



International Association of Insurance Supervisors

Press release

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Insurance Supervisors confirm commitment to regulatory reforms

The International Association of Insurance Supervisors (IAIS) concluded its Triannual Meetings, 17th Annual Conference and General Meeting in Dubai, United Arab Emirates on Friday 29 October 2010. The conference provided the opportunity for supervisors and insurance professionals to discuss prevailing market conditions, emerging trends and regulatory developments in this challenging financial environment. "The evolving nature of the insurance sector with more and more insurance companies expanding their operations globally, coupled with the regulatory challenges brought to light as a result of the financial crisis, has placed pressure for regulatory reforms," said Peter Braumüller, IAIS Executive Committee Chair. "I am confident that the IAIS has the commitment from its members and the necessary workplans in place to address these challenges."

A number of important steps were taken during the Triannual Meetings and General Meeting, including:

- The adoption of a new Strategic Plan and Financial Outlook 2011-2015 setting out high level goals, strategies and action plans for the Association's key areas of work. The goal of the strategic plan is to ensure the Association has the necessary workplan and resources in place to address the challenges facing insurance supervisors and thereby strengthen overall insurance supervision.
- The approval of a two-year roadmap to ensure the planned activities over the next two years adequately address the high level goals, strategies and actions plans set out in the strategic plan. While the IAIS has previously stated and still believes that there is little evidence of traditional insurance either generating or amplifying systemic risk, the IAIS recognises that insurance regulators need to be vigilant to risks emerging from the blurring of financial sector boundaries. The roadmap includes assessment of the Financial Stability Board recommendations for financial reform. Specifically, the IAIS will undertake further research to develop a more extensive analysis of systemic risk in the insurance sector and develop a provisional methodology of quantitative and qualitative indicators to assess the systemic importance of insurers at a global level. Additionally, the IAIS will provide broad guidance on how to identify global and domestic systemically important financial institutions (SIFIs). Complementing the financial and insurance market stability related activities, the IAIS will continue to enhance its standard setting and standard implementation activities. The standard setting goal is to develop global, sustainable and coherent supervisory principles, standards and guidance. An important

standard setting project is the development of a Common Framework for the Supervision of Internationally Active Insurance Groups. Standard Implementation initiatives include educational initiatives, the development of self assessment and peer view mechanisms, and the introduction of measures to strengthen supervisory cooperation.

- The adoption of eight supervisory papers, representing the first step in the revision of the insurance core principles (ICPs) and supporting standards and guidance material. The goal is to have a coherent framework of revised ICPs, standards and guidance material ready for adoption in 2011. This first set of revised supervisory material includes: ICP 4 Licensing; ICP 5 Suitability of Persons; ICP 13 Reinsurance and Other Forms of Risk Transfer; ICP 15 Investment; ICP 16 Enterprise Risk Management; ICP 17 Capital Adequacy; Standard on Cross-border Cooperation on Crisis Management; and Standard on Group-wide Regulatory Requirements and Guidance on Group-wide Supervision Framework. This supervisory material will be incorporated into the final complete package of revised ICPs, standards and guidance material planned for adoption in October 2011. The papers are available on the IAIS website at www.iaisweb.org.
- The signing of two further insurance supervisory authorities to the IAIS Multilateral Memorandum of Understanding (MMoU), bringing the total number of signatories to 13. The MMoU is a framework for cooperation and the exchange of information and sets minimum standards to which signatories must adhere to bolster cross border supervision of insurance companies. It is an essential regulatory tool to ensure sound oversight of the insurance market through exchange of supervisory information. Since the last Triannual Meetings in Bahrain, the following jurisdictions have become signatories: Monetary Authority of Singapore; Jersey Financial Services Commission; Dubai Financial Services Authority; and Malta Financial Services Authority.

The theme of this year's Conference was *The Gateway to Trust in the Insurance Industry*. The attached annex provides a summary of the Annual Conference panel discussions and keynote speeches.

About the IAIS

Established in 1994, the IAIS represents insurance regulators and supervisors of some 190 jurisdictions in nearly 140 countries and has also more than 120 insurance professionals, insurers, reinsurers and trade associations as observers. The IAIS issues global insurance principles, standards and guidance papers, provides training and support on issues related to insurance supervision, and organises meetings and seminars for insurance supervisors. The IAIS works closely with other international institutions to promote financial stability.

**IAIS 17th Annual Conference panel sessions
Summary of discussions and keynote speeches**

Financial Stability and Systemic Risk

To date, the Financial Stability Board (FSB) has focused on systemically important banks, as they were at the centre of the financial crisis. The focus is now shifting to other financial institutions, including insurers, noting that the business models are very different. The FSB will consult with the IAIS and other standard setters on developing a confidential list of systemically important financial institutions (SIFIs). Higher capital requirements and stronger resolution frameworks will be required for all SIFIs. In addition, supervision of SIFIs needs to be more intense and effective. Both the IAIS and the insurance industry have concluded that core insurance activities do not pose systemic risk, however, non-regulated entities and conglomerates could pose systemic risk and the potential for regulatory arbitrage needs to be monitored. Ongoing macroprudential surveillance is an essential component of future supervisory frameworks to monitor where and how any new types of risk may emerge from insurers.

Impact of International Accounting Standards on Insurers and Insurance Regulation

Panel presentations included an overview of the IASB's Insurance Contracts project and supervisors' and industry views on the Exposure Draft which is currently under consultation. The need for a single global standard for insurance accounting was emphasised, as well as the desirability that the standard should be substantially consistent with the regulatory reporting model, to enhance consistency in reporting and reduce the reporting burden on insurers. The main issues or concerns over the Exposure Draft that were raised were the discount rate, whether a single margin or both a risk and residual margin would apply, and transitional arrangements. With the target completion date of June 2011 – substantial finalisation of the standard by this date will be critical due to a new Strategic Review of IASB activities in early 2011 and rotation of a number of IASB Board Members in June 2011. The IASB welcomed input on the paper – in particular suggestions to help find solutions to the more difficult aspects.

Keynote speech: Jong Chang Kim, Governor of Financial Supervisory Service, Republic of Korea

Jong Chang Kim highlighted the fact that the insurance industry had fared better during the financial crisis than other financial industries due to prudent asset management and sound insurance supervision. However, exposure of some of the largest insurers to credit default swaps and other unsupervised activities did demonstrate a need for stronger, more effective oversight. Regulatory reforms will need to strike the right balance so that they do not threaten financial stability or prolong the sluggish global economic growth. Reforms will also need to balance the flexibility required by individual jurisdictions and the need for consistency. Regulatory reforms will not be successful without compliance and enforcement. He also noted the importance of emerging market countries and non G20 member participation in the reform debate.

Keynote speech: Lord Adair Turner, Chair of the Financial Services Authority, United Kingdom

Lord Adair Turner noted that the reason for believing that insurance companies are far less likely than banks to be a source of systemic risks is that bank and insurance companies are usually involved in fundamentally different activities, with very different asset and liability structures. The regulatory reform agenda must guard against regulatory arbitrage and it must be based on a continually updated understanding of interconnections within the financial system, and the implications of interconnectedness for systemic risks. The IAIS has been

making crucial contributions to recent FSB debates and the FSB has endorsed the IAIS's emerging view on what could make an insurer systemic. This analysis suggests that our focus on systemic risks in insurance should be more focused on ensuring that we spot mutations in insurance company business models and activities, that we understand the full spectrum of insurance group activities and that we spot complex interconnections with the banking system. Obviously the failure of some specific insurance companies could be systemically important, because of the vital services which insurance companies provide to end customers.

There is a need to build a picture of global developments in the industry and start to build a picture of interconnectedness across the sector. It is important that global regulators are in a better position to monitor emerging trends and systemic risk in insurers. It is notable that today there is no comparison in insurance to the data gathered on banks, for example, by the Bank for International Settlements. This is an area the FSB Standing Committee on Supervisory and Regulatory Co-operation will begin to look at shortly, with the IAIS.

The IAIS's Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) will provide a common language to help national supervisors to address common insurance risks. Prior to the financial crisis, under the leadership of IAIS, regulators had already recognised the growing reach and importance of insurance groups and begun discussions on achieving enhanced comparability and convergence of regulation and supervisory practice. The global nature of the financial crisis reinforces the need for greater international cooperation to address global risks, and the UK strongly supports the Common Framework being developed by IAIS. It is a major step forward for the insurance industry globally.

ComFrame: Common Framework for the Supervision of Internationally Active Insurance Groups (IAIGs)

Panellists were actively engaged in discussions on the ComFrame project, its goals and what kind of changes it was expected to bring. After reaffirming that solo and group-wide supervision were equally important, the panellists recognised ComFrame as something that would bring much value to group-wide supervision. In particular, ComFrame will form a modus operandi tailored to IAIGs and will provide a standardised platform for supervisors from around the world to look at IAIGs in the same light based on a common language. It was also underscored that ComFrame requirements will need to be backed by appropriate supervisory review and assessment procedures as well as enhanced cross-border cooperation and coordination. Panellists also argued that if ComFrame is set out right, it will give supervisors a better way to undertake horizontal assessments (or peer comparisons) based on good quality data. While there were diverging views on what sort of group-wide supervision models the ComFrame could draw from, the panellists agreed the key principles (or the pillars of the framework) should remain consistent and serve as the cornerstones of the whole project.

Vision of Future Safety Net and Resolution Framework

Panellists from Europe, the U.S. and Japan introduced their local policyholder protection schemes and associated policy options on winding-down insurers. While there were differences in actual approaches, there were many relatively common principles. For example, schemes usually have a primary focus on individual policyholders and personal lines products and use certain features to ensure the highest level of protection possible. Some jurisdictions also utilise pre-funded protection schemes to guarantee an orderly resolution aiming to cause minimal disruption to the market. Panellists agreed that the legal and operational implications surrounding resolution was always complex and given the increasing global reach of insurance business, there was much work to be done on cross-border cooperation and coordination issues going forward.

Similarities and Differences between Supervisors Responses to the Financial Crisis

Key lessons from the crisis included: unanticipated problems and scenarios were very difficult to manage, crisis planning was crucial, insurers need to be aware of the impact of extreme events, people are always involved not just systems, “crying wolf” can cause complacency which needs to be counteracted and effective supervision is a key requirement by all supervisors of all insurers. Differences can occur within divisions of one supervisor as well as between supervisors. More effective supervision requires operational independence, clear mandates and adequate resources. Group-wide supervision and oversight of risk management functions are key areas that the IMF has identified as needing improvement. The supervisor’s will to act is just as important as its ability to act. All supervisors should carefully study the recent IMF publication on effective supervision and the FSB paper that will be released soon.

IAIS Standards Implementation

The financial crisis has highlighted that implementation of supervisory principles, standards and guidance in an internationally coordinated and consistent manner is necessary to protect against adverse cross-border, regional and global developments affecting international financial stability. A critical success factor is to raise the level of adherence to international standards by reinforcing implementation; carrying out assessments and peer reviews to identify gaps as well as vulnerabilities and risks; and linking it sequentially to capacity building and improved standard setting. By addressing the different priorities and allocating appropriate resources, supervisors from both developed and emerging market jurisdictions can commit themselves for supporting strong, sustainable and balanced growth of the insurance market.

Keynote speech: Ian Johnston, Deputy Chief Executive of Dubai Financial Services Authority

In his key note speech, Ian Johnston, Deputy Chief Executive of Dubai Financial Services Authority, elaborated on the boundaries of regulation. He spoke first on the boundaries between banks and insurers and highlighted the importance of identifying similar risks (products and firms) in aiming for consistent regulation to avoid regulatory arbitrage. Next, he noted that the boundaries between prudential regulation and conduct of business remain important because today's conduct of business matters can become tomorrow's prudential issues. In this respect, the IAIS Com Frame project is an important step to managing prudential risks in major firms. He specifically highlighted the fact that any worldwide common framework would require changes in some countries. With a view to the venue of the 2010 Annual IAIS Conference in Dubai, Ian Johnston also made reference to the boundaries between conventional and Islamic insurance (Takaful). In this context, he again stressed the need to ensure that similar risks are similarly regulated. Last but not least he came to the boundaries between the standard-setting bodies, such as the IAIS, the Basel Committee on Banking Supervision (BCBS), and the International Organization of Securities Commissions (IOSCO). In this respect the cooperation between these international standard setting bodies and national supervisors is a crucial factor. He proposed that the Joint Forum be reformed by abandoning the country specific seats and allowing the parent committees (BCBS, IAIS and IOSCO) to nominate appropriate delegates based on their experience. Ian Johnston commended the good work of the IAIS in being an inclusive and representative organisation.

The Impact of the Global Financial Crisis on Policyholders and Market Conduct Issues

Panellists presented their thought on the impact of the global financial crisis on policyholders and market conduct from the perspectives of the supervisor, industry and academia. It was noted that the financial crisis led to an increased risk of fraud and unsound business practices. Panellists discussed how the interests of consumers could best be protected, in particular retail consumers who were more vulnerable. The crisis has led to a greater

acceptance of strengthening supervisory requirements as well as to an increase in the interaction between prudential and consumer protection supervisors. In addition to strengthening regulatory requirements, an important measure was the financial education of consumers. Panellists noted that there was a need to build trust and confidence in the insurance market; informed choice of products by consumers should lead to better protection, with sufficient safeguards in respect of the more vulnerable groups and complex products.

Takaful and Regional Issues

The *Takaful and Regional Issues* panel provided insightful information on the takaful market and the challenges faced by the industry. Takaful is similar to conventional cooperative insurance whereby participants pool their funds together to insure one another. It is based on principles of *Ta-awun* (mutual assistance) that is *Tabarru* (voluntarily) provided. *Shariah* approval is required for all Takaful accounts including approval of all investments, confirmation of expenses and income, and approval of accounts and reports.

This market, with more than 200 operators, spans over 30 countries around the globe. The takaful industry, with US\$6 billion in total gross premiums, is expected to double in size by 2015. The Malaysian experience, shared by Bank Negara Malaysia, provided great insights into the regulation and supervision of this industry. Takaful in Malaysia is developed as a component of the comprehensive Islamic financial system operating in parallel with the conventional financial system. The focus is to further strengthen the *Shariah* governance structures in place with clear segregation of funds, comprehensive fiduciary duties of the Takaful operators, remuneration structures and disclosure requirements. Malaysia has been insulated from the current financial crisis primarily due to its strong economic fundamentals and diversified economic structure. Challenges ahead include increasing global re-takaful capacity and strengthening financial and governance frameworks.