

INTERNATIONAL INSURANCE RELATIONS (G) COMMITTEE

International Insurance Relations (G) Committee December 7, 2019, Minutes

International Insurance Relations (G) Committee Nov. 6, 2019, Conference Call (Attachment One)

International Insurance Relations (G) Committee Oct. 15, 2019 (Attachment Two)

IAIS Draft Issues Paper on the Use of Big Data Analytics in Insurance (Attachment Two-A)

APCIA Comments on NAIC Comments on the IAIS Draft Issues Paper on the Use of Big Data Analytics
(Attachment Two-B)

International Insurance Relations (G) Committee Aug. 13, 2019, Conference Call (Attachment Three)

IAIS Revisions to the IAIS Glossary, Introduction to ICPs and ICP 7 and ComFrame Assessment Methodology-

NAIC Approved Comments Aug. 13, 2019 (Attachment Three-A)

Northwestern Mutual Suggestions Regarding Holistic Framework Material (Attachment Three-B)

International Insurance Relations (G) Committee 2020 Proposed Charges (Attachment Four)

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International Insurance Relations (G) Committee
Austin, Texas
December 7, 2019

The International Insurance Relations (G) Committee met in Austin, TX, Dec. 7, 2019. The following Committee members participated: Gary Anderson, Chair (MA); Andrew Stolfi, Vice Chair (OR); Andrew N. Mais (CT); Stephen C. Taylor (DC); David Altmaier (FL); Colin M. Hayashida (HI); Doug Ommen (IA); James J. Donelon (LA); Anita G. Fox represented by Judy Weaver (MI); Chlora Lindley-Myers (MO); Bruce R. Ramage represented by Justin Schrader (NE); Marlene Caride (NJ); John G. Franchini represented by Robert Doucette (NM); Jillian Froment (OH); and Jessica Altman (PA).

1. Adopted its Nov. 6, Oct. 15, Aug. 13, and Summer National Meeting Minutes

The Committee met Nov. 6, Oct. 15, Aug. 13 and Aug. 3 and took the following action: 1) heard an update on upcoming International Association of Insurance Supervisors (IAIS) committee meetings; 2) approved submission of NAIC comments on the IAIS draft *Issues Paper on the Use of Big Data Analytics in Insurance*; 3) heard updates on IAIS activities and the Financial Sector Assessment Program (FSAP); 4) approved submission of NAIC comments on IAIS revised supervisory material and material related to the holistic framework for systemic risk in the insurance sector; 5) adopted the report of the ComFrame Development and Analysis (G) Working Group; and 6) discussed IAIS key 2019 projects with interested parties.

Commissioner Anderson noted that the Committee also met Nov. 19, Oct. 29, and Sept. 30 in regulator-to-regulator sessions, 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 committee meetings and the International Monetary Fund (IMF) FSAP.

Commissioner Stolfi made a motion, seconded by Commissioner Caride, to adopt the Committee's Nov. 6 (Attachment One), Oct. 15 (Attachment Two), Aug. 13 (Attachment Three), and Aug. 3 (*see NAIC Proceedings – Summer 2019, 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 next steps on implementation of the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) and the global insurance capital standard (ICS) and monitoring period process. He said that with the adoption of ComFrame, the Working Group has fulfilled its mandate and will be dissolved at the end of 2019. However, he said that as work related to ComFrame and the ICS is moving into a new phase, relevant charges have been added to working groups reporting to the Financial Condition (E) Committee. He noted that the Group Solvency Issues (E) Working Group's 2020 proposed charges include: "[a]ssess the IAIS Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) and make recommendations on its implementation in a manner appropriate for the U.S." He also noted that the Group Capital Calculation (E) Working Group's 2020 proposed charges include: "[I]iaise, as necessary, with the International Insurance Relations (G) Committee on international group capital developments and consider input from participation of U.S. state insurance regulators in the International Association of Insurance Supervisors (IAIS) monitoring process." Additionally, he said the Committee will continue to track and provide input, as appropriate, as ComFrame is implemented and the monitoring period moves forward.

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

3. Adopted its 2020 Proposed Charges

Commissioner Anderson explained that the Committee's proposed charges for 2020 (Attachment Four) have some minor wording changes and that some of the individual charges were reordered for a more logical flow. He said that as noted in the ComFrame Development and Analysis (G) Working Group report, 2019 is the last year for the Working Group. He added that as this project moves into the next phase, the necessary analysis and coordination by the states and the NAIC and interaction with interested parties will continue under the relevant groups reporting to the Financial Condition (E) Committee.

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Commissioner Altmaier made a motion, seconded by Commissioner Stolfi, to adopt the Committee's 2020 proposed charges. The motion passed unanimously.

4. Heard an Update on Key 2019 Projects of the IAIS

Commissioner Anderson said the NAIC was very pleased to have former Tennessee Commissioner Julie Mix McPeak receive the Distinguished Fellows award from the IAIS in Abu Dhabi for her dedication and work at the IAIS, including serving on multiple committees and taking key leadership positions for a number of years. He congratulated Ms. McPeak on behalf of state insurance regulators and expressed appreciation for the time and leadership she provided at the international level during her time as commissioner.

Commissioner Anderson reported that at its committee meetings and annual general meeting in mid-November in Abu Dhabi, the IAIS reached key milestones on the effective cross-border supervision of insurance groups and contributing to global financial stability. He said these achievements were made possible by a shared commitment from the world's insurance supervisors to the maintenance of fair, safe and stable insurance markets for the benefit and protection of policyholders. He said that overall, state insurance regulators are pleased with the outcomes of these meetings.

ICPs and ComFrame

Commissioner Anderson explained that in Abu Dhabi, the IAIS adopted a revised set of its Insurance Core Principles (ICPs) and ComFrame. Revisions to the ICPs has been a multi-year process, making updates to reflect input from self-assessment and peer reviews, developments in the market, and supervision, as well as to ensure consistency between the ICPs and ComFrame. He noted that ComFrame is the result of years of work, and it is intended to be a comprehensive and outcome-focused framework that provides supervisory minimum requirements tailored to the international activity and size of internationally active insurance groups (IAIGs). Commissioner Anderson said that moving into 2020, IAIS members will begin the implementation of ComFrame. He said the NAIC's Group Solvency Issues (E) Working Group will assess ComFrame and make recommendations on its implementation in a manner appropriate for the U.S. He said that during this initial phase of implementation, the IAIS will be providing supporting material to help members understand expectations set out by ComFrame. He commented that there have been comments submitted previously by interested parties during the development of ComFrame related to possible deviations from U.S. regulations, and he noted that there will be careful and due deliberation to ensure that the implementation of ComFrame in the U.S. is compatible with our regulatory system. He added that it will be important to have ongoing engagement with interested parties to understand any specific concerns and address them accordingly.

Commissioner Anderson said that as part of its 2020–2024 strategic plan, the IAIS plans to focus on developing supporting material for its members more broadly, which will include issues and application papers on a variety topics. He added that the IAIS will also be continuing with its implementation assessment activities through peer reviews of ICPs on a thematic basis.

Stephen Broadie (American Property Casualty Insurance Association—APCIA) commented that the APCIA appreciates the final outcomes on ComFrame, especially with regard to the overarching principles, which include recognizing that IAIGs can be organized in different manners, as long as the objectives of ComFrame are ultimately achieved. He also agreed that any regulatory changes made in the U.S. to implement ComFrame should be consistent with the U.S. regulatory framework.

Holistic Framework

Commissioner Anderson said the IAIS adopted the holistic framework for the assessment and mitigation of systemic risk in the insurance sector. He said this new framework moves away from a solely entities-based approach and instead recognizes that systemic risk can arise both from sector-wide trends with regard to specific activities and exposures, as well as from a concentration of these activities and exposures in individual insurers. He explained that the holistic framework consists of: 1) an enhanced set of supervisory policy measures and powers of intervention; 2) an annual IAIS global monitoring exercise; and 3) a robust implementation assessment.

With regard to the global monitoring exercise, Commissioner Anderson said the IAIS will undertake an annual process to assess insurance market trends and developments and determine any potential build-up of systemic risk in the global insurance sector. He said this will include an assessment of potential systemic risk arising from sector-wide trends with regard to specific activities and exposures, which will leverage and build upon existing IAIS work, such as the Global Insurance Market Report. He said this will also assess the possible concentration of systemic risks at an individual insurer level arising from these activities and exposures using an updated version of the former global systemically important insurer (G-SII) assessment methodology.

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Commissioner Anderson said the global monitoring exercise will also see a collective discussion by the IAIS on the assessment of potential systemic risk in the global insurance sector, at both a sector-wide and individual insurer level, and appropriate supervisory responses to systemic risk if it arises. He noted that the IAIS will share the outcomes of the global monitoring exercise each year with participants in the global monitoring exercise (participating insurers as well as participating IAIS members), other IAIS members, the Financial Stability Board (FSB), and the general public.

Commissioner Anderson explained that another key element of the holistic framework is the IAIS's implementation assessment of related supervisory material. He said this approach builds on existing methodology for assessing the implementation of ICPs and ComFrame, while considering the specific nature of the holistic framework as a subset of the ICP and ComFrame material that is relevant to the assessment and mitigation of systemic risk. He said the assessments will proceed in phases, beginning with a baseline assessment in 2020 and moving towards more intensive jurisdictional assessments in 2021, which will include targeted in-depth verification of supervisory practices. He noted that the IAIS will share the outcomes of the holistic framework implementation assessments with the FSB and the general public.

Commissioner Anderson said the implementation of the holistic framework is expected to provide an enhanced basis for assessing and mitigating systemic risk in the insurance sector and therefore eliminate the need for identification of insurers as G-SIIs. He said the FSB will determine whether to discontinue G-SII identification in November 2022 based on the initial years of implementation of the holistic framework. Commissioner Anderson noted that as implementation gets underway, state insurance regulators will be mindful of the appropriate role for the IAIS, as there have been concerns expressed about the role of the IAIS and its taking on regulatory-like powers.

ICS and Monitoring Period

Commissioner Anderson said the IAIS agreed on Version 2.0 of the ICS for a five-year monitoring period, starting in January 2020. He said that during the monitoring period, ICS Version 2.0 will be used for confidential reporting and discussion in supervisory colleges to provide feedback to the IAIS on the ICS design and performance. He said that at the same time, the IAIS agreed on a definition of comparable outcomes and an overarching approach and timeline for the development of criteria to assess whether the aggregation method (AM) being developed by the U.S. and other interested jurisdictions, provides comparable outcomes to the ICS.

Commissioner Anderson noted that going into these meetings, there was a lot of attention domestically on the ICS, including significant time dedicated by this Committee. He said an agreement was secured that advances critical U.S. objectives as part of the IAIS debate on the next phase of the ICS project. He added that state insurance regulator support came about after the IAIS agreed to an achievable definition and approach to the assessment of comparable outcomes, providing a clear path forward for the AM. He said other objectives that were met include having timelines and governance for operationalizing the monitoring period, a commitment to consider modifications to the ICS itself, and conducting an economic impact assessment.

Commissioner Anderson said members of Team USA have been clear that this pathway ensures that the AM, as one part of a comprehensive U.S. regulatory framework, will be viewed through outcomes that it provides and not simply a quantitative lens. He said that while state insurance regulators will not be implementing the ICS, they will remain committed to an approach to group capital analysis, which can and should be viewed as comparable to the outcomes achieved by the ICS.

Commissioner Anderson noted that the IAIS posted a number of documents explaining various parts of the monitoring period. He said this includes a document that sets out the overarching principles and concepts for the annual confidential reporting of the reference ICS and, at the option of group-wide supervisors (GWS), additional reporting during the five-year monitoring period. He said there is a note that explains some of the technical decisions that were made for the reference ICS, including ICS balance sheet, market-adjusted valuation (MAV), qualifying capital resources, and margin-over-current-estimate (MOCE). He said that as state insurance regulators have had concerns over the development phase of the ICS on some of these technical points, they will continue to see how these perform during the monitoring period and to what extent improvements and changes are merited.

Commissioner Anderson said materials have also been posted that explain the definition of comparable outcomes and the overall approach to the comparability assessment, as well as the governance and timeline planned for this work. He explained that the agreed upon definition reads, "[c]omparable outcomes to the ICS means that the Aggregation Method (AM) would produce similar, but not necessarily identical, results over time that trigger supervisory action on group capital adequacy grounds." He said agreement on the definition also included an approach for developing high-level principles and criteria for the comparability assessment, which will be subject to further discussion over the monitoring period and will help make an informed process to develop and perform the comparability assessment of the AM, an important workstream for next year.

Draft Pending Adoption

Commissioner Anderson said that in addition to comparability, the workplan for the monitoring period also addresses how things like the generally accepted accounting principles plus (GAAP+) valuation approach and the use of internal models will be assessed and whether they are ultimately included as part of the ICS. He also said the IAIS plans to perform an economic impact assessment, which state insurance regulators think will help inform the version of the ICS that is to be used as a prescribed capital requirement (PCR).

Commissioner Anderson noted that it will be important to develop a timeline for engagement with interested parties to help inform state insurance regulators and be best positioned to advocate at the IAIS for goals relative to comparability. The IAIS plans to issue a consultation in early July 2020 on the high-level principles to be used for the comparability assessment. These high-level principles could build upon the NAIC's interpretative guidance issued while in Abu Dhabi, which was intended to provide context and details about the interpretation of the agreement, outlining what was included, but just as important, what was not included.

Marty Hansen (American International Group—AIG) commended the NAIC for a successful negotiation in Abu Dhabi. He noted that the way forward on the reference ICS has been substantially changed to reflect U.S. practices, including senior debt and NAIC designations for credit risk. He commented that this would also provide the necessary breathing room for the NAIC's Group Capital Calculation (GCC) to be developed without an artificial IAIS deadline on the AM. He said that there are some very concrete steps on the definition of comparable outcomes and an overarching approach to guide the development of high-level principles and criteria for assessing comparability. He suggested that a precondition for comparability will be a credible and implementable GCC, and he encouraged the NAIC to continue to maintain this positive momentum and keep moving forward.

Ian Adamczyk (Prudential) thanked the NAIC for the successful outcome achieved in Abu Dhabi with regard to the positioning of the AM and the future development of high-level principles and criteria for the comparability assessment. He noted that the additional parameters surrounding governance for the AM, economic impact analysis, and ongoing stakeholder engagement during the monitoring period are all positive outcomes.

Joe Engelhard (MetLife) noted that in 2019, the IAIS delivered the largest set of standard setting material in decades. He commented that going into the Abu Dhabi meeting, industry had three main goals for the ICS, and all three were achieved. He complimented Team USA for successfully changing the direction of the IAIS to be more positive than the previous position on the ICS. He suggested that the IAIS should consider broader public policy goals as the ICS is further refined and ensure alignment with the G20 themes of sustainable growth and the role of long-term investment. He also commented that attention should be given by IAIS members to implementing the holistic framework to ensure its credibility and effectiveness. He commended the NAIC for being ahead of the game with regard to its work on macroprudential supervision.

Robert Neill (American Council of Life Insurers—ACLI) thanked the NAIC for all the hard work that went into the final outcomes in Abu Dhabi, which met the ACLI's stated objectives from earlier in the year. He also appreciated that the NAIC had conducted outreach to ACLI members in advance of bilateral dialogues and meetings with other jurisdictions.

Mariana Gomez-Vock (ACLI) sought clarification on the relationship between the GCC, AM and supervisory intervention. She also sought additional clarity on the transparency principles embedded within the comparability assessment approach. Commissioner Altmaier said that the AM is an aggregation-based framework being developed internationally in conjunction with other jurisdictions. He said that while the AM is influenced by work on the GCC, the AM will be more jurisdictionally agnostic, and therefore perhaps simpler than the GCC. He said the ultimate intention is to have the GCC serve domestically as implementation of an AM approach. He added that there are still a number of unknowns, including final design of the AM and GCC, recognition of the AM as comparable, the ultimate fate of the ICS project, and how any prescribed capital requirement (PCR) will be implemented and evaluated in international active insurance group (IAIG) jurisdictions. He noted that there will be ongoing engagement with stakeholders as state insurance regulators get clarity on these outstanding issues.

Tracey Laws (Chubb) commented on the positive outcomes from Abu Dhabi and noted that the additional clarity shared by the IAIS about the voluntary nature of participation in ICS field testing was quite helpful. She raised the issue of the relationship between a PCR for IAIGs and non-IAIGs and the potential for creating a competitive disadvantage for IAIGs.

Tom Finnell (America's Health Insurance Plans—AHIP) reiterated earlier comments made about the good outcomes from the Abu Dhabi meetings. He sought clarification about certain elements regarding comparability and whether the IAIS will compare the GCC to the ICS or if it will compare the AM to the ICS, which would be jurisdictionally agnostic. Commissioner Anderson replied that it would be a comparison of the AM to the ICS.

Draft Pending Adoption

Commissioner Anderson thanked the speakers for their comments and views, and he noted that these topics are important workstreams that the NAIC will continue discussing throughout the monitoring period.

5. Heard an Update on International Activities

Regional Supervisory Cooperation

Regarding Asia, Commissioner Mais said the NAIC hosted the 11th NAIC—Financial Services Agency, Japan (JFSA) Insurance Regulatory Dialogue in Washington, DC in October. He said the biannual dialogue brings together regulators from two of the world's largest insurance markets, representing more than 47% of worldwide premium income. He noted that the meeting allowed regulators an opportunity to discuss regulatory issues of mutual concern, including Japan's desire to become a reciprocal jurisdiction under the revisions to the *Credit for Reinsurance Model Law* (#785) and the *Credit for Reinsurance Model Regulation* (#786) and key issues at the IAIS, including the ICS and holistic framework. He said the 12th Dialogue will be hosted in Japan in the first half of 2020, where these ongoing discussions will continue.

Regarding Europe, Commissioner Mais said the U.S.-EU Insurance Dialogue Project is continuing its work on cyberinsurance, cybersecurity, and big data with a public event expected to take place in March in Washington, DC. He thanked Commissioner Ommen and Director Froment for serving as the NAIC's Steering Committee members for the project. He said that state insurance regulators and the NAIC continue to meet directly with counterparts at the European Insurance and Occupational Pensions Authority (EIOPA) and the European Commission on a regular basis throughout the year on matters of mutual regulatory concern, including IAIS issues such as ICS developments, developments relating to innovation and technology, and revisions to Model #785 and Model #786.

Regarding Latin America, Commissioner Mais said state insurance regulators have been working closely with the Association of Latin American Supervisors (ASSAL) as part of the NAIC's efforts to share best practices with other supervisors and enhance regulatory cooperation to help with the supervision of international insurance groups. He said that in October, the NAIC participated in ASSAL's regional seminar for insurance supervisors of Latin America in San Jose, Costa Rica. He said he and Director Cameron spoke on various topics throughout the two-day meeting, including insurtech, conduct of business, and corporate governance. Commissioner Mais said that in late April, the NAIC will participate in the ASSAL's Annual Meeting in Lima, Peru.

Commissioner Mais said one of the NAIC's most successful capacity building projects is the International Fellows Program, which is in its fifteenth year. He said that since the program started in 2004, over 300 fellows from 35 countries have participated in this program designed to advance working relations with foreign markets, emphasizing the exchange of regulatory techniques and technology. He said that for the Fall 2019 session, the NAIC welcomed 11 international regulators from Bermuda, India, Kenya, Saudi Arabia, Taiwan, Thailand and Tunisia. He thanked the host states for this session, which included Arkansas; California; Louisiana; Missouri; New York; Oregon; Texas; Washington, DC; and Washington. He said the NAIC is always interested in having more states host fellows, an experience which is valuable not only for fellows but for host states as well.

Organisation for Economic Co-operation and Development (OECD)

Commissioner Mais noted that the OECD's Insurance and Private Pensions Committee (IPPC) met earlier in the week in Paris, France, hosting a half-day roundtable on digitalization of insurance intermediation and regulatory responses. He said that during the meeting, there were updates on: 1) a revised report on the regulatory and supervisory framework of insurance intermediaries and market conduct; 2) a report on big data and artificial intelligence (AI) in the insurance sector; 3) draft revised guidance on the structure of insurance regulation and supervision; 4) a project proposal on the interaction between public and private sectors in long-term and health care; 5) a policy framework for accessing international property catastrophe reinsurance markets; 6) a project proposal on assessing the integration of environmental, social, and governance (ESG) factors by institutional investors; and 7) a draft report on the impact of public policy and regulation on cyberinsurance coverage.

6. Heard an Update on the FSAP

Mr. Schrader explained that as previously reported to the Committee, the IMF is conducting its third FSAP of the U.S. financial regulatory system in 2019–20. He said the FSAP is comprised of Mission 1 and Mission 2, with much of the insurance-related work concentrated in Mission 1 and additional work happening during Mission 2 in early 2020. He noted that meetings for Mission 1 took place this fall and concluded on Nov. 8 with a closing meeting hosted by the U.S. Department of the Treasury (Treasury). He said the NAIC and several states participated in a number of these meetings with IMF staff, and he added that the IMF also conducted meetings with the private sector. He said that since the last FSAP of the U.S. in 2015, state insurance

Draft Pending Adoption

regulators and the NAIC have further enhanced the U.S. state-based system, and Mission 1 included many good, in-depth discussions with the IMF on these regulatory developments. He said Mission 2 is scheduled for mid-February to early March with meetings expected at the NAIC and several states. He said the IMF is expected to publish a technical note on insurance by the summer of 2020.

Mr. Schrader added that as with previous FSAPs, it is expected that there will be areas where state insurance regulators will continue to disagree with the IMF's approach and recommendations, as well as areas where state insurance regulators can hopefully provide constructive feedback relating to any inaccuracies or particular characterizations of the U.S. system in the document before it is published. He also thanked participating states for the time they took to meet with the IMF on the U.S. state-based system of insurance regulation and NAIC staff for their many contributions to the work so far.

7. Discussed Other Matters

Commissioner Anderson said the IAIS recently released its draft *Application Paper on Liquidity Risk Management* for public consultation with a comment deadline of Jan. 20, 2020. He said this paper is intended to provide guidance on the supervisory material related to liquidity risk management in the relevant ICP and ComFrame material. He said the usual NAIC review process will take place for this paper and that a Committee call will be held in mid-January to approve submission of any NAIC comments.

Commissioner Anderson noted that the question and answer session with the IAIS Secretariat would begin immediately following the Committee meeting.

Ryan Workman (NAIC) noted that the international calendars for 2019 and 2020 had been posted to the website.

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

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International Insurance Relations (G) Committee
Conference Call
November 6, 2019

The International Insurance Relations (G) Committee met via conference call Nov. 6, 2019. The following Committee members participated: Gary Anderson, Chair (MA); Andrew Stolfi, Vice Chair (OR); Andrew N. Mais (CT); David Altmaier (FL); Colin M. Hayashida (HI); Doug Ommen (IA); James J. Donelon represented by Tom Travis (LA); Anita G. Fox represented by Steve Mayhew (MI); Chlora Lindley-Myers (MO); Bruce R. Ramge (NE); Marlene Caride (NJ); Jillian Froment (OH); and Jessica Altman (PA).

1. Heard an update on upcoming IAIS meetings

Commissioner Anderson said a number of commissioners and NAIC staff would be attending the upcoming International Association of Insurance Supervisors (IAIS) committee meetings, general meeting, and annual conference in Abu Dhabi where some important projects involving years of work by IAIS members and stakeholders would be finalized.

Commissioner Anderson noted that the holistic framework for systemic risk would be adopted. He said that following the financial crisis, the IAIS, in conjunction with the Financial Stability Board (FSB), established a methodology for analyzing and identifying global systemically important insurers (G-SIIs) and accompanying policy measures. He explained that the shortcomings of this solely entities-based approach for the insurance sector soon became evident, and the IAIS began looking at an activities-based approach, resulting in the development of the holistic framework, which takes a broader look at how systemic risk may arise in the insurance sector—whether from an individual insurer or a number of insurers undertaking a certain activity—and a broader approach to how such risks can be monitored and mitigated by supervisors. He said the holistic framework consists of: 1) new supervisory material contained within the Insurance Core Principles (ICPs) and the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame); 2) a global monitoring exercise that leverages and enhances existing IAIS work individual insurer monitoring and sector-wide monitoring; and 3) an implementation assessment component. He added that it is expected that there will be discussion in Abu Dhabi about some of the more detailed processes within the holistic framework, in particular as they relate to the global monitoring exercise; but in general, state insurance regulators are supportive of the holistic framework, and they believe it will show that a G-SII list is no longer needed for the insurance sector.

Stephen Broadie (American Property Casualty Insurance Association—APCIA) asked if revisions to the holistic framework document will be published before adoption or shortly thereafter so stakeholders are able to see the final product. Ryan Workman (NAIC) said a list of comments received from the public consultation will likely be published and a public call will be scheduled on the holistic framework after the annual conference. He also said a forthcoming document will explain how the holistic framework fits with relevant parts of ComFrame and the ICPs.

Commissioner Anderson said adoption of the revised ICP Introduction and Assessment Methodology, IAIS glossary terms, and revised versions of a number of ICPs is the result of a multi-year process to ensure that the ICPs are understandable, applicable and implementable by IAIS members. He said ComFrame has evolved over the years through a number of consultations and field-testing processes, with the end result being standards and guidance that are tailored for the supervision of internationally active insurance groups (IAIGs). He said that to avoid overlap and provide better context, ComFrame was integrated into the ICPs for presentation purposes, which resulted in a need to ensure consistency and coherency between the two. Commissioner Anderson explained that following adoption of the revised ICPs and ComFrame, IAIS members will begin the process of implementation with the expectation that the IAIS's core supervisory material will remain stable for a number of years.

Commissioner Anderson said the global insurance capital standard (ICS) and comparability of the aggregation method (AM) have attracted significant attention over the course of 2019 and decisions in Abu Dhabi would affect the next five years over the monitoring period. He said state insurance regulators have been clear about ongoing concerns over some of the outstanding design issues of the reference ICS, which as a result make the ICS not fit for purpose for the U.S. supervisory system or the U.S. insurance market. He said state insurance regulators are in the process of developing the AM to provide comparable outcomes to the ICS.

Commissioner Anderson explained that while the ICS will eventually become part of ComFrame, what will be approved in Abu Dhabi is separate from adoption of the ComFrame material, as ICS version 2.0 will still be subject to further development during the monitoring period. Regarding ICS materials to be adopted in Abu Dhabi, he said this would include the final technical design of the reference ICS version 2.0 for the monitoring period, a definition of comparable outcomes and overarching approach to guide development of the assessment process, and a broader workplan and timeline for entire monitoring period, and a public communication on operationalizing the monitoring period.

Commissioner Anderson said that finalizing the reference ICS and coming up with a definition of comparable outcomes and accompanying overarching guidelines for the comparability assessment process has proven to be a challenge, as IAIS members have different philosophies on group capital, which influences their approach on how technical issues and issues of comparability should be viewed and determined. He noted that at an October stakeholder event hosted by the Federal Insurance Office (FIO), Team USA shared how it envisioned a definition of comparable outcomes. He said that following the event, the IAIS had calls and meetings to discuss comparability, along with the technical design issues and how the monitoring period will operate. He said that following the recent ICS Task Force meetings in London to discuss comparability, there are still some sticking points with differences of view and interpretation. He said state insurance regulators hope to have these successfully resolved in Abu Dhabi so that there is an achievable definition of comparable outcomes and a clear path forward on the AM.

Commissioner Anderson said state insurance regulators are aware that there are a number of questions as to how to proceed if an agreement on comparability is not reached in Abu Dhabi. He said that there are a variety of moving parts to this issue and different ways they could play out. He said state insurance regulators are trying to be as productive as possible with international colleagues to find a way forward; however, the NAIC and state insurance regulators will not move forward in a way that is contrary to our interests. He also said if there is not an agreement, it does not mean that the NAIC and state insurance regulators will disengage from the ICS project or the IAIS more broadly.

Michelle M. Rogers (National Association of Mutual Insurance Companies—NAMIC) asked if other IAIS members have raised concerns about the current ICS draft and whether other members might oppose approval of ICS version 2.0. Commissioner Anderson responded that there have been some concerns raised by other jurisdictions.

Ms. Rogers asked for elaboration on the sticking points on comparable outcomes. Commissioner Anderson said these are subject to internal discussions within the IAIS but reiterate that state insurance regulators will not agree to a deal that could be detrimental to the U.S. market.

Bryan Pickel (Prudential Financial) said the AM can provide comparable outcomes to the ICS, as defined by the Kuala Lumpur agreement. He said it should be contemplated what a “no” vote on the ICS might mean in a larger context, especially for larger companies that do business internationally. Commissioner Anderson responded that if the U.S. agrees to a deal, it will need to meet the NAIC’s objectives and be a good deal for the U.S. market, and state insurance regulators will be mindful of the consequences of any outcome in Abu Dhabi.

Birny Birnbaum (Center for Economic Justice—CEJ) noted that comparability could be considered in terms of outcomes of what the different models produce and comparability that triggers supervisory action. He asked for clarity about the Team USA position on what constitutes comparability. Commissioner Anderson said that Team USA has focused on outcomes for supervisory intervention, with a clear path for the AM to be deemed comparable. Mr. Birnbaum said a standard for supervisory action could be subjective, and he asked for further insight. Commissioner Anderson responded that since the ICS and AM are built differently, the two approaches will not produce the exact same numbers, thus the focus on the action that the results produce, not the result itself.

Joe Engelhard (MetLife) said he understands that the ICS market-adjusted valuation (MAV) approach will not be implemented in the U.S., but he noted that for comparability, MAV and the AM will not come up with the same ratio since they are different approaches. Instead, he said the metric should be whether the solvency ratio accurately reflects assets and liabilities. He also noted that the NAIC can likely demonstrate that risk-based capital (RBC) ratios do appropriately reflect the time needed to intervene with an insurer, and therefore the level of risk of the underlying assets and liabilities. He added that on the other hand, MAV is procyclical, potentially overstating or understating risk.

Mr. Birnbaum said that while the position of the industry regarding ICS is not unreasonable, he believed Team USA’s position would likely not change during the monitoring period. He said that Team USA is asking other IAIS members to accept the AM as functionally equivalent regardless of outcomes during the monitoring period. Commissioner Anderson disagreed with that

characterization and said the monitoring period does matter to demonstrate comparable outcomes, noting that Team USA does not expect the IAIS to give the AM a free pass.

Mr. Broadie asked whether U.S.-based IAIGs will be required to participate in the field testing of MAV during the ICS monitoring period. Commissioner Anderson responded that based on the positions of the group-wide supervisors of U.S.-based IAIGs, the U.S. will not go forward with something contrary to its interests.

DiAnn C. Behrens (Allstate) asked for clarification regarding the intended relationship of the NAIC's group capital calculation (GCC) under development to the AM. She asked which one will be used in the U.S. or internationally and how they relate to the "Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance" (Covered Agreement). She also asked how these approaches compare to the ICS. Commissioner Anderson responded that these points will continue to be discussed as the work moves forward, and he noted that the Group Capital Calculation (E) Working Group and NAIC leadership will be part of these discussions as well.

Andrew T. Vedder (Northwestern Mutual) asked about Team USA's continued efforts during the monitoring period to improve design elements of the reference ICS. He said that it is important for non-IAIG insurers to see improvements in the reference ICS. Commissioner Anderson said there would be continued engagement by Team USA regarding design elements, no matter the outcome of Abu Dhabi.

Patrick C. Reeder (American Council of Life Insurers—ACLI) asked if Team USA plans to stay engaged during the ICS monitoring period, regardless of the vote in Abu Dhabi. Commissioner Anderson said regardless of the vote, Team USA will continue working with IAIS colleagues to address deficiencies in the ICS. He noted that the NAIC approach to member engagement on topics on which there are different views serves as a good model.

Tom Leonardi (AIG) asked if it would be difficult to demonstrate comparability of the AM if not all U.S.-based IAIGs provide reference ICS data during the monitoring period. Commissioner Anderson responded that the data to be provided should be sufficient for demonstrating comparability and that there has been engagement with the relevant group-wide supervisors on regarding participation during the monitoring period.

Mr. Reeder said that after Abu Dhabi, whatever the outcome, the ACLI's members will need to understand how to budget and allocate resources for GCC development, as well as the monitoring period. Commissioner Anderson responded that these points will be taken into account.

2. Discuss Other Matters

Commissioner Anderson noted that the Committee will meet at the Fall National Meeting on Dec. 7.

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

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Draft: 12/2/19

International Insurance Relations (G) Committee
Conference Call
October 15, 2019

The International Insurance Relations (G) Committee met via conference call Oct. 15, 2019. The following Committee members participated: Gary Anderson, Chair (MA); Andrew Stolfi, Vice Chair (OR); Andrew N. Mais represented by John Loughran (CT); Stephen C. Taylor (DC); David Altmaier (FL); Doug Ommen represented by Carrie Mears (IA); James J. Donelon (LA); Anita G. Fox represented by Steve Mayhew (MI); Chlora Lindley-Myers represented by John Rehagen (MO); Bruce R. Ramage (NE); Marlene Caride (NJ); John G. Franchini (NM); Jillian Froment (OH); and Jessica Altman (PA).

1. Approved Submission of NAIC Comments on IAIS Draft Issues Paper on the Use of Big Data Analytics in Insurance

Commissioner Anderson said the International Association of Insurance Supervisors (IAIS) draft *Issues Paper on the Use of Big Data Analytics in Insurance*, which is currently out for public consultation, builds on a previous IAIS issues paper and focuses more specifically on issues regarding the use of personal and other data by insurers as a result of digitalization. He said the paper considers the manner in which insurers are able to collect, process and use data across various stages of the insurance product lifecycle, namely product design, marketing, sales and distribution, pricing and underwriting, and claims handling. He said the paper also makes certain observations about the potential implications for supervisors as a result of the use of big data analytics in insurance.

Commissioner Anderson said that per the usual process, the paper was reviewed internally, which resulted in the initial draft NAIC comments that were circulated in advance of the conference call. He said input for consideration by the Committee was received from the American Property Casualty Insurance Association (APCIA) (Attachment B).

Ryan Workman (NAIC) provided an overview of the draft NAIC comments.

David F. Snyder (APCIA) provided support for the NAIC draft comments, and he said the APCIA would be submitting its own comments.

Birny Birnbaum (Center for Economic Justice—CEJ) said the CEJ disagrees with the APCIA comments, and it believes that the IAIS paper is not intended to provide regulatory practice or guidance; instead, it features extensive discussion on benefits and concerns related to the use of big data. He said that while the CEJ has suggestions to improve the paper, it believes that it is balanced.

Taylor Walker (American Council of Life Insurers—ACLI) agreed with the APCIA comments and noted that the ACLI will be submitting its own comments. She said the ACLI believes the issues paper should focus more on consumer benefits for big data and emphasize that concerns around big data are not new to the insurance industry. She said that while technology and techniques have evolved, commitment to the law and actuarial standards have not changed.

Commissioner Caride made a motion, seconded by Commissioner Donelon, to approve submission of the NAIC comments (Attachment A). The motion passed unanimously.

Commissioner Anderson said the NAIC comments on the draft issues paper would be submitted in advance of the Oct. 16 deadline, and he urged interested parties to submit comments as well.

2. Heard an Update on IAIS Activities

Commissioner Anderson reported that in November, the IAIS will have three days of committee meetings followed by its general meeting and annual conference. He said finalization of a number of long-term projects at the IAIS is expected, including revisions of several Insurance Core Principles (ICPs), the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame), the global insurance capital standard (ICS) for the monitoring period, and the holistic framework for systemic risk. He said that while this phase of revising existing and developing new supervisory material is coming to a close, an important phase of implementation begins, and discussions in November will be laying out related plans.

He said during the week of Oct. 21, the IAIS ICS Task Force and the Executive Committee will be meeting in London, mostly to focus on reaching agreement on outstanding design issues on the ICS version 2.0 for the monitoring period and comparability of the aggregation method (AM).

Commissioner Anderson noted that the U.S. Chamber of Commerce recently released a report on the ICS and AM. Bill Hulse (U.S. Chamber of Commerce) shared highlights of this report, noting that it aims to build an argument for why the AM is a credible approach to group capital. He gave an overview of the report's main sections, which covers how a market-adjusted valuation approach to capital could affect product availability, competition, global competitiveness, and capital markets in the U.S., as well as the merits of the AM. He said the report also discusses market implications of adopting the reference ICS, as adoption in other jurisdictions could make the ICS the de facto international standard even with the U.S. taking the AM approach.

Commissioner Anderson said that in early October, the Federal Insurance Office (FIO) hosted a stakeholder session on the ICS during which views of Team USA were presented, including a strawman proposal for a definition of comparable outcomes. He said that in state insurance regulators' view, the outcome should focus on group capital approaches, signaling the need for supervisory intervention. He said that based on input from that meeting, Team USA made some tweaks to help clarify the proposal submitted to the IAIS.

Commissioner Anderson noted that other IAIS members were invited to provide their thoughts on defining comparable outcomes, and he said the IAIS Secretariat will attempt to bridge the gap between the various proposals for discussion at the meetings in London. He noted the difficulty of coming up with a meaningful, high-level definition that avoids being criteria itself or suggesting that the only way to have comparable outcomes to the ICS is to adopt the ICS. He said state insurance regulators hope that the meeting reaches an agreed-upon, achievable definition of comparable outcomes and overarching guidelines that will govern the IAIS's overall comparability assessment process for the AM.

Mariana Gomez-Vock (ACLI) said that while the ACLI supports the Team USA goal of having the AM recognized as comparable, it has some concerns with the strawman definition. She said the ACLI sent a letter outlining these concerns, and it asked if these concerns have been addressed. Commissioner Anderson said stakeholder comments were taken into consideration in preparation for London, and he said the ACLI comments were similar to those from others at the FIO stakeholder session.

Ms. Gomez-Vock asked if the goal of the ICS Task Force meeting in London is to finalize the definition of comparable outcomes, or if a draft will come out of the meeting and feedback will be sought from stakeholders. Commissioner Anderson said discussions will likely continue following the London meeting, though the expectation is to come away from London with an achievable definition of comparable outcomes. He said the Committee would reengage with interested parties following the meetings in London.

Tracey Laws (Chubb) asked what form such reengagement will take and whether it will be an open Committee conference call. Commissioner Anderson responded that no specific plans had been made yet.

Tom Finnell (Finnell & Co. LLC) asked if stakeholders can see the strawman definition for ICS comparability submitted by Team USA. Commissioner Anderson responded that given the status of the discussions within the IAIS, it could not be shared, but it was in line with what was discussed at the FIO stakeholder session.

Michael F. Consedine (NAIC, Chief Executive Officer) said he appreciated stakeholders' interest in the submission, though discussions on a definition are still fluid. He noted that Team USA is unified going into the London meetings and that with a number of strawman proposals to be discussed in London, the definition is still a moving target.

Brad Smith (ACLI) asked about the Committee's expected process for coordinating with interested parties after London or in preparation for London, and he asked about engagement of the Financial Stability Board (FSB) on the outcome at the IAIS discussions on the ICS. Commissioner Anderson said cooperation amongst Team USA will continue, and engagement with interested parties will be similar to other Committee work. Mr. Consedine noted that FSB engagement at this stage is unlikely, though it will continue to monitor relevant developments at the IAIS as it currently does.

Ms. Gomez-Vock (ACLI) asked for clarification regarding whether the NAIC is contemplating adopting the AM with specific supervisory intervention points and whether this would be a workstream of the Committee or the Group Capital Calculation

(E) Working Group. Commissioner Anderson responded that discussion on supervisory intervention points as part of the group capital calculation (GCC) is premature at this point. Mr. Workman said the ComFrame Development (G) Working Group will be disbanded in 2020 and that the Group Capital Calculation (E) Working Group will look at ComFrame implementation more broadly.

3. Heard an Update on the FSAP

Commissioner Anderson said the International Monetary Fund (IMF) is conducting its third Financial Sector Assessment Program (FSAP) for the U.S. in 2019 and 2020. He said that as with the last two FSAPs, the U.S. Department of the Treasury (Treasury Department) Office of Financial Markets is coordinating this FSAP for participating U.S. agencies.

Commissioner Anderson noted that the FSAP is comprised of Mission 1 and Mission 2, with much of the work for the FSAP exercise for insurance concentrated in Mission 1 and additional work happening during Mission 2 in early 2020. He said the opening meeting for Mission 1 took place earlier in the day. He explained that the NAIC and several states will be participating in a number of meetings with the IMF over the coming weeks, ending with a closing meeting on Nov. 8. He noted that several interested parties were likely also contacted about private sector meetings with the IMF.

Commissioner Anderson said the IMF is expected to publish a technical note on insurance by the summer of 2020. He noted that since the last FSAP of the U.S. in 2015, state insurance regulators and the NAIC have further enhanced the state-based system of insurance regulation, and they look forward to further in-depth discussions on these regulatory developments with the IMF in the coming weeks. He said the Committee and interested parties will continue to be informed of further developments relating to the FSAP as the process moves forward.

Stephen Broadie (APCIA) asked if the IMF would be focusing its assessment on those ICPs that are related to financial stability or have been recently revised. Commissioner Anderson replied that the IMF would be assessing the U.S. against a subsection of ICPs. Gita Timmerman (NAIC) added that the IMF is trending to a more focused assessment rather than an assessment of all the ICPs.

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

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IAIS draft Issues Paper on the Use of Big Data Analytics in Insurance - NAIC Approved Comments

Oct. 15, 2019

Section/Paragraph	Comment
Para 5	As paragraph 4 states “this paper makes certain observations”, suggest the slightly awkward “the paper observers” could be deleted and the paragraph simply begin with: “For example, the increased availability...”
Para 6	Suggest the paragraph would read better without the “the paper” wording. Revise first sentence to “On the other hand, the complexity and opacity...” and last sentence to “Additionally, supervisors may consider whether there is a need...”
Footnote 2	Put quotes around the text of 19.12
Para 11	As benefits and risks may not arise in every use and there may be additional benefits and risks, suggest saying “...to identify potential benefits and risks for consumers...”
Para 19	Standard 19.12 should be quoted, not paraphrased or alternatively delete the last sentence and add a footnote to the previous sentence that directs the reader to footnote 2 which quotes 19.12
Box after para 79	As the last paragraph is a broader point that may be relevant beyond the UK example, suggest moving this sentence up to para 79: “...friction for the customer. However, a potential drawback...”
Footnote 38	Should be “22 March 2018”
Para 105	For better readability, suggest: “In most jurisdictions, the insurance supervisor is not responsible for privacy protection issues but rather a dedicated privacy protection authority; however, insurers and insurance supervisors...”

**APCIA COMMENTS
ON NAIC COMMENTS
ON THE IAIS DRAFT ISSUES PAPER ON THE USE OF BIG DATA ANALYTICS**

The NAIC's work is appreciated and the NAIC's proposed comments are straightforward and balanced. Here are several suggestions for consideration if the NAIC expands on its comments:

1. Contrary to the IAIS paper's stated concern that more granularity in risk assessment leads to unavailability of coverage, increased granularity has often helped to promote more coverage availability. An example would be the decline in the U.S. auto residual market plan populations.
2. The IAIS paper does not need to provide more guidance or discussion on standards of "fairness" as "fairness" is determined by each jurisdiction's laws, and existing regulatory standards are adequate to address Big Data Analytics.
3. We urge the NAIC to reject any request from interested parties that would cite to a single U.S. regulator's action, that would elevate one U.S. regulator's views over the majority view of others, or that would argue for acceptance of a standard of conduct that has not been enacted by the States.
4. The IAIS paper should discuss the benefit of companies engaging in an upfront dialogue with regulators when they plan to deploy a new model or use significant new data.
5. The IAIS paper should more fully demonstrate the value of Big Data Analytics in loss prevention and risk mitigation, including usage-based insurance, improved catastrophe models, and the greater ability to partner with policyholders.
6. The IAIS paper should be clearer that maintaining confidentiality and protecting intellectual property are critical to encouraging innovation and delivering its related benefits.

We appreciate this opportunity to comment. APCIA will be submitting its own comments to IAIS directly and through the Global Federation of Insurance Associations.

Sincerely,

David Snyder
Vice President, International Policy
APCIA

Draft: 8/13/19

International Insurance Relations (G) Committee
Conference Call
August 13, 2019

The International Insurance Relations (G) Committee met via conference call Aug.13, 2019. The following Committee members participated: Gary Anderson, Chair (MA); Andrew Stolfi, Vice Chair (OR); Andrew N. Mais (CT); Stephen C. Taylor (DC); David Altmaier (FL); Colin M. Hayashida represented by Martha Im (HI); Doug Ommen (IA); James J. Donelon (LA); Anita G. Fox represented by Judy Weaver (MI); Chlora Lindley-Myers (MO); Bruce R. Ramge represented by Mitchell Higgins (NE); Marlene Caride (NJ); Jillian Froment (OH); and Jessica Altman (PA).

1. Approved Submission of NAIC Comments on IAIS Revised Supervisory Material and Material Related to the Holistic Framework for Systemic Risk in the Insurance Sector

Commissioner Anderson explained the purpose of the conference call is to discuss and approve submission of NAIC comments on draft revised International Association of Insurance Supervisors (IAIS) supervisory material and new material related to the *Holistic Framework for Systemic Risk*, which are currently out for public consultation. Commissioner Anderson said the IAIS is currently seeking feedback on supervisory material including: draft revised IAIS Glossary; draft Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) Assessment Methodology; changes in the Introduction to the Insurance Core Principles (ICPs) and ICP 7 (Corporate Governance) for consistency with ComFrame development; and draft revised ICP 22 (Anti-Money Laundering and Combatting the Financing of Terrorism). Commissioner Anderson noted the ComFrame-related material in the consultation document reflects revisions based on comments received during the 2018 public consultation on the overall ComFrame.

Commissioner Anderson said the draft holistic framework represents a move away from the IAIS' previous entities-based approach to identify firms to which specific policy measures would be applied. He added that the new enhanced set of supervisory policy measures is one element of the IAIS' broader approach to addressing potential systemic risk. Commissioner Anderson explained the new policy measures are reflected in revisions to several ICPs and related ComFrame material, including: ICP 9 (Supervisory Review and Reporting); ICP 10 (Preventive Measures, Corrective Measures and Sanctions); ICP 16 (Enterprise Risk Management for Solvency Purposes); ICP 20 (Public Disclosure); and ICP 24 (Macroprudential Supervision).

Commissioner Anderson said that per the usual NAIC process, the consultation material was reviewed internally, including by the: Antifraud (D) Task Force for ICP 22, ComFrame Development and Analysis (G) Working Group for the ComFrame material, and Financial Stability (EX) Task Force for the holistic framework material, which resulted in the initial draft NAIC comments that were circulated on July 25. He said the draft NAIC comments, which included two new comments, and input for consideration received from Northwestern Mutual (Attachment B) were also circulated in advance of the call.

Ryan Workman (NAIC) provided an overview of the draft NAIC comments, highlighting specific substantive comments across the material.

Commissioner Anderson noted that comments received from Northwestern Mutual focus on the holistic framework material and raise valid points. He said the NAIC plans to follow up on these comments as part of the internal IAIS review process.

Steven Simchak (American Property Casualty Insurance Association—APCIA) said substantial language was added to the holistic framework material in the consultation document that focuses on the size of insurance groups and such an emphasis on size is not constructive in moving toward an activities based approach to addressing potential systemic risk. Mr. Simchak commented the consultation document lacks clarity as to how, to whom, and under what circumstances these measures will be applied, which could be problematic during times of economic stress. He stated that in applying the principle of proportionality, it would be appropriate to be more specific about the lines of insurance and types of companies or business models for which liquidity and macroprudential effects have, or have not, been an issue. Mr. Simchak said it would be helpful for the final version of text to distinguish holistic framework material from the ICPs and ComFrame material given the different scopes of application.

David Snyder (APCIA) noted the APCIA is coordinating its comments with the Global Federal of Insurance Associations, which has similar concerns. He suggested the NAIC include in its submission a general comment on the importance of defining and using proportionality.

Robert Neill (American Council of Life Insurers—ACLI) supported the NAIC's comment on the holistic framework material related to the Own Risk and Solvency Assessment (ORSA) being non-prescriptive and comments on stress testing. He noted that data collections conducted as part of the holistic framework should be reasonable and leverage existing data where possible.

Tom Finnell (APCIA) said the ComFrame material is unclear regarding which supervisory requirements necessitate direct versus indirect power. Mr. Workman responded that the IAIS has tried to better clarify the distinction for direct and indirect in both the ComFrame Introduction and the relevant ComFrame material.

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

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

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IAIS revisions to the IAIS Glossary, Introduction to ICPs and ICP 7 and ComFrame Assessment Methodology - NAIC Approved Comments

Aug. 13, 2019

Section/Paragraph	Comment
Stress Testing	As new material related to the holistic framework includes using stress testing as a way to assess liquidity, the current draft definition of stress testing may be read to cover only solvency rather than liquidity as well, so that there is no real definition for liquidity testing purposes. Suggest ensuring the definition is broad enough to encompass both by deleting “solvency”: “A method of solvency assessment that measures the financial impact of stressing one or more factors which could severely affect the insurer.”
Para 57, CF Assessment Methodology	For consistency, suggest changing the last sentence to read: “...observance of ComFrame <u>Standards requirements</u> .”
Para 61, CF Assessment Methodology	For clarity, suggest adding: “...to share results <u>of an assessment</u> within the supervisory college...”
Para 62, CF Assessment Methodology	For better readability, suggest adding a comma after “information”: “While legislation provides the authority to coordinate and exchange information _, the supervisor...”
7.1.3	Standards and guidance in other ICPs and ComFrame that address conflicts of interest use wording like address, manage, mitigate, avoid, etc., in recognition that in some cases it may not be possible to have <i>no</i> conflicts of interest. Suggest revising the new text to be consistent with other material on conflicts of interest: “...the group should have in place appropriate measures so that there is no <u>conflicts of interest</u> between the different roles to be performed by such individuals <u>are avoided or mitigated</u> .”

IAIS draft revised ICP 22 (Anti-Money Laundering and Combating the Financing of Terrorism) - NAIC Draft Comments

Section/Paragraph	Comment
General	In changing terminology from FT to TF, we assume this is for the purpose of being consistent with FATF terminology but is not intended to change the scope of the concept itself. Suggest doing a review to ensure commas and other punctuation are consistent (e.g., use of oxford comma in a series).
22.0.1	Insert missing period at the end of the first sentence.
22.0.5	It’s not clear whether the first sentence is intended to reflect action that has been taken at the FATF or reflect the nature of the relationship between the IAIS and the FATF. If it is the former, this wording seems appropriate. However, if it is the latter, as the IAIS is also an observer member of other international organizations, the wording used should either 1) reflect established policies for external relationships as “has endorsed” suggests that the IAIS as an organization has taken some type of (formal) action on the FATF Recommendations; or 2) use more general wording that reflects support for other standard setters work. Suggest revising the first and second sentences to read: “As the IAIS is a FATF Observer Organization and is supportive of FATF’s work, this ICP is intended to be consistent with FATF Recommendations.”

	However, compliance with the FATF Recommendations does not necessarily imply observance of ICP 22 nor does observance of ICP 22 necessarily imply compliance with the FATF Recommendations.”
22.0.11	Given the wording of the third bullet of Standard 22.1, suggest revising first sentence to read: “Part A describes how the RBA is applied by supervisors, insurers and intermediaries consistent with the FATF Recommendations.”
22.1.5	As the rest of the first sentence is singular, suggest using “its design.” For better readability, suggest moving the second sentence to 22.1.6 (see comment on 22.1.6) For consistency, change period after second bullet to a semi-colon.
22.1.6	Assuming the second sentence of 22.1.5 is moved down, suggest revising first and second sentences to read: “ <u>Product risk also encompasses service and transaction risk, which</u> refers to the vulnerability of a product to <u>third party use by a third party</u> or unintended use based on the methods of transactions available. The following are examples of service and transaction attributes which may tend to increase the <u>ML/TF</u> risk profile:”
22.1.8	For consistency, suggest revising first sentence to read: “The following are examples of geographic attributes which may tend to increase the <u>ML/TF</u> risk profile:”
22.1.13	As both of these should be seen as equally important, suggest revising last sentence to read: “The supervisor should participate in such an assessment to <u>both help</u> inform the assessment and also to improve its understanding of the risks.”
22.3.1	For wording consistency with other ICPs, suggest revising sentence to read: “The supervisor should take <u>into</u> account of the risk of ML/TF at each stage of the supervisory process, where relevant, including the licensing stage.”
22.5.2	As the supervisor may need to cooperate and coordinate with other supervisors beyond relevant MAL/CFT competent authorities to effectively address policy issues, suggest broadening the second bullet to read: “policy cooperation and, where appropriate, coordination across <u>all relevant AML/CFT competent other relevant</u> authorities.”
22.5.5	As the supervisor may need to exchange of information on AML/CFT issues with other authorities than just competent authorities, suggest broadening this read: “The supervisor should consider appointing within its office a contact for AML/CFT issues and to liaise with other <u>relevant AML/CFT competent</u> authorities to promote an efficient exchange of information.”
22.6.3	To help with readability, suggest revising second sentence to read: “Such information may be relevant to the risk profile of, or to the effectiveness of risk management by, an insurer or intermediary.”

IAIS draft supervisory material related to the Holistic Framework for Systemic Risk - NAIC Draft Comments

Section/Paragraph	Comment
General	While we agree that the scope of risk identification and analysis of risk interdependencies in an ORSA process should typically cover liquidity and concentration risks, U.S. state insurance regulators support a non-prescriptive ORSA process that encourages insurers to identify and assess their own material and relevant risks. This encourages insurers to develop their own methodology for determining which risk exposures require assessment and reporting through the ORSA process. We believe this provides the supervisor more opportunities to evaluate the effectiveness of an insurer’s ERM process and avoids confusion between the roles of senior management, the Board of Directors and insurance supervisors. While setting out what risks should be covered “at a minimum” may provide consistency across insurers, it is important that this does not

	lead to more prescription or turn the ORSA into a tick-the-box exercise which in turn diminishes the purpose and effectiveness of the ORSA process itself.
CF 9.2.b.8	Second sentence, remove the extra “s” in “ass” (should be “as”). Given that this idea is already addressed in the second sentence, suggest deleting in the last sentence “or where its distress, disorderly failure, or its contribution to collective activities or exposures, could adversely impact financial stability” as it is superfluous.
CF 16.9a	CF 16.9a states: “The group-wide supervisor requires the Head of the IAIG to assess the IAIG’s resilience against severe but plausible liquidity stresses to determine whether current exposures are within the IAIG’s liquidity risk appetite.” However, most of the guidance provided under this standard focuses on stress testing. In order to help show that there are other tools available to perform the assessment, suggest adding to the guidance under CF 16.9a: “The liquidity assessment should consider results of additional tools such as various liquidity metrics, analysis of cash flow statements, cash flow projections as well as the level of readily available liquid assets.”
16.7.5	The new text in Standard 16.7 addresses “material relationship with macroeconomic conditions”; however, the idea of materiality is not carried through in the related guidance in 16.7.5. Suggest adding: “The underwriting policy should address the potential <u>material</u> impact on the insurer’s financial position from correlations between macroeconomic conditions and the insurance portfolio...”
16.9.2	The “more detailed liquidity risk management processes” in Standard 16.9 is in relation to Standard 16.8 which “requires the insurer’s ERM framework to address liquidity risk and to contain strategies, policies and processes to maintain adequate liquidity”. However, a reader who has not been involved in drafting this work may not easily make the association, so it may be helpful to add something more explicit to make it clear what the “more” is referring to. Suggest adding the following as a new first sentence to Guidance 16.9.2: “Some insurers require more detailed liquidity risk management processes as compared to those processes set out in Standard 16.8.”
20.11.1	Suggest adding some additional text on what qualitative information disclosures should include: “qualitative information on the insurer’s liquidity risk issues and concerns and management strategies, policies, and processes to address those.”
24.0.4	In the last sentence it is not clear what “these” refers to. Based on the previous sentence it seems “these” refers to exposures but then exposures is mentioned in the last sentence which would read in a circular manner. Suggest clarifying.
24.2.4	Given that the first sentence addresses “horizontal reviews to reveal the range of practices among insurers”, it would make more sense for the example to use insurers (plural): “appropriateness of insurers’ assumptions”.
24.2.10	The first sentence is quite long and seems to combine two ideas that could be separated: 1) monitoring liquidity of insurers in general; and 2) analyzing potential asset sales focusing on large insurers. Suggest: “The supervisor should monitor the liquidity of an insurer’s invested assets relative to its insurance liabilities based on their characteristics. <u>Additionally, the supervisor should</u> analyse the potential that a large insurer’s operations could require it, or a sufficiently large number of insurers, to engage in asset sales of a significant size.”

We have the following suggestions regarding holistic framework material.

1. Clarify the priority of policyholder protection. We agree that microprudential tools often support macroprudential objectives and vice versa. However, it is also possible that in a crisis an action proposed for a macroprudential purpose (to address perceived systemic risk) will conflict with microprudential objectives (policyholder protection). An extreme case could be the movement of capital from a regulated insurance entity to elsewhere in the group in order to satisfy creditors of the group. We believe that in such a circumstance, insurance regulators should act in the interests of policyholder protection. The new supervisory material is not clear on this point. Accordingly, we suggest that a sentence be added to ICP 24.4.2 to the effect that: “In the event a conflict arises between microprudential and macroprudential objectives, the insurance supervisor should prioritize policyholder protection.”
2. Acknowledge the need for cross-sectoral perspective and analysis. In its November 2018 consultation on the Holistic Framework for Systemic Risk in the Insurance Sector, the IAIS acknowledged the importance of taking into account a cross-sectoral view of systemic risk. This aligns with the recognition that insurers are acknowledged generally to have low potential to contribute to systemic risk. Added data collection, analysis, assessments, and supervisory responses should be done in a proportionate manner, avoiding efforts that will not have a material impact on risk to the financial system. To understand where the material impacts are, macroprudential efforts need to be considered from a cross-sectoral perspective. Yet, the proposed supervisory material does not incorporate this perspective. While it may not be realistic to expect insurance supervisors individually to be fully connected with their banking and securities counterparts, nonetheless it is important that the supervisory expectations set forth in ICP 24 be framed by a cross-sectoral perspective. Therefore, we suggest that text be added to the Introductory Guidance in ICP 24.0 to the effect that: “In order for macroprudential supervision to be performed in a proportionate manner, the supervisory framework for macroprudential supervision takes account of a cross-sectoral perspective.”
3. Clarify language on potential liquidity risk associated with products with cash value. The language in ICPs 16, 20, and 24 referring to the liquidity risk associated with cash value insurance products does not specifically recognize that the risk will vary widely based on attributes of the product, including attributes outside of the contract itself, such as the insurance purpose for which the product is purchased, potential loss of insurability, and tax consequences upon surrender.
 - We suggest adding language to ICP 16.9.1 acknowledging that the actual liquidity risk of the identified activities will vary greatly based upon a variety of factors, including the specific attributes of insurance products with cash value.
 - With respect to ICP 20.11.1, we observe that reporting surrender value alone, without a reasonable classification of the types of insurance policies at issue, is not likely to provide a meaningful view of liquidity risk, given the wide variation in liquidity risk across products. The NAIC recognized this with its liquidity-related changes to the Blanks, and included basic categorization by product types.
 - ICP 24.1.2 refers to “information on the surrender value of insurance products, product features that increase or decrease the propensity for early pay outs under certain circumstances (such as penalties or delays in the ability to access the cash value of a policy)”. We suggest that the parenthetical be broadened to reference “or other factors contributing to reduced propensity for surrender”.

Draft: 10/14/19

Adopted by the Executive (EX) Committee and Plenary, Dec. __, 2019

Adopted by the International Insurance Relations (G) Committee, Dec. __, 2019

2020 Proposed Charges

INTERNATIONAL INSURANCE RELATIONS (G) COMMITTEE

The mission of the International Insurance Relations (G) Committee is to coordinate NAIC participation in international discussions on and the development of insurance regulatory and supervisory standards and to promote international cooperation. The Committee also coordinates on international insurance matters with the U.S. federal government, including the U.S. Department of the Treasury (Treasury Department), the Federal Reserve Board, the Office of the U.S. Trade Representative (USTR), the U.S. Department of Commerce, and other federal agencies. In addition, the Committee provides an open forum for NAIC communication with U.S. interested parties and stakeholders on international insurance matters.

Ongoing Support of NAIC Programs, Products or Services

1. The **International Insurance Relations (G) Committee** will:
 - A. Monitor and assess international activities at forums like the International Association of Insurance Supervisors (IAIS), the Financial Stability Board (FSB), and the Organisation for Economic Co-operation and Development (OECD), among others, that affect U.S. insurance regulation, U.S insurance consumers, and the U.S. insurance industry.
 - B. Support and facilitate the participation of state insurance regulators and the NAIC in relevant IAIS, FSB, OECD and similar workstreams.
 - C. Develop NAIC policy on international activities, coordinating as necessary with other NAIC committees, task forces and working groups, and communicating key international developments to those NAIC groups.
 - D. Coordinate and facilitate state efforts to participate in key bilateral and multilateral dialogues, projects, conferences and training opportunities with international regulators and international organizations, both directly and in coordination with the federal government, as appropriate.
 - E. Strengthen international regulatory systems and relationships by interacting with international regulators and sharing U.S. supervisory best practices, including conducting an International Fellows Program and educational (technical assistance) seminars to provide an understanding of the U.S. state-based system of insurance regulation.
 - F. Coordinate the NAIC's participation in the International Monetary Fund (IMF)/World Bank Financial Sector Assessment Program (FSAP).
 - G. Coordinate state efforts to assist in achieving U.S. international trade objectives through reviewing relevant materials, developing input, and providing assistance and expertise on insurance matters to the USTR and/or other federal entities.

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