

REPORT TO THE CONGRESS

# Efforts to Increase Transparency at Meetings of the International Association of Insurance Supervisors

November 2018



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# Introduction

On May 24, 2018, President Donald J. Trump signed into law the Economic Growth, Regulatory Relief, and Consumer Protection Act, Pub. L. 115-174, 132 Stat. 1296 (2018). This report is submitted pursuant to section 211(c)(4) of this act, which directs the Chairman of the Board of Governors of the Federal Reserve System (Federal Reserve) and the Secretary of the U.S. Department of the Treasury (Treasury), or their designees, to report to Congress on the efforts of Treasury and the Federal Reserve “to increase transparency at meetings of the International Association of Insurance Supervisors” (IAIS).

Some stakeholders have commented that the standard-setting process at the IAIS is not sufficiently transparent as stakeholders generally are not able to participate until a late stage in the policy-development process. Although the IAIS has taken initial steps to improve stakeholder transparency, Treasury and the Federal Reserve support the objective of further increasing transparency and stakeholder input into IAIS decisionmaking. As detailed in this report, Treasury and the Federal Reserve are committed to transparency in the international insurance standard-setting process at the IAIS. Treasury and the Federal Reserve work collaboratively with the 56 U.S. state and territory insurance regulators and the National Association of Insurance Commissioners (NAIC) to coordinate efforts and harmonize their policy positions at the IAIS. The U.S. members of the IAIS are the Treasury’s Federal Insurance Office (FIO), the Federal Reserve, state and territory insurance regulators who represent the individual sovereign jurisdictions within the United States, and the NAIC. The U.S. members of the IAIS—who are informally known, collectively, as “Team USA”—develop their positions with input from U.S. stakeholders, and advocate for international standards that are

in the best interests of the United States. Treasury and the Federal Reserve support and will continue to expand opportunities for robust engagement with U.S. stakeholders to inform international policy priorities.

Involvement and leadership of Team USA at the IAIS ensure that the United States is able to influence international standards for insurance supervision that may affect the U.S. insurance industry and consumers. It is important to recognize, however, that the IAIS does not have regulatory power or legal authority. In the United States, this means that any standards agreed upon at the IAIS are not binding and must be adopted voluntarily by each member jurisdiction in accordance with applicable domestic laws. Any international standards are not operational in the United States unless implemented through the relevant state or federal legislative or administrative process, as appropriate.<sup>1</sup>

This report begins with an [overview of the IAIS](#), including its structure and mission, in order to provide context for the report’s main discussion. The report then outlines current IAIS processes and initiatives for [stakeholder engagement](#), including efforts to improve transparency. Finally, the report describes additional [efforts of Treasury and the Federal Reserve](#) to increase transparency and stakeholder engagement concerning the activities of the IAIS.

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<sup>1</sup> See Treasury, *A Financial System That Creates Economic Opportunities: Asset Management and Insurance* (2017) (*EO Report on Insurance*), at 130–131, [https://www.treasury.gov/press-center/press-releases/Documents/A-Financial-System-That-Creates-Economic-Opportunities-Asset\\_Management-Insurance.pdf](https://www.treasury.gov/press-center/press-releases/Documents/A-Financial-System-That-Creates-Economic-Opportunities-Asset_Management-Insurance.pdf). The *EO Report on Insurance* includes an overview of the IAIS and information on the membership of U.S. federal agencies in various international bodies.



# The International Association of Insurance Supervisors

## IAIS Structure and Decisionmaking

Established in 1994, the IAIS is the international standard-setting body responsible for developing and assisting in the implementation of principles, standards, and other supporting material for supervision of the insurance sector.<sup>2</sup> The IAIS additionally serves as a forum for members to exchange ideas and share experiences about insurance supervision and insurance markets. IAIS members include insurance supervisors and regulators from more than 200 jurisdictions in more than 140 countries.<sup>3</sup>

The IAIS operates through five key mechanisms: (1) the General Meeting; (2) the Executive Committee (ExCo); (3) the Policy Development Committee (PDC); (4) the Macprudential Committee (MPC); and (5) the Implementation and Assessment Committee (IAC).<sup>4</sup> The IAIS's General Meeting ultimately oversees matters before the IAIS, with the authority "to adopt principles, standards, and guidance developed by the [IAIS] or other persons or entities not already adopted by the" ExCo.<sup>5</sup> The ExCo serves as the principal decisionmaking body of the IAIS and is tasked with taking "all decisions necessary to achieve the mission of the [IAIS] in accordance with the directions given by the General Meeting."<sup>6</sup> The PDC is responsible for standard-setting activities, the MPC for overseeing the work on issues related to financial stability, and the IAC for assessments and assistance in implementing IAIS prin-

ciples, standards, and guidance. Multiple working groups and task forces, focused on a range of prudential regulation and supervision topics, report to these committees.<sup>7</sup> All of the committees and subcommittees (the collective term for IAIS working groups and task forces) are composed of IAIS members, supported by a Secretariat. Figure 1 illustrates the IAIS organizational structure.

## IAIS Mission

The mission of the IAIS is to "promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders, and to contribute to global financial stability."<sup>8</sup> In support of its mission, the IAIS developed the Insurance Core Principles (ICPs), a set of standards and supporting guidance intended to be a supervisory framework for insurers. The ICPs "seek to encourage the maintenance of consistently high supervisory standards in IAIS member jurisdictions."<sup>9</sup>

The ICPs are intended to be suitable for application to all insurers, but under the IAIS supervisory framework, certain insurers are subject to additional supervisory standards known as the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame).<sup>10</sup> Under the

<sup>2</sup> See IAIS, *2016 IAIS Annual Report* (November 2017), at 6, <https://www.iaisweb.org/page/about-the-iais/annual-report//file/70097/annual-report>. See also Federal Insurance Office (FIO), *Annual Report on the Insurance Industry* (2018), at 36–37, [https://www.treasury.gov/initiatives/fio/reports-and-notice/Documents/2018\\_FIO\\_Annual\\_Report.pdf](https://www.treasury.gov/initiatives/fio/reports-and-notice/Documents/2018_FIO_Annual_Report.pdf).

<sup>3</sup> *2016 IAIS Annual Report*, at 6–7.

<sup>4</sup> See, e.g., IAIS, *IAIS Committee and Subcommittee Membership List Updated June 2018*, <https://www.iaisweb.org/page/about-the-iais/organisational-structure//file/75208/iais-committees-and-members-public>.

<sup>5</sup> See IAIS By-Laws, Art. 11(1)(c), <https://www.iaisweb.org/page/about-the-iais/by-laws/file/74644/2017-by-laws>.

<sup>6</sup> See IAIS By-Laws, Art. 14(2).

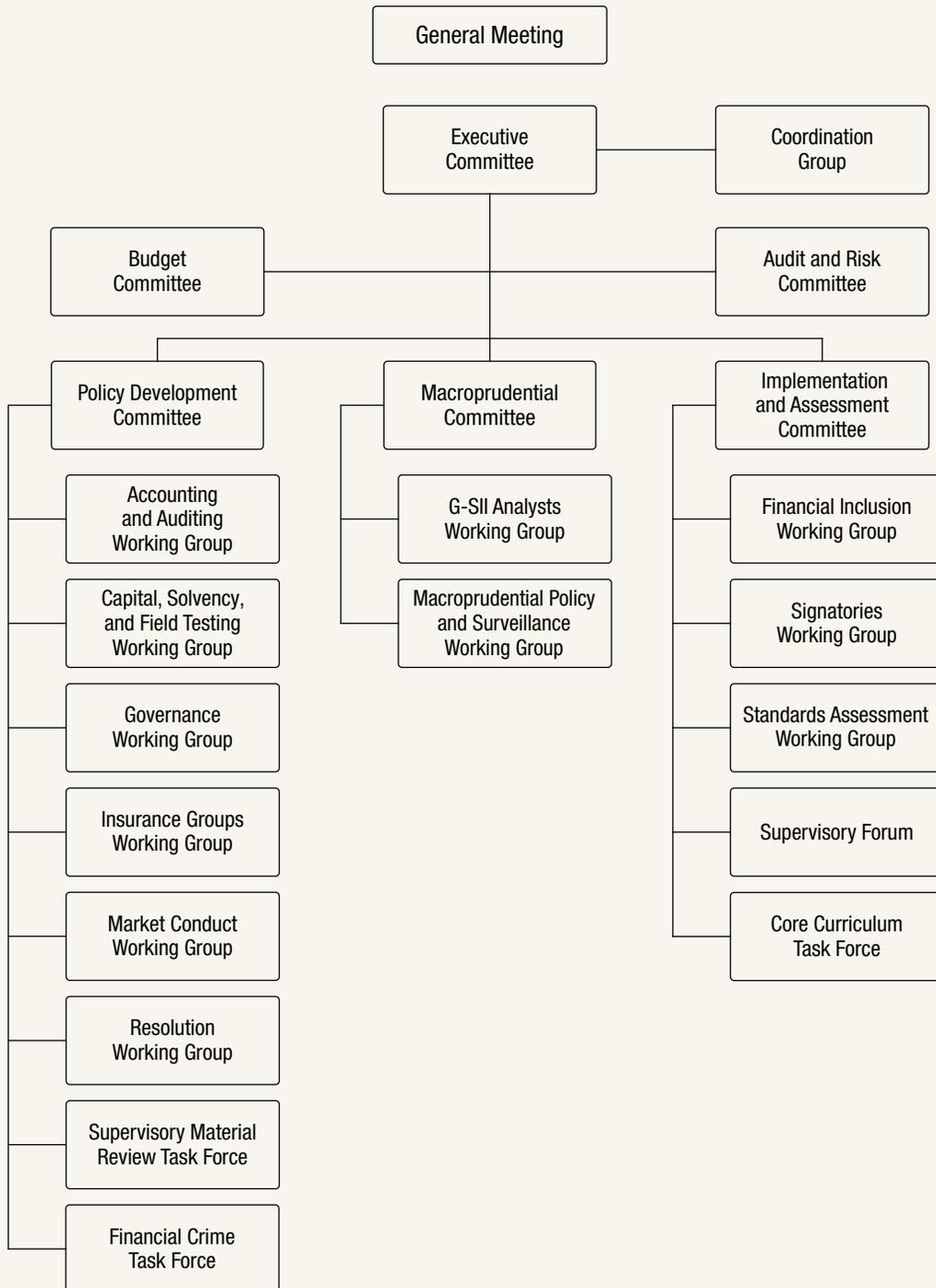
<sup>7</sup> See, e.g., FIO *2018 Annual Report*, at 36–37. See also IAIS, *IAIS Organisational Structure Updated January 2018*, <https://www.iaisweb.org/page/about-the-iais/organisational-structure>.

<sup>8</sup> *2016 IAIS Annual Report*, at 8.

<sup>9</sup> IAIS, *Draft Revised ICP Introduction and Assessment Methodology* (November 8, 2017), at 2 (paragraph 2), <https://www.iaisweb.org/page/supervisory-material/insurance-core-principles/file/69883/draft-revised-introduction-and-assessment-methodology>.

<sup>10</sup> IAIS, *Draft Overall ComFrame for Public Consultation (clean version)* (July 31, 2018), at 9–10 (paragraph 18 et seq.), <https://www.iaisweb.org/page/supervisory-material/common-framework/file/76143/draft-overall-comframe-for-public-consultation>. See also FIO, *2018 Annual Report*, at 39.

Figure 1. IAIS organizational structure



Source: "IAIS Organisational Structure," <https://www.iaisweb.org/page/about-the-iais/organisational-structure>.

IAIS’s supervisory framework, ComFrame applies to internationally active insurance groups (IAIGs)—those with a certain form and degree of international activity that meet criteria set out by the IAIS<sup>11</sup>—and consists of an enhanced set of supervisory standards, encompassing both entity-level and group-wide supervisory standards. As stated by the IAIS,

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<sup>11</sup> “ComFrame identifies an IAIG as being an insurance group that has total assets of at least USD 50 billion or gross written premiums of at least USD 10 billion (on a rolling three year average basis). In addition, its premiums are written in three or more jurisdictions and at least 10% of the group’s total gross written premium is written outside the home jurisdiction.” See IAIS, *Common Framework for the Supervision of Internationally Active Insurance Groups: Revised Draft* (September 2014), at 2, <https://www.iaisweb.org/page/supervisory-material/common-framework/file/58726/revised-comframe-draft-2014>.

“ComFrame seeks to assist supervisors in: addressing group-wide activities and risks; identifying and avoiding supervisory gaps; [and] coordinating supervisory activities efficiently and effectively between the group-wide and other involved supervisors.”<sup>12</sup> Since 2016, the IAIS has been directly integrating ComFrame material alongside the relevant ICPs to clarify the presentation of the two sets of standards.<sup>13</sup>

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<sup>12</sup> *Draft Overall ComFrame*, at 9 (paragraph 19).

<sup>13</sup> IAIS, “Consultation: Revised Insurance Core Principles (ICPs) and ComFrame Material Integrated with ICPs (for consultation period March 3, 2017 to June 1, 2017),” <https://www.iaisweb.org/page/consultations/closed-consultations/2017/revision-of-icps-and-comframe>.



# Stakeholder Engagement and Transparency at the IAIS

The governing documents of the IAIS include guiding principles for stakeholder engagement and transparency. In particular, the IAIS by-laws state that the IAIS “will operate in an open and transparent manner setting an appropriate example of transparency, administrative due process and governance, while maintaining the ability for supervisors to exchange information in confidence.”<sup>14</sup> The IAIS as a body has recognized effective stakeholder engagement as an institutional priority. Its *Stakeholder Engagement Plan*, adopted in March 2017, recognizes past engagement efforts and recommends additional engagement commitments, policies, and strategies.<sup>15</sup>

There are several means by which the IAIS fosters transparency through engagement with stakeholders. Since 2016, the IAIS’s Annual Conference has been open to stakeholders and the general public.<sup>16</sup> Recently, the IAIS has expanded steps to make its newsletter more user-friendly for stakeholders by highlighting stakeholder engagement opportunities and providing more hyperlinks to referenced materials.<sup>17</sup> Before finalizing and issuing any revised ICPs,

ComFrame material, issue papers, or application papers, the IAIS publishes draft versions for public comment, allows a reasonable period for submission of feedback, and then presents a record of how such input from stakeholders has been addressed or resolved by the relevant IAIS committees or subcommittees. All current and closed consultations, from 2012 through 2018, are available through the IAIS website.<sup>18</sup> To enhance public consultation on major policy documents (e.g., Insurance Capital Standard (ICS) Version 2.0 and overall ComFrame revisions), the IAIS holds dedicated public background sessions.<sup>19</sup> Finally, the IAIS organizes other stakeholder workshops for projects such as the ICS and public consultations through which Team USA has additional opportunities to solicit stakeholder comments and feedback.

<sup>14</sup> IAIS By-Laws, Art. 2(3).

<sup>15</sup> See IAIS, *Stakeholder Engagement Plan* (March 20, 2017), <https://www.iaisweb.org/page/about-the-iais/policies-and-procedures/file/65579/iais-stakeholder-engagement-plan-2017>.

<sup>16</sup> See, e.g., IAIS, “International Association of Insurance Supervisors 25<sup>th</sup> Annual Conference,” <https://annualconference.iaisweb.org/2018/welcome.html>; IAIS, *Stakeholder Engagement Plan*, at section I(J).

<sup>17</sup> See, e.g., IAIS, “Newsletter,” <https://www.iaisweb.org/page/news/newsletter>; IAIS, *Stakeholder Engagement Plan*, at section I(K).

<sup>18</sup> IAIS, “Consultations,” <https://www.iaisweb.org/page/consultations>. See also FIO, *2018 Annual Report*, at 40 (providing table listing, by ICP, all public consultations related to ICP and ComFrame revisions in 2017 and 2018, as of September 2018).

<sup>19</sup> See, e.g., IAIS, “IAIS nears the final stages in the development of a Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) with publication of a consultation package,” press release (July 31, 2018) (noting the release of the overall ComFrame including ICS Version 2.0 for public consultation, as well as date, time, and registration process for public background session), <https://www.iaisweb.org/page/news/press-releases/file/76161/31-july-2018-iais-press-release-iais-publishes-comframe-ics-consultation-package>. Note that all consultations are commenced both by publication of the relevant materials and at least a telephonic background session open to the public.



# Efforts to Increase Transparency and Stakeholder Engagement

## Team USA Involvement in the IAIS

Staff from Team USA members serve on nearly every IAIS committee and subcommittee<sup>20</sup> and Team USA members hold a number of important leadership positions within the IAIS, including seats on the ExCo, PDC Chair, MPC Vice-Chair, and Chair or Vice-Chair of numerous task forces and working groups. Both Treasury and the Federal Reserve support representation and committee leadership—in particular, committee and subcommittee chair positions—that are geographically balanced among IAIS members. Treasury further believes that U.S. interests will be best served by the FIO having a permanent and voting membership on the ExCo.<sup>21</sup>

Throughout their IAIS work, Treasury and the Federal Reserve staff prioritize coordination and collaboration with the other members of Team USA. Team USA members consult on IAIS work frequently through telephone, email, and in-person meetings. Through their collective and collaborative engagement in technical and substantive IAIS decisionmaking, Team USA members continue to advocate for the development of international insurance standards that are appropriate for the United States.<sup>22</sup> Where Team USA holds key leadership roles within the IAIS structure, its members are in a position to exercise greater influence and can more effectively advocate for increased transparency and stakeholder engagement—including more in-person and telephonic stakeholder consultation sessions—as well as U.S. interests more broadly.

<sup>20</sup> See, e.g., *IAIS Committee and Subcommittee Membership List*; FIO, *2018 Annual Report*, at 38–39. As of June 2018, the sole task force without a U.S. member was the Core Curriculum Task Force.

<sup>21</sup> See, e.g., Treasury, *EO Report on Insurance*, at 136; FIO, *2018 Annual Report*, at 38.

<sup>22</sup> See e.g., FIO, *2018 Annual Report*, at 38–39.

## Treasury and Federal Reserve Efforts to Promote Transparency

Treasury and the Federal Reserve strongly support transparency and stakeholder engagement in the policy development process at the IAIS. To that end, Team USA routinely hosts meetings and active working sessions with U.S. insurance industry stakeholders for open dialogue regarding policy matters currently before the IAIS. In addition, FIO provides updates on its IAIS work at open meetings of the Federal Advisory Committee on Insurance.<sup>23</sup> FIO also details IAIS developments in its Annual Reports to Congress, which are publicly available on Treasury’s website.<sup>24</sup> The Federal Reserve meets with interested parties, and will engage with the Federal Reserve’s Insurance Policy Advisory Committee on International Capital Standards and Other Insurance Issues, to maintain a robust appreciation for stakeholder views regarding matters before the IAIS and other international insurance issues.

Development of the Insurance Capital Standard (ICS), a key ongoing IAIS project, provides an important illustration of Team USA collaborating to increase transparency, engage with stakeholders, and promote U.S. policy positions. The ICS—which aims to be the first, group-wide, risk-based capital standard broadly applicable to IAIGs—is part of the international ComFrame under development at the IAIS.<sup>25</sup> The IAIS began work on the ICS in 2013, issued an initial consultative proposal in late 2014, and then published a subsequent consultative pro-

<sup>23</sup> Treasury, “Federal Advisory Committee on Insurance (FACI),” <https://www.treasury.gov/initiatives/fio/Pages/faci.aspx>.

<sup>24</sup> See, e.g., FIO, *2018 Annual Report*, at 18–19 (explaining the activities-based approach to assessing and measuring systematically risky activities); 20–22 (providing updates on ICS development); 22–23 (discussing IAIS liquidity management and liquidity stress-testing efforts); 36–37 (describing recent structural changes within the IAIS); 38–39 (detailing FIO’s role within the IAIS); 39–40 (outlining recent public consultations on ICP and ComFrame revisions).

<sup>25</sup> See *Draft Overall ComFrame*, at 9 (paragraph 20).

posal in July 2016 in progression toward ICS Version 1.0.<sup>26</sup> The IAIS decided in late 2017 to implement the ICS in two phases: a five-year monitoring phase beginning in 2020, followed by an implementation phase.<sup>27</sup> At the same time and in response to Team USA's advocacy, the IAIS also decided to assist with the data collection and analysis of an "aggregation method," an alternative approach for determining capital resources and capital requirements for a consolidated capital standard.<sup>28</sup> By performing an aggregation across all of the individual legal entities of an insurance group, the aggregation method would, as with the ICS, provide a consolidated capital standard for an insurance group. The IAIS released a public document on ICS Version 2.0 on July 31, 2018.<sup>29</sup> Team USA continues to hold regular teleconferences to provide updates and collect feedback from U.S. stakeholders and U.S. volunteers on the ICS, which assists in Team USA's continued advocacy for an implementable ICS that is appropriate for the United States.

Treasury and the Federal Reserve continue to believe that the IAIS, its members, and stakeholders can

<sup>26</sup> IAIS, *Risk-Based Global Insurance Capital Standard Version 2.0: Public Consultation Document* (July 31, 2018), at 12 (section 2.1), <https://www.iaisweb.org/page/supervisory-material/insurance-capital-standard/file/76133/ics-version-20-public-consultation-document>. See also IAIS, *Risk-Based Global Insurance Capital Standard Version 1.0 for Extended Field Testing* (July 21, 2017), <https://www.iaisweb.org/page/supervisory-material/insurance-capital-standard/file/67651/ics-version-10-for-extended-field-testing>.

<sup>27</sup> *Insurance Capital Standard Version 2.0*, at 16 (section 2.5).

<sup>28</sup> *Insurance Capital Standard Version 2.0*, at 17 (section 2.5, paragraph 34).

<sup>29</sup> *Insurance Capital Standard Version 2.0*. This document notes that the IAIS "remains committed to developing/defining criteria so that it is in the position, by the end of the monitoring period, to assess comparable, *i.e.*, substantially the same (in the sense of the ultimate goal), outcomes to the ICS." *Id.* at 17 (section 2.5, paragraph 35). The field testing and monitoring may further enable Team USA to advocate that an aggregation method provides comparable outcomes to the reference method ICS. See also FIO, *2018 Annual Report*, at 20–22 (detailing ICS background and current status).

benefit from increased transparency and accountability in the international standard-setting process. Treasury and Federal Reserve staff, along with state insurance commissioners and the NAIC, therefore will continue to provide formal and informal opportunities for U.S. stakeholders to engage with Team USA members on issues arising before the IAIS. These include the types of activities and opportunities described above, and other opportunities that Team USA or stakeholders may propose. Further, Treasury and Federal Reserve staff will continue advocating for greater transparency and stakeholder engagement at the IAIS itself.

Some stakeholders have commented that the standard-setting process at the IAIS is not sufficiently transparent because stakeholders are generally able to participate only late in the process, when stakeholder engagement takes the form of consultation, rather than during early stages of IAIS work on policy development. Within the United States, Team USA has been working to address these concerns through the stakeholder calls and meetings referenced above. At the IAIS, Treasury and the Federal Reserve support enhancing transparency and taking further steps to improve access and stakeholder engagement. Treasury and the Federal Reserve support having the IAIS seek public comment on draft documents with proposed approaches and frameworks for the supervision of insurers, including IAIGs. For example, Treasury and the Federal Reserve advocated for the IAIS to release an interim consultation paper on the activities-based approach to systemic risk in December 2017, followed by a second consultation paper in late 2018.<sup>30</sup> This two-stage consultation process by the IAIS provided increased engagement opportunities for stakeholders during the early stages of policy development.

<sup>30</sup> IAIS, *Activities-Based Approach to Systemic Risk* (December 8, 2017), <https://www.iaisweb.org/page/consultations/closed-consultations/2018/activities-based-approach-to-systemic-risk/file/70440/interim-aba-cp-final-for-launch>.

# Conclusion

Treasury and the Federal Reserve will continue their efforts to improve transparency and increase stakeholder engagement at the IAIS, in coordination with state insurance regulators and the NAIC. Placing Team USA members in key IAIS leadership positions should provide further pathways to accomplish

this goal. In addition, Treasury and the Federal Reserve, along with the other members of Team USA, will continue to actively engage with U.S. insurance stakeholders on issues being considered by the IAIS and continue to report to Congress on their efforts.



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