



International Association of Insurance Supervisors

Press release

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Insurance Supervisors strengthen framework for sound insurance markets

The International Association of Insurance Supervisors (IAIS) concluded its Annual Conference and General Meeting in Rio de Janeiro, Brazil on Saturday 24 October 2009. The conference provided the opportunity for insurance supervisors and industry professionals to exchange views and discuss how to strengthen the supervisory framework for sound insurance markets. "The IAIS' broad membership base, representing insurance regulators and supervisors from 140 countries around the world, places it in a unique position to take a truly global view in the advancement of supervisory standards, training and implementation support and establishing supervisory cooperation and information exchange mechanisms," said Peter Braumüller, IAIS Executive Committee Chair.

A number of important steps were taken during the annual conference, including:

- The launch of the *Access to Insurance Initiative* which is a new collaborative approach between international development agencies and insurance supervisors designed to strengthen the capacity and expertise of insurance supervisors and to facilitate their role in expanding access to insurance markets.
- The signing of three further insurance supervisory authorities to the IAIS Multilateral Memorandum of Understanding (MMoU). The MMoU facilitates cooperation and exchange of information between supervisors.
- The adoption of a guidance paper providing the key features for effective supervisory colleges in group-wide supervision.
- The extension of the Financial Stability Institute (FSI) on-line training tutorials to areas of specific interest to insurance supervisors, supported by the IAIS. Over the next few years, the FSI will introduce a number of additional insurance-focused tutorials.
- The adoption of a standard and guidance paper on the capital resources for solvency purposes to support the enhancement, improved transparency and comparability and convergence of insurer solvency internationally.

The theme of this year's conference was *Insurance as a means of socioeconomic development - financial crisis and the future of insurance markets*. The attached annex provides a summary of the annual conference panel discussions. The supervisory papers that were adopted at the General Meeting can be found at www.iaisweb.org.

IAIS 16th Annual Conference panel sessions: summary of discussions

Insurance as a means of socio-economic development

The panel discussed financial inclusion and the need to support access to insurance by promoting successful regulatory, supervisory and policy approaches. Availability of insurance to low income populations reduces their vulnerability against risks such as unemployment, illness, death of a family member, theft, traffic accidents and labour related accidents. There are differences in the microinsurance market from country to country. In some countries low income households are mainly urban based whereas in other countries they are mainly rural based. These differences can result in different approaches to encouraging development of the market.

Constraints to growth of the microinsurance market include lack of purchasing power, lack of distribution channels, high distribution costs, high transaction costs, and high lapse rates. Product simplicity, practicality and low cost are important features. There were different views expressed as to whether microinsurance should be subject to different rules and regulations compared to traditional insurance. Fiscal incentives such as tax relief were suggested as ways for governments to promote market development. All agreed that governments had a role to play in supporting development of microinsurance and promoting financial literacy with an overall objective to protect low income people from risk.

Lessons from the crisis - for supervisors and the insurance industry

In examining lessons learned from the crisis, a distinction should be drawn between the insurance and banking sectors. In particular, the panel believed that the nature of systemic risk for insurance is different from the banking sector. Therefore, although there is merit to learn from the experience of the banking sector, care should be taken before extrapolating the banking measures to insurance.

The financial crisis has revealed that further improvements could be made in the area of group-wide supervision, investments, capital and liquidity requirements, crisis management and regulatory structure and process.

Some of the measures that could be considered include the development of: global converged standards; a solid basis for supervisory cooperation; and a global group-wide supervision framework. Other measures could include a renewed focus on investment management; improvement in the quality of capital; better investment and liquidity risk management; and enhanced preparedness for crisis management. Both micro- and macro-prudential perspectives could be considered in these areas.

There was considerable discussion on the merits of drawing up a list of systemically important financial institutions. Some believed that a list is unlikely to be helpful in addressing systemic risk due to the possible moral hazard and distortion to competition effects.

The panel concluded that it was important to continue pursuing global financial regulatory reform efforts despite recent signs of economic recovery as the global financial crisis may not have yet revealed its full impact.

A new international supervisory architecture

The panellists discussed how the financial crisis had underscored the importance of improved cross-border supervisory cooperation and coordination as well as adequate consolidated group supervision that includes non-regulated entities. The need for well constructed prudential regulation at both solo and group level was particularly emphasized and the panellists remarked that effective equivalence assessment mechanisms were needed to ensure cross-border comparability and consistency. In his summary, the chair remarked that although there were differences in approaches and in the speed of reform, supervisors around the world shared common focal points and were trying to achieve similar outcomes. The IAIS can play a vital role in addressing supervisory gaps and ensuring better supervisory coordination.

Promoting sound insurance markets

The panel discussed the regulatory elements required for promoting sound insurance markets. Discussions included the strengths and weaknesses of regulatory measures taken during the financial crisis as well as measures that should be taken over the longer run to promote sound insurance markets.

Key elements for sound insurance markets include an appropriate legal system, protection against fraud, adequate accounting standards and a strong supervisory infrastructure. Corporate governance must be long term oriented and the focus should not be just on shareholder returns but also protecting bondholders and policyholders. There is a clear and urgent need for better cooperation among supervisors on both a regional and global basis and a coordinated approach for winding-up and run-off. Dialogue between public and private stakeholders is essential to the development of supervisory approaches. Generally the business model and culture for insurance is conservative and focuses on tail risk and this has proven to be valuable during the crisis.

Financial literacy and consumer protection

Speakers on the panel discussed issues related to consumer protection from both the insurance supervisor and insurance industry perspective. The need for consumer protection stems from an imbalance in power, information and resources among the parties involved in a transaction. A common theme raised was the recognised importance of consumer protection and the challenges involved to ensure that the laws, regulations and practices established for consumer protection meet their goals and purposes when put into practice. Creating a well functioning system for consumer protection and education may sometimes be a long process, but it has to start somewhere and both supervisors and insurers should see this as an evolving process. Providing information and disclosures to consumers helps them to make better informed decisions when choosing a product and understanding how an insurance product works if and when it is needed.

Global developments in solvency regulation and supervision

The panellists introduced recent developments as well as improvements being made in their jurisdictions regarding solvency regulations. The importance of risk-based capital requirements, consolidated group solvency assessment, proper actuarial assessments of technical provisions and stringent stress testing was particularly underscored. Panellists also pointed out the need to recognise both the benefits and vulnerabilities associated with the use of internal models for regulatory purposes and care should be taken in allowing diversification credit. The panellists ended by sharing their views on whether greater consistency of solvency regulations among jurisdictions should be pursued through convergence or by supervisory recognition.

Corporate governance and risk management

The panellist discussed issues and developments in insurers' corporate governance and risk management practices. The recent financial crisis has shown the importance of risk management. Insurers take on a certain amount of risk as part of doing business and to be profitable. How this risk is managed, the risk culture and the risk tolerance of management and the board of directors are crucial for sound governance. Risk management practices and structures should be appropriately adaptable to risks and challenges in the business environment. Having the right people in place with the required knowledge and ability that meet fit and proper criteria are key to effective governance. Additionally, remuneration policies should not create inappropriate incentives and the independence of control functions must be maintained.

Co-operation among supervisors

Effective supervisory cooperation is important as insurers become more interconnected on a cross-border and cross-sectoral basis. The financial crisis has underscored the need for insurance supervisors to come together, for example through a supervisory college mechanism, in order to avoid any gaps in the supervision and regulation of insurance groups. In this regard, supervisory cooperation should not only consider home-host relationship but also host-host issues as well.

The panel also discussed the issue of cost of failures and government intervention in crises. There were views that it was important to have accommodative national legislations to enable effective cross-border and cross-sectoral supervisory cooperation for example to enable the orderly winding down of systemically important financial institutions.

The IAIS efforts to support cooperation among insurance supervisors at the global level were acknowledged to be important particularly in response to some of the observations from the financial crisis. The Multilateral Memorandum of Understanding (MMoU) was cited as a significant achievement to enhance supervisory cooperation. Other on-going work which further supports this objective include standard setting initiatives on macroprudential tools, cross-border cooperation on crisis management, supervisory resolution of cross-border entities and treatment of non-regulated entities. The panel noted that proactive sharing of relevant information among supervisors should be encouraged to achieve the mutual goal of effective group-wide supervision.

Ultimately, mutual trust among insurance supervisors is a necessary important precondition in any form of supervisory cooperation mechanisms.