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Old Values, New World: Mutual Recognition

Reinsurance flourished without rules for the longest time, without fuss and bother across borders, too. But that was in the good old days when a handshake meant everything.

In today's world, because the importance of reinsurance has been recognised and saluted, reinsurers are facing a slew of regulatory requirements from every market in which they operate. They lament that compliance not only adds to cost, but also makes the business tougher and the business models not viable. Mutual recognition is, therefore, a most-welcome panacea with the IAIS all set to adopt the guidance rules on mutual recognition today (Friday).

Spelling out in clear terms, **Mr Ralph Vogelgesang**, Chief Legal Officer, Munich Re Group, said that mutual recognition is important to reinsurers because of the very business model of reinsurers who underwrite in as many countries as possible to get a good diversification of risks. Hence, reinsurance, by definition, needs a free and open trading environment to flourish. A reinsurer, having to meet the different regulatory, licensing and capital requirements of each market, will be faced with a tremendous administrative burden.

Not a Pipe Dream

When mutual recognition occurs, a reinsurer duly regulated by the home regulator can be regarded as having met all the requirements of the other states in which they are operating without need for additional capital or even reinsurance collaterals – Is this a pipe dream? It is happening soon, said **Mr Karel Van Hulle**, Head of Unit, Insurance and Pensions Financial Institutions, European Commission, who insisted that it is already an established fact of everyday life in the single European market, where home country control is an entrenched principle.

Mr Vogelgesang said that in the current crisis, what is most needed is an effective and efficient supervisory system that applies to all parts of the market. For reinsurers, the underwriting supervision will still be localised where the risks originate, but the financial supervision should take place at the reinsurer's head office.

All Stand To Gain

Explaining the ceding company's interest in mutual recognition, **Mr Masaaki Nagamura**, Deputy GM, Tokio Marine & Nichido Fire, said it will reduce the existing regulatory burden on primary insurers, including group matters as well. Agreeing, **Mr Bradley Kading**, President and Executive Director of Association of Bermudian Insurers and Reinsurers, said buyers of reinsurers would benefit from mutual recognition, knowing that their counter-party risks are overseen by a strong reinsurance regulator. He added that mutual recognition could be a carrot-and-stick approach to get jurisdictions to move towards international standards.

Modernise with Care

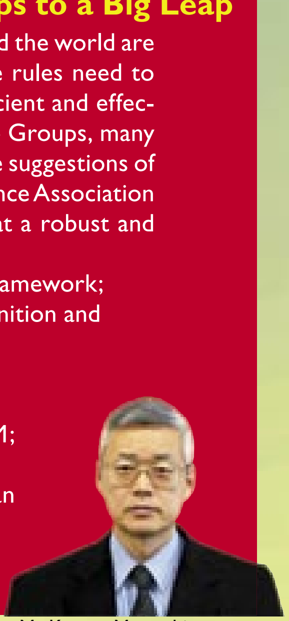
Mr Joe Fritsch, an active leading member of the NAIC, while agreeing on the need to modernise the rules, said that regulators should not be satisfied with the status quo. But with the current crisis, regulators must take time and effort to look at all aspects of every innovation.

Panel on Supervision of Insurance Groups

Group Supervision: 8 Little Steps to a Big Leap

AIG notwithstanding, insurance groups around the world are doing good business and growing bigger. The rules need to keep up so that supervision can be more efficient and effective. At the Panel on Supervision of Insurance Groups, many hot issues were raised. Here, we bring you the suggestions of **Mr Katsuo Matsushita**, GM, General Insurance Association of Japan, on what should be done to arrive at a robust and effective supervisory regime:

- Promote streamlined group supervisory framework;
- Go for more harmonisation, mutual recognition and convergence;
- Review cost of regulation;
- Boost Group diversification benefits;
- Promote visible incentives to enhance ERM;
- Understand fungibility of capital;
- Facilitate cross-border movement of human capital; and
- Build capacity of supervisors in developing countries.

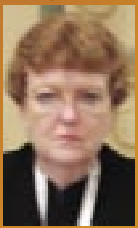


Mr Katsuo Matsushita

Panel on Reinsurance in a Modern Finance

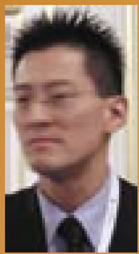
Rating Agencies Under Scrutiny!

Rating agencies cannot be blamed for the financial crisis. They were merely observers whose insights or lack thereof sometimes aggravated the crisis. However, everyone is pointing a finger at rating agencies, and there is talk of regulating rating agencies as well.



Ms Jane Cline

How did the situation come about? Chairing the Panel on Reinsurance in Modern Finance, **Ms Jane Cline**, Insurance Commissioner of West Virginia, asked the provocative question of whether regulators were over-reliant on rating agencies? The five panelists comprising a reinsurer, a primary insurer, an EC official, an NAIC member, and a Bermudian industry representative, were unanimous that there should not be over-reliance on rating agencies, although their assessment should be used as a good starting point.



Mr Masaaki Nagamura

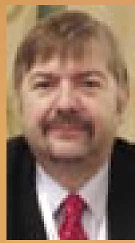
Mr Masaaki Nagamura, Deputy GM, Tokio Marine & Nichido Fire, said it will be too risky to depend 100% on rating agencies, and the insurer must have his own method of evaluation of the reinsurer.

Mr Bradley Kading

Mr Bradley Kading, President and Executive Director, ABIR said that until RBC comes into full operations, most regulators and industry players will have to rely on rating agencies as an independent source of assessment.

Mr Ralph Vogelgesang

Mr Ralph Vogelgesang, Chief Legal Officer, Munich Re Group, said companies should do their own homework and risk management and not just rely on rating agencies. He was hopeful that once the Solvency II is fully implemented, the regulators will have the best information on what is happening on the financial strength of the company.



Mr Karel Van Hulle

Mr Karel Van Hulle, Head of Unit, Insurance and Pensions Financial Institutions, European Commission, said firms cannot hide behind rating agencies and fail to do their own homework. He also announced that, in the EU, they were looking at regulating rating agencies as well.

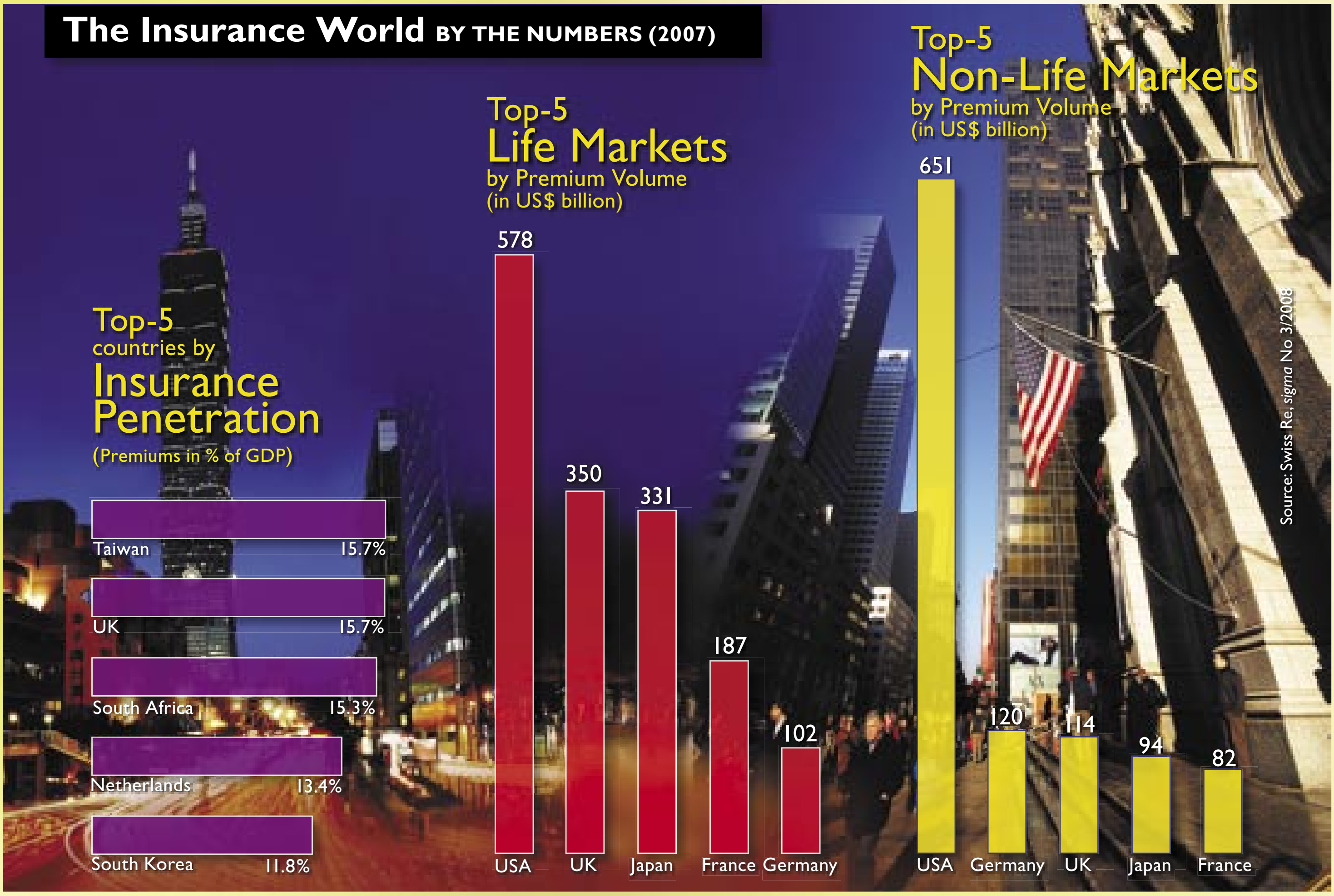
Mr Joe Fritsch

Mr Joe Fritsch, Director of Insurance Accounting, New York State Insurance Department, said regulators should not just look at ratings in silos, but should have a comprehensive view of the entity's full operations. When the AIG saga was unfolding, most regulators appeared satisfied with the rating of the AIG-insurance operations, while the Group was being pulled down by its other operations.

Afterthoughts at the Coffee Break

Rating agencies cannot escape blame though. In fact, earlier a speaker had lamented that rating agencies had not been forthcoming with any concerted suggestions for a solution to the crisis. The reliance on rating agencies continues as many regulatory regimes require a minimum rating from a reputed rating agency as part of the process to recognise the reinsurance arrangement. As for the man in the street, he remains bewildered with the frequent and rapid changes in ratings. Even for the conscious risk manager, the popular cry goes: "If the rating agency, with the expertise, insight and privileged access to the management of the company rated, cannot get it right, how can he, with no such access, do any better homework than them?"

Watch this space!



Regulators and the Daring New World of Distribution & Disruption

Mr David Piesse, Global Head of Insurance, Sun Microsystems, gives an interesting perspective on what regulators should know in getting the insurers to reach out to the hyper mobile generation with an upbeat BLUE shift to mobility and online real time reach while advocating international service standards.

Hyper-disruptive and highly innovative technology advancements are paving the way to new distribution channels in the insurance industry and in parallel giving rise to new products wrapped with real time risk exposure measurement.

The technology groups call this blue shift "software as a service or SaaS" and also "clud computing". To us in the insurance industry, the best way to describe this is the use of the Internet as a processing platform with all the information technology services managed for us by a trusted and knowledgeable third party. This way, we can concentrate on our core competencies and business process outsource the rest in line with compliance and governance.

These new channels are increased in usage by the Next Generation Internet which has much more rich social content and collaboration between communities than the Internet we have known in the last decade. The introduction of the many social networks such as Linkedin and Facebook means every industry is subject to status quo changes in light of these disruptions. Coupling this with the Generation Y, with new customer and employee preferences and the rise of the microfinance business sector a vast amount of new consumers will be online. Many of these will never see a land line and all will be driven by mobility moving forwards.

The Advent of Social Networks

The key issue to note here is that out of the new channels, for example insurance Avatar second life selling over the Internet in virtual branches, not all will be sold by traditional insurance companies. Another example is peer-to-peer lending where banks are side-stepped as social communities lend money to each other and insurance can be sold on the back of this lending. This means there is an incursion of non-financial players with strong trademarks and no fear of new technology or status quo change entering the market. With the number of social networks increasing and communities coming online, it will be difficult to assess the extent of insurance selling.

How Goes the Challenge in Protecting Policyholders?

These developments present fresh challenges to the regulators as they strive to protect the policyholder at all costs and ensure a proper level of solvency, risk-based capital and mitigation against systemic and operational risk. The challenge to the commissioners is how to regulate cross-border selling through channels that use the Next Generation Internet, namely the mobile phone and social networks. This is further complicated by the shift of remittance payments to other channels such as mobile phones where insurance is sold on the back of remittances from overseas workers in developed countries sending money back to emerging markets.

Currently the regulators can make this a "tolerated practice" based on agreements with the insurers involved to sell to a certain affinity group and not to consumers outside this jurisprudence. An example would be to allow a domestic insurer to sell over the Internet platform to their own overseas workers in another country, but not to the other affinity in that country and certainly not to advertise the service in the country other than over the Internet.

The Internet as a Processing Platform

It is important when selling to consumers from foreign sources that the consumer can have a complaints service and not end up getting the blame for purchase of a product outside of the jurisprudence. As the volume of consumers increases from the seeding of the middle class by microfinance, the regulators will need to put in specific guidelines to address this process as it is not just about selling insurance via the Internet, but actually using the Internet as the processing platform.

The regulators will have to be mindful not to introduce restrictive practices in the microinsurance space as the industry allows this sector to develop. The microfinance sector in general needs to be regulated in a manner that provides transparency and allows ease of outreach and sustainability in the rural areas.

A Deal With Regulators

To achieve this, stronger communication is required with the regulator and the trusted third party providing the platform and services. There needs to be a service level agreement set between the regulator and users of the service. These services have to get regulatory steps of approval to be applied to a set of international standards. Then a global standards body may emerge which could come from the non-profit bodies that are currently articulating microfinance and social best practices.

And the Change Continues

As we enter a post-growth, post-disruptive period with a larger middle class, risk mitigated for systemic risk, new controls need to be in place with global organisations to work on a country basis with the domestic regulators. The period of disruption is expected to run from 2008 to 2012, which gives the regulators a window to look at this interesting area of change in the insurance distribution space.

Journey through ANCIENT HUNGARY

The 15th IAIS Annual Conference gala dinner took delegates through a historical, cultural and enchanting journey at Budapest's Museum of Fine Arts. The evening began with a sampling of the museum's vast collections of European and Hungarian paintings and other art collections, followed by a fine dinner that allowed delegates to simultaneously relish and learn about Hungary's historic periods. Each of the dinner's courses took the attendees to an important era as narrators recounted the country's history and dancers interpreted the mood of each period.

The insurance industry in Qatar has not been affected much by the global financial crisis. However, it is naïve to say that we will not be impacted at all because insurers and banks invest heavily globally. As the dust settles down, we may see an impact on the industry and this will affect their profitability in the future. The QFCRA has been having close dialogues with the industry and we have been very fortunate as insurers have been co-operating with us.

Mr Shankar Garigiparthy, Director, Insurance Supervision, Qatar Financial Centre Regulatory Authority, on the effects of the global financial crisis

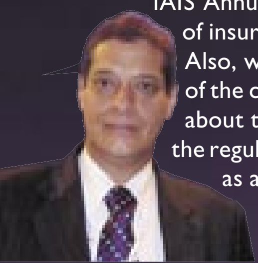
There are 46 re/insurers in Kenya, however, the penetration rate of 2.4% is still very low. So the IRA, which is still very young as it was only formed in September last year, has been launching educational campaigns, and we are encouraging more insurers to set up in the rural areas as the rural population lacks insurance cover.

Mr J Munene Murage, Director, Insurance Regulatory Authority (IRA) of Kenya, on the insurance industry in Kenya

Brazil All Geared Up for IAIS 2009

Rio de Janeiro is all set to host the 16th IAIS Annual Conference on 21 to 24 October 2009, with the theme "Insurance as a Means of Socio-Economic Development". The Brazilian organising committee promises to make the event not only better, but also the biggest event ever in the IAIS history.

Brazil's **Mr Armando Vergilio dos Santos Júnior**, Superintendent, Superintendence of Private Insurance (SUSEP), said of the 16th IAIS Annual Conference: "We will focus on the discussion of insurance as a means of socio-economic development. Also, with the current global financial crisis, by the time of the conference next year, we will have solid knowledge about the proper solutions to the current challenges on the regulatory front. We will also focus on micro-insurance as a key subtheme."



Mr Armando Vergilio dos Santos Jr

"We recognise that the previous IAIS annual conferences were well-organised. But we have a humble commitment to make the next conference better, as well as the biggest event ever in the IAIS history. We have the support of President Luiz Inácio Lula da Silva, the Minister of Finance, Mr Guido Mantega, and the government of the State of Rio de Janeiro. They will guarantee the safety of the event and the necessary logistics.

"At the conference, members and observers will be in contact with recognised and experienced insurance personalities, who will be presenting on, and discussing specific themes.

"Likewise, we are reserving surprises for the delegates to make the event memorable. It will be a working event, yet it will be tied to leisure activities that only Rio de Janeiro can offer."

IAIS 2009 Organising Committee

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