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Autorité fédérale de surveillance des marchés financiers FINMA  
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# Insurance Group Supervision: Supervisory Colleges

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- Insurance group supervision and its toolkit
- Supervisory colleges in focus
- Supervisory colleges in Swiss insurance group supervision and recent experiences
- Conclusions to date and next steps

# Insurance group supervision and its toolkit

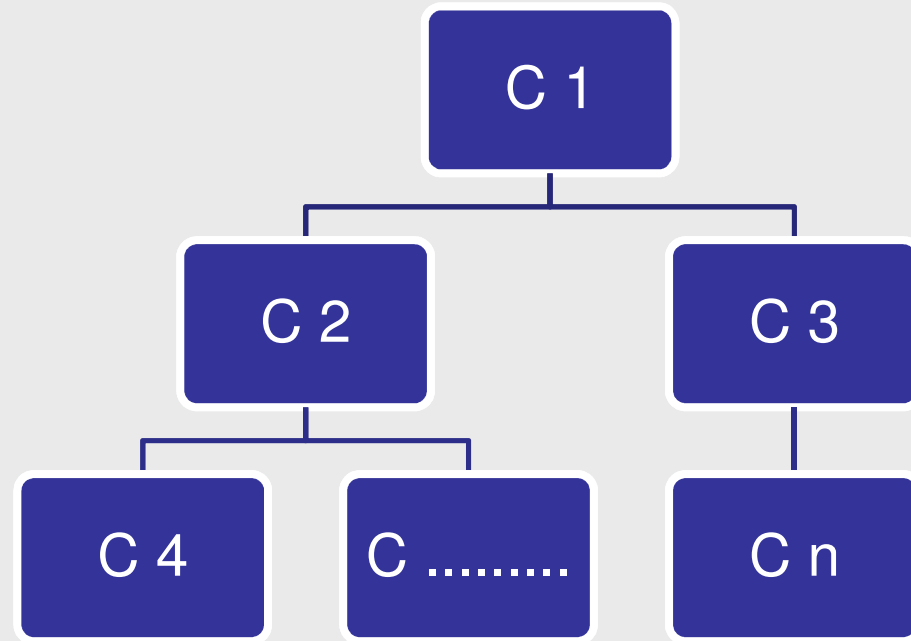


# (Insurance) Groups as networks



Companies as **nods**, often domiciled in different jurisdictions

Shareholding, intra-group transactions and other exposures as so-called **edges between the nods**



Positive and/or adverse network effects are **transmitted** through the edges of the group

Katz and Shapiro 1985, Economides 1996, Tempel-Gugerell 2009

# Insurance group supervision addresses emergence of adverse network dynamics



- In (insurance) groups potential adverse (as well as beneficial) network dynamics may stem from
  - (common) decisions regarding strategy, business, management and resources
  - (common) decisions regarding financials (reserving, capital, liquidity), intragroup transactions, structures and risk transfers from one entity to another
  - (common) exogenous or endogenous exposures
  - ... and other sources
- Insurance group supervision as policy response to reduce potential adverse network effects of insurance groups (and conglomerates)!
- Insurance group supervision indirectly also aims to safeguard the interests of policyholders of the individual group entities

# Content and process needed to address adverse group dynamics



R e f e r e n c e  
p o i n t s

Qualitative requirements

Quantitative requirements

Group prudential regulatory content

Group supervisory process

Parties

Responsibilities

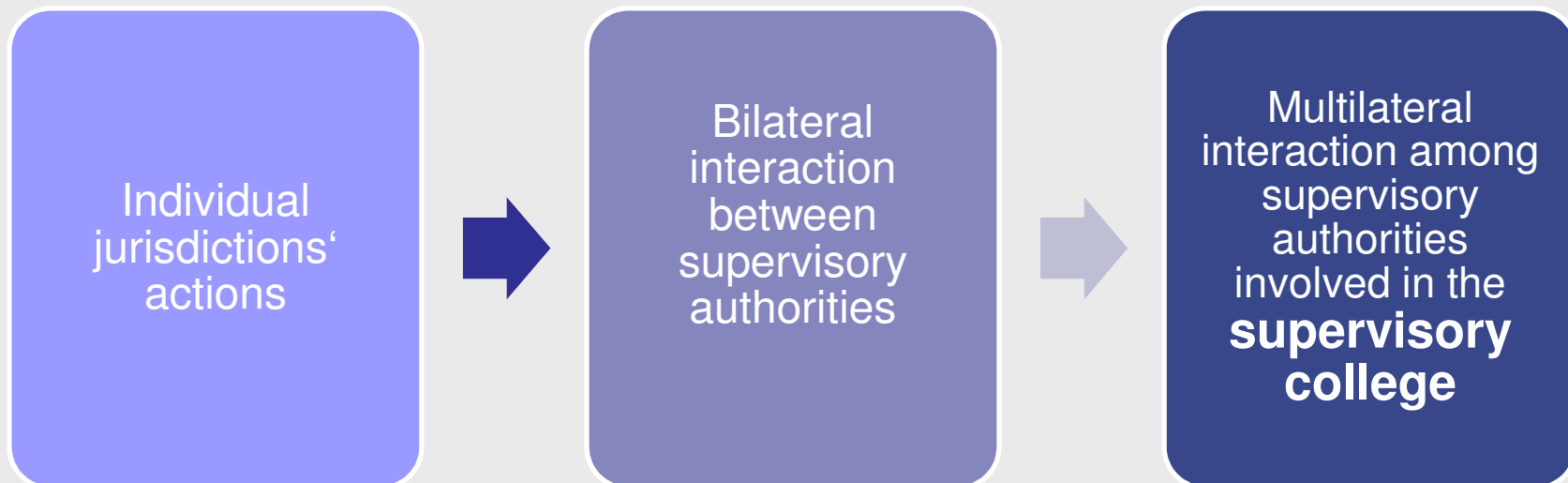
Program

Supervisory implementation

# Supervisory colleges as agents in the group supervisory process



Supervisory process includes



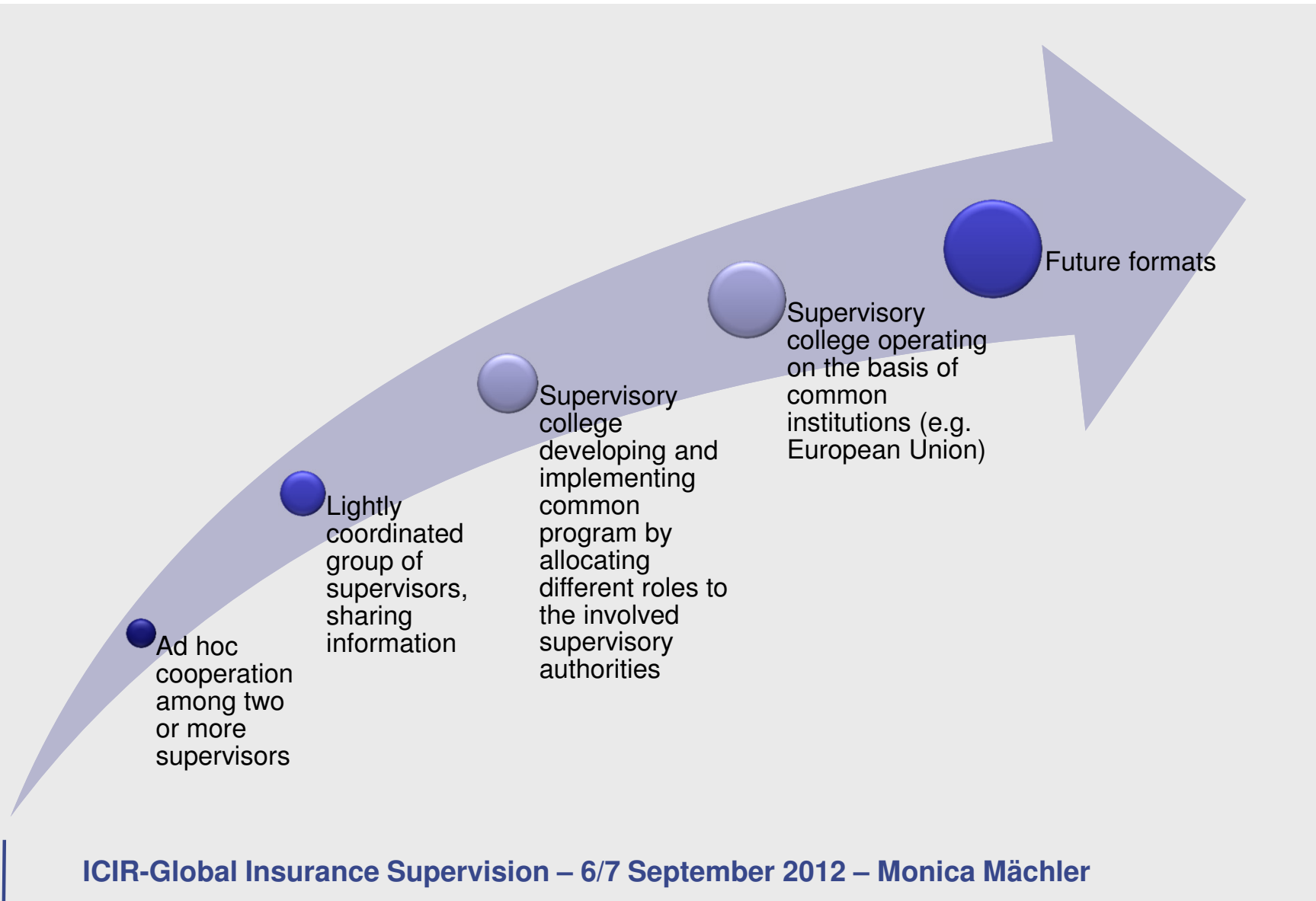
Individual jurisdictions entrusted with enforcement powers

# Supervisory colleges in focus





# Wide spectrum of supervisory colleges



# Observed areas of commonality among supervisory colleges today



- Definition of members to the supervisory college
- Group supervisor to coordinate
- Supervisory college aiming at an enhanced understanding of the group with a view to its group strategy, financials and governance
- Sharing select information in a way in which confidentiality is protected
- Active participation of insurance groups (extent of this being defined individually)
- Practically no delegation of enforcement powers

# Areas with most differences



- Common supervisory program
- Delegation of tasks between supervisors involved
- Scope of responsibilities of the group supervisor, ranging from mere administrator, to coordinator, to actual leader and responsible party to provide assessments etc. to the other involved supervisors
- Differences in reference points to use for qualitative and quantitative requirements
- Clarity of common supervisory process
- Role of supervisory colleges in stress and crisis situations

- ICP 25 (Supervisory Cooperation and Coordination) fostering cooperation and coordination through a supervisory college that is „generally established for the fundamental purpose of facilitating the supervision of entities which belong to a group“ (ICP 25.6.1)
  - Expectations on the group-wide supervisor in a flexible college set up
  - Emphasis on sharing of information and coordination
  - No binding or legal authority of the supervisory college
- Complemented by ICP 3 (Information Exchange and Confidentiality Requirements) and ICP 9 (Supervisory Review and Reporting)
- Referred to by ICP 23 (Group-wide Supervision)

- ComFrame aims to
  - enable mandatory supervisory colleges to supervise groups using common reference points for qualitative and quantitative requirements
  - improve commonality of supervisory process and resolution of divergences without binding arbitration or mediation
  - further clarify roles and responsibilities of group-wide supervisor and involved supervisors so as to have a well defined process for mutual reliance and well functioning cooperation
  - not to transfer enforcement powers

# EU Colleges of Supervisors (from an outside perspective)



- Defined membership
- Binding nature of qualitative and quantitative reference points for the groups and the members of the College of Supervisors – assessing implementation through College of Supervisors
- Intensive attention to defining minimum standards for supervisory process, e.g. in reporting, with the risk of limiting extra initiatives
- College of Supervisors operating on the basis of common European institutions that allow for enforcing cooperation rules
- No transfer of local enforcement powers
- Will the constant evolution of thinking in other sectors such as banking also affect the role of Colleges of Supervisors in the insurance sector?

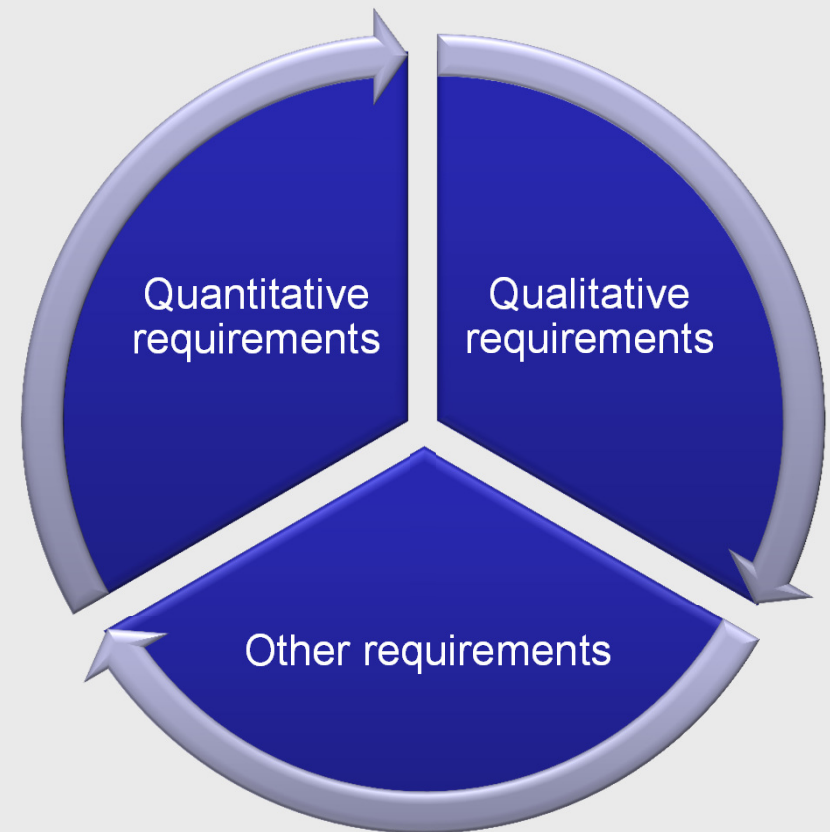
# Supervisory colleges in Swiss insurance group supervision and recent experiences



# Swiss Integrated Insurance Group Supervision



- Integrated Supervision is not only the approach adopted for Swiss solo supervision, but also for group and conglomerate supervision
- Groups are supervised on the background of a multidisciplinary set of quantitative (e.g. SST), qualitative (e.g. SQA) and other requirements
- Complemented with group-specific features, e.g. group structure, intragroup transactions, group wide dimension of quantitative and qualitative requirements
- Embedded in a group supervisory process that includes (global) supervisory colleges



Supervisory process including (global) supervisory colleges



# FINMA Policy on Supervisory Colleges I



[http://www.finma.ch/e/beaufsichtigte/versicherungen/gruppen\\_konglomerate/Documents/policy-supervisory-colleges.pdf](http://www.finma.ch/e/beaufsichtigte/versicherungen/gruppen_konglomerate/Documents/policy-supervisory-colleges.pdf)

- Supervisory college as an important tool for more effective and efficient group supervision
- Of permanent nature for ongoing and crisis supervision
- Not affecting the rights and responsibilities of the competent authorities
- FINMA as group supervisor is committed to a multidisciplinary, proactive and results-oriented approach to insurance group supervision
  - Setting up and structuring insurance supervisory colleges in a proportionate manner
  - Membership based on materiality of the entity in the group (all EU members), the significance in the local market, the risk level and the relevance of the supervisory college for the entity

# FINMA Policy on Supervisory Colleges II



- Activities of FINMA as group supervisor
  - Sharing of confidential information
  - Coordination of supervisory activities
  - Holistic assessment on a group wide basis of strategy and financial position including financial soundness and capital adequacy, governance including risk management and internal controls as well as intra-group transactions and exposures
  - Assessment of risks arising from the macro-prudential perspective
  - Exchanges on model validation
  - Interaction and liaison with group management
  - Planning and coordination of supervisory activities in emergencies
  - Voluntary attribution of tasks

# FINMA Policy on Supervisory Colleges III



- FINMA as group supervisor takes the lead in planning and coordinating while taking the needs of all members into consideration
  - Coordination agreements possible, contact list, meeting organisation, agenda, invitation to actively contribute, information sharing, regular assessment to improve effectiveness and efficiency, FINMA senior management responsibility
  - Host supervisors expected to actively contribute, to provide input, and to have representatives of adequate seniority participate
- FINMA as host supervisor participates in supervisory colleges if there is a strategic interest, and is committed to constructively cooperate

# Recent experiences with supervisory colleges conducted in Switzerland I



## College interaction among supervisors

- In general, more intensive exchange of information and views in the supervisory colleges and enhanced personal interaction
- Heightened expectations vis-a-vis the group supervisor
- Comparability between SST, Solvency II and other solvency systems is a permanent topic that all supervisors present want to understand
- More importance attached to Swiss Quality Assessment (now SQAI) covering the group as a whole
- Risk profile of the group more and more intensively discussed
- Often invitation extended to the group supervisor to participate in local supervisory action
- Substructures to global supervisory colleges being considered and partly implemented

## Recent experiences with supervisory colleges conducted in Switzerland II



College interaction among supervisors and senior management of the groups:

- Still room for improvement, but in general more intensive interaction, whereby issues raised by host supervisors often show local focus:
  - Strategies in local markets as part of group strategies
  - Capital and liquidity planning for the Group and local entities
  - Safeguarding local position regarding capital, liquidity and protecting local entities from group risks
  - Solvency II - Internal Model Approval Process or standard model
  - Corporate governance, internal controls and risk management as well as independence of local entities

# Concept of non EU lead supervisory college with full EU equivalence



- For third country domiciled groups, insurance group supervision according to that third country's group supervisory regime (TCR) PROVIDED it is FULLY EQUIVALENT TO EU REGIME (re qualitative and quantitative requirements as well as supervisory process)
  - All EU countries with group operations are part of TCR supervisory college with access to all work streams
  - TCR establishing which groups are subject to group supervision, scope of group supervisor's role as well as modus operandi
  - Effective cooperation and exchange of information
  - TCR group solvency calculation and surcharges as well as assessment of risk concentration, no subconsolidation in EU
  - Joint committee between EIOPA and TC as forum for fostering effective implementation and informal mediation of differences (no formal mediation or arbitration)

# Conclusions to date and next steps finma

- Addressing potential adverse effects of insurance groups still highly fragmented
- Heterogenous practices regarding supervisory colleges
- Getting together of supervisors requires common reference points for qualitative and quantitative requirements as well as commonality of supervisory process including roles and responsibilities of group supervisor and host supervisors
- Enforcement of cooperation rules made easier when common institutions such as in the EU are in place
- No transfer of enforcement powers observed to date



## Next steps



- Supervisory colleges to develop from clubs doing select information sharing to reliable fora of insurance group supervision
- Commonality of qualitative and quantitative reference points to be expanded particularly through ComFrame
- Clearly established roles and responsibilities of group supervisor and involved supervisors in order to manage mutual expectations
- Implementation of cooperation among supervisors to be followed through
- Mechanisms to be established to address differences
- Enhanced coordination in enforcement while maintaining local powers