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## Fleshing out ComFrame — Who has the answers?

Panelists at yesterday's discussion on ComFrame were divergent in their views on what the framework should be – and there was a general confusion on what is expected of it.

ComFrame has come at a crucial time in our evolving world, said Mr Gabriel Bernardino, Chairperson, European Insurance and Occupational Pensions Authority, but “we are in a unique point in time and we must build on what we have already achieved”.



Mr Gabriel Bernardino

Mr Bernardino talked about building on the commonalities of each market and said that implementation ought to be a step-by-step approach, in which the framework lays out clear milestones and assessments. It should also build on the collective wisdom and experience of each market, said Mr Shigeyuki Goto, Associate Director GM, Corporate Risk Management Department, Mitsui Sumitomo Insurance, Japan.



Mr Shigeyuki Goto

Agreeing that supervisors must identify greater commonalities within regimes, Mr Kevin McCarty, Insurance Commissioner, Florida Office of Insurance Regulation, reminded supervisors of other issues like sovereign debt and how these affect companies.



Mr Kevin McCarty

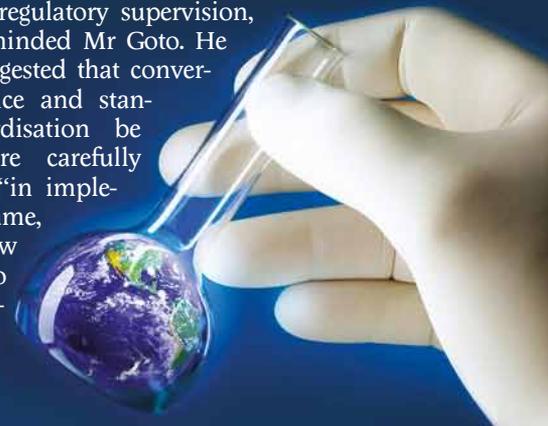
### Gradual implementation will be needed

While achieving a common framework is the main objective, Mr Joachim Oechslin, Group Chief Risk Officer, Munich Re, Germany believes that it must also reflect the regional and cultural characteristics of countries.



Mr Joachim Oechslin

Not all jurisdictions are in the same stage of regulatory supervision, reminded Mr Goto. He suggested that convergence and standardisation be more carefully executed and that “in implementing ComFrame, the IAIS should allow [different markets] to grow into the framework”.

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## Get the emerging markets involved

Calling for an effective framework for expanded cross-border information exchange and cooperation, Mr Kim Seok-Dong, Chairman of Korea's Financial Services Commission, stressed yesterday the need to encourage the participation of emerging markets in this effort.

He said that the need for inclusive cross-border information sharing – which includes supervisors from emerging economies – particularly on internationally active or systemically important financial institutions, is “obvious”.

“I am sure I speak for many when I say that discussions on the supervision of the so-called SIFIs going forward should involve a meaningful participation of emerging market supervisors.”

### Define systemic risks unique to insurance

Mr Kim also pointed to the fact that the ongoing discussion on systemic risks associated with insurance has chiefly focused on improving the oversight of operational activities with potential systemic impact.

“The point I underscore here is the need to clearly define systemic risks that are unique to insurance and to come up with effective ways to monitor and manage them.”



Mr Kim Seok-Dong

“ Formal agreements and memoranda are important, but they are not sufficient. What we urgently need is day-to-day active cooperation and information exchange, for which this conference is an excellent gathering.”

**Mr Peter Braumüller**  
Chair, IAIS Executive Committee



### Don't simply compare the two sectors

On the issue of macroprudential supervision, he advised supervisors to be careful not to simply compare insurance to banking given their differences in such areas as asset-liability management. He urged supervisors, the industry, and academic researchers to jointly develop asset-liability analysis tools for systemic risks.

“A similar effort on improving liability-risk analysis and management would also contribute to the safety and soundness of the insurance sector,” he said.

### Make ICPs more binding

Mr Kim then went on to urge insurance supervisors to focus on making the revised Insurance Core Principles more binding than before.

“I say this with the view that even principles with best intentions, if not implemented, do not mean much.”

# What more you can do

Besides the current agenda of the IAIS, there are other issues that merit insurance supervisors' attention.

## Recognise need for microinsurance

There should be a greater recognition of the need for microinsurance, which is a means through which the industry can contribute to the promotion of shared economic opportunities for all.

## Protect consumers

Supervisors must assume responsibility in keeping an effective consumer protection regime that fosters confidence and trust in the market. With more complex products and inadequate information, the odds are that many consumers make less than fully informed decisions.

## Combat fraud

There is a need for more aggressive enforcement and cross-border cooperation in combating insurance fraud. Supervisors will need to step up information exchange and other cross-border collaboration to prevent fraud at all levels.



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## Fleshier principles-based regime

From an industry perspective, Mr Oechslin said that ComFrame must be based on principles and not rules in order to ensure a level playing field.

Ms Monica Mächler, Vice-Chair of the Board of Directors, FINMA, Switzerland and also the Panel Chairperson, noted that while the aim of a principles-based regime must be clear and consistent, there must be enough "flesh on the bone" when referring to the actual details of its approach.

Although achieving a level playing field should be a core objective of ComFrame, Mr Bernardino believed effective group supervision is more important.

## ComFrame applied to capital?

When panelists touched on the quantitative elements of ComFrame, they agreed that the issues became more difficult. While capital is a critical component for insurers, Mr McCarty relented that capital standardisation often gives companies a false sense of security, saying that firms will inevitably start to find ways to get around it.

There was a call for ComFrame to strive towards a "common measure of risk", rather than emphasise on capital alone.

## The way forward

As risks are changing daily, setting up a standard risk assessment model is very difficult, and there is a danger of ComFrame becoming too precise and overly rigid when it comes to risk assessment, warned Mr Goto.

Similarly, Mr Oechslin said that ComFrame should not provide an additional layer of regulation, but should rather address the regulatory gaps in the current systems.

We must clearly identify our vision and ambition, said Mr Bernardino, to really deliver global standards of insurance supervision. "If we don't do it ourselves, someone else will do it for us."



# The mic and mac of surveillance

Should there be macro-prudential surveillance (MPS) in insurance? Should this be tied to whether insurance poses a systemic risk per se? Will MPS make it twice as hard for insurers? Will there be a plethora of new regulations in the guise of MPS? Will MPS stop the next crisis? What should be its aim and what should the processes be?

This was part of the rich and intensive discussion at the panel on macro-prudential surveillance, chaired by Dr Terri Vaughan, CEO of NAIC, who tried several times to pin down the core elements that should be actively tracked under MPS. But the answers were very much in the air, as consumer protection needs to be balanced with supervision aimed at achieving stability and sustainability in the competitive market.

## Don't forego chance to scrutinise system at macro level

Making his debut as the Director of the newly set up Federal Insurance Office of the United States, which expects to be initiated as a new member of the IAIS this Saturday, Mr Michael McRaith said that even if insurance did not pose a systemic risk, supervisors at the IAIS must not forego the chance to scrutinise the supervisory systems and structure at the macro level.

## MPS is necessary

The panel unanimously agreed that MPS was a necessity in the aftermath of the global financial crisis. Speaking from an industry perspective,

Mr Mack Okubo, General Manager at Japan's Nippon Life, said MPS should be a holistic approach and should not just look for systemic risks but also see how insurers can sustainably contribute to the macro-economy and social security. But he called for the monitoring to be done "gently".

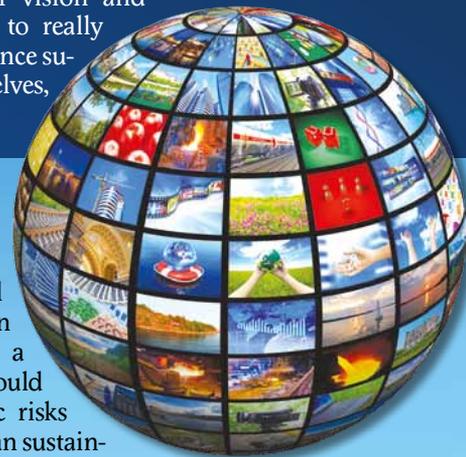
## Duplication must be avoided

Mr Patrick Liedtke, Managing Director of The Geneva Association, warned that with so many international bodies taking various initiatives in MPS, including the G20, IMF, World Bank, IAIS, FSB and OECD, there should be conscious efforts to avoid duplication and to streamline the systems and processes.

He outlined a clear vision for the flow of information from the micro to the macro level – where information gathered can be used to set up an early warning system so that regulators can follow up by directly engaging and checking the insurers likely to be affected.

## Still a work in progress

The revised core principles that the Technical Committee is expected to adopt later on will contain a special clause on MPS – which reflects the impact of the lessons learnt from the financial crisis. But the practical measures that will be pursued to stem any new crisis are still very much a work in progress.



(L-R) Mr Mack Okubo, Nippon Life; Mr Michael McRaith, US Treasury; Dr Terri Vaughan, NAIC; Mr Lee Sang-Che, FSC; Mr Patrick Liedtke, The Geneva Association.

# Regulating Social Media: New ballgame, new rules?

Social media has gone from being a perceived fad into a fixture of everyday life – and increasingly, business. Many insurers have realised this and are using it to boost visibility, promote products, and build and keep customer relationships.

While many companies have been quick in jumping onto the bandwagon, very little regulatory effort meant for insurers' use of social media has been seen.

## Same rules for old and new?

What is presumed to be a rule of thumb in some jurisdictions is that insurers should simply comply with the core rules that apply to general insurance marketing.



In the UK, rules generally apply in a media-neutral way and focus on the content rather than the channel used. The same rules for financial promotions in traditional media apply to those in new media. In the US, at least three states have issued guidelines that marketing communications using social media would be considered advertisements.

## A different ballgame

While social media is still unfolding, what is clear is that it is a different ballgame. Although the content of promotions in social media may be the same as that in other media, the kind of channel used can make a world of difference. Social media, for one, elicits fast and real-time response from users. Issues that arise from its use could be different as well, hence needing specific ways of tackling them.

Treating social media promotions as advertisements, or the same as traditional media promotions will inevitably create loopholes as it would overlook the nature of this channel and how customers use and interact with it.

This then leads to the question: Is there a need for regulations for this media's use? Different ballgames need different rules. But social media is one game that is still budding, yet is evolving fast and enjoying a popular following. A careful examination and understanding of its nature and use – along with keeping pace with its development – is necessary before laying down any rules.

# ICPs in takaful: Is the fit right?

The differences between takaful and conventional insurance have regulatory implications, which have been discussed by standard-setting bodies such as the Islamic Financial Services Board (IFSB).

While the IFSB deems that the Insurance Core Principles (ICPs) are, by and large, universally applicable, there are several points that require some form of adaptation, or a form of interpretation, to cater fully to takaful. But it pointed out that in most instances, this is at the criterion level only, rather than in the principle itself.

## Issues for takaful

The issues identified can be grouped into four major themes: corporate governance; financial and prudential regulation; transparency, reporting & market conduct; and supervisory review process.

Corporate governance embraces issues such as the acceptable takaful models and the essential criteria or parameters for each model, the relationship between policyholders' and shareholders' funds, Shariah governance, and how policyholders' and shareholders' interests are to be balanced in the governance model.

These are substantial regulatory and supervisory issues in their own right, but their resolution is also fundamental to making an effective start in the other three areas, IFSB noted.

For example, it is unclear how to adapt capital adequacy principles for takaful without having a clear view of the financial risks and where they are located. This, in turn, is strongly influenced by the model chosen and the relationship between shareholders' and policyholders' funds.

## Basic principles to help make progress

This does not imply that there will necessarily be a single model for takaful – any more than there is in conventional insurance. However, it will be much easier to make progress in the other areas if basic principles are established.

# ComFrame 101

Responding to the globalisation of insurance sectors and drawing lessons from the financial crisis, the IAIS began building the Common Framework (ComFrame) for supervising internationally active insurance groups (IAIGs) and to foster co-operation among supervisors and close regulatory gaps.

## Aiming to foster convergence

ComFrame aims to develop methods of operating group-wide supervision of IAIGs to make oversight more effective and reflective of actual business practices.

Above that, it will assist supervisors address group-wide activities and risks, and institute principles for better supervisory cooperation to allow for a more integrated and international approach. Most importantly, it will foster global convergence of regulatory and supervisory measures.

## Getting it right

ComFrame will not be rules-based, nor is it intended to be a set of overly prescriptive, narrowly defined approaches. Rather, it will endeavour to be outcome-focused and will be accompanied with specific parameters.

It will be ever-evolving and will continuously undergo refining to reflect changing circumstances and experiences gained over time to ensure it is robust and practical in both theory and practice.

With ComFrame's mighty task and high expectations ahead, getting the right balance will be critical.

# A Seoul-ful evening

Perfect weather greeted delegates as they cosied up to a sensational evening of old-school charm against the stunning backdrop of the Korean National Museum. The impeccable Korean hospitality was topped off with an international selection of finger foods and copious amounts of drinks as friendships were made and renewed. A group of female musicians plucked on a traditional Korean instrument, while the night's finale was a free-style artist who painted an elaborate pair of stallions to the soothing tunes.



## What's new with IAIS?



The **Supervisory Forum** was created this year to provide a **platform** – for supervisors to exchange experiences, focusing on large insurers and groups.



A new **Confidentiality Policy** has been implemented – affecting how the **IAIS** distributes materials and how they are treated by recipients.



The **Secretariat** has welcomed new members, including **Mr George Brady** as an additional Deputy Secretary General and **Mr Daniel Hofmann** as Economic Counsellor.

**3** validation reports for **MMoU applicant jurisdictions** were sent to the High Level Committee – after which the signatories would increase to **17**

The **Implementation Committee** welcomed **three** new subcommittee chairs:



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