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Year of regulations: Looking for sustainability

2013 has seen a tremendous wave of regulatory activities spawned by a litany of acronyms – ICPs, ComFrame, RBC, ERM, ORSA, LAGIC, SMI, IAIGs, GSIs, to name a few. And you cannot go to any major insurance conference without regulations being cited as one of the key challenges facing the industry!

In the past, regulations were like the Asian “Big Brother” looking after the industry to protect the policyholders. One wonders when regulations stopped being a friend to the industry and became seen as a “key challenge” to business.

Ever since the notion of “one size doesn’t fit all” was done away with in insurance supervision, regulations seem to have had a life of their own in driving the business, regardless of what the regulators and governments intended. Some even say regulations drive innovation in the business as an unintended but most welcome consequence.

The moans and bellyaches

But on the moaning front, there are some who feel that regulations are imported willy-nilly or wholesale from overseas without fitting local conditions. Then there are others who whinge that regulations create an unequal playing field, especially between those who consciously observe them and those who flagrantly flout them with no party being hurled to task. Others claim that regulations have added huge costs to business in the name of compliance and governance. Yet others claim that it is not regulations but policy that is unpredictable and add to the business uncertainty.

Is the answer blowing in the wind?

Hence, the theme of this IAIS Conference on building sustainable insurance supervision must go a long way to reassure industry leaders that even regulators are looking at sustainable long-term solutions and not opting for quick fixes.

Is there a real answer to this search? Will Solvency II, a uniform global capital standard, SMI or RBC rules with modified models provide some relief along the way?

The industry, though aware that even regulators are caught in the tornado of globalisation, still naively expect regulators to have ready answers to these new problems.

In some paternalistic regimes, regulators are treated with reverence as having all the answers and the fixes to all the problems facing insurers even now. They are seen as having the magic wand and that it is only a matter of persuading or pressuring them to use it.

In some markets on the other hand, regulators are viewed with scepticism and grilled at length on each policy move or even taken to court. Then there are other markets where insurance regulators have minimal power and rely on the IAIS and its might to give them weight domestically.

But whatever the scenario, insurance is such a technical business that the industry needs regulators and supervisors to be technically in tune with the business. They have to be able to represent the industry in governments and international meetings so that the unique specificities of the business are fully understood before any regulation is passed. Insurers are tired of feeling that insurance policy is often the handmaiden of some other “more important” sector.

Pipe dream or emerging reality?

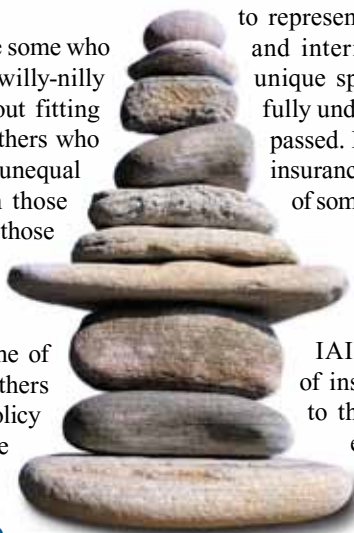
The increasing strength of the IAIS is good news for the world of insurance. More power and clout to the IAIS in the world of global entities!

The Geneva Association as the think-tank of the global insurance industry is also playing an active role in lobbying

for insurance to be taken seriously even by international policymakers, including the G20.

A journey of sustainability has many miles to go, and the milestones and technical steps include building core competencies of the team at every turn of the business.

Rome was not built in a day. Sustainability comes with time. But the winds are blowing in the right direction.



Welcome to



“On behalf of the Financial Supervisory Commission, we are honoured to be the host of the 20th IAIS Annual Conference. I take great pleasure in welcoming you to this important event in Taipei.

The IAIS Annual Conference is a significant event as it provides a platform for professional exchange of views and information, and opportunity for interaction among IAIS Members and Observers. It has been successfully held by previous hosts around the world, and its carefully prepared programmes are always fruitful and enjoyable. We sincerely hope that this year’s Annual Conference will maintain that tradition.

We also salute IAIS Chairman Peter Braumüller, Secretary-General Yoshihiro Kawai, the IAIS Secretariat, and all members of the IAIS committees and subcommittees, for their remarkable contributions to global insurance supervision.

We would like to thank you for participating in this conference, and also all our special guests, distinguished speakers and sponsors for their generous support.

There are going to be some excellent dinners served during this event, and we have also planned a special night at National Palace Museum as well as city tours that will enable you to experience Taipei’s culture.

I wish you all a successful conference.”



Mr Ming-Chung Tseng
Chairman,
Financial Supervisory Commission
Chinese Taipei

A productive time together...



Mr Yoshihiro Kawai
Secretary General of the International Association of Insurance Supervisors (IAIS)

“On behalf of the Secretariat it is my great pleasure to welcome you to Taipei for the IAIS’ 20th Annual Conference. We are very grateful for the warm hospitality and generous support provided by the Financial Supervisory Commission in hosting this key IAIS event and are looking forward to the events of the next few days.

Since our first Annual Conference in Baltimore, Maryland, the Association has grown from one focussed on supervisory cooperation and information exchange, to become the global insurance standard setter and a leader in matters of global financial stability. This growth is demonstrated by the importance of the topics we will discuss during this Conference.

We will begin by exploring issues of insurance and financial stability, with a particular focus on G-SII policy measures and supervision in a low interest rate environment. We will then discuss a matter of ever increasing importance – the ageing of populations and what implications it has for the insurance markets, pension systems and macro-economy.

A panel will then discuss issues related to frontline supervision and supervisory education, and another will address issues of global climate change, such as how to improve catastrophic risk management and enhance risk diversification. We will also spend time on a most important issue – consumer protection – with a focus on the variety of consumer protection frameworks and approaches to guarantee funds. And, of course, we will discuss ComFrame and the next steps in its development and field testing.

Thank you for participating in our 20th Annual Conference, and I look forward to a productive time together in Taipei.”

IAIS to develop breakthrough global capital standard

The International Association of Insurance Supervisors announced earlier this month its commitment to develop the first risk-based global insurance capital standard (ICS) by 2016. Implementation will begin in 2019 after two years of testing and refinement with supervisors and global insurance groups.

It is a welcome move and fills a big void in the global regulatory framework for insurers, at a time when banking counterparts have been pushing forward with reforms built around the Basel III capital standards.

“It is undeniable that the business of insurance is global, and global issues demand global responses,” said Mr Peter Braumüller, Chair of the IAIS Executive Committee. “This is why the IAIS, whose Members constitute nearly all of the world’s insurance supervisors, has committed to develop and implement the first-ever risk based global insurance capital standard.”

The new initiative, to develop a global Insurance Capital Standard, will sit within the IAIS’ work on ComFrame, the comprehensive framework for supervision of internationally active insurance groups. The risk based global insurance capital standard will build on the capital component, which is being finalised in concept now, which was always part of the ComFrame solvency assessment.

In 2014, the IAIS will also develop straightforward, backstop capital requirements (BCRs), which are planned to be finalised and ready for implementation by global systemically important insurers (G-SIIs) in late-2014. BCRs will serve as the foundation for higher loss absorbency (HLA) requirements for G-SIIs, and it is anticipated that their development and testing will also inform the development of the ICS.

Reform agenda already underway in line with ICP

Prior to the announcement of a global capital standard, many supervisors around the world have already taken a proactive path in formulating standards for a risk-based solvency regime for insurers in line with the

Insurance Core Principles (ICP) as set out by the IAIS.

For example in much of Asia, insurance regulatory regimes are evolving away from deriving regulatory capital through a formulaic risk-based method towards employing an integrated risk-based approach.

Various jurisdictions in Asia are now at differing stages of implementing a risk-based regime. While some have just established or are en route to setting up a risk-based capital (RBC) framework, others are already moving to more holistic approaches to asset and liability risk management.

Various stages of development

For instance, countries like Australia and Japan have been closely keeping tabs on developments in Solvency II, with the former recently introducing a new RBC regime with key parallels to Solvency II. Authorities in Japan are meanwhile considering introducing an economic value-based solvency regime in order to have better coverage of the real risks run by any particular insurer.

There has also been recent development in Singapore which is upgrading towards “RBC 2”, which aims to improve the comprehensiveness of the risk coverage and the risk sensitivity of its framework.

Meanwhile in the world’s second largest economy, the China Insurance Regulatory Commission (CIRC) has announced the development of RBC, where the market is expecting the release of an exposure draft towards the end of 2014. Development of the China risk-oriented solvency system (CROSS) framework is understood to include the components of solvency capital reform (ie, a move toward a more risk-based solvency capital calculation framework) and risk management framework.

Over in Europe, the implementation of Solvency II has again been delayed till January 2016. Nonetheless, European insurers continue to invest in anticipation of it through the continuation of significant prudential change and consumer protection reforms. However, the Solvency II delays mean this may now happen at a slower pace than before.

All in all, these various developments have set in motion the path towards a more robust and comprehensive regulatory regime for the insurance sector.



Mr Peter Braumüller

Taipei – Something for everyone

From one of the world’s tallest buildings to museums boasting splendid ancient artefacts and a night market famous for its succulent street food, Taipei has something to offer for everyone.

Taipei 101

Unarguably the most iconic skyscraper in the city, Taipei 101 was the world’s tallest building between 2004 and 2010. With a ground-to-highest-architectural structure height of 508 metres, it was the first building in the world to surpass the half-kilometre mark.



National Palace Museum

Opened in 1965, Taipei’s National Palace Museum is home to a permanent collection of almost 700,000 pieces of ancient Chinese artefacts and artworks, one of the largest in the world. The collection spans over 8,000 years of Chinese history from the Neolithic Age to the Qing Dynasty.

Its sheer size means that only 1% of the entire collection is on exhibit at any given time.



Shilin Night Market

Shilin Night Market is the most well-known night market in Taipei, particularly with regard to its street food.

It is a popular spot to experience Taipei’s night life. In addition to the food court which holds 539 stalls, side streets and alleys are lined with storefronts and roadside stands. Cinemas, video arcades and karaoke bars are also prevalent in the area.



Regulatory reform: The CEO's wishlist



In a time of global economic uncertainty, insurance regulators have stepped up to play an even more crucial role, formulating and revising rules and policies in attempts to ensure the soundness of the global insurance industry. However, the course of regulatory reform hardly runs smooth.

As regulatory developments in Asia's insurance industry progresses, there have been some changes which have made more profound impacts on industry players than others. *Asia Insurance Review* speaks to several industry players to find out what they hope regulators can do to help the industry.

Pace of regulatory reforms



"While we are moving in the right direction, we need to slow the pace of regulation down a little. This will give insurers and regulators themselves some time to adapt so that we avoid any costly mistakes and can make the required changes with less cost and disruption. There's also a risk that, in the race to implement and comply, form will prevail over substance and the benefits and good intentions of the regulation will be lost."

Mr Jose Hernandez
President & CEO, AIG Asia Pacific



"Regulators in Asia Pacific intend to catch up with their counterparts in developed countries. Thus, reforms in the region could sometimes be drastic and some insurers may find it difficult to catch up with the pace of reforms. To survive the changes, some may have to rebalance their product mix based on capital allocations, or even exit some product lines and markets."

Mr David Fried
CEO, QBE Insurance Asia Pacific

Common framework



"The more harmonised regional insurance regulation can be, the higher the chance insurers can go for product and policy standardisation, and hence allowing more globalisation of the insurance value chain. This will bring cost saving to all participants, particularly policyholders in the end."

Mr Manuel Bauer
Member of Board of Management,
Allianz SE



"The successful completion of the ComFrame initiative to ensure greater global convergence and consistency of prudential and conduct requirements is of paramount importance. The current G-SII requirements are a good guide to the difficulties faced by industry and supervisors in the absence of such a framework."

Mr Gary Reader
Global Head of Insurance,
KPMG International



"Regulators around the world must strive to achieve a common framework for the supervision of the industry whilst recognising the regional and cultural characteristics of individual countries. Especially in Asia Pacific, where there is a wide range of different practices in insurance regulation, regulators need to work towards a convergence of the industry through the implementation of clear and consistent principles."

Mr Roland Eckl
Asia CEO, Munich Re,
responsible for Japan, Australia & India

Striking a balance



"Governments/regulators should make maximum effort to ensure that all reforms/regulations achieve their objectives with the right balance in terms of cost for regulated entities."

Mr Juan Luis Ortega
Regional President, ACE Asia Pacific



"Understandably, regulators are focussing on different issues as highlighted by the financial crisis, which include for instance, group supervision, liquidity risk, systemic risk and consumer protection. Regulatory responses are fast but sometimes fragmented. It is only fair to ask whether adding complexity to regulations is the right way to deal with the risk of increasing complexity in financial markets."

Mr Moses Ojeisekhoba
CEO Reinsurance Asia, Swiss Re



"For newly emerging markets in the start-up phase of insurance, we look for a broadly stable regulatory framework together with markets that show signs of capital market development."

Mr Christopher Townsend
President, MetLife Asia Pacific

What CEOs do *not* wish to see



"As a reinsurer I can face any stochastic development – like an earthquake, tsunami or hurricane – it is my job and I have to absorb these shocks. What is impossible to plan for is the decisions of policymakers. Policymakers are more and more unpredictable, and that is a problem for us. In France, we call this inexplicable behaviour the *fait du prince*."

Mr Denis Kessler
CEO, SCOR
at the Rendez-vous de Septembre 2013, citing the example of the uncertainty around US policymakers' decision to end QE

All drummed up

The 20th IAIS Annual Conference kicked off last night with a rousing performance that showcased Chinese Taipei's diverse natural landscape and its vibrant multiculturalism. Delegates were treated to a magnificent mix of film and tunes as they savoured delectable canapés and drinks.



Seoul Flashback



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