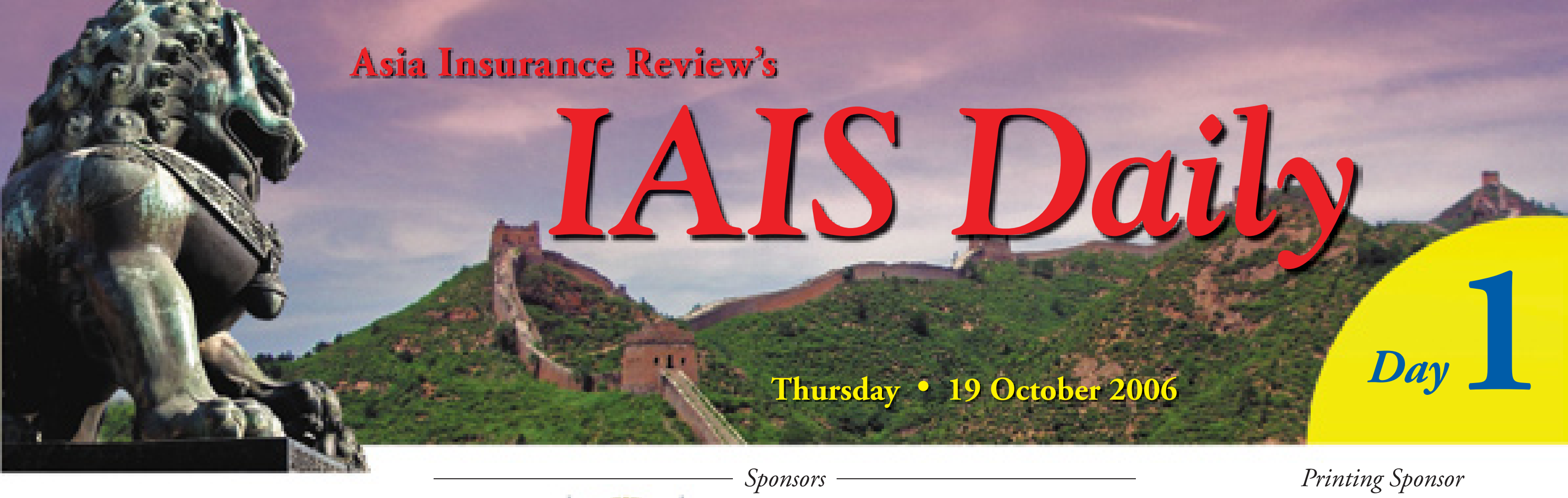

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Words from the Chairman

As insurance supervisors from all around the world, gather for the 13th IAIS meet in Beijing over the next few days, we catch up with **Mr Alessandro Iuppa**, Chairman of the IAIS Executive Committee, who shares his thoughts on the evolution of the IAIS as a globally recognised standard-setting body and how it is playing a stronger role on the international front.

What do you see as the strengths and weaknesses of the IAIS today, bearing in mind the achievements of the body and how far it has come?

The strength of the IAIS is manifest in the progress we have made since our inception in 1994. During that time, we have become recognised as a standard setter, and have adopted numerous standards, guidance papers on supervisory activities. That is complemented by the Insurance Core Principles which allow jurisdictions to establish a strong yet fair supervisory framework.

Rather than regarding them as weaknesses, I prefer to see them as opportunities for the organisation. Perhaps the key opportunity is to evaluate our structure, goals and objectives, as well as our financing regime. At present, almost half of our funding is from third parties. The IAIS Financial Outlook Task Force (FOTF) is now in the process of reviewing the aforementioned organisational realities and will be developing a proposal to take the IAIS into the future as the premier standard setter for insurance.

How well received has your proposal for self-financing been? What are the figures like in terms of estimated budget of operation for IAIS?

The concepts I put forth for the self financing of the organisation are still being reviewed and commented on by members of the IAIS. As with any critical self analysis, some have expressed support, others opposition, but with modifications. I look forward to working with the FOTF to refine, reject and amend those concepts. As a result of our deliberative process, I am confident that the IAIS will emerge as a stronger entity.

What would you say is the most important role of the IAIS today?

The most important role for the IAIS is its stature as the standard setter for insurance. We are building up significant credibility with market participants, other financial standard setters in a variety of fora, including the Financial Stability Forum and the Joint Forum.

In terms of regional dynamics, how are the Asians and Middle East regulators contributing to the global dynamics?

Our colleagues from Asia and the Middle East are significant contributors to our efforts. For example, the implementation of standards is critical to our success. Dr Bassel Hindawi of Jordan has taken the lead in coordinating the educational efforts that are conducted regionally. Japan and Singapore have been key players and contributors to IAIS activities, especially in the area of accounting. As markets continue to develop in other Asian markets, I would expect to see a commensurate increase in participation by all of our Asian colleagues.

How is the US voice in IAIS heard? Is the move towards an Optional Federal Charter imminent? How will that affect IAIS?

As representatives of the largest insurance market and the member with the highest membership fees, the US does have a meaningful voice at the IAIS. Over the years, we have committed increasing resources, both personal and financial to the various IAIS projects.

Furthermore, as an association of many jurisdictions, we recognise the need to be cognisant of the diversity of regulatory regimes and experience levels. As for the optional federal charter legislation in the US, I do not believe that it is imminent. If it does become effective, I am sure that there will be a knock-on effect at the IAIS but I do not know what that will be, only time will tell.

What will you cherish as your legacy to the IAIS when your term expires?

As for my legacy, I will cherish most the friendships that I have made through my work at the IAIS, and I take great pride in the strides we have made towards enhancing the transparency of our actions.

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>
> Mr Alessandro Iuppa, Chairman of the IAIS Executive Committee

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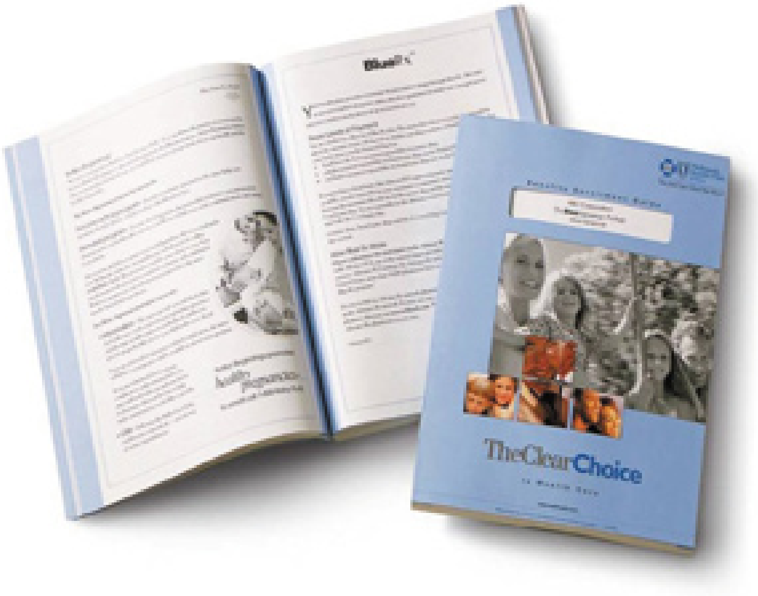

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The Regulation of Rating Agencies

Is this a myth, a dream or a quiet reality that is taking shape somewhere out there that the layman doesn't understand although the might of the rating agencies is increasing within the insurance industry?

Standard & Poor's, AM Best, Moody's and Fitch are the top global household names in the industry, and felicitated by most as playing a constructive and ever more increasing role in the industry.

Unlike lawyers, doctors, auditors and accountants, they are not regulated in any way. Hence, the need to regulate them becomes an issue of importance as one collects amusing anecdotes about the human frailty involved in the ratings process with some even joking to us to publish a best seller on "An Easy Guide to Get a Better Rating Than You Deserve".

So what gives? Many regulations require that to get risk credits, insurance must be placed with insurers with a minimum "A" rating from a globally recognised rating agency. So there is a concern that rating agencies need to be regulated to ensure that as they grow and become more powerful, they are strictly monitored and disciplined and standards are not compromised.

So who should regulate rating agencies?

Self Regulation

First, we have to rule out the self-regulation of rating agencies as an industry. While some won't even talk to the others, others fear that given the asymmetry of information, they might be accused of being oligapolistic or market manipulators.

Regulators

Many believe that regulators can play a role although many regulators who have, through their requirements, empowered rating bodies, have declined the onerous responsibility and/or the honour.

Besides, regulators have enough on their plates and, hence, that is why one suspects they roped in the subsidiary help of these globally established rating agencies.

Market Forces

Will the market mechanisms regulate them? That seems the most popular defence of everyone. But many players have thrown their hands in the air when they see that rating agencies are not held to task for any highly rated companies that have gone bust in double-quick time or the frequency with which rating downgrades take place with no responsibility attributed to the rating body for the earlier optimistic assessment just months ago upon which clients based their decisions on in buying 12 month's or longer protections or making investments.

And the market mechanism seems to be working in an unusually reverse mechanism here: The more failures and the more changes in ratings of companies, the more the rated bodies seek multiple ratings to show that they are highly rated by all.

Hence, today, rating agencies are being courted by many of the bigger insurers and reinsurers who are collecting ratings grades like the earnest scholar who needs doctorates in as many fields as possible.

At the recent Monte Carlo Rendezvous, many reinsurers were making policy references to abstaining from doing such and such so as to get a quicker rating upgrade or avoid a ratings negative watch list. The intrusive power of rating agencies in operational decision making for reinsurers, large though they were, was astounding.

At the International Insurance Society (IIS) meeting in July, rating agencies were also in the spotlight with them being seen as setting higher and more onerous standards in risk capital management. Worse, as one speaker pointed out, the four rating agencies had their own way of computing risk capital and credits and that insurers were forced to adopt all four standards if they wanted the holy grail of all four.

So where are we headed?

A recent Geneva Association paper highlighted the frustrations of many market participants over the lack of transparency in the rating methodologies and the near-impossibility for third parties to assess the quality and limitations of an individual rating.

The IOSCO Code

Somewhere out there, since December 2004, the IOSCO issued the "Code of Conduct Fundamentals for Credit Rating Agencies" with the objective to introduce globally binding minimum standards for ratings bodies.

The Code dealing with transparency and information on interaction with rated entities among others seems to be working as many regulators expect the rating bodies to comply and most rating agencies have embraced them, too. Empirical data on its impact is being collected and all eyes are on the rating agencies.

The prayer is that ratings must be "independent, objective and of the highest possible quality".

A Second Thought on
Moving Towards Common Standard

The IAIS has been working hard at helping the insurance industry move towards a global set of minimum regulations and supervision. But interestingly at the recent Monte Carlo Rendezvous, at the high level panel, **Mr Guy Sorman**, a French philosopher, author, a highly respected columnist of Le Figaro and a Founding President of the AICF, raised a very fundamental issue relating to regulation.

The debate at hand was "Are We Heading Towards Overregulation?", he threw the cat among the pigeons with his earnest view that what keeps regulators from over-regulating was the industry's ability to throw their weight or vote with their capital by choosing to invest in the market that had the most pro-business climate.

Hence, the move towards common global regulations was an unwelcome development that removes the natural checks and balances, said the philosopher. But **Mr Ewald Kist**, former CEO and Chairman of ING and currently member of the Dutch National Bank's Supervisory Board, argued that in his experience, global companies preferred common standards in regulations as it made the situation more predictable for planning and deciding on investments and prevents corporations from taking advantage of regulatory arbitrage unfairly.

The third panelist, **Mr John Tiner**, Chief Executive of the UK's FSA, was very clear that common standards were most helpful and useful for the emerging markets and countries wishing to learn from the experiences of the more developed markets. But he felt that regulators will retain the right to respond to the specific and unique needs of their respective markets.

A Case for Regulation

In his very convincing speech, Mr Tiner said the market was being over-regulated and only carefully judged regulatory intervention can add to rather than detract from the positive impact of market forces. But rule number one is that if there are no rational grounds for regulation, there should not be regulation. There should be a few pre-requisites before society should accept the need for new regulations. He ended off saying: "There is a case for wise and cost-effective regulation of the financial services industry, including insurance, where over the next few years I believe we have a great opportunity to get it right."

Pictorial on Past IAIS

2005 Vienna, Austria

2004 Amman, Jordan

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