

IAIS Daily

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A Perfect Waltz in Vienna?

As the IAIS stands at the threshold of adolescence, there is a great deal of expectations placed on its young shoulders by its members and the insurance industry globally. Its acceptance as a standard-setting body is quite widespread, and there are demands for the IAIS to do more in terms of harmonisation, globalisation of standards, and ensuring less regulations domestically. On the final day of the 12th Annual Seminar in Vienna, **Mr Rodney Lester** of the World Bank spelt out that the IAIS, in meeting the challenges ahead, must move to "overcome its 100 consensus model if it is going to stay relevant".

On this issue, **Mr Tom Karp** said, at the press conference, that going from 100% consensus to something more definitive will take time, and admitted there were greater steps to take. "With the industry facing increasingly difficult and complex issues, we have to recognise that we will not get total agreement."

To all delegates attending the discussions in Vienna, described by IAIS Head **Mr Alessandro Iuppa** as "stimulating, provocative and challenging", there was no doubt that the IAIS will take on a more important and relevant role in the world of insurance supervision and regulation. Already the head of IAIS had sounded the clarion call to members that they must be ready to start thinking in terms of financing the activities of the IAIS to make it more financially independent.

Get Tougher

Mr Lester reminded delegates that "IAIS must be able to develop policies and standards away from industry/political pressures while taking in feedback from practitioners and subjecting itself to frequent reviews. He felt that IAIS should issue more standards instead of guidance papers.

Real Muscles

That IAIS is growing muscles is clear from the growth in its membership which now boasts of representatives from 180 regulatory bodies. **Mr Lester** said that the 2005 review by the World Bank has concluded that there was increased policy transparency, improved financial market infrastructure and greater market integrity. IAIS can lay credit to being one of the causes for these improvements.

As **Mr Jonathan L Fiechter** of IMF said in his keynote speech, the work of the IAIS has to be



applauded although there is still much to be done to improve the various insurance markets around the world. Many jurisdictions are faced with a lack of funding and competent staff. Looking ahead, he urged the IAIS to take the lead in developing a common solvency standard for insurance companies across borders and globally.

Better Scenario Today

Mr Peter Braumüller, the Austrian host of the Seminar, in noting that insurance regulation and supervisory practices have improved in tandem with enhanced international principles and standards over the last few years, called for consistency in supervisory systems to ensure effectiveness. Giving his take on the challenges ahead, he said that local rules should be checked against international standards and enhanced where necessary. Noting that many regulators shied from using the armoury of enforcement powers they had, he said that supervisory action that have not been tested in practice should be subject to contingency planning and crisis testing.

Be Balanced

No matter what the ambition or teenage angst, at the end of the day, the IAIS has to ensure that supervisors adopt a balanced approach to regulation that will promote a healthy and competitive marketplace while meeting the needs of consumers, companies, intermediaries, shareholders and governments, and minimising impediments and costs to business and consumers. This was the solid advice of **Mr Brian Atchinson**, Executive Director, Insurance Marketplace Standards Association, who has seen it all from every perspective of the insurance game.

Getting Beyond The Angst With Expertise

The teenage years are upon the IAIS with "rebellion and turmoil" to be expected, but the organisation will rely on its strength and expertise to make the multi-trillion-dollar insurance industry more stable and more harmonised with the true spirit of the standard setter, said **Mr Iuppa** at the closing press conference.

The IAIS Executive Committee at the Press Conference



Mr Jonathan L Fiechter



Collaborating With Regulators

By Mr Alex Letts, Chief Executive, RI3K

We have made a case already about the need for a close collaboration between regulators and RI3K, the reinsurance infrastructure provider. And we have argued that a unified regulatory stance should be attempted where possible to ensure that a single infrastructure can support the world's markets. While this is undeniably self-serving, we need to ensure that we can support the market, and that there is not a disastrous and unmanageable fragmentation. This would prevent future infrastructure roll-out.

Regulators are alert to the need for improved transparency, better processes and clearer audit trails (whether or not this gets packaged up as a crusade for contract certainty or whatever). For the antiquated insurance industry this can only mean one of two things: huge costs of new compliance, or huge costs of non-compliance!

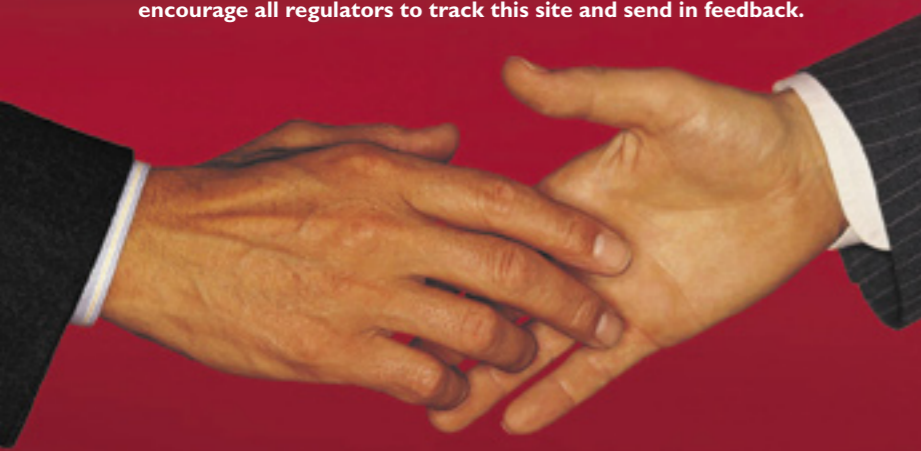
Within such a landscape, there can only be one viable path forward and, as already highlighted in the UK by the FSA, this is through the implementation of technology. Without technology the mountain is simply too massive to climb; even with technology the peaks look mighty high.

Hence the need for collaboration with the infrastructure provider. It is evident that without a unified, structured, standardised electronic infrastructure, response to the new regulatory environment will be sluggish, and in many cases, impossible. Aggressive propaganda will be pumped into the media by angry trade bodies about the ever-increasing costs of compliance. "Regulators are making impossible demands and are overly heavy handed in their attempts to interfere with a well-established, well-functioning industry". This assault will be the same in Tokyo or Taiwan, Munich or Manhattan.

There is quite a bit of apologetic nonsense round at the moment about technology (mainly due to the failure of infrastructural companies in the past). "Technology is only a part of the solution (for example, contract certainty), and at best a support". Well that is just nonsense. Without a standardised business process running on a modern infrastructure, there will be no leap forward. It is as simple as that. Without this type of solution, the road ahead for regulators will be a weary one. Without it, the price of compliance will simply be too great for the companies to bear.

If, however, regulators collaborate with us, we can ensure that we can provide support for their requirements in such a way that the markets can implement viably and at a price that does not lay regulators themselves open to justifiable criticism.

To this end, over the next few days RI3K will open a regulator's forum on its website (www.ri3k.com) that will be dedicated to regulatory issues. We will use it to ensure that relevant developments on RI3K are posted here, and we invite any regulator who wishes to share information to pass it on so that we can post it there for others to read. We hope that this progressive stance will inspire collaboration, and encourage all regulators to track this site and send in feedback.



The Spell of Numbers

Believe it or not, accounting and numbers are hot issues in the insurance business where actuaries and auditors reign, and many numbers tell the same story in different ways ultimately focusing on risk margins.

The revival of interest in valuation of insurance liability to bring accounting systems in line with the specific characteristics and realities of the business kept delegates enthralled for 90 minutes with panelists being inundated with several hard questions, though there were no quick and easy fixes.

Panel Chairman **Rob Esson**, who leads the IAIS Insurance Contract Subcommittee, kicked off discussions saying that the Phase II of the accounting standards dealing with insurance contract would at best only be ready realistically for implementation by year 2010. The delay led panelist **Hannes Bognor** of the Uniqa Group to lament that, given the importance of unifying the standards that can create a level playing field, the wait will be unfortunate and expensive for the industry.

Mr Peter Clark of the IASB urged for early high quality feedback on what should be captured in the accounting standards, and said that the current thinking was veering towards liability being based on unbiased estimates of future cash flow over a range and not a single estimate.

At heart of the debate on numbers is what can and should be included in valuation of liability and what assumptions should be made. It stretches from what is to be included as risk margin depending on what the target of the reporting is as well as discounting, unlocking profits when they fall due, and the need to translate policyholder behaviour in probabilistic terms.

As **Mr Joachim Kolschbach** of KPMG said, the risk margin for supervisory accounting and that for financial statement for the public should, in a perfect market, be the same. In reality, the risk margin for regulatory accounting has to be higher, given its aim of policyholder protection of contractual rights compared to the traditional accounting usually targeted at investors and shareholders.

The answers are varied but there are so many parallel initiatives being undertaken around the world although thankfully the principles embraced are fundamentally similar. So we await 2010 as the Panel Chairman said.



Emerging Force

With premium growth of about 7.5% in 2004 and a market share of only 11.47% of world premiums, emerging markets are a force to be reckoned with.

In an anchor session of the 12th IAIS Annual Conference, **Mr Alejandro Ferreiro Yazigi** (SVS, Chile), **Mr Bassel Hindawi**, Insurance Commissioner from Jordan, and **Mr Jan Monkiewicz**, KNUiFE, Poland, took centre stage to share their experiences on grappling with fragmented and highly competitive markets, the lack of qualified and trained staff, consumer education and newly formed regulatory systems.



The message was clear – the three regulators stressed the importance of an independent insurance authority as a fundamental condition for future development while at the same time welcoming initiatives by the IAIS especially the Core Principles and Guidance Papers which have helped shape their regulatory systems.

Chairman of the session, **Mr Manuel Aguilera-Verduzco**, CNSF, Mexico, said that the IAIS has developed issues and guidance papers to help its members as well as training materials to support the establishment of effective insurance supervision systems worldwide, especially for the emerging markets since they make up 81% of IAIS membership.

Focus On NatCats: The Stormy Setting

Throughout the intensive discussions at the IAIS, Hurricane Wilma was roaring with record speed moving up to Cat 5 with the threat of turning into a cyclone to hit Florida by the weekend. It weakened to Cat 4 again. In Europe, the rage was over the new bird flu, a fact the Asian markets having been living with since 2003. And elsewhere the list of natural catastrophes was long with the earthquake in Pakistan being the worst.

Monitoring The Catastrophes

Against this backdrop, catastrophes were discussed with greater realism. As the Austrian Chancellor said at the 125th Anniversary celebrations, some exposures are just so big that there is no way even the government can afford the premium for the coverage.

Mr Kevin McCarty of Florida cited figures showing that natural catastrophes in 2004 alone led to a US\$120 billion loss with a record US\$46 billion insured losses. "And the outlook is more of the same," he added, a point echoed by **Prof Peter Höpfe** of Munich Re that "climate change has already started. It can only be slowed down but not stopped anymore." Blaming it on global warming, the geo-scientist said there must be an urgent reduction of greenhouse gas emissions.

Guiding Light

Noting that the question is not if, but how governments should be involved, **Mr McCarty** said that both public and private pro-active rather than reactive solutions are needed. The programme must be designed to encourage personal responsibility, must exhaust private market capacity and maximise private expertise, and be pre-funded. In Japan, **Mr Nobuyoshi Chihara** of FSA said the government offered tax benefits as well as undertook active publicity efforts to make earthquake insurance more widespread.

(L-R): Ms Cécile Vignial, OECD; Mr Nobuyoshi Chihara (FSA, Japan); Mr Rudolf Enz (Swiss Re, Switzerland); Prof Peter Höpfe, Munich Re, Germany; Mr Kevin McCarty (Insurance Commissioner, Florida, US); and Mr Andreas Grünbichler, Zurich Financial Services, Switzerland



Read the full report of the 12th IAIS Conference in the December issue of Asia Insurance Review

YOUR Say



The classic role of the supervisor is to ensure that laws are upheld in the interest of the consumer. We have to maintain a broad overview of what is taking place in the financial markets and, at the same time, actively contribute to the development of the industry as a whole. This is the challenge for the Austrian Financial Market Authority and we tackle this on a daily basis.

Dr Heinrich Traummüller, Austrian Financial Market Authority



We have recently gained approval from the Ministry of Finance to make amendments to the insurance supervisory law for insurers to be independent supervisory agencies. This is our biggest challenge at the moment, and we are very excited about this.

Ms Marija Krstevska & Mr Ljupco Sapceviski, Ministry of Finance, Republic of Macedonia



In Norway we have implemented the Basel II rules for insurance companies. The challenge for us is how to deal and cope with these changes while waiting for new solvency rules that will be put into place in future as well.

Ms Nina Moss, Financial Supervisory Authority of Norway



Fraud and money laundering is a concern for us. The problem lies with the bank and we are looking at the insurance side as some banks have insurance subsidiaries. In terms of the future, there is significant investment in the gaming and casino industry which will help in the development of the life and non-life insurance industry. Macau is booming at the moment, so prospects are certainly positive.

Mr Oscar Menezes, Monetary Authority of Macao

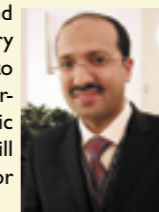


The IAIS is extremely beneficial for markets like Bhutan which is in the very initial stage of development, with only one insurance company. The IAIS forum provides an excellent platform to learn about the regulatory and supervisory environments in other markets as it highlights the latest trends and concerns. In Bhutan, we have an integrated regulatory approach to financial supervision but we are currently exploring the process of having a separate legislation for insurance.

Ms Eden Dema, Royal Monetary Authority of Bhutan

Islamic insurance is booming in the Middle East and South Asia. Bahrain has introduced a new regulatory framework on takaful insurance in 2005 that takes into consideration the unique characteristics of Islamic insurance. We are working closely with the IAIS and Islamic Financial Services Board, and hope our framework will form the foundation of an international standard for Islamic insurance.

Mr Abdul Rahman Khalil Tolefat, Bahrain Monetary Agency



We are currently concerned about the impact of the current low interest rate environment on the insurance and pension funds industry. We have also recently introduced a new healthcare system carried out by private insurers and, as supervisors, we have an important role to ensure that the system is implemented and maintained successfully.

Mr Will Dullemond, De Nederlandsche Bank, Netherlands

Our biggest challenge is contract certainty and we are drawing up guidelines with regulators and brokers that include procedures that will streamline processes to ensure more certainty on the transfer of money and preparation of policy documentation.

Mr Nick Lowe, IUA London



DUSK
at the

Rathaus

The Gala Dinner dinner was held at the impressive neo-Gothic building, which is the seat of Vienna city. Participants of the 12th IAIS dined under the elaborately coffered ceiling decorated with gold leaves and among Art Nouveau candelabra.



Auf weidersein, Vienna, 欢迎 Beijing!

As the 12th IAIS comes to a close, next year's host, China, rolls out the royal carpet for IAIS delegates to visit its capital city from 16-21 October 2006. **Mr Wu DingFu**, Chairman of the China Insurance Regulatory Commission, said that the regulatory body will continue to focus on the theme of fostering co-operation with the market, encouraging reforms and innovations while pushing ahead with liberalisation. IAIS Chairman Mr Iuppa said that there will be continuous progress of the conference and the organisation – in stature, as a standard setter, in attendance and value for participants – and the IAIS conference will continue to provide valuable, timely and relevant topics that participants can identify with.



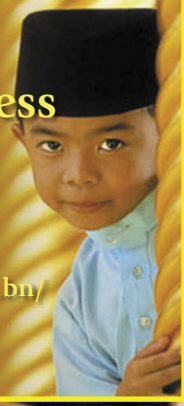
Mr Wu DingFu

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