

Standard-setting Activities of the IAIS



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IAIS Secretariat**

**Regional Seminar for Supervisors in Africa
on Risk-based Solvency and Supervision**

Mombasa, 14 September 2010



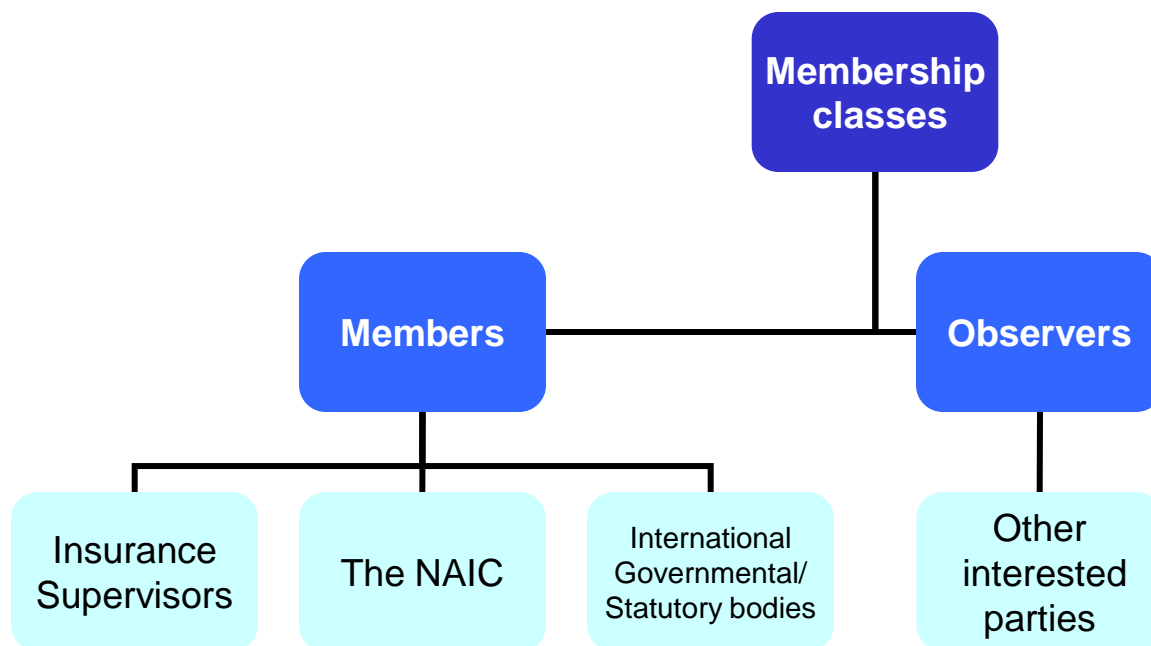
Agenda

- Background of the IAIS
- Insurance Core Principles (ICPs) for effective supervision
- Updates on standard-setting activities
- Lessons learned and the response of the IAIS to the global financial crisis



IAIS: a global forum for insurance supervisors

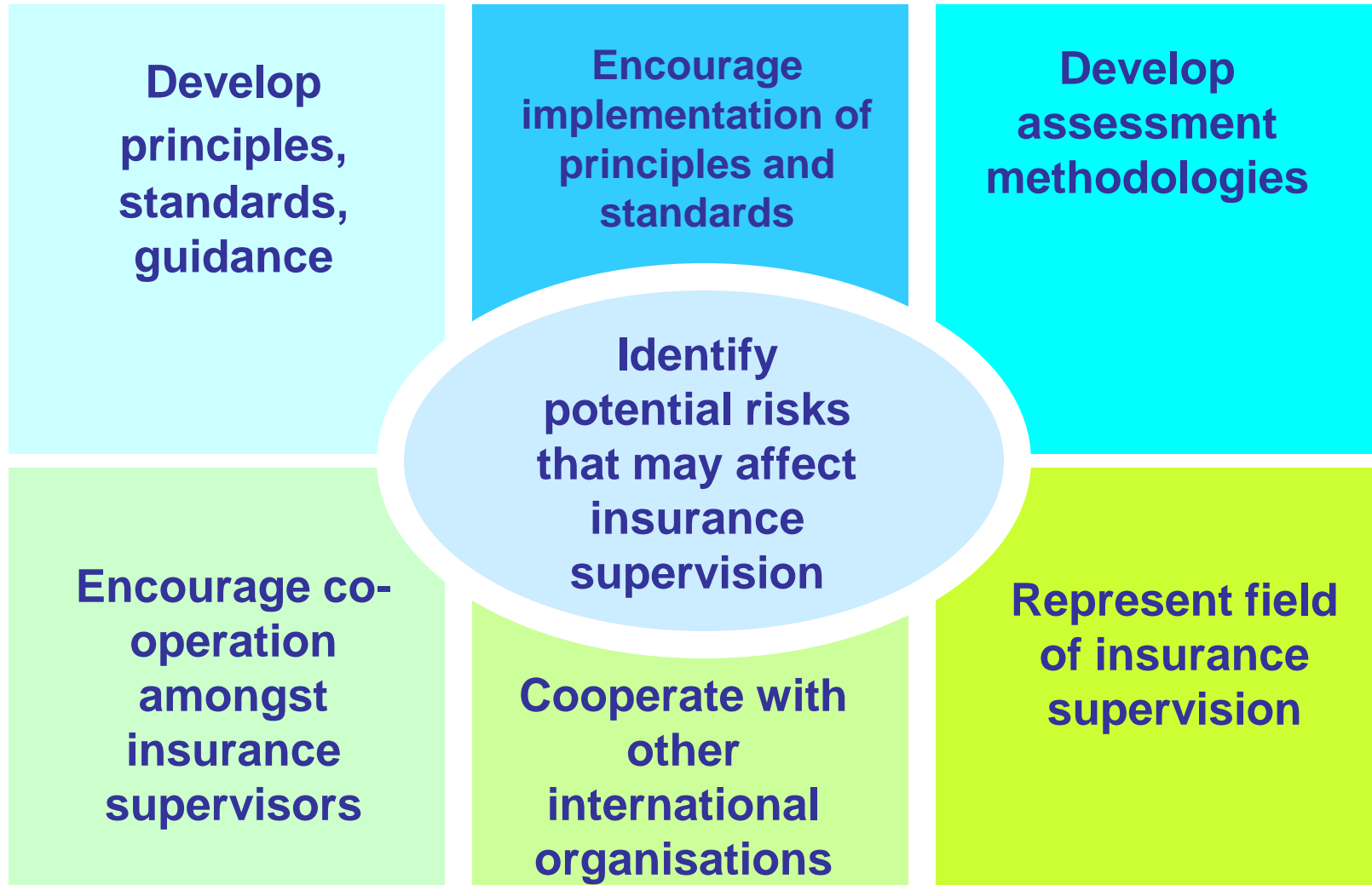
- Founded in 1994
- Members from more than 190 jurisdictions in over 140 countries
- Over 120 Observers
- Hosted by the Bank for International Settlements (BIS)



Standard-setting Activities of the IAIS

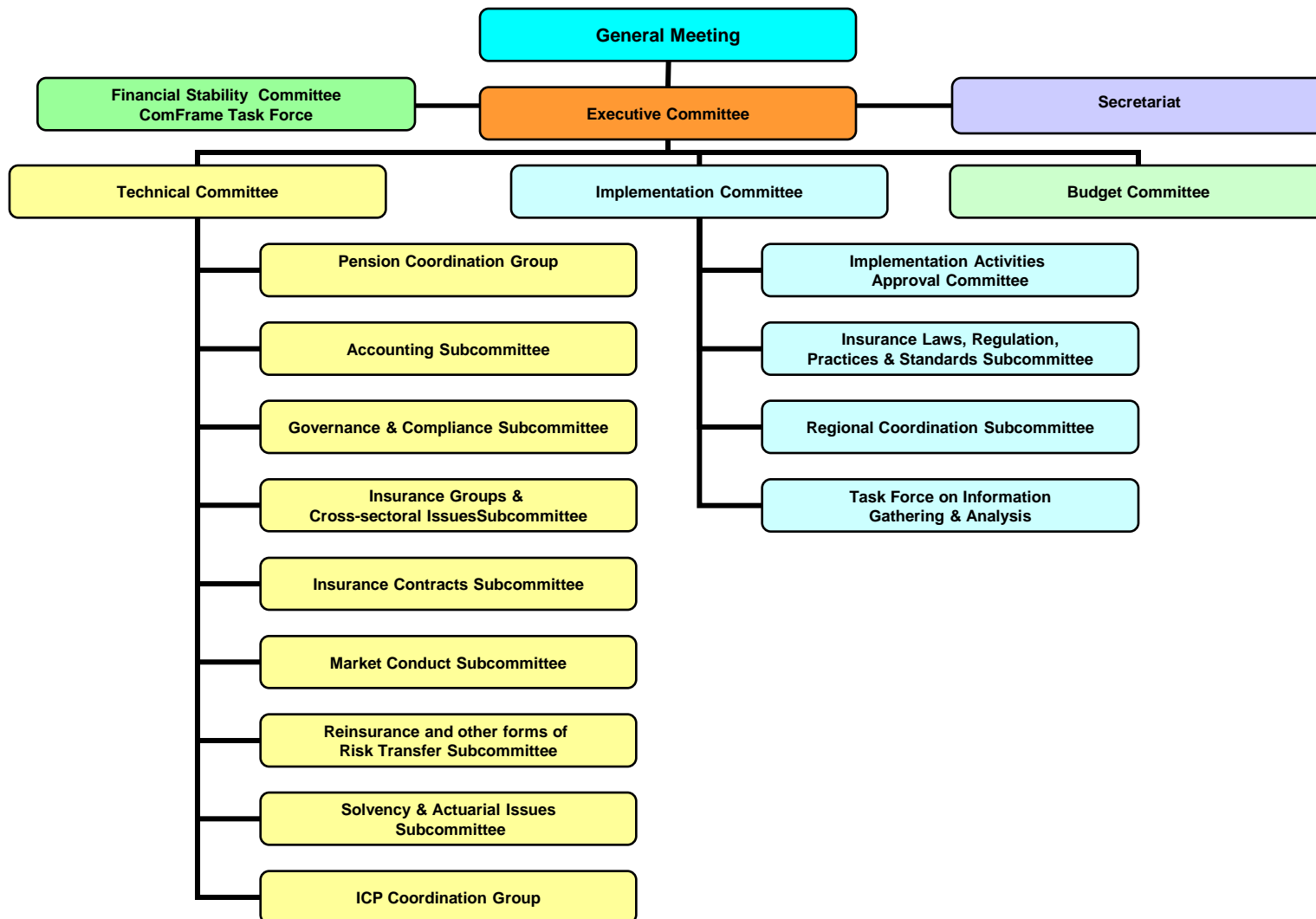


What we do





IAIS Organisation Structure





Who's who in the Secretariat

Secretary General



Yoshihiro Kawai

Deputy Secretary General



Catherine Lezon

Principal Administrators



Simone Amiet



Arup Chatterjee



Peter Cooke

Administration



Sylvie Ellet
Administrative Officer



Anne-Marie Kelly
Administrative Officer



Ann Neale
Administrative Officer



Technical Administrator
/Database Administrator/IT
projects



Sebastian von Dahlen



Kuni Kawasaki



Frank Lin



John Maroney



Takao Miyamoto



Mala Nag



Nancy Sinclair



Jason Park



Peter Windsor



Jeffery Yong

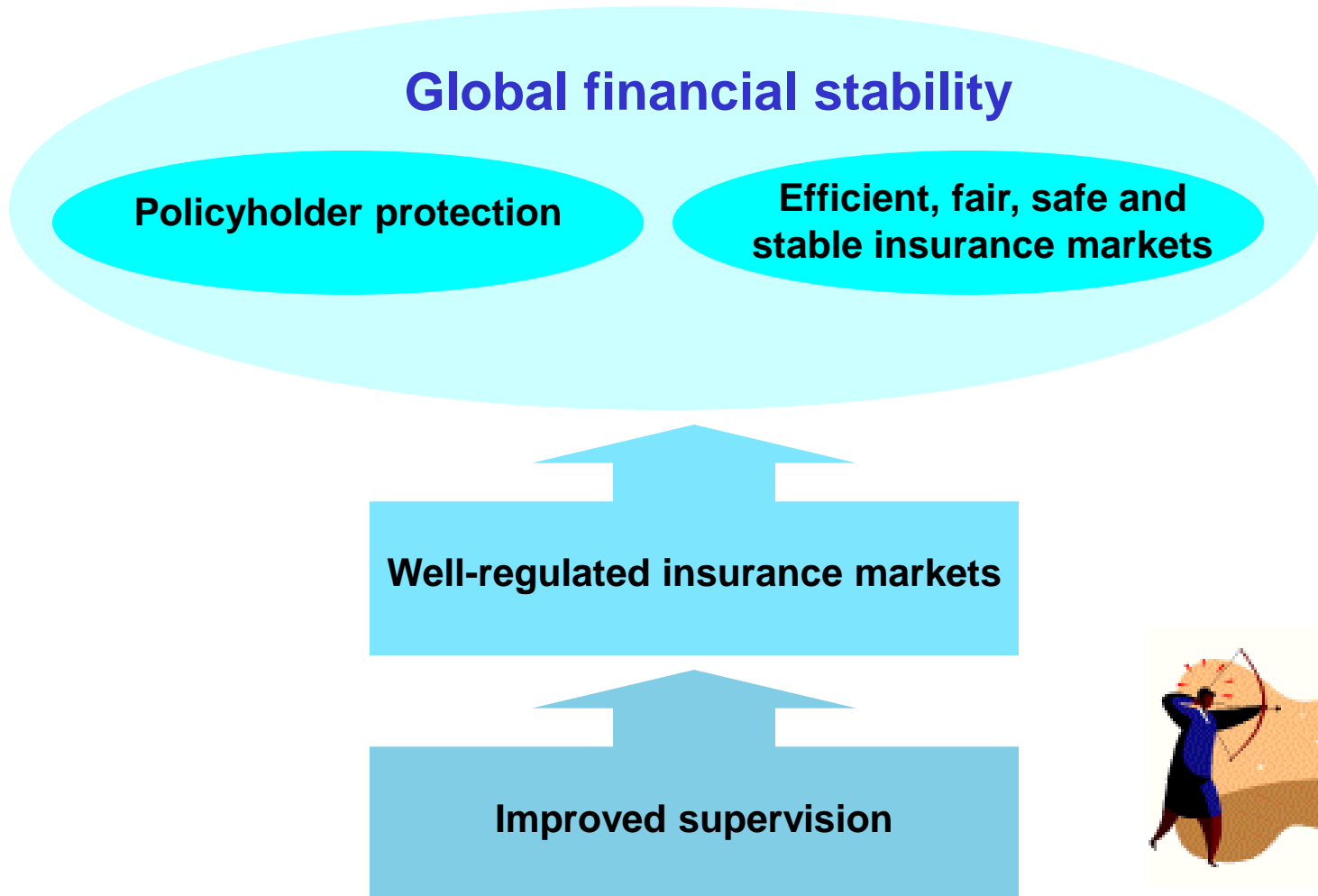


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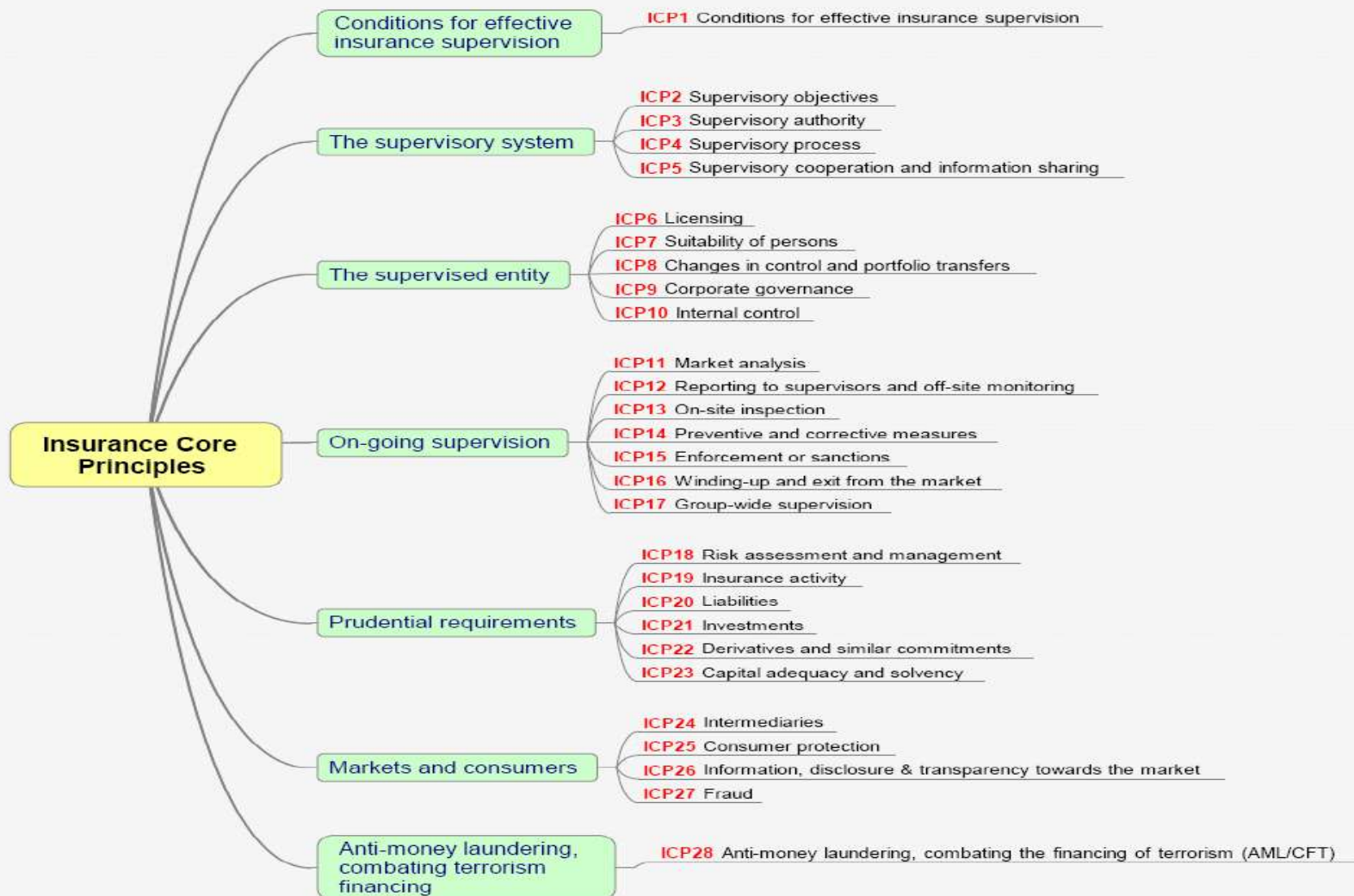


Why are international standards important?



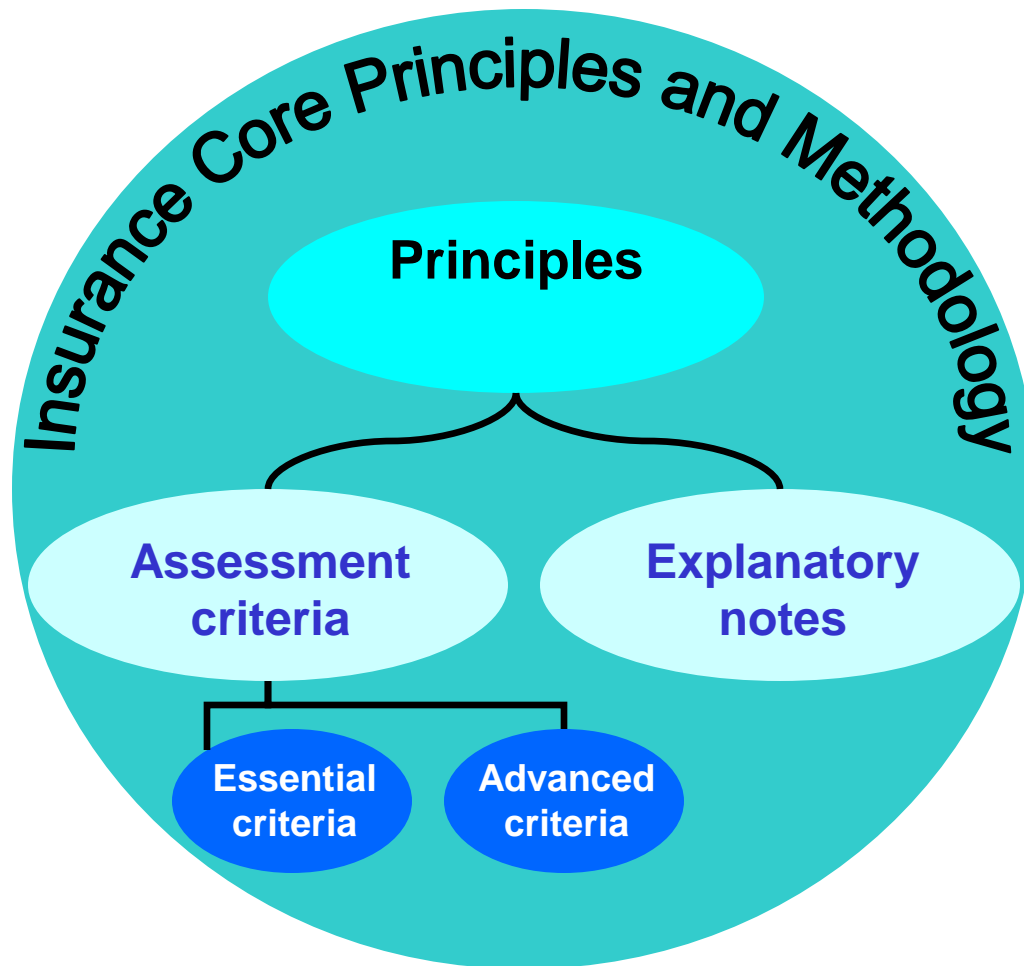


ICPs cover all insurance supervisory aspects





ICPs provide a globally-accepted framework for insurance regulation and supervision



- Benchmark for insurance supervisors
- Used to establish new regimes
- Used to improve existing regimes
- Used in evaluation of supervisory regimes – FSAPs
- Applies to all insurers and reinsurers but not intermediaries, unless indicated



Expectation on how to observe ICPs articulated in essential and advanced criteria

Essential criteria

- Elements intrinsic to the implementation of ICPs
- Assessment criteria

Observed	All essential criteria observed
Largely observed	Only minor shortcomings exist
Partly observed	Despite progress, shortcomings sufficient to raise doubts
Not observed	No substantive progress
Not applicable	Not applicable due to structural/legal/institutional features or responsibility with other authorities

Advanced criteria

- Components which improve essential criteria and enhance supervisory regime
- Not used in assessing ICPs observance
- **BUT** may be used to comment or make recommendations on supervisory framework



An example – ICP 11 Market Analysis

What supervisors should achieve

ICP 11 Market analysis

Making use of all available sources, the supervisory authority monitors and analyses all factors that may have an impact on insurers and insurance markets. It draws conclusions and takes action as appropriate.

Provides background

Explanatory note

11.1. In order to achieve its objectives, the supervisory authority supervises the financial soundness of individual insurers and contributes to financial stability of the insurance market. Both require an analysis of individual insurers and insurance groups as well as the market and the environment in which they operate.

How supervisors can demonstrate observance

Essential criteria:

- a. The supervisory authority conducts regular analysis of market conditions.
- b. The market analysis not only includes past developments and the present situation, but also aims to identify trends and possible future scenarios and issues, so that the supervisory authority is well prepared to take action at an early stage, if required.
- c. The market analysis is both quantitative and qualitative and makes use of both public and confidential sources of information.

For those who can “go the extra mile”

Advanced criteria:

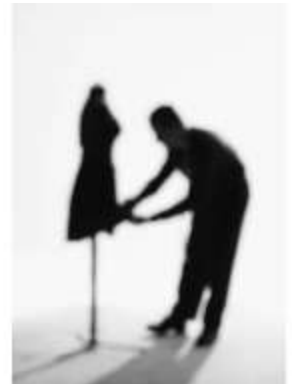
- f. Insofar as international relationships affect internal insurance and financial markets, the analysis is not limited to the home market, but also includes developments elsewhere.

NOTE: This is not the complete text for ICP 11.



Flexible implementation and assessment of ICPs tailored to local market conditions

- What are the benefits of ICP assessments?
 - Identification of extent and nature of weaknesses
 - Recommendation of possible remedies
 - Preparation for FSAPs
- The implementation of the ICPs should take into account:
 - Domestic context
 - Industry
 - Structure and state of financial system
 - Overall macroeconomic conditions





ICPs used to assess insurance sector in Financial Sector Assessment Program (FSAP)

Background

FSAP is a joint IMF and World Bank effort introduced in May 1999. So far, 75 countries have completed FSAP.

Objective

To achieve an integrated analysis of stability and development issues using a wide range of analytical tools

Assessment Tools

- Macroprudential analysis
- Analysis of financial sector structure
- **Assessment of observance and implementation of international standards (for insurance supervision - ICPs)**
- Analysis of country-specific stability issues

Outputs

- Reports on Observance of Standards and Codes
- Financial System Stability Assessments

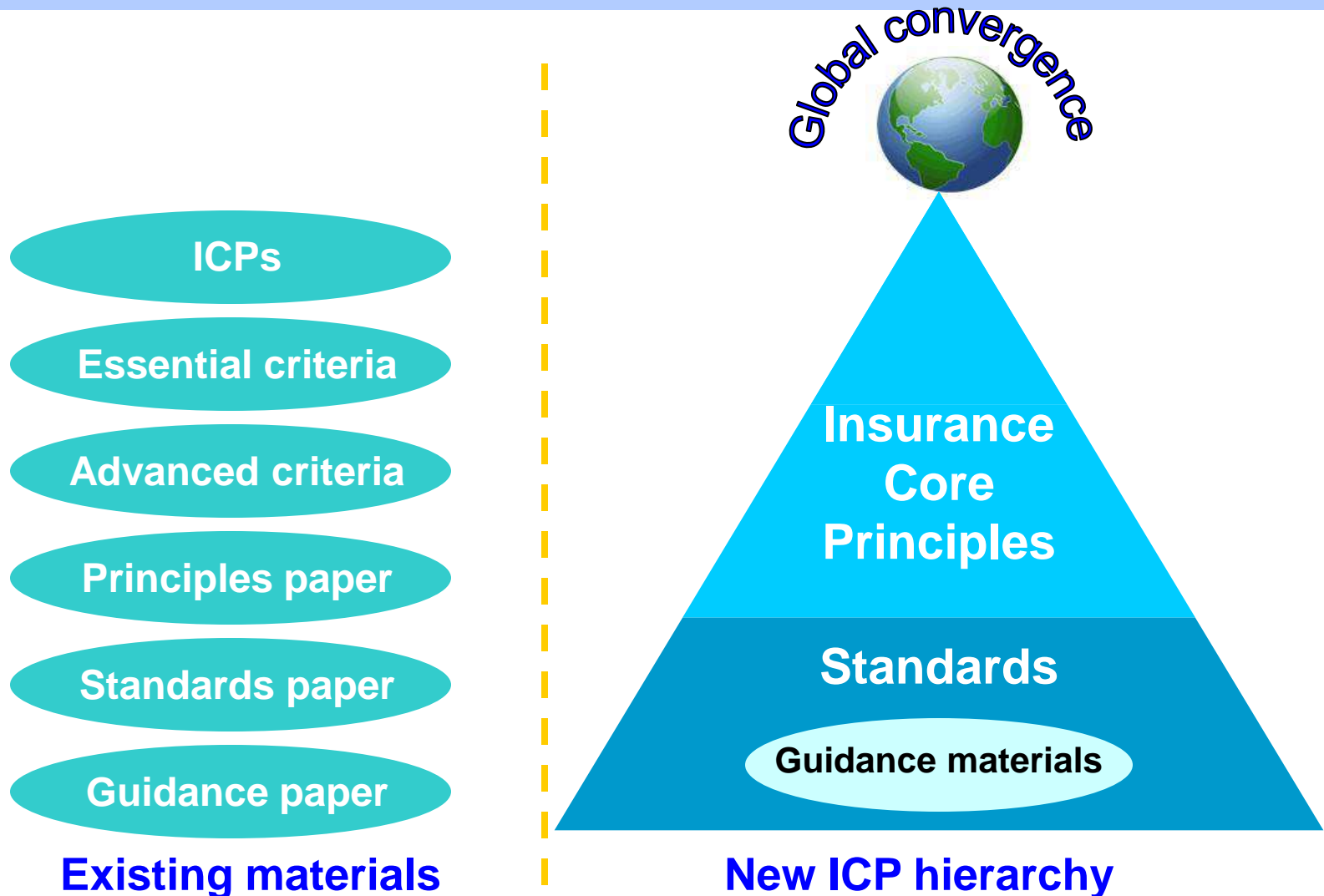


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ICP review – a comprehensive and coherent framework





Proposed new ICP hierarchy

Insurance Core Principles

- The **essential elements** that must be present in the supervisory regime in order to promote a financially sound insurance sector and provide an adequate level of consumer protection
- Should be **adhered to by all insurance supervisors**, regardless of the level of development of their insurance markets, and the type of insurance products or services being supervised
- Basis from which standards are developed

Standards

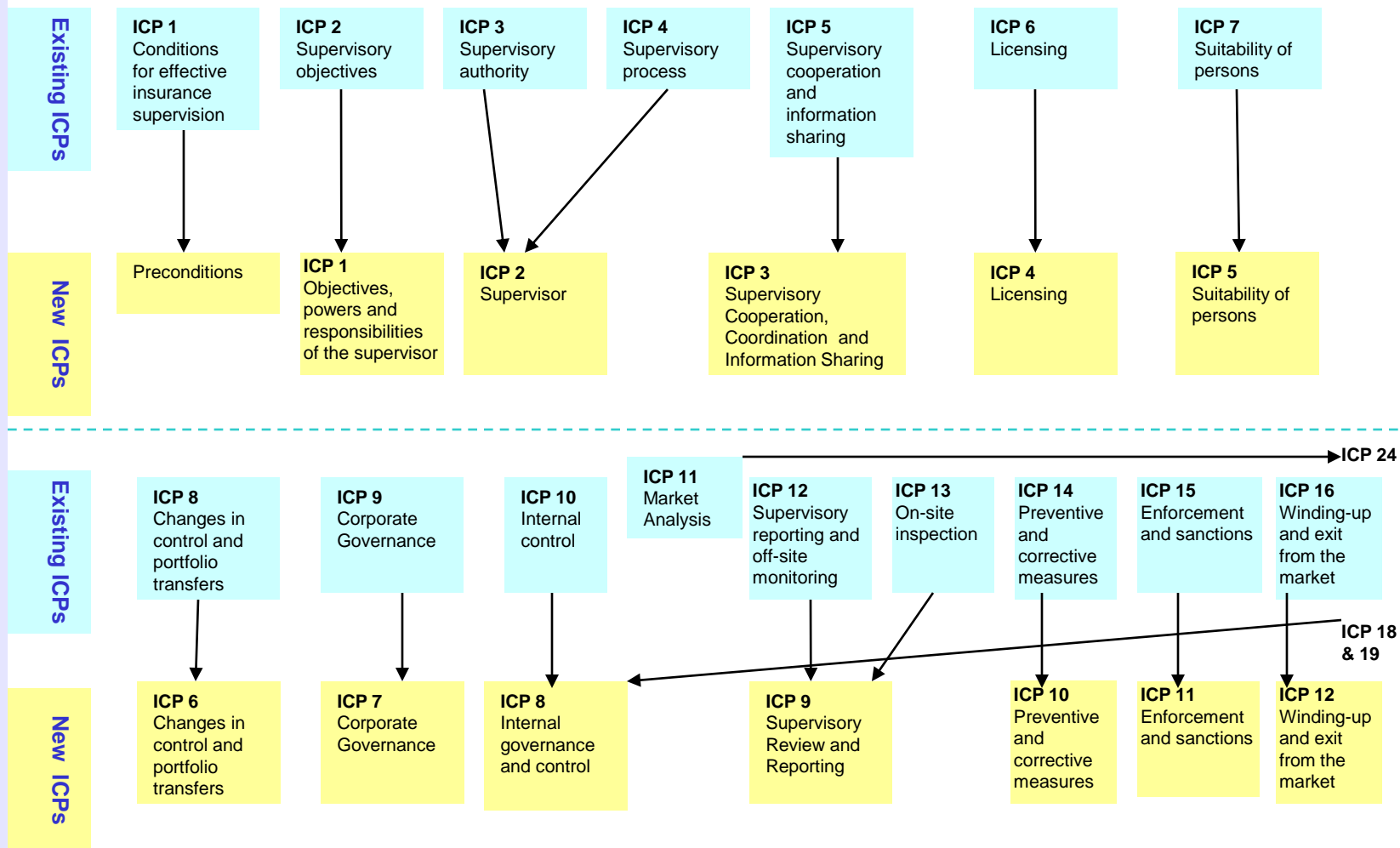
- **High-level requirements** that are fundamental to the implementation of the insurance core principles and should be met for a supervisory authority to demonstrate observance with the core principles
- Written as **obligations of the supervisor**
- Linked to specific ICPs

Guidance

- **Supports the core principles and/or standards** and provides detail regarding how to comply with or implement a core principle or a standard
- **Does not set out new requirements** but rather describe what is meant by the requirement
- Often **provide examples** of possible ways of implementing the requirements

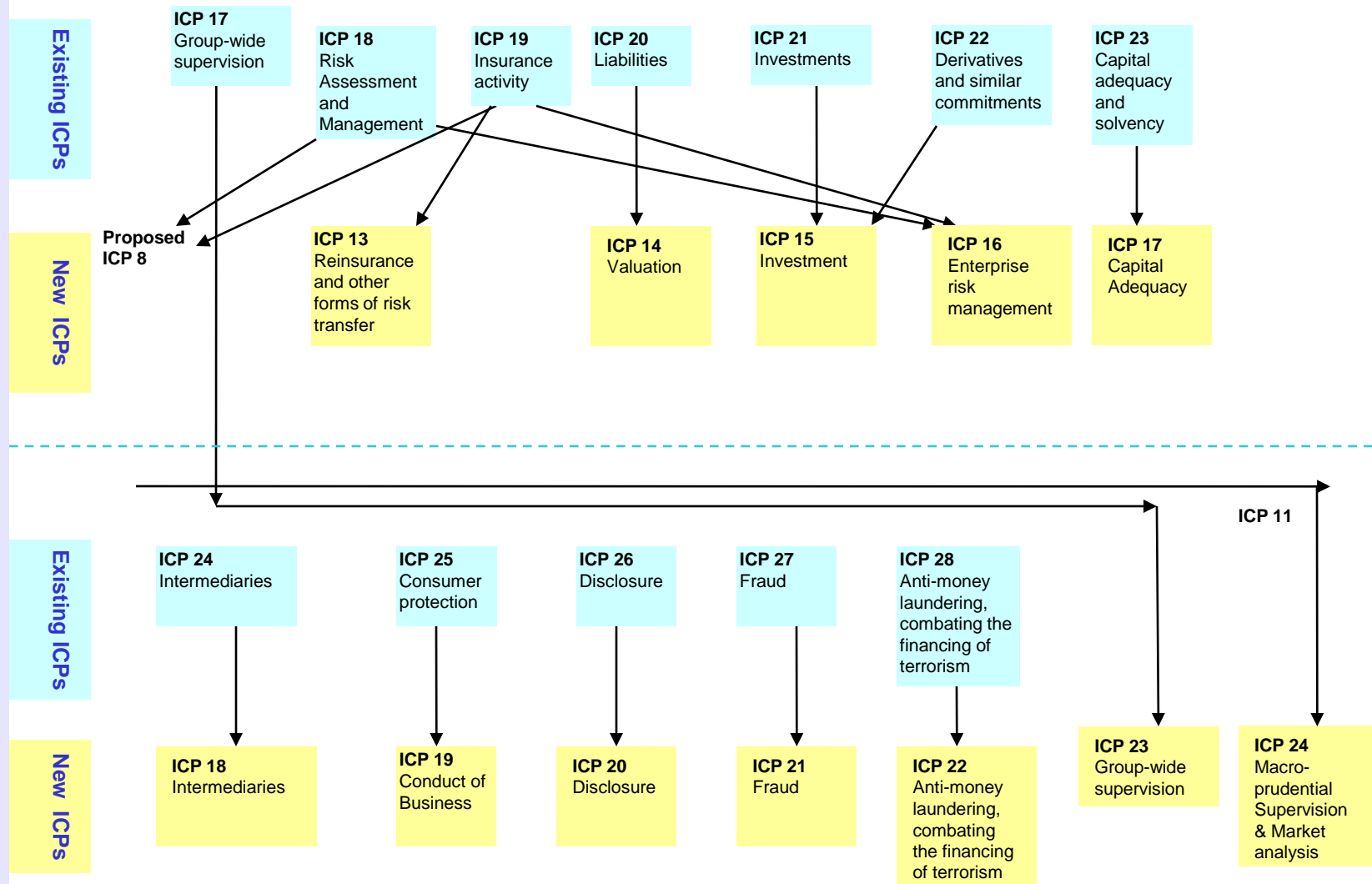


Proposed new ICP structure





Proposed new ICP structure (2)





Other selected standard setting initiatives

Solvency & Actuarial Issues Subco

- **Financial stability:**
 - Basel III read-across
 - Credit ratings
- **Extension of solo papers to groups:**
 - Capital adequacy
 - Internal models
 - ERM
 - Investments

Insurance Groups & Cross-sectoral Issues Subco

- **Financial stability:**
 - Non-regulated entities
 - Supervisory colleges
 - Group-wide supervisor
 - Cross-border cooperation on crisis mgmt
 - Resolution of cross-border entities
- **New materials:**
 - Group-wide Supervision Framework
 - Supervisory recognition

Governance Subco

- **Financial stability:**
 - Remuneration
- **New materials:**
 - Licensing
 - Suitability of persons
 - Internal controls

Insurance Contracts Subco

- **IASB papers:**
 - ED on Insurance Contracts
- **New materials:**
 - Valuation

(Jointly with Solvency Subco)

Market Conduct Subco

- **New materials:**
 - Conduct of business
 - Intermediaries



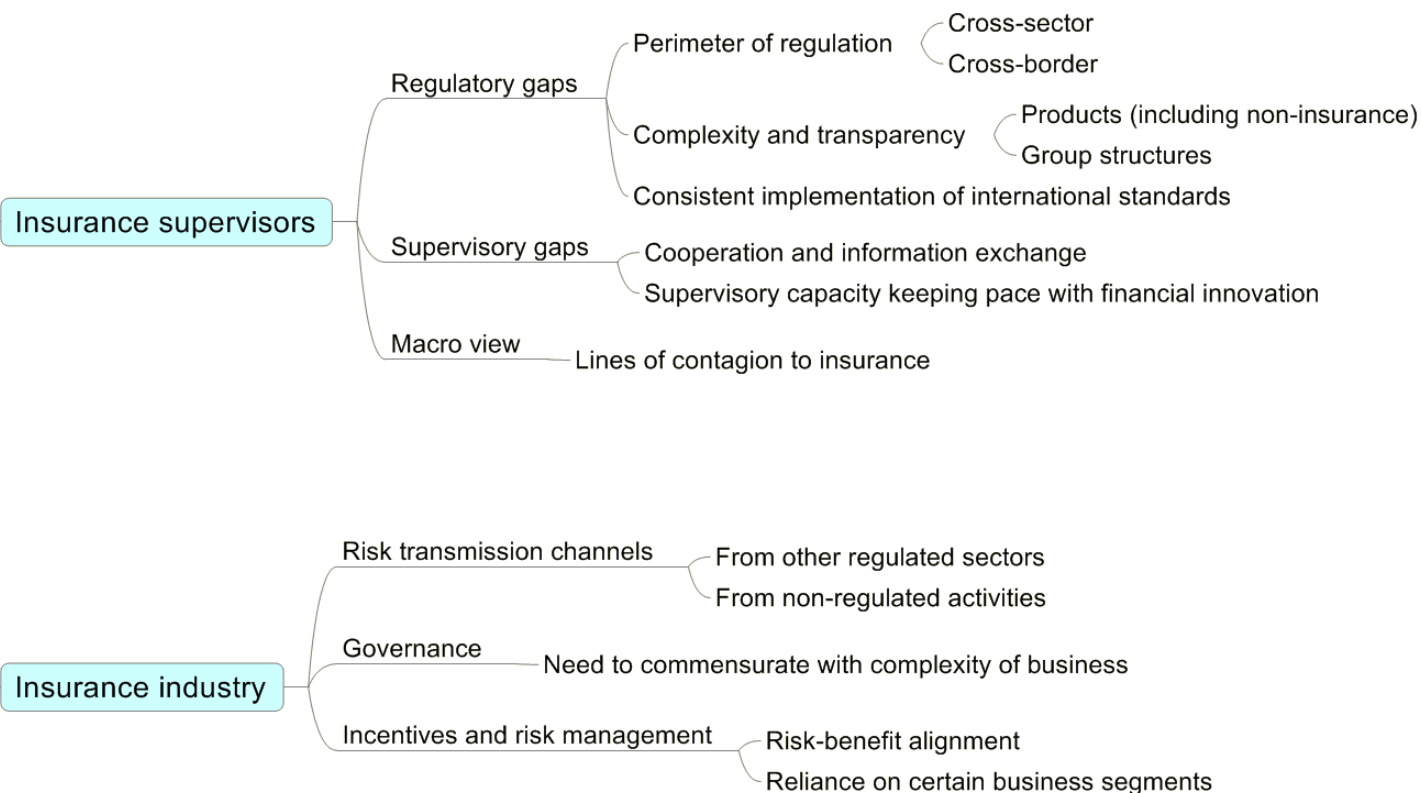
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Lessons from the Global Financial Crisis

Some Lessons For The Insurance Sector





IAIS response to challenges for insurance supervisors

Challenges	IAIS response
<ul style="list-style-type: none">• Defining systemic risk in the context of insurance• Improving macroprudential surveillance and supervision	<ul style="list-style-type: none">• IAIS Financial Stability Committee finalised Position Statement.• Exploring the setting-up of a macroprudential surveillance framework.• Developing macroprudential tools.• Incorporating macroprudential aspects in the Insurance Core Principles (new ICP 24 <i>Macroprudential supervision and analysis</i>) .
<ul style="list-style-type: none">• Strengthening group-wide supervision and minimising cross-sectoral regulatory arbitrage	<ul style="list-style-type: none">• Developing a Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame)• Standard setting work – recently adopted guidance paper on non-regulated entities; ICPs and new standards will apply to both insurance legal entity and insurance group levels.



IAIS response to challenges for insurance supervisors (2)

Challenges	IAIS response
<ul style="list-style-type: none">• Strengthening international supervisory cooperation	<ul style="list-style-type: none">• Intensifying efforts to expand the number of the IAIS MMoU Signatories.• Reviewing ICP and existing standards on supervisory cooperation and coordination.• Timely standard setting response – guidance paper on supervisory colleges; group-wide supervisor.
<ul style="list-style-type: none">• Enhancing standard implementation activities and minimising cross-border regulatory arbitrage	<ul style="list-style-type: none">• Exploring a peer review framework to foster adherence to IAIS Principles and Standards.
<ul style="list-style-type: none">• Supporting sound compensation/remuneration practices	<ul style="list-style-type: none">• Finalising standard and guidance on remuneration.



IAIS Position Statement on Key Financial Stability Issues

Insurance business model

- Based on pooling and diversification of risks. Residual risks managed through reinsurance, hedging, securitisation, ALM etc.
- Financial distress plays out over long time horizon – liquidation takes place over many months/years. Hence, longer time to intervene.
- Unlike banks, insurers are not part of payment and settlements system; and do not rely on short term borrowed money.

Systemic relevance & systemic risk

- Insurance sector susceptible to systemic risks generated in other parts of the financial sector.
- For most classes of insurance business, little evidence of insurance generating /amplifying risk except with regards to non-regulated entities (contagion risk), specific insurance products (e.g. FGIs) or through capital markets linkages (fire sale).
- G20/IMF/BIS definition
 - size - but need size for greater diversification
 - interconnectedness – reinsurance spiral; links with other firms
 - substitutability – market disruption due to capacity withdrawal

Resolvability

- “Life after death” – orderly run-off

Proposed supervisory enhancements

- ComFrame and group-wide supervision
- Macroprudential monitoring
- Enhancements to supervision and supervisory processes, stronger risk management, enhancements to resolvability approaches



Common Framework for the Supervision Of Internationally Active Insurance Groups (ComFrame)

OBJECTIVES OF COMFRAME

**Effective
supervision of
IAIGs**

**Comprehensive
framework**

**Global
convergence**

Multilateral tool; specific but not rules-based

Module 1

**Scope of
application**

Module 2

**Group structure
and business**

Module 3

**Quantitative &
qualitative
requirements**

Module 4

**Supervisory
cooperation
and interaction**

Module 5

**Jurisdictional
matters**



Importance of learning from the past to enhance resilience against future financial crises



- The “rules of the game” have changed.
- There should be no return to “business as usual”.
- 1-in-200 year event or 1-in-10 year event – need to challenge what was previously thought to be “unthinkable”.
- Though not necessarily the primary instigator of the financial crisis, some insurers and insurance groups played a role by transmitting and amplifying risk prior to, and during the crisis.
- What would have happened to the global insurance industry if governments did not intervene on such an unprecedented scale?



Summary of key points

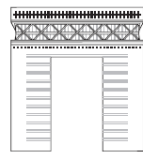
- The IAIS aims to ensure sound and well-regulated insurance markets for the benefit of policyholders and the preservation of global financial stability.
- To achieve its objectives, the IAIS focuses on its standard setting and implementation activities.
- The revised ICPs will provide global benchmarks for sound and effective insurance supervisory frameworks, taking into lessons learned from the financial crisis.



Thank you for your attention.
Any questions/ comments?



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