

**IAA Risk Book**  
**Chapter 8—Addressing the Consequences of Insurance Groups**  
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## **1. Executive Summary**

A group is generally defined as a collection of companies under common ownership and/or control. The International Association of Insurance Supervisors (IAIS) has adopted the definition<sup>1</sup> that a group “is considered to be an insurance group for the purpose of group-wide supervision if there are two or more entities of which at least one is an insurer and one has significant influence on the insurer.”

Importantly, one entity in the insurance group has significant influence, either directly or indirectly, over the other entities in the group. This entity may be an insurer or may be a holding company with no direct business operations other than managing other members in the group. Regulators refer to this entity as the head of the group.

The continued growth and globalization of insurance and insurance groups have led to increased regulatory focus on insurance groups. Recognizing the importance of insurance groups in the insurance market, this chapter identifies major observations about the operation of such groups.

Key issues relating to insurance groups that arise for some or all of boards, senior management, financial analysts, actuaries/risk management and supervisors include the following:

### **I. For the Management of Insurance Groups**

1. There is a need for a group level enterprise risk management (ERM) function supported by local risk functions.
2. Identification of all the material linkages between members of the insurance group and their associated risks, including concentration or accumulation of risk exposures (both direct and indirect), is very important for the risk and capital management of the group as well as its prudential supervision.
3. Members of the insurance group and its head need to understand the roles, expectations, and requirements of their respective involved supervisors.
4. The head of the insurance group has ultimate responsibility within the group for meeting the expectations and requirements of the group-wide supervisor.

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<sup>1</sup> IAIS Glossary at [www.iaisweb.org](http://www.iaisweb.org).

## II. For the Supervision/Regulation of Insurance Groups

5. The group-wide supervisor, in cooperation and coordination with involved supervisors, plays a lead role in effective group-wide supervision, including addressing any resolvability issues.
6. The cooperation and coordination of all involved supervisors, in carrying out their roles as local supervisors and as members of the supervisory college, are important to the effective supervision of the group.

## III. For the Actuarial Function

7. Actuaries involved in risk management generally, and control functions specifically (i.e., those identified by the IAIS in Insurance Core Principle (ICP) 8 with respect to actuarial matters and risk management control functions), throughout the insurance group, have appropriate regard not only to their entity-specific responsibilities/risks but also for the wider group context/risks within which their work is conducted.
8. The head of the insurance group should have adequate access to actuarial expertise (e.g., group level Own Risk and Solvency Assessment (ORSA)). For some insurance groups, supervisors may require the establishment of an actuarial function at the group level.

## 2. Introduction

A group is generally defined as a collection of companies under common ownership and/or control. The complete International Association of Insurance Supervisors (IAIS) Glossary definition<sup>2</sup> states that a group,

“is considered to be an insurance group for the purpose of group-wide supervision if there are two or more entities of which at least one is an insurer and one has significant influence on the insurer. The significance of influence is determined based on criteria such as (direct or indirect) participation, influence and/or other contractual obligations; interconnectedness; risk exposure; risk concentration; risk transfer; and/or intra-group transactions and exposures”

Importantly, one entity in the insurance group has significant influence, either directly or indirectly, over the other entities in the group. This entity may be an insurer or may be a holding company with no direct business operations other than managing other members in the group. Regulators refer to this entity as the head of the group.

This IAIS definition of an insurance group is used in the remainder of this chapter for ease of communication to readers.

Insurance groups may be part of a broader group of entities that involve other financial sectors (e.g., banking and/or securities). Such groups are called financial conglomerates. (See IAIS Glossary for the definition of a financial conglomerate.<sup>3</sup>)

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<sup>2</sup> IAIS Glossary at [www.iaisweb.org](http://www.iaisweb.org).

<sup>3</sup> Ibid.

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Insurance groups present unique issues or issues with a different priority relative to stand-alone insurance entities. Interest in understanding these issues has grown since the global financial crisis (GFC) of 2008–2009. While insurance activities were not a cause of the GFC, the insurance industry and regulators alike have heightened their focus on the features of insurance groups that affect their governance, management, and regulation. Actuaries throughout the insurance industry and within the regulatory community are playing key roles in each of these areas.

The remainder of this chapter describes some of these features of insurance groups versus legal entities (e.g., linkages, supervision/regulation) and concludes by describing the key issues relating to insurance groups that arise for a variety of stakeholders.

### **3. Insurance Group Linkages**

A fundamental feature of an insurance group is that its members are linked or connected to each other in a variety of ways. The nature, extent, and strength of these linkages vary significantly between groups and can vary significantly within a group depending on the agreements reached between the involved entities. The various entities of an insurance group are influenced by and are the ultimate responsibility of the head of the group. In one way or another, each entity in the group contributes to the overall business activities of the group. Some entities may represent geographic or product diversity. Others may represent different but synergistic businesses to insurance (e.g., investment or funds management). Others may provide specialized services needed by the group of companies (e.g., data services, customer service, etc.). Finally, some entities may operate largely independently of others in the group. Nevertheless, their financial results and risks contribute to those of the overall group.

Not unique to insurance groups, but also important to consider, are the linkages that may also exist between members of the group and various external entities that are not members of the group (i.e., not connected by ownership or investment—examples might include third party providers of key software, data administration, contract administration, call centres, etc.).

Insurance groups employ a variety of linkages to facilitate synergies within different parts of the group, thereby leading to cost efficiencies, profit maximization, improvement in risk management, and more effective control of capital and funding. A useful supervisory paper on this topic is “Intra-Group Transactions and Exposures [ITE] Principles.”<sup>4</sup>

In good times, all members of the group perform as expected and interact with each other as planned. Internal and external stresses may cause difficulty to the operations of one or more members of the group. In turn, these stresses may stretch or even break one or more of the linkages within the group. In many cases the group will have the resilience to respond or provide support to affected members in the event that an individual member’s actions are insufficient to respond to the stress appropriately. Care needs to be taken that the group’s capital resources are sufficient to withstand targeted levels of stress. Stress scenarios should consider integrated scenarios affecting the entire group, possibly resulting in multiple subsidiaries needing support at the same time.

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<sup>4</sup> Intra-Group Transactions and Exposures Principles, 1999, Joint Forum, BCBS.

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The following paragraphs outline some types/aspects of linkage that are of importance to insurance groups.

## **I. Ownership**

Members of the insurance group are fundamentally linked through connected ownership or significant investment. Different terms are used to describe the extent of such ownership or investment. In some cases, reference is made to a “controlling interest” although there is no common definition for this term. For example, 51% ownership certainly constitutes a controlling interest but such an interest may exist for a lesser degree of ownership depending on the interests of other owners. Other terms used may refer to “significant investment” or “related undertakings”.<sup>5</sup> Various stakeholders in insurance groups may have assigned specific meaning to certain of these terms to assist their understanding of the linkages within a group.

Insurance groups may be structured in a variety of ways. Some groups have all members 100% owned (directly or indirectly) by the same holding company, while others have various portions of minority ownership among the group members.<sup>6</sup> There may also be various subgroups within the overall insurance group, or various levels of holding companies spread throughout the ownership chain.

Groups may also exist that have no common ownership, but still exhibit common control (such as where there is a high degree of common management or a high degree of dependence through financial or operational support). Yet for our purposes the most important issue in defining an insurance group or applying insurance group supervision is whether the operations (and solvency) of one group member are materially impacted by others within the group. In other words, are the members of the group interconnected or linked in some fashion in a material (solvency-related) way? There may be groups where this is not the case, and there are groups where not all group members are impacted by others in the group,<sup>7</sup> but those cases are not of interest for this chapter.

## **II. Governance**

Consistent with the concept of common control, groups frequently have a governance structure across the members of the group. The manner in which governance is carried out has both structural and style components. Both are important and relevant to risk management.

Responsibility for governance of the group rests with the head of group, its board, and senior management team. Responsibility for governance throughout the group is then passed down through the other members of the group through their respective boards and senior management teams.

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<sup>5</sup> EIOPA-BoS-14/170 EN “Guidelines on treatment of related undertakings, including participations”; UK Companies Act 2006, Section 409.

<sup>6</sup> There can also be cases where the group has a minority interest in the equity of a member of the group.

<sup>7</sup> In such cases, the legal entity whose solvency is not impacted by others within the group can be viewed as merely an investment of the group, albeit one that may not be very liquid.

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The degree of centralization or decentralization in such governance structures can vary drastically from group to group. In some cases, the head of the group assumes a more passive investment management role (e.g., decentralized) allowing its members considerable latitude to make business decisions independently. Other heads of groups assume a much more directive role (i.e., centralized), perhaps through insistence on head of group board member participation in member boards. Both approaches have their advantages and disadvantages but either approach can be effective in providing necessary governance across the group. It is the responsibility of the head of the group to ensure effective governance is in place across the group, including within the head of the group. The role of corporate culture in the effectiveness of governance is provided as an example later in this chapter under the heading “culture.”

### **III. Capital Links**

Many groups have a centralized capital management function. This is especially important to the extent that capital providers view the group as a single entity. In such an environment, group capital is generally allocated to firms based on group priorities and legal entity regulatory capital requirements but not necessarily legal entity priorities.

Group capital management may rely on different types of capital instruments for various levels and legal structures within the group. The raising of capital through debt or equity offerings may occur at various levels within a group. In some cases, it may be easier or under more favourable terms for the issuance to be at the head of group level. In other cases, it may be preferable that a member of the group undertake the issuance. Once raised, the capital may be down-streamed to another member of the group as debt or equity. The repayment of any external debt may be dependent on coupon, capital repayments and dividends from the recipient of that down-streamed capital.

Legal entity capital in excess of regulatory capital requirements and supervisory targets may be divided up in accordance with group priorities. Higher quality forms of capital will tend to be retained in the regulated entities as it may be preferable for these entities to exhibit the strongest solvency positions within the group. Alternatively, the downstream insurance entity may be minimally capitalized, but with an implicit or explicit solvency guarantee provided by the parent. In this case, the solvency of the downstream entity is reliant on the solvency of the parent and the fungibility of group capital is important.

Group capital management also involves consideration of the proper allocation among the member companies of the benefits of group operation. Examples of these include the group’s overall deferred tax position and the value of risk diversification across the group.

Branches may also be viewed as separate entities within an entity, depending on the degree of ring-fencing of assets that exist within the branch. It may be questionable as to whether the assets of the branch would be available to support the liabilities (and solvency) of the non-branch policyholders.

Lloyd’s of London syndicates may also require separate investigation, as they have links to both their parent group (which can provide capital in the form of an assessable letter-of-credit) and to the overall Lloyd’s of London structure.

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#### **IV. Contractual Links**

There may be contractual agreements between the entities within a group that link the survival of one group member to other group members. These can include:

1. Intra-group reinsurance (see *IAA Risk Book* chapter 7 on this topic):
  - a. Quota-share reinsurance. Using capital in one entity to reduce requirements in another with a corresponding change in where profit emerges.
  - b. Catastrophe, aggregate excess or other excess reinsurance agreements between group members. These typically would be written by the larger and/or “lead” member of the group protecting the smaller group members either to be retained or to coordinate reinsurance with third party reinsurers.
  - c. Quota-share reinsurance pools (typically involving only group members within the same jurisdiction), such that the entities share equally the underwriting results of certain or all insurance policies written by pool members.
  - d. Reinsurance “mixer” companies may be used to help with achieving diversification of risks and lower capital requirements.
2. Guarantees, such as loss reserve guarantees or performance guarantees.
3. Service contracts, whereby some or all of the operations for one (or more) group member(s) are contractually provided by other group members.

Quota-share pools within a group (which are very common if not the norm for U.S. property and casualty (P&C) companies) can result in the entire pool effectively being a single entity for risk management and solvency regulation. The entire pool survives or sinks as a whole. In such a case the pool members may be best viewed as a single entity for risk management and/or regulation purposes.

Contractual links may not extend to all members of a group. Hence some members within a group may be more separable (or more interconnected) than others. Indeed, if a “multiple point of entry” (MPE) resolution strategy is envisaged, assessing barriers to separation of entities or subgroups will be imperative.

#### **V. Shared Resources**

Many shared resources can exist within the group whereby the same resource is used and relied upon by multiple legal entities. Examples may include a common investment department, common finance department, common claim department, common IT platforms, etc. The degree of this sharing can vary within the group (e.g., claim departments may be shared within the same jurisdiction but not across jurisdictions). The sharing of resources within a group may be formally structured through the use of service contracts.

As mentioned earlier, different groups have different levels of centralization and decentralization, although they always have to address local legal and regulatory requirements. The IAIS gives one instance: “The supervisory regime requires insurers to

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maintain contingency plans and procedures based on their specific risk for use in a going- and gone-concern situation.”<sup>8</sup>

There may be a limit to the extent of resource sharing that can occur and this may be a factor in any resolution planning.

## **VI. Business Management Structures Cross Legal Entity Lines**

A group can also have a business unit structure that crosses over legal entities. A single legal entity can contain business from multiple business units, and a single business unit can share all the legal entities it uses with other business units. In short, the operational structures and the legal entity structures of the group may be very different.

## **VII. Reputation Risk**

There is also an intangible link between members of a group to the extent their customers and counterparties (including potential customers and counterparties) view the group members as part of the whole group. To the extent these parties view the group as a whole, any crisis (or success) of a group member may impair (or build up) these parties’ view of other group members. This is frequently labelled “reputation risk” or “group risk”. Hence the risk management of one group member may be linked to that of other group members, even in the absence of any tangible linkage. (Note that this is not absolute, as some group members may not be viewed by their relevant parties as having any noticeable connection to their group—the general public in some cases may not even be aware of this connection.)

## **VIII. Culture**

Group members may also to an extent share the same culture. Where this exists, it may be driven by common management, by interactions among the various group members, by movement by employees across the group, or other causes. To the extent a group culture exists, it affects the extent to which group members react the same way to certain stimuli.

As an example of the importance of corporate culture, the manner in which governance is carried out within the group can be significantly affected by the “tone from the top”. Some heads of groups provide significant direction on business strategy or have focused views on risks to be assumed, risk appetites, etc. These groups are likely to share a common view of risk across the group. However, a potential weakness to be guarded against is a tendency for member risk management capabilities to be underdeveloped (i.e., due to directive influence from the head of group). Other heads of group may permit a greater degree of independence to their members to make business decisions and assume risk. These groups may feature more highly developed risk management capabilities within each member but the development of common or cohesive risk management across the group at the head of the group may be a challenge. Of course, both polarities of “tone from the top” can work effectively but groups need to be aware of their own strengths and weaknesses and the possible implications for risk and capital management.

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<sup>8</sup> IAIS ICP 26.6.

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## 4. Capital—Group versus Legal Entity

### I. Amount of Capital

A legal entity and a group will decide what level of capital is needed/desired to meet its business objectives and commitments to policyholders and other stakeholders. This typically involves a formal examination of capital needs using a variety of risk management and modelling tools. Many insurers and groups include this work within their regular Own Risk and Solvency Assessment (ORSA) process. (ORSA is described in more depth in *IAA Risk Book* chapter 10.) The resulting target level of capital set by the legal entity and group will also be influenced and/or informed by the views of important stakeholders such as rating agencies and supervisors who will have their own perspectives on the amount and form of capital to be maintained. Supervisors will typically reference a number of different levels of capital, a minimum level (i.e., a minimum capital requirement or MCR) which when breached triggers strong supervisory intervention, and one or more higher levels, including a prescribed capital requirement (PCR). Successive breaches of supervisory capital targets trigger increasing levels of supervisory interaction and intervention as the breaches signify increasing risk to policyholders' interests. These increased levels of activity should take into account the supervisory views of the legal entity and group risks to policyholders and the adequacy of capital and its position within the group to provide for the group's risks.

The desired level (or adequacy) of capital may be assessed at the group level, the entity level, or both (with "both" being the common approach). Important stakeholders such as rating agencies<sup>9</sup> and supervisors may have different views on the desired level and positioning of capital throughout the group (e.g., fungibility of capital being an important issue)<sup>10</sup>.

Either the group's consolidated accounts may be used as a basis or another aggregation method may be used. The former is already adjusted for intra-group holdings and further adjustments may then need to be made to reflect the fact that the group may not behave or be allowed to behave as one single entity. This is particularly the case in stressed conditions. The latter method may sum surpluses or deficits (i.e., the difference between capital resources and capital requirements) for each insurance legal entity in the group with relevant adjustments for intra-group holdings in order to measure an overall surplus or deficit at group level. Alternatively, it may sum the insurance legal entity capital requirements and insurance legal entity capital resources separately in order to measure a group capital requirement and group capital resources. Where an aggregation approach is used for a cross-border insurance group, consideration should be given to consistency of valuation and capital adequacy requirements (i.e., including relative levels of prudence) and of their treatment of intra-group transactions.

It is not the purpose of group-wide capital adequacy assessment to replace assessment of the capital adequacy of the individual insurance legal entities in an insurance group. Its purpose

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<sup>9</sup> There may also be holding company liquidity targets, such as the need to maintain sufficient assets at the holding company to pay, say, one or two years of debt payments, dividend costs, and other holding company level expenses, without needing capital or cash up-streamed from the holding company's subsidiaries to do so.

<sup>10</sup> For example, a jurisdiction may place restrictions of movement of capital into or out of the jurisdiction that may limit the ability or speed of any capital transfer.

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is to require that group risks are appropriately allowed for and the capital adequacy of individual insurers is not overstated (e.g., as a result of multiple gearing and leverage of the quality of capital or as a result of risks emanating from the wider group) and that the overall impact of intra-group transactions is appropriately assessed.

## **II. Location of Capital (including capital fungibility)**

The ability of individual legal entities as well as the group as a whole to maintain sufficient capital and liquidity to meet each entity's (or at the group level) targets can be dependent on the ability to access capital/liquidity elsewhere within the group (and the costs including tax effects). In some cases, these sources are readily available or fungible in times of need. However, it is common for there to be a variety of restrictions that reduce the fungibility of such capital or liquidity, especially in times of stress.<sup>11</sup> Restrictions/costs on the movement of capital resources into and out of an entity include: protections applicable to "with profits" funds; protected cell structures; legal restrictions on interest, dividend, and capital movements out of an entity; tax implications; and foreign exchange restrictions. Hence the starting point in evaluating capital adequacy within a group is determining the capital requirements (legal and otherwise) for each entity within the group.

Evaluation of capital adequacy for the individual group members and the overall group is heavily dependent on the fungibility<sup>12</sup> of capital. Where assets are perfectly fungible within a group, the location of the capital is not an issue for evaluating capital adequacy within or across the group. In addition, where capital is fungible the group gets maximum benefit from diversification of risks across group members, reducing the level of capital required to support the group's business. This diversification benefit is a major advantage of groups vis-à-vis stand-alone entities that operate in limited markets. Where capital fungibility is limited or restricted, full diversification benefits may not be achieved and capital adequacy of the individual group members becomes more important. This is one reason why some prefer to use the term group capital "assessment" rather than "calculation".

There are a number of ways that a group can make funds in one entity available in another in the absence of full capital liquidity and fungibility. Common examples would be:

- Using intra-group reinsurance to reduce the capital requirement and possibly the liquidity need in the ceding entity (taking advantage of higher capital and/or liquidity in the assuming entity).

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<sup>11</sup> In many cases there is not a need for an overnight cash injection, and it is important to distinguish between resources to meet claims as they fall due and liquidity. Even so, from the supervisory perspective there is always a concern that the funds cannot be made available in times of stress, particularly where cross-border issues arise.

<sup>12</sup> The term "transferability" is sometimes used interchangeably with "fungibility" although they have different meanings. Fungibility frequently refers to financial instruments being of such nature or kind as to be freely exchangeable or replaceable, in whole or in part, for another of like nature or kind. Transferability refers to the ability to convey or cause to pass from one place, person, or thing to another. Fungibility tends to be a broader and more relevant question for group capital adequacy than the narrower concept of transferability. It is important to consider what purposes funds are required to fulfil and whether they can be achieved. Relevant questions may include: can title be transferred without loss? How long would it take to make the transfer of funds effective? After transfer, can benefits of ownership be enjoyed without restriction or loss of value? Post transfer, is there sufficient liquidity? (The funds transferred do not need to be liquid if there is sufficient liquidity elsewhere.)

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- Using external (ceded) reinsurance from one entity to reduce its required capital resources and so being able to use the freed assets to support another entity in difficulty.
- Using external (ceded) reinsurance for the group as a whole, but which would direct any recovery to the entity suffering the losses.
- Inter-company loans.
- Guarantees within a group.
- Service contracts within the group (including the use of shared resources).
- Tax treaties (typically within a tax jurisdiction) that share the tax reductions caused by adverse experience and direct the cash benefit to the entity with the losses.
- Securitization of cash flows. It may be possible to sell future cash flows from portfolios of policies to external parties for a greater, and more certain, value than the regulatory valuation. Any risks created need to be allowed for and any residual risk carefully assessed.

Many of these arrangements or approaches to address group capital needs (and to maximize group diversification benefits) also create operational efficiencies. The use of shared resources allows for higher return on investment in IT systems, intellectual capital, service platforms, and systems of controls (with the understanding that this can be overdone—local differences cannot be ignored).

While such arrangements or approaches can be sound ways to manage resources and address emerging issues, their use must also consider their effectiveness in times of stress.<sup>13</sup> For example, although intra-group reinsurance should have the same legal enforceability as external reinsurance, there may be concern that after an extreme event, the assuming entity will fail to meet its obligations. Alternatively, will an intragroup reinsurance arrangement or service contract be enacted with the primary purpose of moving capital from one entity to another?

### **III. Capital Access and Quality of Assets**

Related to the issue of capital fungibility are the issues of capital access and the positioning of quality assets.

Groups frequently provide greater economies of scale with regard to access to the capital markets. This relates to both issuance of common stock and to long-term debt. The greater scale makes public financing easier to achieve, as the more securities issued by an organization, the more robust the secondary market, and hence the easier for investors to buy and sell the securities. This increased liquidity in the securities issued by the group makes it more attractive to investors, and hence may provide for lower costs of capital and easier access to capital in times of stress.

For some groups, the access to capital markets may be facilitated by issuance in a major capital market (e.g., US, EU). If the head of the group is not based in one of those

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<sup>13</sup> A third concern exists that relates to group resolutions and breakups. That concern is discussed later.

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jurisdictions, then capital access may be more easily achieved via the legal entity based in that market.

Where the group level debt is concentrated at the ultimate parent in the form of a non-insurance company, there is an open issue as to how to treat this parental debt for group capital assessment purposes. Such parental debt is generally contributed downward to the operating (insurance) entities. The holding company parent typically has limited assets other than its subsidiaries. Hence it uses dividends from the operating entities to the parent to service this debt (as to interest and principal payments). Depending on the local laws, the insurance entities that received the debt issuance proceeds may be under no contractual obligation to dividend up the necessary funds to repay the debt, and may be prevented from doing so by local laws and/or regulations. Hence the solvency of the group holding company may (in some jurisdictions) be separable from the solvency of the insurance members of the group.

Insurance groups also need to consider the optimal positioning of quality assets within the group. High quality assets may attract lower capital requirements, tend to be highly liquid and fungible, but tend to offer lower yields than other asset classes. As a result, a number of these features may be of greater benefit to insurance legal entities than to the head of the group, which may or may not be an insurance legal entity itself.

## **5. Other Important Aspects of Insurance Groups**

### **I. Multiplicity of Jurisdictional Regimes**

The management and supervision of insurance groups is frequently complicated by the multiplicity of jurisdictional regimes in which the various members of the group may operate. Due to their diverse activities (e.g., different businesses and geographies) groups are brought into contact with multiple regulators, each operating within its own jurisdictional authority (e.g., bank vs. insurer; prudential vs. market conduct supervision; country vs. state, etc.).

Members of a group may operate in a variety of business sectors, industry segments, markets, geographies, product lines, etc., according to the group's overall business strategy. Beyond operations in the insurance sector, member entities may operate in the banking or investment/securities sectors. Each of these three sectors has its own regulatory and supervisory requirements.

The legislative, regulatory, and/or supervisory requirements on insurers operating in different geographies can result in the localized needs to structure that part of the insurance group's operations in a specific manner (e.g., subsidiary, branch, captive, ring-fenced, etc.).

### **II. Multiple Origins/Background**

Groups may grow organically or via mergers and acquisitions. Such growth can be the result of careful planning, or opportunistic, or some combination of the two. The result can bring efficiencies to the operations of the group and group members, but not always (such as opportunistic growth via acquisition resulting in redundancies). In addition, a structure that is

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optimum<sup>14</sup> at one point in time will not always remain so in the future. Hence nearly all groups are dynamic, changing their size and structure over time.

### **III. Multiple Environmental Pressures**

A group's structure will also be impacted by various pressures in the environment. This can include statutory restrictions, currency restrictions, insurance market, and financial market realities. These help shape the structure of insurance groups.

## **6. Supervision/Regulation of Insurance Groups**

### **I. Overview**

As noted previously in this chapter, the members of an insurance group may be subject to several types of supervision and regulation. For example, an insurance group with entities in insurance and/or banking and securities/investment sectors is subject to multi-sectoral supervision.

Financial sector supervisors are members of one or more of the International Association of Insurance Supervisors (IAIS), the Basel Committee for Banking Supervision (BCBS), and the International Organization for Securities Commissions (IOSCO). Members of the IAIS, BCBS, and IOSCO develop and maintain their regulations and supervisory frameworks for solo entities and groups in accordance with their jurisdictional authority and guided by their relevant sectoral standards. Regular monitoring and assessment of each jurisdiction's substantial compliance with international regulatory standards (i.e., Financial Sector Assessment Program or FSAP) is the joint responsibility of the International Monetary Fund (IMF) and the World Bank (WB).

The individual legal entities within a group subject to regulation are generally subject to solo supervision by their respective supervisors. Solo supervision can be challenging if operationally the group is not run along legal entity lines. The group as a whole will also be subject to supervision by a lead or group supervisor, frequently in conjunction with the supervisors of the individual group members (crossing both geographic and sectorial boundaries). Coordination among all involved supervisors, especially between the lead/group supervisor and the local supervisor(s) is a necessity as the legal authority over firms resides with the local supervisor/regulator, regardless of where the group is headquartered or whether the group's principal domicile has enacted a group supervision statute.

The IAIS uses the term "home supervisor" to refer to the supervisor of the jurisdiction in which the insurance entity is domiciled. The IAIS uses the term "host supervisor" to refer to the supervisor in any other jurisdiction in which the entity or group operates. Note that in rare circumstances the home supervisor of the head of the group may not be selected by the involved supervisors as the group-wide supervisor. This might occur (for example) if the domicile for the head of the group is different from the jurisdiction in which the majority of the insurance business is conducted. In most situations, insurance supervisors conduct solo supervision over the insurance operations in their jurisdiction, whether they are domestic or

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<sup>14</sup> There may also be numerous facets of the environment that affect how a group may attempt to "optimize". For example, the optimal structure for reacting quickly in the market may not be the optimal structure for capital management.

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foreign (via branch or subsidiary) in origin. Within the EU, member states have agreed that the home supervisor is responsible for supervision of domestic as well as foreign (outside of the home jurisdiction) branch operations.

The geographic bounds within which a regulator has authority are set by its enabling legislation. Groups and their member entities tend to operate over different geographies and can therefore be subject to regulation and supervision by multiple authorities. Insurance supervision in the US is typically state-based although supervision at the federal level is being developed for the largest systemically important insurance groups and those with a banking affiliate. In Europe, multiple countries are members of the EU or EEA and are subject to maximal harmonization of laws at the country level. In some respects, (but perhaps not all), members of the EU might be considered to operate as if they were a single jurisdiction.

While the insurance supervisor for a particular jurisdiction will generally handle all types of insurance, there may be separate divisions or departments within that governmental agency for different types of insurance (e.g., life versus health versus property/casualty). Hence there may be a need for supervisory coordination even within the same insurance supervisory body.

Many regulatory authorities (and their accompanying legislation and/or regulation) require that general insurance and life insurance business be conducted through separate legal entities. Such separation, which frequently includes regulation unique to each of these businesses, may or may not entail supervision by a common insurance supervisory organization. While groups may choose to combine various aspects of their insurance operations within a single entity, they may choose for business reasons to conduct certain specialized activities (e.g., reinsurance, captives, Lloyd's, other specialized sub-markets, etc.) through separate legal entities.

The insurance market conduct supervisor may or may not be within the same insurance supervisory authority that is responsible for prudential supervision. This distinction is handled differently from jurisdiction to jurisdiction.

Within each jurisdiction, the authority responsible for insurance supervision may also be responsible for other financial industry regulation, such as that for banks and/or investment securities. In that case the supervisor's responsibility may extend beyond policyholders, including possibly a responsibility to capital providers (such as investors in the stocks and bonds issued by the group members). This may require the supervisor to balance the needs of various other stakeholders in addition to those of policyholders.

Where the supervisor has authority over both the solo entity and the group to which it belongs, issues may arise as to whether the needs of the entity come first, or the needs of the group come first. This prioritization may be a function of local law and authority. Some jurisdictions focus on supervision from the bottom up (putting solo entity needs first), while others may supervise from the top down (putting the group needs first, even if it could make a single entity vulnerable).

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## II. Regulatory Standards

As noted earlier, financial sector supervisors develop and maintain their regulations and supervisory frameworks for solo entities and groups in accordance with their jurisdictional authority and guided by their relevant sectoral standards.

As the international setter of model standards for insurance supervisors, the IAIS has established a set of 26 ICPs and associated standards and guidance for each ICP.<sup>15</sup> As stated in introductory paragraph 13 to the ICPs:

*“The ICPs and standards apply to the supervision of insurers at the legal entity and the insurance group level, unless otherwise specified. The application of individual ICPs and standards to insurance groups may vary and where appropriate, further guidance is provided under individual ICPs and standards.”*

The implementation of the ICPs and standards relevant to group-wide supervision may vary across jurisdictions depending on the supervisory powers and structure within a jurisdiction. There are direct and indirect approaches to group-wide supervision, especially with regard to supervision at the group level. As a result, introductory paragraph 15 of the ICPs states:

*“Regardless of the approach, the supervisor must be able to demonstrate that in effect, the outcome is similar to having the supervisory requirements applied directly on those entities within the insurance group from which the risks are emanating. This is to ensure effective group-wide supervision, which includes ensuring that all relevant group-wide risks impacting the insurance entities are addressed appropriately.”*

While many of the ICPs contain important standards applicable for both solo entity and group supervision, ICP 23 Group-wide Supervision, and ICP 25 Supervisory Cooperation and Coordination are of particular importance for the supervision of groups. To address the issues related to large internationally active insurance groups (IAIGs) the IAIS is developing a common framework (ComFrame), which builds and expands upon the high level requirements and guidance of the ICPs. In response to G-20 and Financial Stability Board (FSB) direction, the IAIS is also developing a series of measures, including capital requirement for a few of the world’s largest insurance groups that have been deemed to be global systemically important insurers (G-SIIs). The ICPs, as well as news on ComFrame and G-SII related developments, can be accessed via the IAIS website<sup>16</sup>

IAIS standards include those related to prudential as well as for market conduct supervision.

Insurance groups may be part of a larger cross-sectoral group known as a financial conglomerate (FC). To address some of the complexities arising from FCs, the Joint Forum (JF) of international financial regulators published in 2012 an influential paper titled “Principles for the Supervision of Financial Conglomerates.”<sup>17</sup> As a result some regulators have developed their own standards and guidance for FCs in their jurisdictions (e.g., FICOD in the EU).

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<sup>15</sup> [www.iaisweb.org](http://www.iaisweb.org).

<sup>16</sup> Ibid.

<sup>17</sup> Principles for the supervision of financial conglomerates, 2012, Joint Forum, [www.bis.org](http://www.bis.org).

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The key principles arising from the JF paper, while addressed to supervisors, have obvious direct implications for insurance groups and the head of the insurance group in particular. The key principles are:

1. Supervisors should take steps, directly or through regulated entities, to provide that conglomerates have adequate risk management processes in place, including those pertaining to [Intra-Group Exposures] ITEs, for the conglomerate as a whole. Where necessary the supervisors should consider appropriate measures, such as reinforcing these processes with supervisory limits.
2. Supervisors should monitor material ITEs of the regulated financial entities on a timely basis, as needed, through regular reporting or by other means to help form a clear understanding of the ITEs of the financial conglomerate.
3. Supervisors should encourage public disclosure of ITEs.
4. Supervisors should liaise closely with one another to ascertain each other's concerns and coordinate as deemed appropriate any supervisory action relative to ITEs within the group.
5. Supervisors should deal effectively and appropriately with material ITEs that are considered to have a detrimental effect on the regulated entities, either directly or through an overall detrimental effect on the group.

## **7. Issues for the Management of Insurance Groups**

Building on the preceding background surrounding the nature of insurance groups and their supervision, this section highlights issues for the management of insurance groups.

### **I. Need for Group Level ERM**

The formation of an insurance group creates risk exposures unique to the formation of the group itself and distinct from the stand-alone risk exposures of the member entities. These risk exposures arise from the various linkages between the member entities as well as from the head of the group itself. They can best (and in some cases solely) be managed by the head of the group.

As a consequence, an **ERM function is needed at the head of group level**. This is consistent with having various key leadership and control functions within the head of the group.

In addition, **identification of all the linkages between members of the insurance group and their associated risks, including concentration or accumulation of risk exposures, is very important for the risk and capital management of the group as well as its prudential supervision.**

Involved prudential supervisors for the insurance group will expect the group to demonstrate sound risk and capital management for the solo insurance entities and the group as a whole reflective of all relevant group linkages. Prudential supervisors may also expect insurance groups to develop contingency recovery plans in preparation for possible crises. Also, at least for G-SII groups, resolvability considerations may require an explicit determination of whether particular entities may be allowed to fail (a wider discussion on single point of entry

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(SPE) or multiple point of entry (MPE) is included in the chapter on Resolution). Prudent disclosures of the group's risk exposures due to its various linkages will be of interest to various other stakeholders such as rating agencies.

Specific examples of the importance of ERM at the group level are as follows:

A. Group Risk Concentrations

Insurance groups assess the development of risk concentrations across the group and in aggregate as part of sound ERM practice. Examples of types of concentrations to be considered (among many) might include undue concentration of insurance risk, counterparty credit risk, and specific credit risk exposures (i.e., to certain geographies, industries, asset classes, etc.). A very specific concentration example involving ceded reinsurance catastrophe treaties would consider how best to allocate recoveries to the various legal entities in the group. A similar issue may apply to direct insurance exposures where the group's maximum retained limits are based on net of quota-share pooled or net of intercompany reinsurance results. Exposures that may be overwhelming relative to an entity's size may be easily tolerable after such intercompany reinsurance. Further, one event may impact many different pieces of the group but in different ways across the group—hence complicating any analysis focused on concentrations.

B. Group Risk Diversification

Diversification is generally perceived as a beneficial aspect and can be reflected in calculations of required capital. However, there can be much debate about the quantification of these benefits across groups during periods of stress. Diversification is a natural outcome of the pooling of independent risks but becomes more difficult to assess with risks that become correlated in their tails. Diversification is at least partly related to the issue of capital fungibility between entities or between jurisdictions.

C. Group Reputational and/or Operational Risk

There are some sources of risk to the group that may not be subject to reliable quantification. Group reputation risk is an example whereby adverse results or publicity for one member of the group may negatively impact the business model for many or all other members of the group. Consideration should be taken of the events that could give rise to a reputation-driven contagion and ensure the effect is properly (not double) counted. Other group risks can include intellectual property and operational risk such as those related to computer systems and cyber risks. (See the Operational Risk section of this publication.)

D. Group Level Risk Appetite Statements and Other ERM Controls

While not precluding separate legal entity views as well as having separate ERM resources at the local level, it is beneficial for their efforts to be coordinated with the group level ERM function<sup>18</sup> in addition to having a level of controls applied at the group level.

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<sup>18</sup> Areas of group and local ERM coordination include risk tolerance and risk limits. Risk appetite would generally be established at the level at which capital is managed, typically at the group level.

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#### E. Group-Wide Data Standardization

Centralized ERM efforts (or group level coordination of ERM) benefit from some degree of data standardization. Aggregation of risk across entities can be problematic if databases have inconsistent naming conventions or if data for evaluation of risk concentrations are captured within some legal entities but not others. Standardized data also allow for maximizing the use of various risk management tools and other resources. Some groups have a strong “group data language” (GDL), which every entity uses. This makes it possible to add numbers together from different regions knowing that they are consistent, but other groups have issues because, for example, "written premium" can mean different things in different places. Such standardization is of assistance to insurance groups as well as their supervisors. Care is needed to ensure the GDL is sufficiently granular and understood to prevent suppression of key risk characteristics.

#### F. Group Level Stress Tests

Given the complexity and varying significance of the various types of linkages between members of the insurance group, it is necessary that they be properly considered as part of the group’s risk and capital management, both in the evaluation of group level solvency and for single entity solvency.

In the event of a serious stress (i.e., one that affects the viability of a member or perhaps is a broad-based stress affecting various members of the group) it is possible that several of the linkages in the group cease to function as expected and that some linkages are broken. Stress and scenario testing can be effective tools for identifying, analysing, managing and communicating the risks to the group as a whole as well as to its member entities.

In some cases, stress tests on a group basis may be difficult to conduct on a legal entity basis, especially if a group has not set up its stress testing models to operate at a granular entity level. This may especially be true where the group or a portion of a group is managed as if it were a single entity (such as via a quota-share pooling agreement or extensive internal reinsurance). Similarly, it may be difficult to aggregate a collection of legal entity stress tests (based on local assumptions and views of risks) into a single stress test result at the group level.<sup>19</sup>

Risk management requires an understanding of the behaviors of these linkages according to various adverse scenarios and levels of stress. Some of the possible aspects to be considered may include the following within and across the group:

- Risk positions (e.g., exceedances with respect to risk appetite, risk limits, etc.)
- Risk concentrations
- Diversification benefits
- Fungibility of capital; capital support/guarantees; capital positions

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<sup>19</sup> Note that some legal entity stresses have limited impact on other group members, such as that from a local natural disaster that only directly impacts one group entity. While the local stress testing for such events may need to be somewhat sophisticated, it may be possible to evaluate the stress to the rest of the group in a more simplified fashion.

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- Liquidity management and positions
- Risk management agreements and exposures
- Service contracts/agreements
- Contingency and recovery plans
- Ability to meet rating agency expectations
- Ability to meet regulatory requirements and supervisory expectations

## II. Understanding Supervisory Expectations

The presence of the various regulatory authorities across a group creates complexity in the operation, governance and management of members of the insurance group, the head of the group, and for the involved supervisors.

As a result, **members of the insurance group and its head need to understand the roles, expectations, and requirements of their respective involved supervisors.**

For example, when business management structures cross legal entity lines, careful management is needed as supervisors necessarily look at the legal entities they supervise, and therefore it is important that persons taking responsibility for the management of each legal entity are clearly identified and that they ensure the entity's interests are appropriately protected when business decisions are made.

To coordinate the group's regulatory initiatives and to provide a focal point of leadership to the group-wide supervisor, the head of the insurance group has ultimate responsibility within the group for meeting the expectations and requirements of the group-wide supervisor.

## 8. Issues for the Supervision/Regulation of Groups

### I. Importance of the Group-Wide Supervisor

Given the variety of businesses and geographies in which an insurance group may be involved as well as the variety of linkages that member entities of the group may have with each other and/or external (to the group) contractual arrangements, it is important for prudential supervision that there be effective group-wide supervision of an insurance group.

Since insurance groups can involve many supervisors (e.g., insurance supervisors from the various jurisdictions in which the group operates; other sectoral supervisors if the group conducts business in those sectors; market conduct supervisors if they are separate from the prudential insurance supervisors, etc.) it is important that "involved supervisors determine the need for a group-wide supervisor and agree on which supervisor will take on that role"<sup>20</sup>. **The group-wide supervisor, in cooperation and coordination with involved supervisors, plays a lead role in effective group-wide supervision, including any resolvability issues.**

### II. Importance of Supervisory Cooperation and Coordination

Each involved supervisor in an insurance group provides a unique perspective into the group's operations. Whether their role is as an insurance or banking supervisor, or as a home

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<sup>20</sup> IAIS ICP 25.3; ComFrame requires a group-wide supervisor for an IAIG.

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versus host supervisor for one or more entities in the group, their coordinated and combined efforts are needed to provide effective group-wide supervision. Some components to group-wide supervision<sup>21</sup> include:

- Selection of the group-wide supervisor
- Formation of a supervisory college
- Allocation of supervisory responsibilities among the involved supervisors
- Recognition and reflection of differing supervisory approaches

In addition, for G-SIIs, there may be a defined Crisis Management Group, which will typically consist of the supervisors of material insurance entities in the group.

**The cooperation and coordination of all involved supervisors, in carrying out their roles as local supervisors and as members of the supervisory college, are important to the effective supervision of the group.**

Some of the specific issues involved with group supervision are:

- Determining the scope of the group
- Supervisory college effectiveness
- Group level governance
- Group recovery and resolution

#### A. Determining the Scope of the Group

One of the responsibilities of the involved supervisors of the insurance group is to collectively define the scope of the group to be subject to group-wide supervision.<sup>22</sup> Involved supervisors consult and agree amongst themselves on the scope of the group to be subject to group-wide supervision to ensure no gaps or unnecessary duplication in regulatory oversight between jurisdictions occurs. Consideration of the scope of the group to be subject to group-wide supervision should be undertaken on a case-by-case basis.

This decision may be forced to some extent on the supervisors based on the limits of their authority, yet it should at least consider any entity that can materially impact the solvency of another group member for solo supervision, and the solvency of the insurance group for group supervision.

There are also issues with regard to entities not wholly owned (including joint ventures, minority ownership, and those where there is common management). It is not always clear as to when such entities should or should not be included in the group, although the decision will be influenced by the degree to which such entities impact the rest of the group.

Additional issues arise as to whether branches should be viewed as separate entities for the purposes of solvency supervision, or addressed (if at all) as part of the review of the entity they belong to. The decision may be a function of local law and supervisory authority where

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<sup>21</sup> See also IAIS ICPs 3, 23, and 25.

<sup>22</sup> IAIS ICP 23.1.

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the branch is located, as well as the extent of ring-fencing of branch assets—whether they are equally available to all policyholders or they are restricted such that they generally support only the branch’s policyholders.

#### B. Supervisory College Effectiveness

A fundamental duty of a supervisory college is for the involved supervisors to work effectively together under the leadership of the group-wide supervisor to supervise the insurance group. Standards and guidance for insurance supervisors relating to supervisory colleges are contained in the IAIS ICPs as well as ComFrame for IAIGs.

One of the challenges in conducting an effective supervisory college is the recognition by involved supervisors that their supervisory approaches are likely to have differences that will need to be addressed during the course of the college. For example, some supervisors may manage on a top-down basis, such that they can force the group head to take actions with respect to subsidiaries (subs) within that jurisdiction (e.g., by forcing movement of capital from sub A to sub B, even if it can endanger sub A's solvency). Others manage from a bottom-up basis, such that they focus on solvency on a legal-entity-by-legal-entity basis, able to restrict capital flows up to a parent to protect the sub, even if it results in a parent's insolvency. This can differ by industry sector within a jurisdiction. (Example: U.S. banking regulation is top-down; while U.S. insurance regulation is largely bottom-up.) Difficulties can arise if the approach/authority among the various supervisors for a group is not consistent.

Supervisors benefit from addressing any differences in supervisory approaches in advance, finding a way to cooperate and coordinate their actions in both normal and crisis conditions. This may be addressed via a supervisory college, treaties, or other mechanisms. ICPs 23 (Group Supervision) and 25 (Supervisory Cooperation and Coordination) address some of these issues.

#### C. Group Level Governance

The evaluation of corporate governance is generally a major part of solvency supervision. For stand-alone entities, this requires communication with the senior management and possibly the oversight board of the entity. For group members, there may be a local entity senior management team and a local oversight board, but those local bodies may or may not be the most relevant bodies with which either the local or group-wide supervisor should communicate.

In some cases, the group will give its entities a relatively free hand to organise themselves, set strategic direction, and determine how best to deliver required financial performance. In others there will be a number of criteria set by the group and the group will maintain a strong influential role both during strategy and business planning phases but also on a regular basis during the year. In the former case (strong local or decentralized control) supervisors may focus their communications on the local bodies, while in the latter case (strong centralized control) supervisors may be more effective by focusing on communications with group management and board.

Some supervisors are also interested in the governance arrangements of group subsidiaries—looking for a balance between group executives providing the link to the group itself but also ensuring there are sufficient independent board members to challenge on issues where the

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subsidiary's interest and the group's interest may not be fully aligned. A good example of this is the tension that may arise in paying dividends to the group, which might undermine the capital position of the subsidiary.

Under either scenario (decentralized or centralized) group members will need to comply with local legal requirements. This can be challenging especially where operational structures do not readily align with legal structures.

Operational structures that do not align with legal structures have additional issues with regard to legal entity supervision. This is because any attempt to affect a legal entity's solvency via restrictions or changes in its operations will affect multiple business units. This may limit pinpointed regulation or risk management by entity.

#### D. Capital Adequacy

As noted earlier in this chapter, the assessment of the sufficiency of capital at the group level can be complex due to the various linkages among the members of the group as well as the unique risks presented solely due to the formation of the group itself. As a result, capital adequacy at the group level requires the active involvement of members of the supervisory college to develop an understanding of the valuation and stress testing approaches used to examine the capital adequacy of the group at the entity and group level under varying levels and types of stress. ORSA processes and reports are likely to be most helpful in this regard.

#### E. Group Recovery and Resolution

Regulatory capital requirements are generally established with multiple action levels; capital below the highest regulatory level generally results in some increased level of supervisor/regulator and/or company action, while capital below the lowest level generally results in a resolution situation in which the supervisor/regulator takes over the entity<sup>23</sup>. In general terms, a supervisor will seek to assume control of an insurer only after all other avenues of recovery have been pursued with management and while there remain sufficient funds to satisfy its policyholder obligations. Local rules may also dictate at what point any policyholder protection powers become enacted.

In some jurisdictions these regulatory capital requirements exist only at the legal entity level, while in others they exist at both the legal entity and group level. Regardless, it is possible for a group (or the holding company) to become insolvent while the entity (or entities) within the group remain solvent, and vice versa. A group's insolvency is a separate event from a group member's insolvency. This can be observed in the following three examples:

1. In 2008, the AIG group was perceived to be insolvent even while the insurance entity members of the group remained solvent. In that situation, discussions were occurring among the legal entity regulators concerning possible movement of

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<sup>23</sup> This takeover of the entity in a resolution situation does not immediately result in liquidation. The insurance supervisor typically has the authority to first attempt rehabilitation of the entity, allowing certain functions to continue in partial or total runoff mode while such a rehabilitation is considered or attempted. It is typically only after such a rehabilitation is considered or attempted unsuccessfully that an entity is transitioned to orderly runoff or liquidation. Hence in many jurisdictions the insolvency does not result in loss of policy benefits for many policy beneficiaries, as their obligations are either met via a supervised runoff, transition of the claims to a guarantee fund, or transfer of their obligation to a solvent insurer.

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- funds to the parent holding company, prior to the U.S. banking regulators determining that the parent needed an immediate bailout.
2. A somewhat similar situation occurred in the US with regard to Monarch Life in the early 1990s.<sup>24</sup> In that instance the parent company went insolvent, and the regulator spent several years working to rehabilitate one of the subsidiary entities (with another of the subsidiary entities not being impaired).
  3. A third example occurred with Fortis in Europe. The Fortis group contained both banking and insurance operations. In October 2007, Fortis (along with two other partners) acquired portions of another bank just before the global financial crisis. “[T]he large debt created to fund the takeover had depleted the banks' reserves just as the financial crisis of 2007–2010 started. As a result, the Dutch government stepped-in and bailed out Fortis in October 2008.”<sup>25</sup> The insurance operations were not the cause of the crisis at Fortis, although the difficulties arising from the group’s banking acquisition did change the ownership of the insurance entities.

It is possible for the group to be technically solvent but cash insolvent, due to the inability to access cash or liquid assets held by lower-tier members of the group. This can occur due to issued debt or other cash obligations that are legally only the obligation of the parent entity. Hence the parent of a consolidated group can have assets greater than liabilities, but liquid assets less than immediate parent entity cash demands.

In some jurisdictions the group supervisor can force up-streaming of cash or other liquid assets from the subsidiaries to the parent entity, but this authority generally only extends to the subsidiaries in the same jurisdiction as the parent.

It is also possible for a group to be solvent but one member of a group to be insolvent. This raises the issue of whether a solvent group would/should be allowed to let its insolvent subsidiary remain insolvent, despite having sufficient assets within the group to rectify the situation.

These issues of solvent groups with insolvent members and solvent members with an insolvent parent are some of the reasons why supervisory colleges and crisis management groups are needed. These avenues for regulatory cooperation, as well as group supervision legal frameworks, need to contain mechanisms that address these mixed solvency/insolvency possibilities for groups.

Increasingly supervisors look for group and consistent solo level recovery/resolution plans that have anticipated potential crises and examined the tools available to management to deal with the situation.

The degree of interconnectedness among the group members and overall organizational complexity can have significant implications for the orderly runoff or rehabilitation of a group, as one portion of the group may not be viable but may be inseparable (or separable only with great difficulty) from the viable sections of a group. Similarly, one portion of the group may be viable for sale to generate needed capital for the remaining portion of the

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<sup>24</sup> [www.gao.gov/assets/230/220977.pdf](http://www.gao.gov/assets/230/220977.pdf).

<sup>25</sup> [http://en.wikipedia.org/wiki/ABN\\_AMRO](http://en.wikipedia.org/wiki/ABN_AMRO)—17 February 2015.

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group, if not for those interconnections that complicate such a sale. Complexities and connections that create these problems can include shared resources (e.g., shared accounting systems, shared staff functions, shared investment staff), intragroup guarantees, shared investments, cross-ownerships, etc.

Resolution is covered more fully in Chapter 11.

### III. Issues for Actuaries

Actuaries fulfil a variety of roles within an insurance group, particularly (but not exclusively) within the insurance entities. As described more fully in *IAA Risk Book* chapter 2,” actuaries may contribute to one or more of the three lines of defence within the entities of an insurance group. In addition, actuaries may be involved with insurance groups through their employment with consulting firms, rating agencies, regulators, etc.

Regardless of their employment, in conducting their work, each actuary should clearly identify their target audience and the scope for their work. In working with insurance groups, the actuary understands and appropriately takes into account the various issues outlined in this chapter that are relevant to their work. Even though the focus of the actuary’s work may be restricted to a single legal entity of the insurance group, the work may require assumptions regarding services, capital, investment return, etc. provided by other members in the group. Actuaries have the skills to assess the risks to an insurer’s operations and to report on things such as expected present value, the nature of risks, their uncertainty, confidence levels, the results of stress testing, and scenario analysis—not just for the entity in question but also more broadly for the group after taking into account the types of group risks described in this chapter.

When participating in work that is group-wide in nature, it is important that the relevant stakeholders have a clear view of the risk issues involved with complex activities and interactions of an insurance group. **Actuaries involved with risk management generally and control functions specifically (i.e., those identified by the IAIS in ICP 8 with respect to actuarial matters and risk management control functions), throughout the insurance group, have appropriate regard not only to their entity-specific responsibilities/risks but also for the wider group context/risks within which their work is conducted.**

In addition, **the head of the group benefits from having adequate access to actuarial expertise (e.g., group level ORSA). For some insurance groups, supervisors may require the establishment of an actuarial function at the group level.**

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