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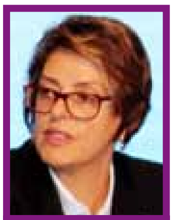
Happy East Asian Insurance Day!

GCS: Go slowly amidst the rush of acronyms

Global Capital Standards (GCS) has turned heads as the opening session of the 20th IAIS Annual Conference with some 600 delegates here showed.

The 90-minute session led by Ms Elise Liebers, USA NAIC, Vice-Chair Financial Stability Committee, had a good mix of members: an IAIS official, a regulator, an actuary and two big insurers.


Ms Elise Liebers

Will this GCS be in addition to the existing plethora of measures including BCR, HLAs, QCS and Solvency II? There is a haze covering the topic though the IAIS has clearly spelt out its decision to pursue the development of a global insurance capital standard (ICS) and timeframes as well as its readiness to work with the FSB which will come out with the amended list of G-SIIs by next November.

To be heard "loud and clear"

The industry has now been energised with a common cause and wants to be heard "loud and clear" about its woes against ICS & G-SIIs. The basic fear is that the FSB must understand the fundamental and logical difference between banks and insurers, and that IAIS must lead the way as the representative voice of the insurance sector. The rallying call is that insurers do not create systemic risks as no failure of any insurer has caused a run on other insurers.

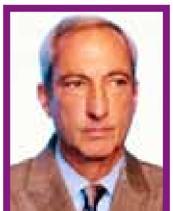
A "compressed multi-faceted exercise"

Setting the tone for the discussions at the session on "Insurance and Financial Stability – G-SII policy measures and supervision in a low interest rate environment", Ms Liebers said the work on a global RBC standard for internationally active insurance groups was an extremely "compressed multi-faceted exercise" that saw a multitude of big and small decisions to be made and tested. It even went down to questions like what risk categories and which components of capital are to be included.


Mr John Maroney


Mr Kurt Wolfsdorf

Mr John Maroney, Head of Financial Stability, IAIS, said many obstacles along the way had been overcome with determination to deliver results on time. Regulators collectively had a responsibility to understand the fragility of the global economy and the need for macroprudential supervision, he added.


Mr Thomas Leonardi

Mr Thomas Leonardi, Commissioner, Connecticut Department of Insurance, said a GCS can be good for policyholders and stakeholders of the company, but it must focus on the lessons learnt from GFC and not be limited to just fighting the last war but arm the industry to face potential challenges ahead.

Mr Kurt Wolfsdorf, President, International Actuarial Association, said actuaries can help the supervision with appropriate models to answer the questions of "where is the money?" and "where are the risks?" at any point in time.

No systemic risks


Mr Stanley Talbi

Making a compelling case for the basic difference between banks and insurers and that insurers do not pose any systemic risks, Mr Stanley Talbi, CRO, MetLife, warned that imposing bank-centric

(continued on page 2)

Rallying for sustainable supervision


Mr Ming-Chung Tseng

In their opening addresses, both Mr Ming-Chung Tseng, Chairman, Financial Supervisory Commission, Chinese Taipei, and Mr Peter Braumüller, Chair, IAIS Executive Committee, sought to rally the global insurance industry to continue its efforts in fostering cohesive cooperation, in order to develop sustainable insurance supervision.


Mr Peter Braumüller

To incorporate high-level specifications in tackling local issues, Mr Tseng said regulators and supervisors need to grasp and acquire more insurance supervisory knowledge. "Due to the trend of globalisation, supervision efforts cannot work alone anymore," he said.

And while IAIS has come far in its efforts to establish global insurance supervision standards, Mr Braumüller said the organisation is not done with growing. "We are more like a sports team which has just made the playoffs. We can and should celebrate getting here, but we must now focus harder to achieve our ultimate goals," he said. One of IAIS' goals is the development of a global capital standard for the insurance sector by 2016 and its implementation in 2019.

"Achieving this goal will be no small task. However, the business of insurance is global and consequently this requires a global response. I look forward to continuing to discuss with you during and after the conference, the details of our work and how it will be achieved," said Mr Braumüller.

Mr Tseng added that beyond high-level supervision of internationally active insurance groups (IAIGs), there are other specific issues such as consumer protection and the ageing population, that also have potential impact on the development of the insurance industry. "We hope insurance regulators and supervisors will have a chance to discuss these issues comprehensively with IAIS members and observers. Delegates can also take this conference as an opportunity to review significant initiatives and to share their experiences," he said.

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rules on life insurers would have unintended consequences. A better approach would be to have regulations focussed on the activities of insurers, he added.

Mr Cyrille de Montgolfier

Agreeing with him, Mr Cyrille de Montgolfier, Group SVP of European and Public Affairs, AXA Group, said the best way was for the industry to work closely and carefully with the IAIS to find the most efficient formula forward, bearing in mind the existing requirements as well. He warned that the current timeframe envisaged was "unrealistic".

The word on the ground

Mr John Fitzpatrick

Representing the views of many along the corridors Mr John Fitzpatrick, Secretary-General and MD of the Geneva Association, mused, "Did the omission of a global capital standard cause the crash of 2008?" Clearly not!

On timeframes, he said it was "questionable" as "even to agree on the substance of a straightforward capital requirement will require the best talents in capital management from both insurers and regulators with all attention, focus and best intent to develop and agree on a standard that is fit for this purpose".

IAIS' remarkable support…

"The International Association of Insurance Supervisors (IAIS) has been working to promote effective and globally consistent supervision of the insurance industry since 1994, making major progress in group supervision under the purview of G20 after the 2008 financial crisis.

Dr Tien-Mu Huang
Vice Chairperson,
Financial Supervisory Commission,
Chinese Taipei

The recent achievements include developing a comprehensive framework for the supervision of IAIGs, finalising the ICPs, and issuing evaluation papers for global systemically important insurers (G-SIIs). The IAIS has also committed to develop straightforward, backstop capital requirements (BCRs) by 2014 and implement a risk-based global insurance capital standard (ICS) by 2016. These measures not only provide a sound capital and supervisory framework, but also give a new full-scope global financial regulatory regime for the insurance sector.

We truly believe that IAIS can provide remarkable support in contributing to the stability of financial market and sustainable insurance supervision in a changing world."

Ageing of populations: More urgency needed?

Rapid population ageing has become such a serious problem that it amounts to billions – if not trillions – of dollars in retirement funding shortfalls. Yet discussions surrounding the issue tend to lack the urgency reflecting the challenge we are facing, said a delegate at the Q&A session of the Ageing of Populations panel.

However, panellists disagreed that there is a lack of urgency. A lot has been done and is being done, said Ms Julia Cillikova, Director, Regulation and Financial Analyses Department, National Bank of Slovakia, and Chair of the Pension Coordination Group. IAIS is sending a signal that it cares about and understands the seriousness with inclusion of the topic in this conference, along with the Pension Coordination Group studying the issue, she added.

Magnitude of longevity risk

Pointing out the magnitude of longevity risk, Mr Thomas Schmitz-Lippert, Executive Director, International Policy, BaFin, Germany, said that each additional year of the life expectancy adds about 3-4% to the present value of the liabilities of a typical defined benefit pension fund.

The estimated total global amount of annuity-and pension-related risk exposure range from US$15 to $25 trillion, he said, adding that a one-year longevity underestimation costs risk holders in aggregate from $450 billion to $1 trillion!

Insurance – the appropriate mechanism

To take on and manage longevity risk, insurance is an appropriate mechanism as insurers possess the actuarial and institutional investment expertise, said Ms Elizabeth K Dietrich, Vice President and Actuary, Corporate Actuarial Department, Prudential Financial.

The great depth of credible experience allows for high confidence in life expectancy, and the extensive monitoring of mortality trends and sophisticated mortality modelling allow insurers to analyse their exposure to changes in longevity risk, she said. Furthermore, the insurance industry is marked by a natural offset between mortality and longevity risks through operations in life insurance and annuities, she added.

Taiwan in numbers

- Taiwan's total life insurance premium income for the first four months of **2013** was **NT$815.78 billion** (US$27.7 billion). In the same period, the total non-life insurance premium income recorded **NT$42.04 billion** (US$1.43 billion).
- In **2012**, Taiwan ranked **1st** in the world in terms of **insurance penetration**. With a penetration of **18.19%** for total insurance business, it stood well over the global average of **6.50%**.
- Also in **2012**, Taiwan recorded a **total premium volume** of **US$87.75 billion**, ranking **11th** in the world and contributing **1.90%** share to the world market.
- Of this total, **life insurance premium volume** stood at **US$72.52 billion** (9th highest in the world and a 2.77% share of the world market). In terms of **non-life insurance premium volume**, Taiwan ranked **16th** in the world with **US$15.23 billion**, accounting for a **0.76%** share of the world market.
- As of last year, Taiwan's population was **23.3 million**. It ranked **26th** in the world in terms of GDP, which was **US$482 billion**.

Sources: Taiwan Insurance Institute, Swiss Re *sigma*

Growth opportunities

Giving specific examples of growth opportunities, Mr Katsuyuki Tokushima, Head of Pension Research Group, NLI Research Institute, said for businesses focussed on death benefits, there may be a need to develop business in medical care products due to higher demand from the aged and the decrease in number of policyholders with ageing societies.

As for businesses focussed on retirement savings, competition with other industries such as banks and mutual funds are expected to intensify. Accumulation for retirement is not exclusive to insurers. Hence, there may be a need to expand into the asset management business, said Mr Tokushima.

As such, with growing demand for longevity risk solutions, insurers should see ageing societies as growth opportunities.

Insurance M&A: Asia remains a hotspot

In the last few years, the insurance industry has risen to become one of the hottest sectors for M&A, with deals amounting to a record US$30.5 billion in 2012, according to S&P Capital IQ data.

One of the key factors sparking the M&A spurt is Asia's undoubtedly strong economic growth, particularly in China and Southeast Asia. With low penetration rates and growing affluence of the massive populations, China and Southeast Asian countries have proven to be and will continue to prove attractive for insurance investments.

Earlier reports cited Swiss Re's estimate that life insurance premiums in Asia's emerging markets will grow 9.8% in 2013, more than four times the forecast for industrialised countries overall (2.2%), and almost double of the 5.2% growth that the reinsurer had forecast for developed Asia (which includes Australia, Japan and South Korea, among others).

Bancassurance is choice route to tap region

As such, insurers have sought to gain market share through entering into bancassurance agreements. In fact, many transactions have involved the acquisition of a life or non-life insurer coupled with a long-term bank distribution agreement, said Mr Dustin Ball, Country Manager, Vietnam, MetLife Asia Pacific, at the recent 7th Asian Insurance CFO Summit in Hong Kong.

Recent acquisition targets had been owners looking to offload insurance companies that had become non-core operations, offering distribution and a tied customer base, but it is becoming increasingly rare to find such partners, said Mr Damian Delaney, Head of Business Development, Asia at Manulife Financial, who also spoke at the CFO Summit.

M&A drivers remain the same

Nonetheless, industry experts expect a continuation of the themes that had driven M&A activity over the past year such as RBC requirements forcing consolidation amongst mid-sized players, access to bancassurance distribution channels, and a need for scale in the general insurance business among others.

Multinational insurance companies continue to be motivated to enter Asia or strengthen their existing market shares because of the region's strong potential growth. Mr Delaney cited four main groups of buyers in the recent cross-border deals in Asia: the first being North Asian insurers like Japanese companies that are aggressively looking for M&A opportunities outside their home market; North American companies seeking growth in both developed and developing markets in Asia; European companies that are growing fast or "de-growing"; and well-connected Asian businessmen actively acquiring insurance assets.

Top 3 M&A deals in 2013

MBK Partners buys ING Life Insurance Korea for $1.65 billion

ING GROEP's agreement to sell its wholly owned life insurance business in South Korea is part of its plans to divest the group's Asian insurance and investment management activities. The deal is expected to close in 4Q13.

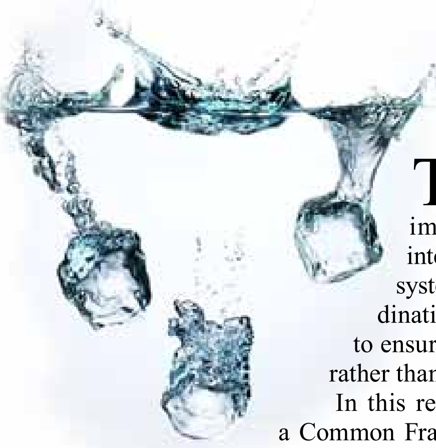
Meiji Yasuda Life Insurance acquires 15% stake in Thai Life Insurance for $713 million

Slated to close by the end of the year, Meiji Yasuda's purchase of a 15% stake in Thai Life – one of the top three life insurers in Thailand – underscores the growing appetite of cash-rich Japanese companies to expand beyond its home market.

Sun Life Financial and Khazanah Nasional's joint acquisition of CIMB Aviva Assurance for $595 million

Both Sun Life Financial and Khazanah Nasional had jointly acquired 98% of CIMB Aviva Assurance Berhad and CIMB Aviva Takaful Berhad. With the deal, Sun Life Financial will have access to CIMB Bank's network of 312 branches which serve approximately 8 million customers, an exclusive right to distribute insurance and takaful products across Malaysia.

Regulatory changes to impact multinational insurers soon



The global financial crisis has given financial regulators an impetus to consider closely the inter-connectedness of the financial system, which thus requires the coordination of various national regulators to ensure a more integrated supervision rather than deal with issues in isolation.

In this regard, the IFSB has introduced a Common Framework for the Supervision of Internationally Active Insurance Groups (IAIGs), otherwise known as ComFrame.

In launching this initiative in 2010, the IAIS said it was a policy response to make group-wide supervision of IAIGs more robust and effective. ComFrame will also provide the IAIS with a better footing to deal with and contribute to the array of work being undertaken in various international fora in response to the recent financial crisis.

Understanding dynamics of multinational insurers

Given the increasingly larger relevance of insurance groups, especially those that are internationally active, ComFrame aims to provide supervisors with the means to assess and compare IAIGs around the world through better aligned supervision undertaken by home and host supervisors on a multilateral basis.

IAIGs engage in activities in and across several countries and markets and aim at achieving synergies in many regards, including by the pooling of risks and by optimising financial efficiency. This may include the transferring of risks from one part of the group to another, often on a cross-border basis.

Thus in order to supervise group-wide activities successfully, ComFrame will cover the business structure, business mix and business development of the group from a risk management perspective.

ComFrame would include both quantitative and qualitative elements and also outline supervisory cooperation and interaction.

In terms of timeline, the IAIS is due to issue the next draft of ComFrame in the third quarter of this year, and will conduct "field testing" in 2014. This means that ComFrame will be evaluated in a practical setting, shaping further modifications before the policy is finalised. The IAIS has currently scheduled to formally adopt ComFrame in 2018.

It is expected that approximately 50 IAIGs will be identified, meaning that the supervision of insurance groups is set for significant changes ahead.

Global Systemically Important Insurers

While the work with ComFrame is underway, a parallel development of equal significance is that of the Financial Stability Board and its efforts in identifying nine insurance groups as being Global Systemically Important Insurers (G-SIIs).

The nine identified – AIG, Allianz, Aviva, AXA, Generali, MetLife, Ping An, Prudential Financial (US) and Prudential Plc (UK) – will be subjected to enhanced group-wide supervision and higher loss absorbency requirements.

The focus of G-SII policy measures will be different from that of ComFrame – the former will focus on the risk that an insurance group presents to the global financial system, whereas the latter is concerned with the more general supervision of large internationally active insurance groups.

With both policy measures set to be tested and implemented over the next few years, there will certainly be enhanced supervision which would require heightened group risk management for international insurers; as well as potential additional capital to cater to more robust loss absorbency requirements.

Night at the museum

Rounding up an intense day of panel discussions, delegates were taken on a VIP tour of Taipei's National Palace Museum for a glimpse of the island's historical treasures ranging from the Neolithic Age to the Qing Dynasty.

See you in Amsterdam!

On 23-24 October 2014, De Nederlandsche Bank will host the 21st Annual Conference of the International Association of Insurance Supervisors (IAIS) inAmsterdam. IAIS 2014 will bring together a diverse group of international financial supervisors and representatives of the insurance industry, including IAIS Members. The conference will be preceded by Committee Meetings, from October 20 to 22, and followed by the General Meeting, on October 25.

Unique

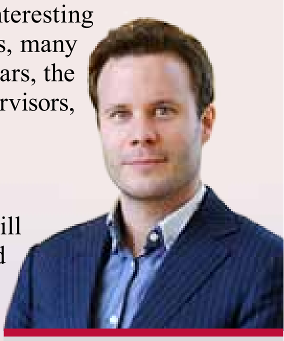
Next year, the IAIS will hold its 21st annual conference and will celebrate its 20th anniversary in Amsterdam. This is a special occasion, as the event is only held in Europe every fourth year. The decision to have DNB host the conference was prompted by the fact that DNB next year will be celebrating its bicentenary and because the Dutch insurance sector enjoys a good reputation. This event will further enhance the sector's and DNB's reputations.

Interesting to insurers

Throughout the week, insurers and supervisors from all over the world will have the opportunity to meet up. The interesting thing is that in addition to the regular meetings, many side meetings will be organised. In previous years, the event drew some 550 participants, including supervisors, insurers, ministries and consultants.

Programme

We are pleased to announce that the theme will be "Enhancing policyholder protection and financial stability through governance and risk management". After all, we emphasise this in our supervision in the Netherlands and have expertise in this field.



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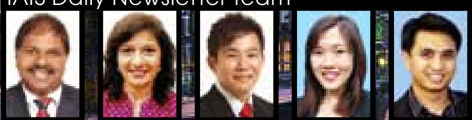

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