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A Call for Closer Co-operation

The call for a closer international co-operation among insurance regulators to restore the credibility crisis and loss of confidence and trust between investors and financial institutions and consumers was a very recurrent theme at the opening ceremony of the 15th IAIS Annual Conference attended by some 500 delegates from more than 100 countries around the world.

In his welcome address, **Mr Álmos Kovács**, State Secretary, Ministry of Finance, Hungary, said insurers with a long history of managing risks on the underwriting front now have to apply the same prudence to their investments.

Injured Trust

Mr István Farkas, Chairman of the Board, Hungarian Financial Supervisory Authority, said the Seminar provided a real opportunity for insurance regulators "to frankly and openly face the challenges of the current market situation". In analysing the reasons that led to the crisis, particular attention must be paid to the responsibilities of regulators. The industry needs to regain the "injured trust" that had eroded its confidence, he said.

Fighting Fires

Speaking on behalf of Mr Michel Flamée, Chairman of the IAIS Executive Committee, **Mr Peter Braumüller**, Member, IAIS Executive Committee, said regulators have to fight fires and respond to the challenges in their own markets with a local response. However, they have a responsibility to the global system to ensure that the measures taken at home do not hurt the other markets overseas, or have a negative impact on the other sectors of the economy.

He said IAIS standards could be optimised to lead to more co-ordinated supervisory standards, convergence of supervisory practices and mutual trust of supervisors by all stakeholders, even at times of stress.

The internationalisation of financial markets calls for active cross-border co-operation among supervisors to limit the spread of the "poison toxic". It is clear that increased protection, such as government bailouts, must be accompanied by increased supervision even on sunny days, said Mr István.

More Has to be Done

The current financial situation is complicated and has no simple solution. Efforts have been made in the last few days, but more has to be done, said Mr István. "Honest and transparent analysis and the search for a fair diagnosis are required for us to find a way to a sustainable solution", he added in opening the Annual Conference with the theme, "Insurance and the Globalisation of Financial Services: Challenges for Worldwide Regulation and Supervision". He hoped the conference will offer the opportunity for all regulators to deepen their mutual trust and co-operation over the long term.

(L-R): Mr Álmos Kovács, State Secretary, Ministry of Finance, Hungary; Mr Peter Braumüller, Member of IAIS Executive Committee; Mr István Farkas, Chairman of the Board of the Hungarian Financial Supervisory Authority

IAIS More Active in These Turbulent Times

A framework for the reinforcement of supervisory co-ordination has been developed by the IAIS with a key plan, including the development of a structure for a multi-lateral Memorandum of Understanding, said **Mr Yoshihiro Kawai**, Secretary General of the IAIS, speaking to the *IAIS Daily*, during the sidelines of the conference.

Stressing that the framework was developed even before the financial crisis, he said IAIS now has the role of re-emphasising the importance of co-ordination among insurance regulators, and he hopes that this will gain momentum to develop even further. Currently the IAIS is inviting members to join this initiative.

Other components of the reinforcement of supervisory co-ordination initiative include the building of stronger, more concrete, measurable regulatory standards, he added while urging members to comply with these standards.

As part of its efforts to assist regulators, IAIS conducted a special session on the AIG saga this week for regulators behind closed doors so that they can discuss and consult with one another on this issue that had caused concern among regulators in several markets given AIG's global presence.

Mr Kawai stressed: "There is a need for a national solution and international co-ordination as there tends to be a 'spillover' effect as one jurisdiction's programme may transfer to other jurisdictions. To cope with this, there needs to be greater co-operation. With the importance of international co-ordination, a more concrete level of benchmarking is needed."

Co-ordination into the Future

Highlighting another important initiative, Mr Kawai said: "IAIS has set up a supervisory college which will facilitate co-ordination of regulators of financial conglomerates. We have just issued a guidance paper for group supervision and this will further strengthen ties in the future."

Increasing Recognition

With over 500 delegates attending the conference, Mr Kawai said he is pleased with the turnout as few years ago there were only 200 participants. With the current financial turmoil, he hopes delegates will make use of the networking sessions to learn and share experiences with one another.

Mr Yoshihiro Kawai

The Answer is in the "Cs": What's the Question?

Can the insurance industry ride out the storm? Will it get worse before it gets better? Could better supervision have avoided the crisis? Is the crisis management response adequate? Should there be a lead regulator for Group supervision? Was there an over-reliance on credit rating agencies? How to prevent the next crisis or at least be better prepared for the next one?

The answers were mixed, though there was a general **Consensus** that there should be greater **Co-operation** and **Co-ordination** among insurance regulators tapping into the **Collegiate** of **Commissioners** to take **Conscious Collective** action at the domestic, national/regional, and international levels to boost the **Credibility** of the insurance system at home and abroad.

The industry seems resigned to the fate that the net outcome of the crisis will be more rules and regulations. Insurers have to be more prudent in managing their investment risks as well as their underwriting risks.

Mr Thomas Steffen

The Delicate Balance

Mr Thomas Steffen, Chief Executive Director of the Pension Funds Supervisory Board, who chaired the Panel Session on Co-operation and Transparency In Crisis Situation, said supervisors had to strike a delicate balance in ensuring financial stability of the firm and to protect policyholders. While the latter called for domestic action as there are no real global consumers, the former required global action across national boundaries and across sectors of the economy as the contagion effect of the current crisis has shown. He also urged industry to show their mettle that they were capable of offering solutions to the current problems and not leave everything to politicians, government and regulators.

A Foreseen Crisis Before the Dawn

Mr Svein Andresen

Panelist **Svein Andresen**, Secretary General of the Financial Stability Forum, said regulators had been making steady progress in tackling several of the problems and weaknesses in the financial systems identified as early as April when concrete recommendations were made to a group comprising several leading supervisory and regulatory boards and central banks on how to make the system more robust and resilient. This included increasing oversight of liquidity, increasing transparency, changing role and use of credit rating agencies in the economy, strengthening the authority's ability to respond to distress situations. The current crisis should be seen as part of "a certain course that has to be run as the system deals with the excesses of the past".

Mr Kermitt Brooks

Improving Quality of Exchanges

Mr Kermitt Brooks, Deputy Superintendent, NY State Insurance Department, said it was important for regulators to establish transparent and open relations with each other through open conversations and on-going dialogues and visits. In New York, they are entering into MoUs spelling out the framework for sharing information, including expectations relating to joint investigations.

Mr Raj Singh

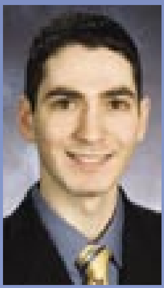
Speaking as an industry representative, **Mr Raj Singh**, Chief Risk Officer and Member of Exco, Swiss Re, said that one of the key lessons in the US$2.9 billion write-off in the crisis (which related to only two transactions) was that they had been over-reliant on the credit rating agencies as the entities involved all had triple-A ratings. He urged companies to include the CRO at board level, and separate risk management from the P&L function.

Lead Supervisor

The debate rages on as to whether the home regulator should be the lead supervisor. The AIG saga is a classic case study as even the New York State Insurance Department was unaware of its non-insurance exposures that led to its crisis. AIG, with more than 1,100 different units, had activities beyond the reach of any lead regulator.

Conclusion

There was consensus that business had to be left to the businessmen and regulators should only ensure that the excesses were curbed. Rating agencies also were criticised for their failure to offer any real solutions in the crisis or for not being able to have foreseen the crisis. No matter what finger is pointed at regulators, the responsibility for ERM must rest with the Board of the companies and it is a matter of governance. Regulators should become adept at risk monitoring with readiness to intervene early with corrective measures where necessary.


Mr Geoffrey Rosenblat


Mr Alan Levin

Global Rules: Leveling the Playing Field

The insurance industry now has more insurers and reinsurers operating globally than ever before. Increasing pressure from these entities has led US and European insurance regulators to start working together on regulatory reforms to level the playing field. As a critical starting point, **Messrs Geoffrey Rosenblat**, **Alan Levin**, both Partners, and **Chris Collins**, Associate, of Edwards Angell Palmer & Dodge, examine the key issues on both sides of the Atlantic that are preventing a level playing field and the moves towards a solution. This is a first and a big start.


Mr Chris Collins

The Individual State Rules in the US

A major issue for foreign-based (re)insurers seeking to expand their operations to the US marketplace is the difficulty and cost associated with obtaining licenses. Currently, the US insurance industry is primarily regulated at the state level, meaning that (re)insurers operating on a multi-state level in the US must comply with up to 56 varying sets of rules enforced by 56 different regulators.

In March, US Treasury Secretary Henry M Paulson Jr released the Blueprint for Financial Regulatory Reform, which also proposes an Optional Federal Charter (OFC) system for the regulation of (re)insurers. If enacted, an OFC system would allow companies to decide whether they would prefer to be regulated by individual states and by the federal government. The OFC would allow (re)insurers to elect to obtain a federal license that would grant the companies the authority to write insurance in every US jurisdiction, rather than obtain licences on a state-by-state basis.

The Collateral Postings

Alien business operations in the US are also inhibited by reinsurance collateral requirements for unauthorised reinsurers. Due to consumer protection and solvency concerns, US regulators require unauthorised reinsurers, regardless of their financial strength, to post collateral equaling 100% of policyholder claims before granting an admitted insurer credit for reinsurance obtained from such unauthorised reinsurers.

New York is now considering a draft regulation that would calculate collateral requirements on a sliding scale based on the reinsurers' financial rating. Florida is also developing regulations that would allow the Florida Insurance Commissioner to establish lower collateral requirements for highly rated, financially sound unauthorised reinsurers.

Meanwhile, the National Association of Insurance Commissioners (NAIC) has also developed a plan that would allow an unauthorised reinsurer to get certified by a point of entry state and post a reduced amount of collateral based on its financial strength and domicile's regulatory scheme.

The Single Market of the EU

The aim of each of the various Insurance Directives has been to create a single insurance and reinsurance market in Europe. An (re)insurer authorised in one member state may conduct business in another European Economic Area (EEA) state, either on an establishment basis (by setting up a branch) or a services basis (by providing services directly into the host state) without the need to seek additional authorisation from the host state.

The Extras for Reinsurance

The Reinsurance Directive provides for collateral requirements imposed by some member states on reinsurers regulated in another EEA state to be abolished from December 2009. However, the continued imposition of such collateral requirements on non-EEA reinsurers will still be permissible should a member state wish to continue to do so. In addition, the Reinsurance Directive envisages mutual recognition agreements between the EU and third countries to allow non-EEA based (re)insurers access to the EU market where the third country has laws that provide equivalent protection to the Reinsurance Directive.

The draft Solvency II proposals (Solvency II) currently before the European Parliament relating to the solvency requirements consolidate many provisions of the existing directives. One of the key provisions enables the European Commission (EC) to designate a non-EEA jurisdiction's reinsurance regulations as equivalent to the regulations laid down in Solvency II. This will, therefore, potentially allow (re)insurers from non-EEA jurisdictions to operate freely in the EEA if the equivalency requirements are satisfied.

Conclusion

Any decision by the EC on the equivalency of regulation by a non-EEA jurisdiction under the Reinsurance Directive or Solvency II could take some time. Indeed, Solvency II itself will not be in force until 2012. The OFC and widespread collateral reform in the US are also unlikely to be solutions reached in the short term. Nevertheless, IAIS members from the US and EU should continue promoting reforms that eliminate the burdens on alien (re)insurers seeking to do business in their states. In the meantime, IAIS members from other nations should re-examine their regulatory schemes to determine whether similar reforms should be proposed. If nations can agree to institute the necessary reforms providing uniform treatment of (re)insurers, balancing at the same time the protection of consumers, they will be able to create a truly level playing field for the emerging global marketplace.

WELCOME

Cocktail

The 15th IAIS Annual Conference opened with a Hungarian wine-and-dine treat for all delegates. Attendees from more than 100 countries savoured the night, catching up with old friends, while enjoying classical music from a string duet. Here are some highlights of the night.

More Sharp Models

The FSA's advisory council has recommended that by 2010, economic-based valuation and more sophisticated standard models to better reflect each insurer's asset and liability management position should be introduced. I hope the IAIS will set international standards to better recognise complex risks.

Mr Tatsuo Yamasaki,
Deputy Commissioner for International Affairs, Planning and Co-ordination Bureau,
FSA, Japan

Where's the Wisdom?

The time is ripe to begin drawing lessons from the current crisis. In our world of financial globalisation, managing a crisis which has taken on a systemic dimension has become an exceedingly difficult task. It requires imagination, determination, a good dose of wisdom, and a great deal of luck. We do possess the means to prevent a turmoil of this kind dramatically affecting the "real" economy. But we need for this a co-ordinated political will… Hence the obvious conclusion: If we want to avoid in the future the repetition of a crisis of this severity, we would be well-advised to begin to consider how to improve the efficiency of crisis prevention.

Professor Alexandre Lamfalussy,
Keynote Speaker

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