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In Search of the Magic Wand

In the post-Katrina market, the role of the state in catastrophes and the role of regulators in getting the market to provide NAT CAT covers will be key issues at any insurance gathering aside from international accounting standards, global solvency tests and contract certainty. Vienna will be no exception.

As insurance supervisors and regulators gather in this regal Hofburg Palace, they must be aware that the crown of supervision comes with the great burden of being responsible for the future of the industry back home. No matter how sophisticated businesses get, they still look to insurance supervisors and regulators for help, guidance and leadership. No amount of self-regulation can will away this basic expectation and responsibility, even as the insurance business becomes "more modernised" with the wave of globalisation.

Some even expect the IAIS to churn out the answers to give each supervisor a Magic Wand to rule the day and make the problems go away. Equally, there are others who view the IAIS meetings as séances that produce higher compliance burdens for the regulated.

Heavier Burden

The reality is that the challenges facing insurance supervisors today with deregulation, liberalisation and globalisation is even greater than those they regulate, namely the insurers and reinsurers. Even rating agencies actively trained in assessing and spotting the woes of insurers have had to engage in downgrading and upgrading despite all their carefully couched exclusions and predictions. What help can insurance supervisors draw from?

Refuge in Numbers

The lure of the IAIS to supervisors around the world is that it gives them mutual access to their contemporaries. It gives regulators a neutral platform to get together as equals to share experiences and discuss common problems to find "possible" solutions to help the market. There are no clear cut definitive answers but IAIS offers refuge in the collective wisdom and experience of numbers. Hence, the strong turnout in Vienna today with more than 350 representatives from the regulatory world.

Where are the Global CEOs?

As we gather at this 12th Annual Seminar, the IAIS' role as a standards setting body for supervision seems to have become

entrenched by acceptance. Hence, the global industry must make the IAIS Annual Seminar a "MUST" attend event with a greater showing by leaders from the private sector. Many still give the IAIS a miss in the outmoded belief that the supervisors will do what they will regardless of inputs from the private sector. This is the greatest missed opportunity of the IAIS. What other forum can be a multinational insurer get to address the concerns he has in each market he operates in to an attentive non-defensive audience? Yet, how many global CEOs are present at this august forum? Many are content to send a senior representative to hold a watching brief.

The time has come for IAIS to raise its profile further. The collective wisdom, knowledge and experience of supervisors and regulators gathering under the auspices of the IAIS along with representatives from the private sector bodies and insurance associations should be played up.

More leaders from the private sector must be lured to these meetings to be challenged to become partners in the exercise to find the right workable solutions for the trials and tribulations facing the insurance industry, pre- and post-Katrina. The theme today, "Solvency, Governance and Market Conduct" strike at the core of the business operations today. There should be more CEOs here in Vienna.

The Asia Insurance Review team will follow discussions here very closely to find the "hidden" cures to present them in as sweet a packaging as possible.



Congratulations to the Austrian Financial Market Authority as it salutes 125 years of Insurance Supervision in Austria.

Electronic Trading and Regulators

By Mr Alex Letts,
Chief Executive, RI3K



"So what does an electronic trading service have in common with Regulators?" On face value perhaps, the response is, "Not a lot actually." But many Regulators will recognise that in the areas of buy and sell transactions, and in the areas of process surrounding these transactions, regulatory interest is extreme. In the reinsurance sector in which our own RI3K global trading service operates, the lack of controls, process and transparency is shocking to most observers who have analysed this industry.

An exchange operator needs to tread carefully in this space. There is a minefield of multiple, conflicting vested interests ahead. Being seen to agitate for modernisation of practices is a dangerous game, too, for a service company, not least when this modernisation suits their own strategy.

But, in truth, it is the Regulators that will be, and indeed are, the initiators of reform. And to be fair, it is genuinely hard to see how this demand for reform can be easily responded to without a standardised electronic trading infrastructure. This means that we at RI3K have to provide the tools to facilitate the markets' response to regulation.

Those tools are built today and seem to align with expectation from Regulators with whom we have a dialogue. Electronic trading, whilst to many people is a no-brainer for increasing efficiency and reducing costs, has the benefit of introducing structure to processes. It also offers clear records of what has been presented, agreed and done by counter-parties. The audit trail alone of these electronically organised, recorded interactions means that all users can more easily report back to their regulatory bodies from a source that is consistent.

Supporting Regulators

Our role is nevertheless a sensitive one. We see ourselves as being on hand to help companies through a difficult period as they adjust to the regimes being set up around them. And we see ourselves as being responsible for making compliance less painful than otherwise might be the case. Yet we also try to support the balance that the Regulator is always trying to maintain, as he walks that high wire stretched between doing what is needed, and doing it without increasing the onus of compliance for the companies.

If we can be the oil in the machine, making the implementation of the required regulation easier and more possible, then we are succeeding. In this role we have some insight clearly as to what is - or is not - possible and dialogue can only be helpful for all parties. We need regular face-time with all Regulators who preside over significant reinsurance markets. We need this so that they themselves can get access to what is and, more importantly, what isn't supportable by trading exchange infrastructure. This also needs to relate not just to the present, but so that they can understand what will be supportable in the coming months and years. It helps us to align our own thinking with the direction which regulation is going to drive the industry and, perhaps most importantly of all, it allows a smoother path to implementation for the companies that have to deal with the new order that is being structured around them.

Expectations for Vienna

Vienna represents many things to many people from the romantic waltzes to the woods to the efficient business culture. Here we bring you a sample of the expectations of those attending the 12th IAIS Annual Conference and what they hope to get out of the meeting. So everyone has to come prepared to achieve.



CANADA

Mr Carl Hiralal

Senior Director, Financial Institutions Group, OSFI Canada/BSIF Canada

The opportunity to renew acquaintances, make new friends, as well as exchange ideas, share experiences, and generally learn from each other should make the 2005 AGM an overwhelming success.

HONG KONG

Mr Richard Yuen

Commissioner of Insurance, Office of the Commissioner of Insurance, Hong Kong

I look forward to meeting up with fellow regulators, especially those in the region, and the opportunity to talk to them about issues of interest and mutual concern. I also hope to see support of the new initiatives taken by IAIS to promote the development of emerging markets and some positive outcome from the discussion on the supervision of reinsurance arrangement and the regulation of reinsurers. More importantly, I believe we all want to keep abreast of the latest development of Phase II of the Insurance Contracts Project of the International Accounting Standards Board.



MALAYSIA

Mr Donald J Jaganathan

Director, Insurance Regulation Department, Bank Negara Malaysia

I am particularly looking forward to this year's conference & annual meeting in Vienna for two reasons. Firstly the Conference will be focusing on some key issues that are currently on our agenda - specifically transitioning to a risk-based solvency regime, the challenges associated with IFRS 4, achieving effective policyholder protection in practice, and the impact of public pension reforms on the role of private pensions and insurance. Secondly, I am also looking forward to further initiatives by the IAIS around the new IAIS

framework for insurance supervision and the cornerstones for solvency assessments which are going to be instrumental in moving towards more cohesive and consistent supervisory systems across jurisdictions.

BERMUDA

Mr Jeremy Cox

Supervisor of Insurance, Bermuda Monetary Authority

Overall, I look forward to the latest information and updates on regulatory proposals and international standards for the global insurance market.



Mr Brad Smith

Vice President, International Relations, American Council of Life Insurers

Another excellent program that shows the vitality and depth of commitment from the international community to the mission of IAIS.



LONDON

Mr David Stratchan, Director - Retail Firms, Financial Services Authority (FSA) UK

"A good, constructive debate on the Solvency cornerstones paper and an opportunity to compare notes on the impact of Hurricane Katrina."



AUSTRIA

Dr Heinrich Traumueller

CEO (one of the two members of the chief executive board of the Austrian Financial Market Authority, FMA), on what delegates can expect at the IAIS in Vienna.

The general theme "Solvency, Governance and Market Conduct" will mirror the new IAIS Supervisory Framework, which is based on those three pillars and stress that insurance supervision is a broader concept than just solvency control.

There will be sessions dealing with the elaboration of a global solvency regime for insurance companies and with the valuation of insurance liabilities which is linked to actual IASB developments like the discussion about the new IFRS 4. The programme will also address topics that have concerned supervisors recently, like finite reinsurance, outsourcing, catastrophes and pensions.



Dr Knut Hohlfeld

Head of PROGRES, Regulation, Supervision and Legal Issues, The Geneva Association

I am sure that this year's Conference will again be held in a very open and friendly atmosphere with many participants from all around the world. There will be many opportunities to learn to know each other better and exchange views on all areas of insurance. Very topical issues are on the agenda of the Conference. I expect interesting and lively discussions on these items. As representative of an insurance industry association I also expect a fruitful exchange of views with senior insurance supervisors and a strong impetus for future IAIS activities, in particular, with regard to capital and solvency requirements.

JORDAN

Dr Bassel Hindawi

Director General, Insurance Commission, Jordan

I am looking forward to exchanging views and engaging in all the debates that will take place during the Conference whether formally or informally during the events with the representatives of the public and the private sectors.

I also would like to congratulate the Austrian Financial Market Authority on their 125th anniversary of Insurance Supervision in Austria, and for hosting the 12th Annual Conference of the International Association of Insurance Supervisors, which definitely represents a step forward in the right direction.



Mr Dave Matcham

Chief Executive, The International Underwriting Association (IUA)

In particular, I am hoping that further progress will be made in developing a framework for mutual recognition of licensed reinsurers between supervisors. More generally, I'm looking forward to the opportunity for regulators and observers all over the world to meet together to discuss issues and exchange ideas.



JAPAN

Ms Tomoko Amaya, Director for International Insurance Services, Financial Services Agency, Japan; Chair of Accounting Subcommittee, IAIS

The annual conference is a valuable opportunity to meet and exchange views with people who do not regularly attend other IAIS committee meetings. I hope those who usually do not attend committee meetings, in particular, actively participate and bring new impetus.



Mrs Hauw-Quek Soo Hoon, former Executive Director of Insurance Supervision Department at the Monetary Authority of Singapore from 2000-2005; Former member of the Executive Committee of the IAIS and also former Chairman of the IAIS, Education subcommittee (Emerging Market Committee); on how Asian insurance markets can benefit from the IAIS.

Asian insurance supervisory authorities who are in the early regulatory stage could well refer to the ICP, its explanatory notes and criteria, Standards and Guidance papers to draw up their new supervisory framework. Existing supervisory authorities could use the ICP for assessing their existing supervisory framework, identify gaps or weaknesses in the processes, and amend their legislation and supervisory practices to aim towards best practices. However, the adoption of international standards for insurance reforms must take into account the circumstances of the domestic economy, financial structure, market development, human capacity etc., as an over-ambitious plan to introduce the full range of standards without proper planning and consideration of resource may result in chaotic market conditions rather than the intended stability and advancement.

Asian insurance supervisors, many of whom supervise emerging markets, can look toward the IAIS and its work, and fellow insurance supervisors from more matured jurisdictions, to help them develop sound supervisory framework and help enhance supervisory practices. The end result is safe and stable national insurance markets contributing to overall public confidence in the insurance world.





Gearing Towards Global Harmonisation of Various Standards of Insurance Supervision

by **Mr Takeo Inokuchi**
Chairman and CEO, Mitsui Sumitomo Insurance

Many global insurance companies often find themselves burdened with unnecessary problems and costs due to different supervision criteria and regulations, which vary across jurisdictions.

As CEO of Mitsui Sumitomo Insurance, the largest foreign non-life insurance company in Asia, I have always paid careful attention to this subject, as we operate in many different countries.

Benefits

In this regard, I welcome recent initiatives by international organisations led by IAIS to undertake the task of setting globally harmonised standards, aimed at enhancing the financial soundness of insurance companies. The introduction of globally harmonised standards in various regions may perhaps, for example, lead to a reduction in clerical work associated with earnings and settlements or it might make it easier for the evaluation of the financial health for reinsurance transactions or evaluation of another insurance company when acquiring its business. Also, from the perspective of supervising authorities as well as insurance companies, it would be preferable to have means to easily determine the financial soundness of an insurance company in another country.

Implementation

Although there are many advantages, I understand it will be very challenging to unify various standards instantly since there are significant differences among regions in terms of maturity of the market, development of the economy, taxation etc. All these issues are closely interlinked with regulations on business license, insurance products, premium rates and sales channels. Moreover, the insurance industry has a vast range of companies, some of which are operating on an international basis, others which are operating on a local basis.

Therefore, special attention should be paid to the

deliberation process of the standards in order to harmonise various standards in many regions and set consistent standards internationally.

I believe that this process should be highly transparent. The deliberation body should also make utmost efforts to incorporate the view of insurance companies and insurance associations from the perspective of practical business. At the same time, standards need to be sufficiently flexible and take into account both the international and the local aspects of insurance business.

In addition, insurance companies are expected to bear costs such as systems overhaul in order to deal with the changes in standards. Hence, it is inefficient as well as undesirable to repeat small-scale changes. The supervising authority should adopt such new standards only after setting appropriate milestones and giving the insurance companies a reasonable amount of lead-time for preparations.

Japanese Model

Japan is the world's second largest insurance market and has built a solid supervisory framework. With our extensive experience in this area, we are confident of being a positive contribution in helping to establish globally harmonised standards.

I recognise that global harmonisation is a difficult and challenging task. But it is very necessary as it can enhance not only the transparency and comparability of insurance companies, but also benefit all the stakeholders of insurance companies, as well as policyholders and investors.

And this will, as a result, contribute to the prosperity of the worldwide insurance industry.

I believe that IAIS will continue to play a very crucial role in the formulation of international standards.

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iais & austria BY THE NUMBERS



2005 marks Austria's 125th year of insurance supervision

All figures stated are US\$.

Austria was ranked at 22nd place in terms of global total premium volume in 2004.

In 2004, the amount spent on insurance was \$2,159.7 per capita, ranking Austria 19th in the world.

A total of 112 domestic insurers were licensed to operate insurance business in Austria in 2004. Of these, 46 were joint stock companies and 66 were mutual associations.



Insurance penetration measured in terms of GDP was 5.95% in 2004.

IAIS represents supervisory authorities of 180 jurisdictions in more than 120 countries, constituting 97% of the world's insurance premiums



The Population in Austria is about 8,184,691 and GDP is \$255.9 billion

Total premium volume rose by 6.6% to \$13,990 million in 2004. Premium revenues from life, health and non-life & accident insurance were \$6,190 million, \$1,350 million and \$6,460 million, respectively.

The number of foreign insurers licensed in Austria fell steadily from 1993 to 1997, from 10 to 2, and this number has been constant since 1997.

Sources: CIA World Fact Book 2005, FMA Annual Report 2004, Swiss Re Sigma

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