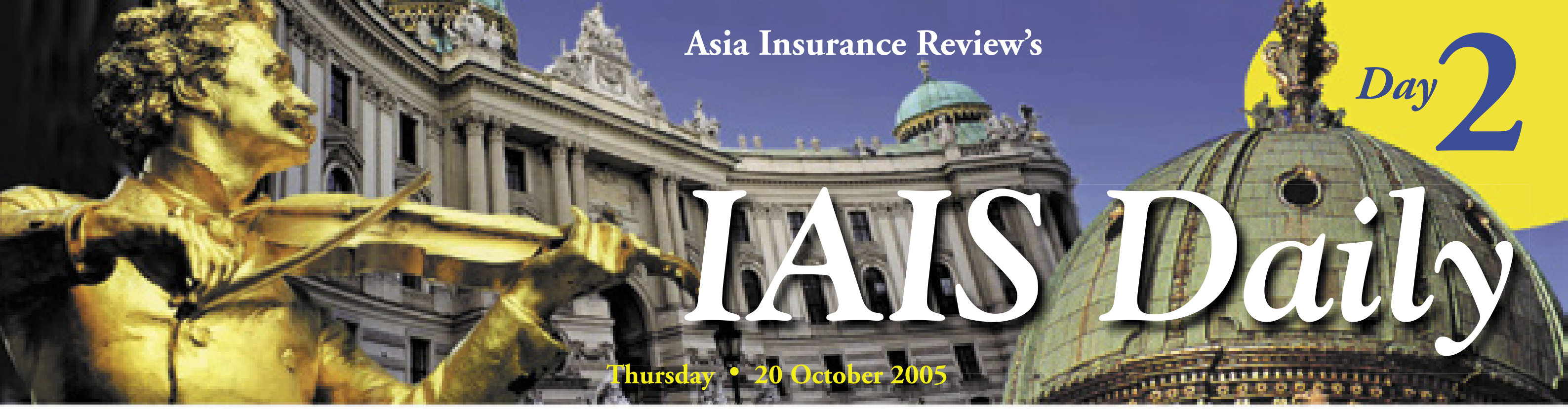


Asia Insurance Review's

Day 2

# IAIS Daily

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## Regulations Need To Be Aligned

Voicing the sentiments of many large financial groups, Mr Helmut Perlet, CFO, Allianz Group, lamented that while businesses have gone global, regulations have not kept pace and is still largely fragmented, leaving much to be desired.

"Regulations need to be aligned on a global basis as currently the financial services industry is operating in a contradictory context of global markets and fragmented regulation," he said at an introductory speech at the 12th IAIS Conference in Vienna.

Sharing the Allianz experience, Mr Perlet revealed that the Group faces reporting requirements to 60 different regulators around the world, based on various local, group, sector and conglomerate levels, on top of regular financial disclosures and international accounting standard requirements, reflecting the acute fragmented regulatory situation.

"The industry is faced with a surge of regulatory changes, but consolidation and enforcement of consistent standards is neglected," he said.

He added that it would be desirable if capital requirements for financial groups take into account group diversification, intragroup agreements and constraints to capital mobility.

Mulling the introduction of a Lead Supervisor, he said that a Lead Supervisor can be responsible for group supervision, looking at internal model reviews and intervention.

"Going forward into Solvency II, internal models will need the approval of the regulators, and if we have to talk to about 60 regulators on this, it will not be efficient," he added.

Turning to the requirements of the insurance industry, Mr Perlet highlighted the need for consistent enforcement of internationally accepted standards such as the Solvency II; opportunities to assess new regulation at early stage interfaces; cross-sector consistency of regulation to prevent regulatory arbitrage and support for the convergence between banking and insurance regulation.

Of course, maintaining strong partnership between regulators and the industry to further enhance structured dialogue is crucial, and the industry should continue with this.

Drawing similar references to a marriage, Mr Perlet said that perhaps if there is less oversight from the regulators, it would lead to more *insight* shed on how to move forward in today's complicated world.

## Time To Be Financially Independent

As the IAIS increasingly gains greater recognition for being the standards body for international insurance supervisors, Mr Alessandro Iuppa, Chair of IAIS, stated it was time for the body to be financially independent and urged members to put their money where their mouth is.

Stressing that achieving financial independence would be key to the continued success of the IAIS, Mr Iuppa said that the Association still faces limited resources as it needs financial aid to continue its training initiatives that include organising more than 15 seminars worldwide.

If the work of the IAIS is so important and appreciated, why won't members be ready to support the financing of the organisation as an independent body? He lamented that more than 50% of funds come from third-party sources, while appreciating that more and more members were ready to lend their resources to IAIS activities.

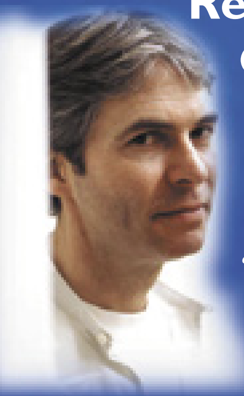
### Enhancing Consultation and Transparency

On other key priorities for the IAIS, Mr Iuppa said that the Association was seeking to enhance the consultation process by liaising with international organisations to extend its reach.

This was part of efforts to ensure that IAIS standards have a broad barrel of data and is transparent through greater consultation.

Mr Iuppa noted however that some members are fearful of transparency in that they will sacrifice full authority control and supervisory independence. However he believed that the reality is otherwise: "After all, he who holds the pen controls the document, and a system without transparency cannot be a truly competitive market."

# Regulators & Our Worst Nightmare



By Mr Alex Letts, Chief Executive, RI3K

When we're really bored, we ask each other "What is the worst nightmare scenario RI3K could face?" Over the years, that nightmare has variously been, "running out of money", "technology failure", "Internet collapse", "shareholder take-over" and so on. But never in my wildest dreams did the regulator feature in any unpleasant scenario…well, that was until now.

Recently I woke up in cold sweat. It wasn't a dream that we were about to fall foul of the regulator – far from it. It was something much more powerful (if such a thing is possible). If you think for a moment what we do. We analyse market processes and code these processes over a period of years. The code is then interwoven with other codes, creating a mass of matrices and interdependencies. It's like a spider's web. Strong and clean, clever …until someone breaks one of the threads!

That system is built and has been designed to support the requirements from Sarbannes-Oxley, Spitzer and the only regulator who has opined on the issues of transaction, the UK Financial Services Authority (FSA). We monitor these sources closely so that if there is a change of policy, we can move to support it. But in the case of the FSA, if there were to be a major change of policy around its flagship contract-certainty initiative, it might take us a long time to catch up (on the technological front). This, though, is just one regulator. Now imagine the chaos if other regulators around the world roll out very different plans for ensuring contract certainty. How can a single global technology marketplace platform keep up with 150 different sets of regulatory requirements? It is just impossible.

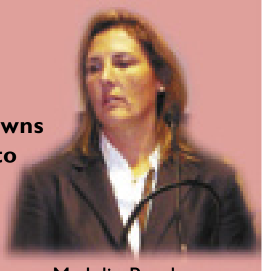
RI3K's market infrastructure is just one single piece of technology. There is no one solution for each local market and there are no special flavours. It is not the same as being a broker or insurer with a local office in a local market, which has to be answerable to local rules and regulation. Reinsurance is a global game and, as such, it requires a global infrastructure and globally standardised processes.

To all regulators, we would simply ask this: please look at what is being done to support the reinsurance market's drive for better practice, and look at the RI3K service. It has been built to provide contract certainty, transparency, audit trails and indisputable records. Widely differing regulations, by market, by region, would be unsupportable for a single technology solution. Regulators really do need technology to support a better practice, and therefore they need to be aware that significant variations in regulation will actually undermine the delivery that is currently underway through RI3K.

What we are seeking is a coordinated, collaborative approach. It may be too much to expect regulation to fit the technology solution, but it is not too much to ask for a bit of common sense in setting objectives that have a common consensus among the regulatory community.



# Revamping Finite Reinsurance



Ms Julie Bowler

While there have been numerous frowns and negative publicity attached to the scope of finite and financial reinsurance, it should be noted that these programmes are not the real culprits. Rather it is the inadequate corporate governance which is the root of all the problems, said afternoon panellists, comprising Mr Edward Chanda, KPMG, US; Mr Tom Karp, APRA, Australia; Mr Axel Wehling, GDV, Germany; and chairwoman Ms Julie Bowler, Insurance Commissioner, Massachusetts, US.

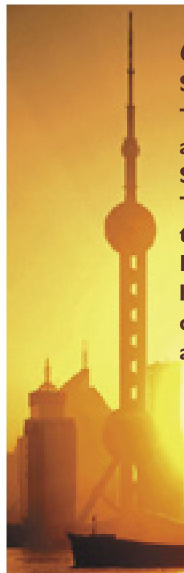
"We should keep in mind that any possible shortcomings are the consequence of inadequate corporate governance, and is not specific to the product," said Mr Wehling. Supervisors' focus should therefore be on the adequateness of the reinsurance programme as a whole and a review of single contracts should be avoided as it can be misleading.

For regulators, defining what is considered to be a finite reinsurance contract has always been a main concern, and Mr Chanda said that developing a standard for risk transfer can be helpful in helping regulators understand the nature of this controversial tool.

Once the level of the risk transfer of a reinsurance programme is determined, the appropriate accounting rules will then have to be applied. For instance, if risk transfer is limited to a level where it does not constitute to be a reinsurance contract, then the transaction should be accounted for as a loan, said Mr Karp. Proper accounting is thus critical to dealing with this controversial contract.

Finite reinsurance is regarded to be helpful especially in the area of life finite reinsurance needs which require further exploration and should not be erased off the financial landscape. Ultimately, as Mr Karp pointed out, the question to ask is: "What is the reinsurer's motivation for entering the contract?"


(L-R): Mr Axel Wehling, Mr Tom Karp, Mr Edward Chanda



## 6th China Rendezvous

**Shanghai, China, 7 - 8 Nov**

The 6th Rendezvous which returns to Shanghai again for the third time will be held at the Shanghai International Convention Centre. The two-day Rendezvous, which has as its theme "Meeting the Insurance Needs of the Innovative Fast-Growing China Market", will have the afternoons set aside for bilateral discussions. For more details, visit www.asiainsurancereview.com

# A Global Solvency Regime – Keeping the Vision Alive

Mr Tom Karp

There is as yet no foreseeable deadline for the setting up of the global solvency standards given the fragmentation of regimes around the world. While everyone agrees that it should be sooner rather than later, no one is ready to predict or even make a wild guess when it could come on stream.

Solvency is germane to the public image of insurance companies and insurance supervision, but there is as yet no unified standard with some even still using the fixed solvency margin approach although there is widespread appreciation that there should be a risk-adequate solvency system.

Mr Tom Karp, Chairman of the Panel on Creating a Global Solvency Regime, said the intention is to move towards greater transparency and greater convergence of various solvency regimes that will build mutual trusts among supervisors, insurers and policyholders across borders.

The European Union, on a more progressive drive, has set itself a clear deadline of July 2007 for its Solvency II regime to be applied by its members, said panelist Mr Karel Van Hulle, who is leading the project rated as one of the EU's most important initiative on the insurance front.

Mr Helmut Perlet, CFO of the Allianz Group, a keen proponent of the risk adequate solvency system and the economic capital framework, said that the system should give incentives for superior risk management where risk is integrated in capital allocation, pricing, performance and portfolio management.

### Financial and Regulatory Reporting

One of the active issues discussed at the Panel was the difference in requirement between financial reporting and regulatory reporting with the majority taking the view that there cannot be full consistency between the two. They felt that though it was desirable, it was not feasible, bearing in mind the different objectives and target audience of the two reporting standards. Mr Hulle, however, felt that two sets of reporting would be an unfair burden on the business community and should be avoided at all costs.

### Internal Model

In the discussions on how regulators can take better advantage of developments around the world to bridge the gap between IAIS standards and prudential regulatory realities, panelists felt that the use of sophisticated internal models that were more risk sensitive should be encouraged. Mr Anthony Stevens of Mercer Oliver Wyman said that economic capital should be the target, while regulatory capital should be seen as the minimum solvency required. Mr Stuart Wason of the International Actuarial Association said the model used must be transparent throughout the firm and externally and reflect clearly the company's risks exposures and its ability to manage the risks effectively.

Be it the fragmentation or the harmonisation or collaboration of supervisors, there was a very clear endorsement that the new solvency standard should not follow Basel II to set a common level of regulatory capital. Some of the items on the wish list are: to recognise a lead supervisory body; to have consistency of treatment for liability and assets; to use a formula that is easy to apply; to take into account inputs from insurers and supervisors; to be a bottom-up approach and not top down … and the list goes on but the pressure will come from the IMF World Bank and WTO as well.


(L-R):
Mr Stuart Wason,
Mr Anthony Stevens,
Mr Helmut Perlet,
Mr Karel Van Hulle



# Fair Game

Policyholder protection remains a key pillar of insurance supervision, and determining what the consumers want and treating them fairly are the key markers of ensuring consumer interests are safeguarded, said a panel comprising of Mr László Asztalos of PSZAF, Hungary; Mr Charles R Daniels, Council of Insurance Agents and Brokers, US; Mr John Howard, Financial Services Consumer Panel, UK; and chaired by Mr Edward Forshaw, FSA, UK.

Recognising that consumers want information and a comprehensive guide to the numerous products on the market, the panel stressed that consumer fairness should be exhibited throughout the process, from the advertising stage to contract wording to after sales service and handling complaints.

As such, policyholders' protection is not merely a case of siding with the consumers every time something goes wrong, as sympathy should be with the customers. But as highlighted by the panellists, being fair does not mean you have to be nice to the consumers only.

Mr László Asztalos

**For more insights on policyholder protection and how insurers are tackling this issue, mark your diaries to attend the 6th Asian Insurance CEO Summit in Bangkok, Thailand from 20-22 Feb 2006. Visit www.asiainsurancereview.com for more details.*


(L-R): Mr John Howard, Mr Charles R Daniels, Mr Edward Forshaw

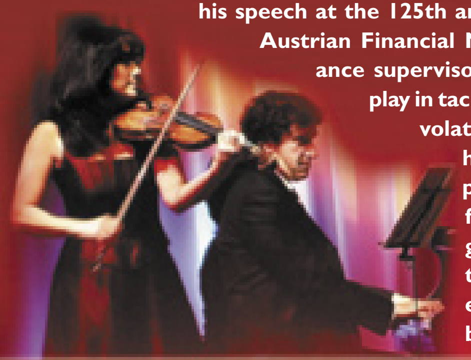
## Mark Your Diary!

For those who missed the chance to see the beauty of Jordan at the last IAIS, don't miss these two upcoming events organised by the Insurance Commission of Jordan:

- **The Global Forum on Private Pensions** on "Managing Risks in the New Financial Environment" will be held from 13-15 December at the Dead Sea. For further information, contact info@irc.gov.jo
- **The International Association of Insurance Fraud Agencies** (IAIFA) will also hold its annual meeting in Amman, Jordan from 20-22 June 2006. Visit www.iaifa.org for more information.

# Achieving Harmony In Regulation

**The 12th IAIS kicked off to a harmonious start as more than 420 members and observers from 87 countries gathered in picturesque Vienna.**



In a call for greater international co-operation among regulators, the Austrian Federal Chancellor, Mr Wolfgang Schüssel said, in his speech at the 125th anniversary celebration of the Austrian Financial Market Authority, that insurance supervisors had an important role to play in tackling new challenges in today's volatile world, and it was critical to have strong and competent supervising bodies to oversee the financial landscape. "In today's global village environment, there is a great deal of co-operation and synergy required between financial institutions as well as between different countries," he said.


Mr Wolfgang Schüssel

He also urged supervisors as well as the insurance industry to adopt a sense of ownership and responsibility in the wake of recent events such as the South Asian tsunami, Kashmir earthquake, Hurricane Katrina, terrorist attacks and floods, which have left the industry vulnerable and insecure.

Adding that Austria has come a long way in the last 125 years of insurance supervision, and in its goal of protecting the interests of insured individuals, Mr Schüssel pointed out that total insurance premium in Austria contributes 6% of GDP and provides jobs for more than 30,000 people.

After the anniversary celebrations, members and observers proceeded to a welcome cocktail where they mingled with their counterparts in the majestic Hofburg Palace.



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