IAIS DAILY

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Flying the insurance flag high

Those working in an industry based on trust and reliability, must themselves also show outstanding behaviour. In other words, insurers must adhere to the highest principles – they do, and many have also gone beyond their policy obligations. From recent examples of the destruction caused by the 2011 Japan earthquake and tsunami; bushfires and floods that destroyed lives and properties in Australia; Cyclone Sandy that flooded large parts of New York City; to the tragic downing of flight MH17 and the loss of 298 lives, the industry has managed to help those in need and in doing so, has cemented its reputation as a solid and reliable industry. The promise to deliver gives people the means to carry on their lives and businesses, the confidence to start over when things go wrong.

– Ms Joanne Kellermann
Executive Director, **DNB**

Double milestones

Mr Peter Braumüller

As the IAIS celebrates 20 years of establishment this year, coincidentally De Nederlandsche Bank also celebrates its 200th anniversary. And Mr Peter Braumüller, Chairman, IAIS, paid tribute to both organisations for marking their respective milestones, noting the remarkably similar roots that both establishments had grown from. He also expressed much optimism for the budding supervisory organisation and even shared a light-hearted vision of the IAIS when it reaches its own 200th anniversary.

"It has been truly remarkable to have witnessed our association grow from a small group whose main focus was to enable supervisory cooperation and information exchange, into the international insurance standard setter and an integral part of efforts to ensure global financial stability.

This growth has no doubt been due to the timeless efforts of our members, who despite our occasional differences have always been able to come together to share our common goal of policyholder protection, in order to reach the best possible outcome."

The risk of "reckless prudence"

The current emphasis on regulations is leading to a serious risk of "reckless prudence", said Mr Howard Davies, Chairman of the Board of Directors, Phoenix Group, at yesterday's IAIS Annual Conference panel discussion on the developments and challenges in insurance supervision.

"We are so risk-averse that we are requiring levels of capital that are probably beyond what is sensible, and intrusive supervision which I think is not really sustainable," he added.

There has been a very sharp swing of the pendulum post-global financial crisis for the financial system as a whole, he said. Pre-crisis, politicians were talking about the importance of not getting in the way of the financial sector which was seen as a great wealth generator; but that has now "switched to a language that is all about intrusive supervision and much more directed control by regulators". While it is an inevitable consequence of a crisis of that scale, the pendulum has swung too far back, he said.

What is needed now, is for supervisors and firms to try and move the pendulum back to a sustainable position, said Mr Davies.

Developing a more mature relationship

And one way this can be done is through the development of a more mature relationship between the supervisor and the supervised entities, with greater communication, said

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(L-R): Mr Howard Davies, Mr Afonso Medonca Reis, Mr Karel Van Hulle and Mr Manuel Aguilera-Verduzco

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Mr Karel Van Hulle, Professor, KU Leuven, Goethe University Frankfurt, who stressed that "dialogue is not a monologue".

Touching on potential regulatory challenges, he said a top-down approach to regulations will not be the right approach. There needs to be mutual learning, and bilateral and multi-lateral cooperation in the development of regulations, he said.

Doing what insurers do best, with clear communication

Mr Van Hulle is also confident that the insurance sector will grow further if insurers continue to do what they do best – identify, underwrite, and manage risks. "The increased uncertainty will pave the way for new insurance products, particularly in the areas of health insurance, pensions, life insurance, and natural catastrophes."

While the panel also discussed the importance and social role of insurance, the need for greater financial literacy was driven home by Mr Afonso Medonca Reis, Founder, Mentes Empreendedoras. "I'm an economist and I learnt microeconomics with insurance examples. But every time I buy insurance, I still need an adviser to explain everything to me," he said.

"Make sure insurance products are clearly communicated and people understand the value that they create for society," said Mr Reis.

The panel session was moderated by Mr Manuel Aguilera-Verduzco, President, Insurance and Surety National Commission, Mexico.

Less risk-taking, more prudence

Mr Jeroen Dijsselbloem

The global financial crisis has reiterated the importance of prudent risk-taking for the insurance sector which offers great value to individuals and businesses alike, said Mr Jeroen Dijsselbloem, Dutch Minister of Finance and President of the Eurogroup.

Further, with the "constantly changing world" that would "never stop providing new challenges", there should be an even greater incentive for the general regulatory approach to continue along the lines of "less risk-taking, more prudence", he said.

He added that after the impact of the crisis on the insurance industry, there was good ground for new and firmer regulations, and hence at this moment, having "too much regulation" in the industry was not the greatest concern. Instead, it would be more prudent to keep in mind lessons learnt from the recent crisis.

"I think we should look forward with the wisdom and experience that we have only recently got on board. Let's not forget what happened," he said.

Joining forces for effective supervision

Aside from briefly sharing on the highlights of the upcoming implementation of Solvency II in 2016, he called on the IAIS to build upon the work that has been done in Europe, so as to further enhance global cooperation that is necessary for effective supervision. "Large insurance groups have become very complex and interconnected with other financial institutions and markets, so worldwide cooperation is necessary for effective supervision. In short, the EU has a clear interest in joining forces with its partners from around the world."

On the EU's part, the European Insurance and Occupational Pensions Authority (EIOPA) will also play an instrumental role in ensuring the consistent implementation of Solvency II through the promotion of supervisory convergence and establishment of a common supervisory culture in Europe. "You will witness an intensified cooperation between supervisors from 2016, in particular in the monitoring of insurance groups," said Mr Dijsselbloem.

Global capital standard can have negative effects if not done right

Capital is not the single determining factor for the stability of the insurance sector, and the IAIS' work on designing a global capital standard needs be mindful of its effect on consumers and markets, said Mr Michael Consedine, Insurance Commissioner of Pennsylvania, USA at the panel discussion on Insurance Capital Standards (ICS).

During the debate chaired by Mr Michael McRaith, Director of the Federal Insurance Office, USA, Mr Consedine and several other panellists agreed that ICS needs to be handled carefully given its potential drawbacks and consequences.

"Capital is important but fixating on capital is a mistake. Policyholders ultimately underwrite the cost of our changes and will be impacted if our actions lead to fewer products or higher prices," said Mr Consedine.

"A single standard is perhaps unnecessary, rather if we can achieve greater consistency but retain the diversity in regulations…it would make for a stronger market place ," he added.

Accounting for diversity

Mr Toshiaki Sumino, General Manager of Group Management HQ at Dai-ichi Life said the ICS must acknowledge the differences in products especially that of long-term life offerings; and thus called for a "granular categorisation of insurance products taking into consideration different risk profiles."

Mr Lard Friese, Chief Executive of NN Group, advocated a principles-based approach to capital stating the ICS needs to be "pragmatic" and "flexible enough to recognise differences in various markets and the local regimes which are in place."

He added insurers should be closely involved and consulted in designing the ICS in order to appreciate the differing realities in the market.

ICS will evolve

Financial Stability Board (FSB) Secretary-General Svein Andresen, drew parallels from the experience of the Basel Committee on banking supervision saying it was important to draw strength from current regimes when designing the ICS.

While most of the panellists expressed major doubts on the target date of implementation in 2016, Mr Andresen felt the IAIS should stick with its timeline even if it was deemed "ambitious".

"There won't be a perfect standard and the ICS will also need to evolve over time but that's no reason not to set a timeline and work in a concerted way towards it. I think we have seen with the Basic Capital Requirements that it's possible."

(L-R): Mr Toshiaki Sumino, Mr Michael Consedine, Mr Michael McRaith, Mr Lard Friese and Mr Svein Andresen

Buying behaviour

Mr Stephen Collins, CEO of **ReMark International** shares their research findings (conducted with NMG Consulting) which reveal that global life insurance industry's growth is still possible in both developed and emerging markets, and the key is to focus on buyer behaviour and purchase motivation.

It is increasingly clear that the global life insurance industry faces demographic, economic, socio-political and consumer behaviour trends that could dramatically curtail future growth.

ReMark conducted online interviews with 8,000 consumers across 14 key life markets in December 2013 and examined some emerging customer trends. Looking at both developed and emerging markets, it identified five key and often interlinked themes.

1 Life insurance buying decisions differ between developed and emerging markets

In general, customers say they buy life insurance for four reasons:

1. Debt management – insurance to cover loans and mortgages.
2. Family financial security – to provide financial security for dependents.
3. Health fears – to cover the costs of accidents or ill health.
4. Adviser – because of an adviser recommendation.

Research into these primary purchase drivers revealed some important differences between customer behaviours in developed and emerging markets.

- The more tangible client needs such as debt management and family financial security are the dominant needs in developed markets.
- In emerging markets, clients cited health fears and adviser recommendations as key motivations.

2 Persistency management requires an integrated approach

The five main reasons why customers cancel their life policy are: (1) reduced need, (2) affordability, (3) replacement, (4) substitute, and (5) adviser.

Research by NMG suggested that the best – but as yet largely overlooked – approach to persistency management is to consider consumer cancellation behaviours before the sale.

Today, the right tools, big data analysis and smart consumer insights can help insurers avoid the customers most likely to lapse after purchase.

3 Demographics and unbundling are key risks to growth and profits

There are downside risks to current penetration levels within key demographic groups in both developed and emerging markets.

Demographics: In developed markets, the primary risk is ensuring the next generation of life insurance buyers maintain current penetration levels given a changing regulatory and distribution landscape.

In many developed markets we see a muddled trade-off emerging. Regulators are trying to improve the quality of advice through tougher regulations but in doing so are reducing the number of advisers, and the number of consumers with access to appropriate insurance.

Unbundling: At the moment most life insurance sales are bundled with the sale of an investment product on a whole life basis.

The unbundling of life and investment products will have significant impacts –premiums are likely to be much lower than for savings products. At these margins, it will be difficult for companies to sustain the current life insurer distribution networks which are essential to access mass and mass affluent customers.

4 Look beyond the channels to see big changes in buying behaviour

We can identify five global buyer behaviour themes:

1. More customers are researching products before they buy.
2. Customers are increasingly involved in the lead generation process.
3. Lead generation is increasingly separate from purchase.
4. Customers increasingly want to interact via digital channels during the research and lead generation phases.
5. Many customers want immediate and transactional advice better suited to lower cost and more flexible remote advice models than traditional adviser channels.

The key takeaway from the above is that customers want to interact with insurers as well as advisers.

5 What do these trends mean for your insurance business?

Responding to the themes addressed above presents different challenges for the four different categories of industry participants below:

Agency insurers: Agency insurers with successful direct sales channels and a focus on emerging markets remain in a relatively strong position.

Intermediated insurers: Intermediated insurers are typically weighted to developed markets and face the biggest strategic challenges.

But there are strategies that can help intermediated insurers manage these challenges. These include:

- Developing data-driven capabilities to allow more sophisticated customer management around sales and persistency.
- Developing remote advice models to attract the next generation of life insurance buyers.

Banks: The outlook for banks is uncertain. They have the ability to meet specific client life insurance needs at lower acquisition costs and with better risk selection than competing models. However, their existing remote advice models have focused on top-line revenues and they now face regulatory pressure – particularly in developed markets.

Direct Specialists: The direct specialists who operate remote advice and non-advised models are strategically well-positioned as advice regulation forces advice upmarket and customers seek more flexible engagement models.

Data-driven techniques

The above five themes highlight the need for a better understanding of customer motivations across different markets and demographics and to not only have better use of data-driven digital marketing but to deploy these techniques strategically too.

Flashback 2013

This time last year, IAIS delegates were treated to an omni-sensory experience of a vibrant and exciting conference in Chinese Taipei. Here are some pictorial highlights to bring you back in time.

G-SIIs and systemic risk update

Systemically important financial institutions have been on the agenda of policymakers ever since the global financial crisis, seeing how banks with significant market importance and global interconnectedness can significantly threaten the functioning of the global financial system.

In July 2013, the Financial Stability Board (FSB) embarked on what they had instituted for the banking sector, that is to identify insurers large enough to pose a systemic risk should they fail. Labelled as Globally Systemically Important Insurers (G-SIIs), a list of nine companies have been identified and will be subjected to more stringent rules. They will immediately be subjected to enhanced group-wide supervision and have until the end of 2014 to meet the recovery and resolution planning requirements.

Industry advocates have largely been unsuccessful in making their case that insurance activities do not cause heightened systemic risk, and policymakers are expected to cast the net wider to include more companies as G-SIIs. Although, some insurers have already taken steps to change their business model in order to avoid being caught by the new rules.

While the FSB were due to name its list of reinsurers deemed systemically important by July this year, this decision has been delayed till the end of the year. This is because systemic risks posed by the latter needed further scrutiny before designations could be passed.

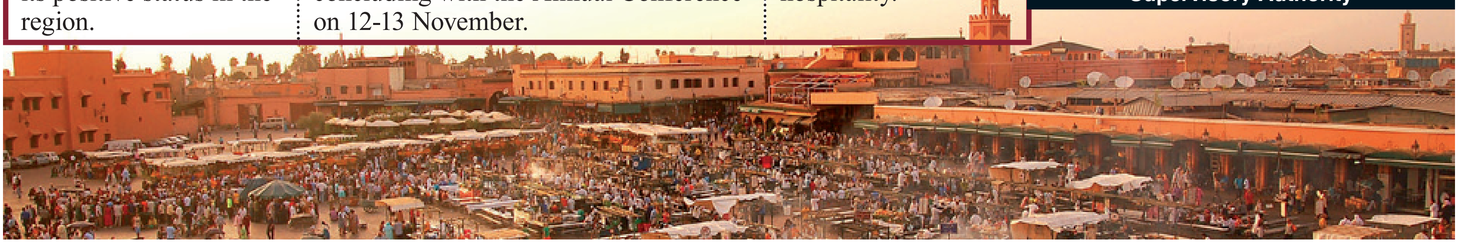
Observers expect a decision on the potential designation of reinsurers will be taken at the same time as other potential G-SIIs are examined, and will coincide with the annual update of the FSB's list of G-SIBs – "global systemically important banks".

Marrakech awaits you!

In 2015, the Moroccan Insurance Supervisory Authority and the International Association of Insurance Supervisors will be hosting the 22nd IAIS Annual Conference in Marrakech. From 9 to 13 November 2015, members of the international insurance supervisory community will be gathered in Marrakech to exchange views about the latest trends in the insurance industry, and in particular on the chosen theme: "*The supervisor's role within policyholder protection, financial stability and market development*".

Exclusive	Change	Delight
Held for the first time in Morocco, (second best rated insurance region in Africa and third in the MENA region), the Kingdom is proud to welcome the IAIS Annual Conference as it will further develop its positive status in the region.	Unlike previous Annual Conferences, the 22nd IAIS Conference will be devoted exclusively to member jurisdictions enabling a strategic debate between participants. The Annual Conference week will follow a new format in 2015, starting with IAIS committee meetings on 9-11 November, followed by the General Meeting and concluding with the Annual Conference on 12-13 November.	Marrakech, the Red City, is the perfect place to host IAIS 2015 for it will offer you an unforgettable journey into centuries old Moroccan culture, tradition and fine hospitality.

Mr Othman Khalil EL ALAMY
Deputy Director,
Moroccan Insurance Supervisory Authority



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