not seen information from the IAIS about where the ICS will land and how it will be calibrated. On the holistic framework, he noted that while this is moving in the right direction, it is unclear how much of an activity would make it systemically risky and who determines which policy measures get applied.

Callum Turner (Association of British Insurers—ABI) noted that the approach to implementing MOCE in the United Kingdom (UK) under Solvency II has had a number of negative consequences on the market and insurers, and it has made the risk margin more volatile. He suggested that the IAIS should look at what extent the ICS could be creating systemic risk, particularly due to MOCE. He also asked whether using a three-bucket approach as part of MAV provides much comfort to the U.S. industry given its concerns over using this approach to valuation in the reference ICS.

Robert Neill (American Council of Life Insurers—ACLI) said the ACLI appreciates the NAIC’s continued efforts on these issues and that the ACLI and its members will continue to look at how to address the issues of comparability, confidentiality, governance during the monitoring period, and technical concerns with the reference ICS.

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4. Discussed Other Matters

Commissioner McPeak said time has run out for the update on international activities on the agenda, so a written update would be circulated following the meeting (Attachment Four).

Commissioner McPeak noted that the 2019 NAIC International Forum will be held May 13–14 in Washington, DC. She said details and registration for the forum are available on the NAIC website, and she encouraged Committee members and interested parties to attend.

Having no further business, the International Insurance Relations (G) Committee adjourned.

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Draft: 2/12/19

International Insurance Relations (G) Committee
Conference Call
January 24, 2019

The International Insurance Relations (G) Committee met via conference call Jan. 24, 2019. The following Committee members participated: Julie Mix McPeak, Chair (TN); Gary Anderson, Vice Chair (MA); Paul Lombardo (CT); Stephen C. Taylor (DC); David Altmaier (FL); Doug Ommen (IA); James J. Donelon (LA); Anita G. Fox represented by Randall Gregg (MI); Chlora Lindley-Myers (MO); Bruce R. Range (NE); Jillian Froment represented by Sean Sheridan (OH); Andrew Stolfi (OR); and Jessica Altman (PA).

1. Approved Submission of NAIC Comments on IAIS Holistic Framework on Systemic Risk

Commissioner McPeak explained that the purpose of the conference call is to discuss and approve submission of NAIC comments on the International Association of Insurance Supervisors (IAIS) draft *Holistic Framework on Systemic Risk* to assess and mitigate systemic risk in the insurance sector, which is currently out for public consultation. She said the consultation document provides an opportunity for IAIS members and stakeholders to provide feedback on the overall holistic framework and its key elements. She also said the holistic framework represents a move away from the previous IAIS approach that took solely an entities-based approach to identify firms to which specific policy measures would be applied.

Commissioner McPeak explained the new framework consists of five key elements: 1) an enhanced set of supervisory policy measures; 2) a global monitoring exercise by the IAIS; 3) supervisory powers of intervention; 4) mechanisms that help ensure the global consistent application of the framework; and 5) an assessment by the IAIS of the consistent implementation.

Commissioner McPeak said that per the usual NAIC process, the document was reviewed internally, which resulted in the initial draft NAIC comments that were circulated in advance of the conference call. She said no additional input was received.

Ryan Workman (NAIC) provided an overview of the draft NAIC comments, highlighting general themes across a number of responses, as well as focusing on important specific points the NAIC wanted to make across the five different key elements of the holistic framework.

Robert Neill (American Council of Life Insurers—ACLI) said the ACLI supports a principles-based approach to developing the holistic framework that also leverages the work of jurisdictional supervisors. He also noted that references to the global insurance capital standard (ICS) should be removed throughout the document as the ICS is still under development and not fit for purpose.

Michelle Rogers (National Association of Mutual Insurance Companies—NAMIC) said that if an activity on a collective basis that affects the entire insurance industry is found to be harmful on a systemic basis, this does not mean that there should be a systemic response; instead, the appropriate response would be accomplished through the process of revising the jurisdiction's relevant laws and regulations. She said the IAIS work should acknowledge that the insurance industry has very little potential for systemic risk compared to other sectors and noted the potential for overreach in concluding that areas such as cyber risk and climate risk are systemic.

Steve Broadie (American Property Casualty Insurance Association—APCIA) opposed any mention of the ICS in the holistic framework, as it is not fit for purpose nor designed to address issues of systemic risk. He questioned how revisions to reflect the enhanced policy measures in both the Insurance Core Principles (ICPs) and the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) would be carried out. He noted concern that these revisions could apply to insurers who have not followed work on ComFrame and systemic risk, which target a specific subset of insurers. Commissioner McPeak responded the NAIC is closely watching these developments, especially with regard to the ICPs, and said the NAIC has been active on the IAIS Implementation and Assessment Committee for this reason. Mr. Workman added that to some degree, there are already references in the ICPs to macroprudential surveillance and financial stability, which will be reviewed as the enhanced policy measures move from concept to actual text. He said this will be an important process to ensure the scope of insurers to which these policy measures apply is not unintentionally or inappropriately broadened. Mr. Workman noted that any proposed new ICP or ComFrame text would be subject to consultation this summer.

Dave Sandberg (International Actuarial Association—IAA) said the timeline of finalizing the holistic framework and associated revisions to the ICPs and ComFrame is an aggressive undertaking. He noted the value insurance can add to mitigating longer-

term systemic risk. He said the holistic framework should assess qualitative in addition to the quantitative measurements that are the focus of the consultation document.

Director Lindley-Myers made a motion, seconded by Commissioner Donelon, to approve submission of the NAIC comments (Attachment One-A). The motion passed.

Commissioner McPeak encouraged stakeholders to submit their own comments to the consultation document.

Having no further business, the International Insurance Relations (G) Committee adjourned.

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IAIS Holistic Framework for Systemic Risk in the Insurance Sector - NAIC Approved Comments

January 24, 2019

1	Is the list of key exposures that may lead to a systemic impact and its description appropriate? Please elaborate	<p>No. Specifically “Other Sources of Systemic Risk” lists wide-spread under-reserving without the possibility to reprice risk. While the NAIC agrees that under-reserving and under-pricing are significant risks to financial health of an insurer, and important to monitor from both firm and sector-wide trends, we question whether this rises to systemic concern and particularly the wide-spread asset liquidation reference in paragraph 47.</p> <p>Additionally, while interconnectedness, substitutability and liquidity are key exposures, these focus largely on drivers of the 2008 financial crisis. It is important for the IAIS and its members to equally focus on emerging risks (such as cyber), which may be the source of a future potential crisis.</p> <p>In Section 2.2, the terms “exposures,” “risk” and “vulnerabilities” are used, but it is not clear if there is an intended distinction between the terms or if they are interchangeable and the different expressions are merely the result of historical usage. It would be helpful in future IAIS work on this topic to either explain the distinction (if there is one) or else use one term consistently to provide greater clarity.</p>
2	<i>Are there any other key exposures that are missing? Please elaborate</i>	<i>No response</i>
3	<i>Is the description of the transmission channels of systemic risk appropriate? Please elaborate</i>	<i>No response</i>
4	<i>Are any key transmission channels missing? Please elaborate</i>	<i>No response</i>
5	Are there any further considerations on Section 2? Please elaborate	The NAIC questions whether substitutability or lack thereof in Marine and Aviation insurance is a valid example of a systemic exposure. Also see response to Question 1 on under-reserving and under-pricing.
6	Do you agree with the proposed scope of application and of the practical application of the proportionality principle as described above? Please elaborate	The NAIC generally agrees with the description of the principle of proportionality. Regarding the proposed scope of application, the meaning of the statement in paragraph 67 is unclear: “In the holistic framework, supervisors are expected to extend certain ComFrame Standards beyond IAIGs to other insurers as necessary, because of the nature, scale and complexity of the activities that lead to increased systemic risk exposure.” It would seem that if

		ComFrame Standards are expected to extend beyond IAIGs, then they are no longer, by definition, ComFrame Standards. The IAIS should clarify whether this is intended to apply to IAIGs and therefore covered under ComFrame, or else, if the focus is on the nature, scale and complexity of the activities that lead to increased systemic risk exposure, then perhaps these may be more appropriately captured under the ICPs.
7	<i>Do you have any other comments on the introductory description of the supervisory policy measures as described in section 3.1? Please elaborate</i>	<i>No response</i>
8	Do you agree with the above proposal to amend the Standards and Guidance on supervisory review and reporting framework? If not, please explain	While the NAIC agrees that some additional consideration of macroprudential issues and systemic risk as it relates to supervisory review and reporting could be incorporated, having explicit requirements would be overly prescriptive. For example, we recommend replacing the assessment of “ <u>any</u> sources of systemic risk” with assessment of “ <u>material</u> sources of systemic risk” or something similar in paragraph 74.
9	Do you agree with the above proposal to amend the Standards and Guidance on macro-prudential surveillance? If not, please explain	There appears to be an overemphasis on prescriptiveness in guidance material which could be perceived as diluting the principle of proportionality. A jurisdiction should be able to utilize the methods and data for the number and type of insurers for which the risk concerned is best captured from the perspective of the jurisdiction’s insurance supervisors.
10	Do you agree with the above proposal to amend the Standards and Guidance on macro-prudential surveillance? If not, please explain	Please see our answer to question 9.
11	What should be the role of supervisory stress testing? Please elaborate	Stress testing is useful for the supervisor to assess impacts for “what if” scenarios; however, there are limitations to the use of supervisory stress tests that also need to be recognized. In particular, any particular supervisory stress may not be meaningful for a broad group of firms. Thus, these stress tests should be used in conjunction with other tools.
12	Is the development of an Application Paper on macro-prudential surveillance deemed useful? Please elaborate	Micro and macroprudential monitoring should be responsive to developments in the market; however, it is impossible to delineate all of the issues that will be of concern. Thus, support from an Application Paper on macro-prudential surveillance would be helpful and should be informed from ongoing supervisory discussions and consideration in supervisory colleges.

		Such an Application Paper may also address how supervisors should address situations where there are potential conflicts in micro and macroprudential concerns.
13	What elements could be addressed in such an Application Paper?	Please see our answer to question 12.
14	Are the proposals on macro-prudential surveillance as described in section 3.1 appropriate? Please elaborate	Assuming the reference to 3.1 should be to 3.2, one issue that this section does not address is that there may be times where there are potential conflicts between the application of micro and macroprudential risk considerations. For example, insurers are expected to hedge their risks, accomplished many times through various derivatives, yet derivative collateral calls are a liquidity risk consideration. However, both these items are important to an individual insurer's financial health. This will be an important issue to address when considering expectations regarding supervisory responses.
15	What are the expected costs and benefits of the proposals on macro-prudential surveillance as discussed in section 3.1	The NAIC assumes that the reference to 3.1 should be to 3.2.
16	Do you agree with the above proposal to amend the Standards and Guidance on ERM? Please elaborate	Regarding the first bullet point under paragraph 90, it is not clear what an "enforcement mechanism" means. Assuming it refers to the supervisor's ability to enforce the new standard, this is not necessary as the supervisor having the authority to apply or enforce a requirement is implied across all the ICPs. Also, as part of the first bullet point, the reference to "...require IAIGs, and other insurers as necessary..." is awkward. If the new standard is intended for ICP 16, then the standard is applicable to all insurers, subject to the principle of proportionality.
17	Do you agree with the above proposal to apply the more detailed requirements on liquidity planning and management to IAIGs, and other insurers as necessary? Please elaborate	Yes and no. The proposal is appropriate for IAIGs but not for non-IAIGs. The proportionality principle in paragraph 66 (as inherent in ICPSs in general) should allow a jurisdiction's supervisor to establish the appropriate requirements for their markets.
18	Do you agree with the above proposal to amend the Standards and Guidance on disclosure? Please elaborate	The NAIC agrees with the need for appropriate disclosures, quantitative and qualitative, for liquidity risk management and identification. However, supervisors should have flexibility to implement requirements in a manner appropriate for their jurisdictions. In the U.S., insurers consider many elements of their policies and practices with regard to risk management as proprietary information. While supervisors appropriately may have access to this information, competitors do not. Any new material on disclosure should be drafted with these two points in mind.

19	Taking into account the objective of the public disclosure requirement, should the disclosure of quantitative information receive a higher weight in the supervisory material compared to the qualitative? Please elaborate	Non-regulator users of financial statements have limited ability to validate qualitative statements made in disclosures on a firm's liquidity risk management program. Thus, for purposes of public disclosure, having the quantitative information may be more useful, as they will allow a sophisticated user of the financial statement to form his/her own view about an individual insurer's liquidity risk.
20	Are the proposals in 3.3.1 on liquidity risk appropriate? Please elaborate	Yes, enhancements to liquidity management and monitoring are appropriate for addressing macroprudential concerns. These enhancements will also have benefits for microprudential monitoring purposes.
21	Do you agree with the above proposal to amend the Standards and Guidance on macroeconomic exposure and ERM? If not, please explain	While the NAIC agrees with the concept, the actual language used to describe the new requirement and its level of prescriptiveness will be important for any definitive answer to this question. The ORSA – Own Risk and Solvency Assessment – is meant to be the insurer's document, so the supervisor should avoid being overly prescriptive in directing the insurer how to assess its own risks and solvency.
22	Are the proposals in 3.2.2 on macroeconomic exposure appropriate? Please elaborate	Please see our answer to question 21.
23	Do you agree with the above proposal to amend the Standards and Guidance on counterparty exposure? If not, please explain	While the NAIC agrees with the concept, again, the actual language used will be important to our ultimate support of such amendments. See also our response to Question 21 on the need to avoid being overly prescriptive with the ORSA.
24	Are the proposals in 3.2.3 on counterparty exposure appropriate? Please elaborate	<p>Assuming the reference to 3.2.3 should be to 3.3.3, as to adding a standard:</p> <ul style="list-style-type: none"> • The NAIC agrees with the concept, particularly for IAIGs. • As to the reference to "other insurers as necessary" please see previous comments on Question 6. <p>As to adding appropriate guidance: the NAIC agrees with the concept but care should be taken with the level of prescriptiveness even in guidance.</p>
26	Do you agree with the proposals on supervisory coordination, including CMGs? If not, please explain	Please see our response to question 29.
27	Do you agree with the proposals on recovery planning? If not, please explain	Please see our response to question 29.

28	Do you agree with the proposals on resolution planning? If not, please explain	Please see our response to question 29.
29	Are the proposals as discussed in section 3.3 on crisis management and planning appropriate? Please elaborate	Assuming the references in question 29 should be to section 3.4 rather than 3.3, the proposal at the end of section 3.4 is to make no change to the applicable ICPs and ComFrame related materials. We agree that the standards and guidance should continue to reflect that resolution regimes can provide for broad regulatory authority with necessary flexibility to address problems as they arise, rather than focusing on prescriptive statutory frameworks or required explicit powers.
30	Do you agree with the above proposal to amend the Standard on powers of intervention based on macroprudential surveillance? If not, please explain	Extreme care needs to be taken before proposing language around a standard on powers of intervention for macro-prudential purposes. While in most cases, micro and macroprudential objectives are aligned, there may be exceptional situations where they are not. Thus supervisory mandates, as well as legal, and fiduciary considerations will need to be considered and will require that the IAIS remain non-prescriptive on this issue.
31	Do you agree with the above proposal to amend the Standards and Guidance on preventive and corrective measures? If not, please explain	Please see our answer to question 30.
32	<i>Are the proposals in section 3.4 on powers of intervention appropriate? Please elaborate</i>	<i>No response</i>
33	<i>What are the expected costs and benefits of the proposals on powers of intervention in section 3.4</i>	<i>No response</i>
34	Are there any further considerations on Section 3? Please elaborate	As the IAIS moves from concepts to actual text, it should be open to finding the most appropriate way to incorporate the relevant recommendations. The incorporation of the holistic framework seems fragmented, as proposed concepts are sprinkled throughout a variety of ICP standards, guidance and ComFrame. Consideration should be given to revamping ICP 24 to potentially including the salient elements of the holistic framework. While there is no perfect way of incorporating the holistic framework in the IAIS supervisory material, the IAIS should find the most appropriate and practical way to “tell the story” about systemic risk assessment and mitigation.
35	Do you agree with the approach to the global monitoring exercise as described above? Please elaborate	Outside of the IAIG process, the IAIS should facilitate discussions amongst supervisors regarding areas/risks of concern, and jurisdictions should respond to those as needed (e.g., industry-wide data responses at first to assess the level of materiality for an item in that

		jurisdiction, with perhaps follow up detailed data if the level of activity is higher in the jurisdiction). The IAIS should obtain its data about those risks from the jurisdiction, and the level of detail of that data should be dependent on the materiality of the risk/activity in question within the jurisdiction.
36	Should the IAIS consider changing the identification process and criteria for the selection of insurers for inclusion in the data assessment? Please elaborate	As for the identification process, the NAIC supports the discontinuation of annual identification of G-SIIs. We support the proposal for Phase III to be amended to focus on broader trend analysis. The current selection criteria which limits the data collection to 50+ insurers seems appropriate.
37	How should these criteria compare to the criteria used to determine whether an insurance group is an IAIG? Please elaborate	The criteria for firms that are included in G-SII Assessment Exercise have a higher threshold for size and a lower threshold for international activities than criteria for firms that are included as an IAIG. The NAIC agrees with keeping the criteria separate as the purpose is different. The G-SII Assessment Exercise allows for supervisors to add firms by judgment, which is sufficient rather than being overly prescriptive in expanding the selection process for the ABA.
38	<i>Are the proposed changes to the Intra-financial assets (IFA) and Intra-financial liabilities (IFL) indicators appropriate? Please explain</i>	<i>No response</i>
39	<i>Are the proposed changes to the Derivatives indicator appropriate? Please explain</i>	<i>No response</i>
40	<i>Are the proposed changes to the Level 3 assets indicator appropriate? Please explain</i>	<i>No response</i>
41	<i>Are the proposed changes to the Derivatives indicator appropriate? Please explain</i>	<i>No response</i>
42	<i>Are the proposed changes to the Short term funding (STF) and Liability Liquidity (LL) indicator appropriate? Please explain</i>	<i>No response</i>
43	<i>Is the proposal to drop the Non-policy holder liabilities and non-insurance revenues and Turnover indicators appropriate? Please explain</i>	<i>No response</i>
44	<i>Are the suggested changes to the indicators appropriate in improving the consistency</i>	<i>No response</i>

	<i>with the banking methodology? Please elaborate</i>	
45	<i>Are the suggested changes to the indicators appropriate in addressing the unintended consequences in the assessment of banking subsidiaries within the Insurance Pool? Please elaborate</i>	<i>No response</i>
46	<i>Are the proposed changes to the weighting scheme appropriate? Please explain</i>	<i>No response</i>
47	Do you agree with the move towards a more absolute approach to the assessment of systemic risk stemming from the failure or distress of individual insurers? Please elaborate	Yes, the NAIC agrees with moving to a more absolute approach to the assessment of systemic risk, because the relative ranking does not capture if the systemic risk of the entire sample increased or decreased. The absolute approach should capture a firm's change in systemic risk and the ABA should capture the sector's change.
48	Are there other considerations on the cross-sectoral analysis? Please elaborate	Cross-sectoral analysis should strive to not only capture banking and insurance, but also the asset management sector, as that sector can engage in the same systemic activities. For example, asset management firms are active in securities lending, repos, and derivatives trading with banks and insurers as their counterparties.
49	<i>Are there other, additional analyses that the IAIS should apply to support the assessment? Please elaborate</i>	<i>No response</i>
50	Do you agree with the move away from setting a (fixed) threshold that results in a binary classification of insurers as either systemic or not? Please elaborate	Yes, the NAIC agrees, particularly to the extent that the threshold continues to be applied to scores that are based largely on a relative ranking of firms. Relative rankings may not be indicative of the systemic importance of a firm to the overall market.
51	Are there any considerations on the criteria that may be used to trigger further analysis or specific discussions within the IAIS? Please elaborate	To the extent that the scores continue to be based largely on a relative ranking, and given previous deeper dive discussions on the highest ranking firms, the criteria used to trigger a discussion going forward should consider the firm's overall score and the change in the firm's score relative to the change in the average score. For example, discussion could be limited to those firms within the top X ranking firms that had an annual percentage change in score exceeding Y times the percentage change in the overall average score.
52	Do you support the development of a quantitative metric to measure liquidity risk?	Quantitative metrics can be useful to assess liquidity risk concerns; however, a simplified generic metric is unlikely to provide sufficient insights. As a suggestion for developing such a metric, given the significance in size and importance of IAIGs to various jurisdictions and

	Do you have suggestions for the development of such a metric	markets, a reasonable approach could be to construct requirements for stress tests and guiderails for IAIGs to use in their own liquidity stress testing (which most do already). The next step could be more standardization of the actual modeling exercise itself. This would also give time for jurisdictions to develop and have experience with their own solutions to liquidity stress tests, which could inform IAIS work.
53	<i>Are there any other ancillary indicators that the IAIS should consider?</i>	<i>No response</i>
54	<i>Are there ancillary indicators that should be dropped</i>	<i>No response</i>
55	<i>What are the expected costs and benefits of the proposals on individual insurance monitoring as discussed in section 4.1</i>	<i>No response</i>
56	Do you agree that the sector-wide monitoring should have an annual assessment including a possibility for specific, more detailed assessments when needed? Please elaborate	As noted in paragraph 167, the IAIS has yet to develop the objectives, scope, structure and modalities of the data collection. Once the IAIS has developed its thinking on these points, the proposed approach should be consulted upon, along with the results of IAIS analysis of the relevance of other data collections referenced in paragraph 171; at that point we can be better informed to respond to this question. Aggregated data collected from supervisors may be resource intensive for both supervisors and insurers if it requires standardization to IAIS definitions. At a minimum, sector-wide data collection and analysis should be limited to specific activities/exposures identified as having the potential for systemic concern. In addition, there should be periodic reassessments of whether particular data items continue to be collected.
57	Do you have additional suggestions on how to identify levels and trends for the sector-wide assessment of systemic risk? Please elaborate	Cross sector and cross market comparisons are useful to compare changes in the level of an activity in the insurance sector to changes in the overall level of an activity. In addition, changes in an activity over time could be compared to changes in overall economic indicators or a broader financial market of which the activity is a part. Stress testing and reverse stress testing may also be useful for assessing systemic risk.
58	Do you agree that the additional sector-wide data collection should be based on a representative sample of insurers from relevant jurisdictions, using aggregate data from legal entities? Please elaborate	The first step in the data collection process should be to identify potential activities and exposures for which there are systemic concerns. Then the IAIS should consider whether data already collected as supplemented with public information is sufficiently indicative of sector wide trends. If additional information is deemed needed, the IAIS could survey relevant jurisdictions to ascertain what data they already have and could readily provide. After these steps, the IAIS should then be in a position to make a determination whether additional sector-wide data should be gathered from jurisdictional supervisors.

59	Do you have alternative suggestions on how to identify appropriate samples for the additional sector-wide data collection of systemic risk	Please see our answer to question 58.
60	Do you agree that the IAIS seeks to extend the use of other IAIS data collections for the purpose of sector-wide monitoring, where relevant? Please elaborate	Yes. In paragraph 171, the IAIS clearly states its intention to use other IAIS data collections for the purpose of sector-wide monitoring.
61	<i>What are the expected costs and benefits of the proposals on sector-wide monitoring as discussed in section 4.2</i>	<i>No response</i>
62	Do you agree with the proposal for the transparency towards participating insurers and the public? Please elaborate	The NAIC supports disclosing the results of the G-SII Assessment Exercise to firms on request as it provides companies with helpful feedback for risk management. The NAIC also supports publishing aggregated trends, as long as the results do not reveal any confidential data that were submitted by participating firms. Increased transparency is important, but the IAIS should first ensure that the data flowing into sector-wide trends and any resulting analyses is credible.
63	Are there any further considerations on Section 4? Please elaborate	Paragraph 170 notes, "baseline monitoring can be based on data collected from national supervisors on an aggregated basis." As not all IAIS members are structured on a national basis, future IAIS work on this topic should refer to "jurisdictional supervisors".
64	Do you agree with the proposed implementation assessment as described in section 5? Please elaborate	The NAIC is supportive of having a robust and transparent implementation assessment and the IAIS assisting supervisors who require such assistance in implementing elements of the holistic framework as long as the supervisors are the beneficiaries of the process. Assessing how jurisdictions implement the policy measures and how proportionality and supervisory discretion is being applied should help inform the IAIS as to whether its policy measures are fit for purpose and what challenges for implementation may exist in practice. However such assessments should not be used to second guess decisions and actions of jurisdictional supervisors; the role of the IAIS is an international standard setter, not the supervisor of insurance supervisors.

Draft: 1/10/19

International Insurance Relations (G) Committee
Conference Call
January 3, 2019

The International Insurance Relations (G) Committee met via conference call Jan. 3, 2019. The following Committee members participated: Chlora Lindley-Myers, Vice Chair (MO); Paul Lombardo (CT); Stephen C. Taylor (DC); David Altmaier (FL); Doug Ommen represented by Carrie Mears (IA); James J. Donelon (LA); Gary Anderson (MA); Patrick M. McPharlin represented by Randall Gregg (MI); Bruce R. Ramge (NE); Marlene Caride represented by Kristine Maurer (NJ); Maria T. Vullo represented by Martha Lees (NY); and Raymond G. Farmer (SC).

1. Approved Submission of NAIC Comments on the IAIS Draft Application Paper on Recovery Planning

Director Lindley-Myers explained that the purpose of the call is to discuss and approve submission of NAIC comments on the International Association of Insurance Supervisors (IAIS) draft *Application Paper on Recovery Planning*, which is currently out for public consultation. She said the paper aims to provide guidance on IAIS material related to recovery planning in the Insurance Core Principles (ICPs) and Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame). Director Lindley-Myers said the paper addresses issues identified in the development of material on recovery planning, including feedback received from IAIS members and stakeholders during prior public consultations. She said issues identified involve the nature of a recovery plan, as well as the respective roles of the supervisor and insurer.

Director Lindley-Myers said that per the usual NAIC process, the paper was reviewed internally, which resulted in the initial draft NAIC comments that were in advance of the call. She said no additional input was received.

Ryan Workman (NAIC) provided an overview of the draft NAIC comments, noting that several were editorial, and others suggested where some additional material or clarification would help improve the paper.

Steve Simchak (American Property Casualty Insurance Association—APCI) agreed with the NAIC comment on paragraph 33 and stated that an insurer's recovery planning processes may involve groups other than the board. He said that while the paper acknowledges the principle of proportionality, the final version could benefit from more clarity regarding which insurers should or should not be subject to the guidance described in the paper. He also noted concerns regarding the section describing recovery planning triggers as it may not be sufficiently flexible.

Dave Snyder (APCI) reiterated the importance of proportionality and noted that size should not be a deciding factor for requiring a recovery plan. He commented that viability should be the trigger for needing a recovery plan, not necessarily a prescribed capital requirement. He added that the paper should be clearer that recovery plans are more for the insurer's benefit.

Morag Fullilove (Fullilove Consulting) said that in light of the draft IAIS *Holistic Framework on Systemic Risk*, currently out for consultation, recovery plans take on a unique importance, especially with regard to which insurers should do them and what the criteria should be.

Robert Neill (American Council of Life Insurers—ACLI) said the ACLI would be providing comments on the paper, identifying concerns about alternative submissions to a recovery plan and issues regarding size as a deciding factor for requiring a recovery plan.

Director Farmer made a motion, seconded by Commissioner Donelon, to approve submission of the NAIC comments (Attachment Two-A). The motion passed.

Director Lindley-Myers encouraged stakeholders to submit their own comments to the application paper.

2. Discussed Other Matters

Director Lindley-Myers noted that comments to the draft IAIS *Holistic Framework on Systemic Risk* are due Jan. 25 and that draft NAIC comments are scheduled to be circulated by Jan. 8, in advance of the Committee's next conference call scheduled for Jan. 24.

Having no further business, the International Insurance Relations (G) Committee adjourned.

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IAIS Draft Application Paper on Recovery Planning - NAIC Approved Comments

Section/Paragraph	Comment
Table of Contents	For 4.1, change to “Governance – development, approval, review <u>and</u> testing” for consistency.
Para 10	Edit first sentence to read: “This Application Paper relies on existing public and non-public documentation on recovery planning and supervisory practices, including material from the FSB, IAIS, and supervisory practices of <u>and individual</u> IAIS members.
Para 16	Paragraph 16 states that ERM tools such as ORSA may be an input in developing a recovery plan, and that the recovery plan should be aligned with ERM tools. It notes that an insurer should carefully consider the appropriateness of using aspects of existing ERM tools in a recovery plan. As the relationship between recovery plans and ERM tools was identified as one of the primary issues in the feedback from members and stakeholders, it would be helpful to elaborate on the issue. Additionally, edit second sentence to read: “Potential benefits of using these tools as input are to ensure alignment with existing ERM tools and to allow the insurer to use <u>leverage</u> its resources efficiently.”
Para 16, 51, 86	Contingency plans and contingency planning are discussed in Paragraphs 16, 51, and 86. It would be helpful if the paper explained the relationship between recovery planning and contingency planning. Some areas for discussion could include how these measures differ and where they might overlap.
Para 19	Edit third sentence to read: “The supervisor may consider whether the written identification of a trigger framework and recovery options would be beneficial for an insurer to engage in and should assess the appropriate method and form of the insurer’s evaluation, as well as the form of summary reporting to the supervisor on the outcomes of its evaluation.”
Para 27	In third sentence, use dashes consistently.
Section 4.1	Change heading to “Governance – development, approval, review <u>and</u> testing” for consistency.
Para 33	Edit last sentence of first bullet to read: “It would be expected that the Board, <u>in consultation with Senior Management</u> , is responsible for the approval of the recovery plan” to make this more flexible.
Paras 33-35; 38-40	Use semi-colons for bulleted items for consistency.
Para 57	Capitalize bulleted items for consistency.

Draft: 12/26/18

International Insurance Relations (G) Committee
Conference Call
December 13, 2018

The International Insurance Relations (G) Committee met via conference call Dec. 13, 2018. The following Committee members participated: Katharine L. Wade, Chair (CT); Chlora Lindley-Myers, Vice Chair (MO); Stephen C. Taylor (DC); David Altmaier represented by Ray Spudeck (FL); Doug Ommen represented by Carrie Mears (IA); James J. Donelon represented by Tom Travis (LA); Gary Anderson (MA); Bruce R. Ramge (NE); Marlene Caride represented by David Wolf (NJ); Maria T. Vullo represented by Martha Lees (NY); John D. Doak represented by Cuc Nguyen (OK); and Raymond G. Farmer (SC).

1. Approved Submission of NAIC Comments on the IAIS Draft Application Paper on Proactive Supervision of Corporate Governance

Commissioner Wade explained that the purpose of the call is to discuss and approve submission of NAIC comments on the International Association of Insurance Supervisors (IAIS) draft *Application Paper on Proactive Supervision of Corporate Governance*, which is currently out for public comment. She said the paper was drafted in response to the outcomes of a recent IAIS self-assessment and peer review that underscored the need for additional guidance on supervisory practices related to corporate governance that are proactive and sufficiently robust. Commissioner Wade said the draft application paper sets out good practices related to the organization and functioning of the supervisor, with the objective of promoting proactive supervision of corporate governance. Commissioner Wade said that per the usual NAIC process, the paper was reviewed internally, which resulted in the initial draft NAIC comments that were in advance of the call. She said no additional input was received.

Commissioner Wade asked Ryan Workman (NAIC) to provide an overview of the draft NAIC comments. He said, in general, the comments on the draft application paper were editorial in nature or highlighted areas where clarification and additional material would help improve the paper.

Director Lindley-Myers made a motion, seconded by Mr. Wolf, to approve submission of the NAIC comments (Attachment Three-A). The motion passed.

2. Discussed Other Matters

Commissioner Wade noted that two other IAIS public consultations are currently underway. First is the draft *Application Paper on Recovery Planning*, with comments due to the IAIS by Jan. 7, 2019. She said draft NAIC comments were circulated on Dec. 10, with a request for any input by Dec. 28 in advance of the Committee call scheduled for Jan. 3, 2019. Second is the IAIS *Holistic Framework on Systemic Risk*, with comments due Jan. 25, 2019. Commissioner Wade said draft NAIC comments will be circulated by Jan. 8, 2019, in advance of the Committee call scheduled for Jan. 24, 2019.

Having no further business, the International Insurance Relations (G) Committee adjourned.

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IAIS Draft Application Paper on Proactive Supervision of Corporate Governance - NAIC Approved Comments

Section/Paragraph	Comment
Paras 9-11	While discussion of “supervisory forbearance” is beneficial, equally important in applying corporate governance assessment are “professional skepticism” (not just believing whatever the company tells you) and avoiding “regulatory capture”. Consider adding these concepts as they commonly lead to supervisory forbearance and would be helpful to discuss as well.
Para 14	Regular, in-depth review of corporate governance practices should be conducted regardless of financial condition as part of the normal, cyclical review/exam process. Suggest adding this as part of or as a sub-bullet to the first bullet.
Para 23	Beyond the supervisor’s senior management having an open door policy, not wanting to “manage the insurer” could be addressed more directly by having a wider range of potential actions to take when addressing a concern – for example, requesting additional information or recommending the Board take steps to address the issue. Suggest mentioning some additional steps would be helpful here.
Para 24	While staff may fear repercussions if a supervisory investigation does not yield findings, it may be helpful for this paragraph to also address not holding a lack of findings against the staff member triggering the review as well as what should be done to guard against findings that are not legitimate (false positives). As the paper discusses the pressure to identify findings, it should address both sides of this issue to make it clear that staff coming up with trumped-up findings is not acceptable.
Para 27	It is not clear what the second bullet is saying when it refers to different supervisory teams – suggest clarifying or deleting. The second to last bullet seems to presume that the supervisor has an internal audit function, which may not be the case for all supervisors; suggest saying: “Requesting internal audit <u>or other forms of review</u> focus on the escalation process within the supervisor.”
Para 31	The bullets under this paragraph bring up some good considerations, but their value is limited if there are no possible answers to these questions provided. Consider outlining some procedures that could be performed to help the supervisor assess the insurer’s practices in these areas. For example, meetings and interviews with senior management and board members on a regular basis, reviewing board and committee meeting minutes and materials, reviewing the insurer’s written policies and procedures, etc.
Para 35	Under Board, Senior Management and Key Persons in Control Functions: - 6 th bullet, it is unclear what is meant by “The Board or Senior Management do not use available information when making decisions.” Does this mean they are not aware of the information, they are ignoring it, they are rejecting it, all of the above? - 11 th bullet, for readability and consistency, suggest: “Failure to escalate issues to Senior Management and/or the Board.” Under Control functions, fifth bullet, an “s” should be added on to “internal audit” to make it plural. Under Other Indicators, second bullet, suggest deleting “or supervisors” and add a new bullet: “Findings and ongoing investigations of other supervisors and/or jurisdictions”.
Section 4	While communication with insurers and the wider public is important, there are times when findings/concerns would be communicated to the insurer on a confidential basis. Thus in addition to the public communications discussed, it may be helpful to add text somewhere in this section to recognize the role of confidential communication between the supervisor and the insurer as a beneficial tool to use in addressing corporate governance concerns.

Date: 4/8/19

INTERNATIONAL INSURANCE RELATIONS (G) COMMITTEE

2019 Spring National Meeting

Agenda Item #4: Hear an Update on International Activities

a. International Association of Insurance Supervisors (IAIS)

The IAIS parent committees met at the end of February. The insurance capital standard (ICS) and holistic framework were key issues of discussion. There were also initial discussions on implementation of ComFrame and the holistic framework, including future assessment processes. Discussions were held on the member assessment process, which will assist IAIS members in understanding their observance of IAIS standards, and peer review processes, which are underway on Insurance Core Principles (ICPs) 1 and 2 (Supervisors and Supervisory Powers) and ICPs 4, 5, 7 and 8 (Corporate and Risk Governance). Additionally, there were updates on the IAIS Strategic Plan and Financial Outlook for 2020-2024, which should be finalized shortly.

The IAIS has consultations planned to begin this summer on consistency changes between the ICPs and ComFrame, new material in the ICPs and ComFrame to incorporate policy measures from the holistic framework and a revised version of ICP 22 on anti-money laundering and countering the financing of terrorism.

b. Regional Supervisory Cooperation

Regarding Europe, after hosting its 6th Annual Public Forum in Luxembourg last November, the U.S.-EU Insurance Dialogue Project is continuing the dialogue in 2019 on cyber security, cyber insurance and the use of big data. In addition to the Project, as part of our regular U.S.-EU Dialogues, we continue to have discussions with our European counterparts on issues of mutual interest. Most recently we exchanged views on insurance supervisors making better use of data sources, including discussing the NAIC's State Ahead Initiative in developing a new data platform and business intelligence framework to allow more self-service analytics and facilitating more sophisticated predictive analytics and AI projects to support market, solvency and macroprudential surveillance needs.

Regarding Latin America, in early April, Commissioner Ommen and the Iowa Insurance Division's Assistant Chief Examiner, Dan Mathis, participated in the Association of Latin American Supervisors (ASSAL) Annual Conference in Santa Cruz, Bolivia. Commissioner Ommen presented on the U.S. approach to anti-money laundering and combatting financial terrorism and Mr. Mathis presented on the U.S. corporate governance framework as well as preventative and corrective measures used by U.S. state insurance regulators. In addition to the conference, the NAIC delegation joined ASSAL board members for a bilateral meeting while in Santa Cruz.

Regarding Asia, the NAIC held its annual bilateral discussion with the Japan Financial Services Agency in January to discuss regulatory developments in the respective jurisdictions and issues of mutual interest at the IAIS. In May, the NAIC will be participating in the Asian Forum of Insurance Regulators annual meeting in Macau, which brings together regulators from across the region to discuss a number of issues.

The NAIC is gearing up for the spring 2019 session of the NAIC International Fellows Program, which will include participants from Australia, Brazil, CIMA (an organization of insurance supervisors from French-speaking West African countries), Egypt, Morocco, the Philippines, Saudi Arabia, and Taiwan. Thanks to the host states for this session: DC, Florida, Louisiana, Mississippi, Missouri, Ohio and Pennsylvania. The Fellows Program is celebrating its 15th year; the NAIC has hosted nearly 300 fellows from 35 countries and 39 U.S. jurisdictions have proudly hosted fellows.

c. Organisation for Economic Co-operation and Development (OECD)

In March, the OECD, the Asian Development Bank Institute, and the Financial Regulatory Department of Myanmar jointly hosted a *Roundtable on Insurance and Retirement Saving in Asia* to discuss key issues in the Asian market and to share experiences and good practices for the sound development of insurance and private pensions markets. Rhode Island Superintendent Elizabeth Dwyer and Ryan Workman from the NAIC participated to provide U.S. perspectives on these topics.

The OECD's Insurance and Private Pensions Committee (IPPC) will next meet in June in Paris.

d. Financial Sector Assessment Program (FSAP)

The International Monetary Fund (IMF) is preparing to launch the third FSAP for the U.S; the two previous FSAPs were conducted in 2009-10 and 2014-15. The U.S. Treasury Department Office of International Financial Markets is coordinating the 2019-20 FSAP for participating U.S. authorities and scoping discussions with the IMF are currently ongoing. John Turchi (MA) and Justin Schrader (NE) will be the NAIC lead state insurance regulators for this work.