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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.



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

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.

All figures stated are US\$. 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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