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Wave the magic wand?

The daily headlines scream: "Market meltdown!", "World economy on the edge!", "Double dip recession looms!", "Industry has lost confidence in global economic leadership!"

As insurance mirrors economic growth and suffering, the industry is under stress, with an extra blow coming from CAT losses. So all eyes are on regulators to wave the magic wand to make everything better. Please.

Even at Monte Carlo, the atmosphere was subdued with everyone wondering what regulations were in store for insurers.

Is the industry expecting miracles? Or do supervisors and regulators have the real power to make a difference? Who has that magic wand?

The X factor

At this IAIS Annual Conference, with the ambitious theme of moving Toward a New Horizon for Insurance Supervision, what is that "X" factor that regulators need? The conference this year comes yet again at a tensed moment. Regulators and supervisors must rise to the challenge in Seoul to spell the formula for the insurance industry to get ahead of the world's woes, lest they be accused of missing the boat.

Despite all the changes taking place in the risk landscape, the industry still looks to the regulators as leaders, mentors and beacons to guide them to part the Red Sea and more.

Such is the political goodwill and confidence that regulators command. So they must deliver.

The "dream-wish" factor

In most of the surveys that we do or the round-tables that we host, the one question that always pops up is "what more can the regulators do to help the industry?" And the response even from the most technically sound insurance CEO is often to place a "dream" expectation on regulators. There is, of course, the odd all-knowing CEO who wants "the absolute minimal involvement" by regulators and to let the market forces reign supreme.

But mostly, CEOs want regulators to be more active in dealing with the weaknesses in the market, including weeding out the bad

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"Over the last decades, Asia has become familiar terrain for the IAIS and it is with great pleasure that we are once again able to have our Annual Meeting in this magnificent part of the world."

Mr Yoshi Kawai
IAIS Secretary General

Seoul-eh o-shin gut-seol hwan-young hap-ni-da!

(Welcome to Seoul!)

We are greatly pleased to host the 2011 IAIS Annual Conference and look forward to welcoming our colleagues and guests to Seoul.

In the wake of the 2008 global financial crisis, regulators came to appreciate the need for effective cross-border coordination and cooperation in safeguarding global financial stability. It is a multilateral endeavor, and the IAIS-led discussions on Insurance Core Principles and ComFrame, this year's key agenda, are a continuation of efforts under way to set high global insurance standards and, thereby, contribute to global financial stability. It is a critically important, noteworthy endeavor, and both the IAIS and the insurance industry deserve much credit for taking insurance supervision and industry cooperation to the next level.

For our part, we will continue to support the IAIS in meeting its mission of setting strong and effective global insurance standards and contribute to ever-closer supervisory cooperation across countries.

We thank *Asia Insurance Review* for its contribution to this year's event and for its excellent coverage of the conference.

Mr Kwon Hyouk-Se
Governor, Financial Supervisory Service
Republic of Korea

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apples and driving best practices. They want regulators to tout the benefits of insurance to the masses and to take a tough stance against defrauding consumers.

They want regulators to protect the industry against the public and offer incentives to make the insurance business boom.

They see insurance regulators as omnipotent and able to air their concerns to any inter-government bodies.

CEOs also want rules clearly spelt out in black and white rather than through informal, unwritten contracts and controls. The diverse rules relating to bancassurance are a classic text book case screaming for international collaboration to simplify them across the board, though domestic banking scenes in each market are different and politically sensitive.

Then there are the MNCs that like to see uniform rules and minimum capital requirements across markets to make compliance cheaper and more efficient and to prevent regulatory arbitrage.

And the list goes on even as Solvency II is being hotly debated, and cyber security requires more global action to balance it with access. But in the long wish-list, there is always the call for a more collaborative and consultative approach with the industry.

The real factor

So the wonder of the magic really starts here: To nurture players to be self-responsible and self-reliant and educate them on the real powers of regulators and supervisors in the domestic political environment and in the context of global developments, where even supervisors and regulators are facing new challenges daily and learning along the way.

Here's to the magic of self-regulation.

Finding Convergence in Divergence:

A tough act

Calls for convergence in insurance regulations have somehow entered the realm of banalities. Yet, there still seem to be more talks (or calls) than actions. What is holding progress on this front?

One reason stems from the fact that insurance markets around the world are in various stages of development. In Asia alone, markets show different stages of development: a few developed ones have well evolved regulatory systems, while some have just started growing their markets and putting in place necessary regulations. Others endeavour to bring changes to their regulatory systems and catch up with international developments.

Different regulators, different priorities

Regulators may also differ in their priorities – making it harder to achieve a form of coordination or convergence by, for example, having a common understanding of risks in insurance and the risk management models the industry needs.

Rules proliferate

Also, the financial crisis had spawned a legion of rules aimed at further protecting the policyholders. With a plethora of such rules, it becomes more challenging to reach an agreement among regulators on what guidelines the industry really needs in conducting business.

Coordination hard to achieve

Achieving coordination at a regional level is also difficult in heterogeneous regions like Asia, given the lack of a solid and working body that could lead efforts for cooperation among regulators.

On a global level, there is no mechanism that requires members to comply with standards being developed by the IAIS. "As such, the effort of creating uniformity across countries is difficult," says a Deloitte paper titled, Sustaining in a changing environment: International Regulatory Cooperation within the Insurance Industry. Likewise, the nature of smaller, domestic insurers as opposed to cross-sectoral and multi-jurisdictional companies creates further issues and hurdles.

Best way ahead

While these are clearly snags on the road to regulatory cooperation, the best way ahead for regulators is to work together and move away from siloed regulations. Markets' interconnectedness will only intensify, and to keep up with changes and developments in the industry, regulators need to reach a greater understanding and find convergence in their divergence.

Global Solvency Standard: The way to go?

Large insurers today seldom have their hands in just one market, as expanding overseas has become part of their everyday equation for sustainability. With businesses in different territories, they find themselves having to juggle and meet a wide variety of qualitative and quantitative requirements – which bring complications and extra costs to the table. By having a global solvency standard, this could be eliminated.

Creates greater efficiency

A uniform global standard would mean that insurers can devote less of their resources to ensuring they are complying with different regulatory reporting requirements, which are often repetitive. It would also mean less hassle for them to expand into new markets with only one set of guidelines to adhere to. Likewise, international reinsurance arrangements can be more efficiently managed with the absence of conflicting local requirements.

Levels playing fields

Within the same market, playing fields amongst insurers would be levelled, as local capital requirements would be more comparable, giving rise to greater competition. All in all, together with general cost-savings, this translates into more attractive offers and conditions for the policyholders.

For emerging markets, the common standard would push insurers to improve their data and information systems, as well as build up their technical expertise needed to complete the analysis and reporting. It would also allow for the facilitation of international co-operation.

Reduces regulatory arbitrage

Sticking to a common standard would also reduce the likelihood of regulatory arbitrage, as the same set of conditions and requirements would be needed no matter where a company originates and does its business. This would enhance insurers' transparency and comparability worldwide, benefitting consumers, the industry, investors and other stakeholders.

On the regulators' side, there are cost savings to be had as staff can concentrate on just one set of rules and requirements.

Boosts industry image

As it is, the insurance industry plays a key role in the development of economies worldwide. By having a standard solvency regime, it could develop itself into a more efficient and stable industry and contribute to greater global economic and financial stability, thus improving further its standing in society.

Just one piece of the puzzle

Capital requirements are just one piece of the regulatory reform puzzle. And the best defence against excessive risk taking remains an internal robust risk management, says the Institute of International Finance in the report, The Implications of Financial Regulatory Reform for the Insurance Industry.

"No amount of regulation will be effective if executives do not strive to identify and embrace sound practices in their internal governance and management of risk," it says, adding that strong companies welcome supervision that contributes to the quality of their risk management.

Strengthen supervision

Likewise, it is necessary for regulators to have strengthened supervision in order to develop a clear view on financial groups' activities, risk profiles, management, governance and controls.

"Greater cross-sectoral coordination and robust, internationally consistent macroprudential oversight will also be essential to spot emerging risk categories, which can then be addressed appropriately for each sector," says the report which was co-published by Oliver Wyman.

There are both intended, unintended results

It notes that strengthening capital standards will always have unintended and intended consequences – which will be more significant the more marked the rise in requirements is. The intended result is to raise the buffer of companies' financial resources to withstand losses, while the wider, and sometimes unintended, consequences can take various forms.

Changes in the capital requirements attaching to different asset classes will have implications for companies' asset allocation decisions. "The key issue for policymakers is to ensure that these are well understood," it says.

Watch the clock! And other lessons from Dubai

When an international conference is being held in the Middle East and the chairman of the event holds a Swiss passport (among others), you can expect Swiss timeliness to be the order of the day.

That was the message given at the last IAIS Conference in Dubai in 2010 – reinforced no less by a large Swiss cowbell alerting stragglers in the hallways to the next session.

At the risk of generalising, this year's conference is not expected to be too far off the Swiss standard. But while a cowbell may not be necessary, proper timekeeping will always be essential.

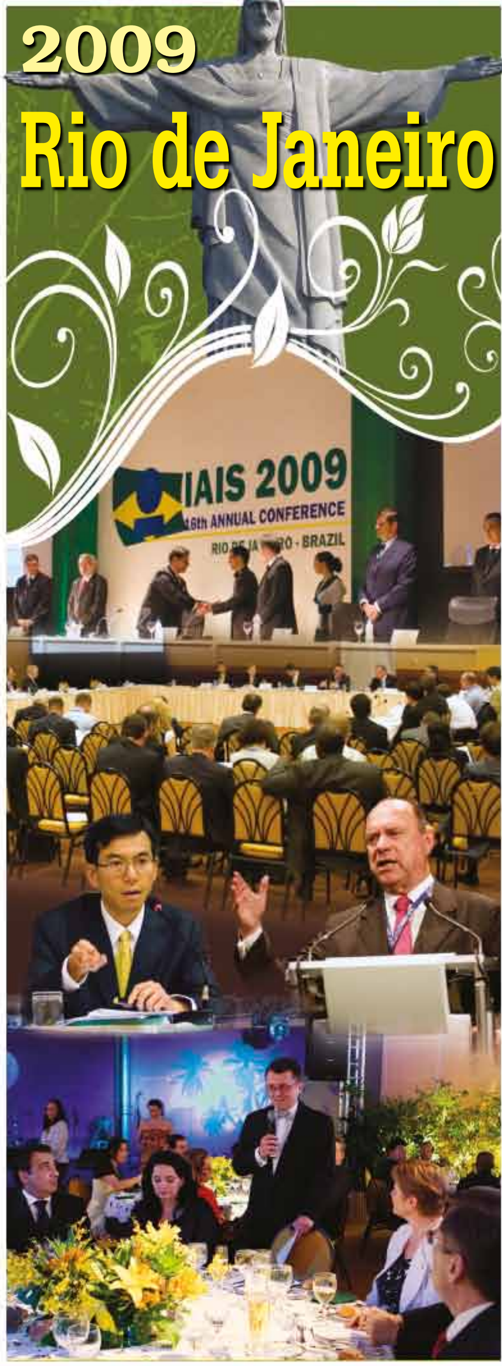
On a more serious note, the IAIS Conference in Dubai did highlight some important issues. With memories of the global financial crisis still fresh, speakers eagerly discussed the Common Framework for the Supervision of Internationally Active Insurance Groups, or ComFrame, which looks at ways of supervising "too big to fail" groups. At the same time, the Chairman of the UK's Financial Services Authority, Lord Adair Turner, acknowledged that insurers are far less likely than banks to be a source of systemic risks.

Another hot topic was Solvency II, which generated an interesting trans-Atlantic debate over whether European standards could apply globally. Whether the divide has been closed remains to be seen at this year's Conference, even as the clock counts down to 1 January 2014.

Flashback on Past IAIS

2008 Budapest

2009 Rio de Janeiro



2010 Dubai

IAIS 2011 Organising Committee

(Left to right): Mr Lee Jun-gyo, Mr Lee Jae-min, Ms Kim Won-jin and Mr Jeon Yu-hyun

(Left to right): Ms Kim Ga-young, Ms Park Jung-eun, Mr Kim Jai-chun, Mr Jin Tae-kyung, Mr Lee Sung-pil, Mr Yeon Seok-heum and Mr Lee Chan-young (sitting)

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