



International Association for the  
Study of Insurance Economics

# PROGRES

Programme on Regulation, Supervision and Legal Issues

## Geneva Association Information Newsletter

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## **The Geneva Association**

The International Association for the Study of Insurance Economics, or by its short name “The Geneva Association”, is a unique world organisation formed by a maximum of 80 chief executive officers from the most important insurance companies in the world (Europe, North and South America, Asia, Africa and Australia). Our main goal is to research the growing importance of worldwide insurance activities in all sectors of the economy. We try to identify fundamental trends and strategic issues where insurance plays a substantial role or which influence the insurance sector. In parallel, we develop and encourage various initiatives concerning the evolution – in economic and cultural terms – of risk management and the notion of uncertainty in the modern economy.

The Geneva Association also acts as a forum for its members, providing a worldwide unique platform for the top insurance CEOs. We organise the framework for our members in order that they may exchange ideas and discuss key strategic issues, especially at the General Assembly where once per year over 50 of the top insurance CEOs gather. The Geneva Association serves as a catalyst for progress in this unprecedented period of fundamental change in the insurance industry and its growing importance for the further development of the modern economy. It is a non-profit organisation.

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## **The PROGRES Research Programme**

The PROGRES name stands for Research **PRO**gramme on **RE**gulation, **S**upervision and **L**egal Issues in insurance. It focuses on questions related to regulation, supervision and international co-operation of insurance and financial services as well as other legal issues of importance. The research programme manages The Geneva Association’s co-operation with the supervisory authorities around the world and in particular with the International Association of Insurance Supervisors.

The annual PROGRES seminars address the advancement of the regulatory and legal debates as well as trade and international co-operation issues. They provide since 1983 an annual forum and focal point for up to 60 specialist inter-disciplinary participants – private-sector practitioners and experts from representative organisations, academics, officials from governments and intergovernmental organisations – to discuss and debate in an informal way.

The PROGRES Newsletter is distributed worldwide twice annually on a complimentary basis to about 5000 organisations and individuals to raise awareness of selected service-sector research activities, conferences and publications. Anyone wishing to be included on the Newsletter mailing list should visit our webpage at [www.genevaassociation.org](http://www.genevaassociation.org) or contact The Geneva Association Secretariat at:

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### **The Geneva Association Information Newsletter – PROGRES, No. 48, December 2008**

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## I. EDITORIAL

We are deep into the global financial crisis. Its detailed roots and causes are still far from clear and its consequences are still to be learnt. At its outbreak, the insurance industry seemed to be at ease and unaffected. Subprime mortgage credit crunch looked like an entirely banking-related exercise and, by and large, the banking sector's problem. Pretty soon, however, some bad messages arrived also for non-banks. Monoliners, on one hand, and large complex financial institutions, on the other, were particularly affected. AIG, Fortis, ING, Aegon started to make the headlines. So what went wrong? How could it happen? Who is to blame? How to limit the consequences of this largely catastrophic event? And perhaps the most important: how to prevent it happening again? What regulatory lessons could be drawn both big and small? They may be equally important. Suffice to say that initially, direct subprime mortgage losses were only somewhere around US\$ 500bn but they ignited the process whose costs are currently estimated at US\$ 8 trillion and this is not the end of the story. As a result of the current market developments, serious actions and activities will be undertaken by the whole international community as declared by the recent G20 summit on financial markets and the world economy, held in Washington on 15 November. They will address, directly or indirectly, regulations and supervision of the insurance industry.

In view of all these dynamic developments, it is not astonishing that this issue of our newsletter is particularly focused on searching for regulatory and supervisory lessons from the event. Key practitioners on the scene – one from the U.S. and one from Europe – share with us their first-hand observations. Hopefully they can help in adequately modernizing our existing regulatory architecture.

I hope we can continue this relevant regulatory discussion at our 25<sup>th</sup> PROGRES high-level international seminar due to take place in Montreux, Switzerland, 6-7 April next year. The jubilee event will be marked by special programme innovations as well as social initiatives. I am sure they will be welcomed by participants.

by Jan Monkiewicz, Editor

## II. SELF REGULATION AND THE INSURANCE INDUSTRY - A VIABLE PROPOSITION

*by Brian Atchinson\**

The role of a Self Regulatory Organisation (SRO) is evolving in the insurance and financial services marketplace. The challenge is to establish an organisation and programme that has substance and credibility while maintaining the broad support of the industry that it is intended to regulate. The perennial challenge is to maintain the correct balance of industry support and external stakeholder respect. This balance can only be maintained by ensuring the SRO continues to reflect the interests and changing needs of the industry.

### **U.S. Life Insurance Industry Experience**

The experience of the life insurance industry in the U.S. is an interesting case study. In the 1980s and 1990s, the life industry was found by the regulators, courts and media to be engaging in widespread marketing and sales practices that were deemed inappropriate, unethical and, at times, illegal. Consequently, business suffered and there was movement to enact new onerous laws to impose new performance standards on the industry. As a result, the life industry took action in order to have more control over its own destiny. Rather than stand by idly while new federal or state laws were enacted to address problematic practices, most industry leaders ascribed to the business and sports philosophy

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\* President & CEO, Insurance Marketplace Standards Association.

that “the best defence is a good offence” and, as a result, the Insurance Marketplace Standards was created in 1996. The threat of legislative action receded.

Among the lessons learned from these experiences were:

- While it takes years to build trust and establish a reputation, those qualities can be very quickly damaged or destroyed. This is true of an industry as well as an individual company. The entire life industry and its financial performance suffered as a result of the problems noted above.
- Ultimately, the success of a life insurance company and the industry is dependent on its ability to engender trust. Based upon the underlying premise that every life insurance product sale should be based on a “needs-based analysis” of the individual consumer’s personal financial goals and needs, the industry spent nearly two years developing a comprehensive set of standards and a credible independent evaluation process to determine which companies met those standards and qualified for Insurance Marketplace Standards Association (IMSA) membership.

### **Marketplace and IMSA Today**

A goal of the IMSA has been to establish and enforce national standards with respect to how life insurance companies market, advertise, conduct sales and service their customers. A majority of the industry has supported this goal by agreeing to uphold these principles and standards while undergoing an independent assessment every three years to confirm compliance.

IMSA qualification is intended to reflect and document that a company has in place substantive policies and procedures, as well as an infrastructure to ensure continual use of these practices. The three-year renewal cycle requires continual compliance throughout the prior qualification period. In recent years, the IMSA has enforced its standards through the expulsion of some companies that have failed to maintain compliance with its standards.

The IMSA is a voluntary programme and therefore is dependent on the support of companies and industry leaders. After a decade of IMSA standard setting and industry peer pressure, the majority of companies and distributors understand and support the need for policies and procedures that protect consumers and themselves. Unfortunately, a few companies and distributors have continued to cause damage to the reputation of the industry. In particular, inappropriate sales activities involving Fixed Indexed Annuities and replacement sales have drawn the attention and ire of the media, regulators, consumers and others. Notwithstanding the work and commitment of most life companies and distributors, the unfortunate actions of a few companies and producers have continued to provide ample ammunition for the media, the U.S. Congress, regulators and state attorney generals to criticize, attack and, in some instances, prosecute elements of the industry. Consequently, doubts have been created in consumers’ minds about the legitimacy of annuities at a time when the “Baby Boomers” should be flocking to annuity products to help address their long term financial needs and goals.

### **Regulation and Consumer Interests**

The current U.S. regulatory system includes some components that would be well suited for a museum. However, the United States is founded on a “federal” government structure and, though some reform of financial regulation will inevitably occur, the state’s role is unlikely to disappear altogether within the foreseeable future. The reform debate is likely to begin in earnest in 2009, following the November 2008 elections. Currently, in addition to state insurance regulators, there exists “competition” within the regulatory community for jurisdiction over the evolving financial products marketplace and its many components. There are also state securities regulators, the U.S. Securities & Exchange Commission (S.E.C.) and the Financial Industry Regulatory Authority (FINRA) with competing jurisdiction over certain “investment” products, including certain insurance and annuity product sales, occasionally bumping heads with one another. Regulatory arbitrage or competition serves no one’s long-term interest, least of all the end consumer.

In that regard, a focus of the IMSA continues to be the companies’ and consumers’ needs for consistency, predictability and transparency regarding the products available for sale and the sales practices to which consumers are subjected. Companies, distributors and consumers deserve more

clarity and uniformity regarding regulation. Irrespective of whether a product is regulated by some or all of the above noted regulators, the IMSA programme promotes a range of good and even “best” industry practices, while recognizing that each company, its products and many distribution channels are unique.

While some of the proposals for regulatory reform include an SRO for insurance purposes, there is no indication as to what form such an entity may take or whether such an approach will be included in a final legislative product. The existing federal FINRA example is one approach, empowered by a greater federal authority (SEC), while the National Association of Insurance Commissioners (NAIC) may envision its best chance for survival to assume the SRO role for itself in a new regulatory architecture. Ironically, FINRA, though technically an SRO, is now largely viewed as having much the bearing as a governmental body, while the NAIC will need to carefully study the FINRA and IMSA governance and transparency standards if it has hopes of surviving in the future world of financial services regulation.

### **Organisational Culture of Compliance**

The essence of the IMSA as an SRO or “Best Practices Organisation” as it is sometimes referred, requires that a company have in place and be able to document an ongoing organisational “Culture of Compliance”. A company must be able to demonstrate that they have systemic capabilities that inherently breed continuous improvement within the organisation.

In order to become IMSA qualified, a company must establish and maintain policies and procedures that will reasonably assure compliance with all applicable laws and regulations – but also demonstrate a corporate culture that is designed to treat consumers fairly.

### **IMSA Evolution and Standards Development**

In order to raise its credibility and enhance its profile, the IMSA modified its Bylaws and Strategic Plan in 2002 to include representation from the distribution, regulatory and consumer areas. This change in governance has contributed to the IMSA’s enhanced stature.

The manner by which the IMSA develops and updates its standards continues to evolve. Originally, the standards were developed by IMSA qualified life companies with some minimal distributor participation. Beginning in 2004, the process was upgraded to include a Standards Advisory Committee to ensure any new standards or policies also reflect the interests and input of distributors, consumers, regulators and rating agencies. Among those represented on the Standards Advisory Committee are AARP (the largest consumer organisation in the U.S.), A.M. Best, FINRA, National Association of Insurance Commissioners, National Association of Insurance and Financial Advisors, and Standard & Poor’s.

### **IMSA Programme Standards**

“Needs-based selling” requires that a company and those selling products on its behalf evaluate each customer’s insurable needs and financial objectives. It requires the use of fact-finding tools to document and verify the transaction to protect both the seller and the consumer. In this way, the “suitability” of a particular product sale is determined and documented through needs-based selling.

Among the standards that IMSA has developed to promote a healthy competitive marketplace are:

- Needs-Based Selling
- Suitability of Sales to Consumers
- Advertising Compliance
- Fair Competition
- Distributor Selection and Training Criteria
- Replacement Reviews
- Disclosure Standards
- Customer Complaint Resolution

- Ongoing Supervision and Monitoring

### **IMSA Standards – Suitability Standards**

No issue has challenged U.S. regulators or the life industry in recent years as much as the difficulty of determining whether the sale of a particular annuity or long-term care insurance policy is “suitable” for the consumer at the time of sale.

With a plethora of insurance and financial products available, it is a difficult task to ascertain the appropriateness of a particular product for a specific individual.

IMSA standards for all annuities were amended in 2006 to incorporate all essential elements of the NAIC Suitability in Annuity Transactions Model Regulation. Consequently, all IMSA companies follow these standards nationwide, in all 50 states, irrespective of whether a particular state has adopted the NAIC model law. As of December 2008, only 38 states have passed a version of the NAIC model.

Since the IMSA’s inception, the standards have required a qualified company to maintain methodologies to monitor and supervise the sales practices of those distributing its products, similar to federal requirements applicable to broker-dealers selling investment products. While this is a new concept in 2008 for state insurance regulators, IMSA qualified companies have needed to have such protocols in place since the programme’s inception, putting IMSA companies at an operational and compliance advantage when compared to those just now complying with the new state requirements.

In 2006, the IMSA was asked by the Iowa insurance regulators to establish appropriate standards for the sale of Fixed Indexed Annuities. Unlike the state regulatory body, the National Association of Insurance Commissioners, which typically takes years to develop a model for states to follow, the IMSA developed a set of carefully crafted standards in 120 days. This was done by harvesting the range of practices of IMSA qualified companies and aggregating their collective “best practices” to establish some clear market standards. These standards have become the accepted industry standards, even for non-IMSA companies as a result of regulatory and peer pressure.

### **Financial Performance and Risk Management**

As Enterprise Risk Management becomes an established and important criteria for financial rating agencies and financial market analysts, life companies are beginning to benefit and receive a positive consideration for their IMSA qualification when being evaluated. It is a tangible manifestation of “good governance” and a company’s commitment to sound and ethical business practices.

Those who evaluate and regulate insurance companies must consider all relevant and reliable information. Interestingly, a company’s conduct in the marketplace and the manner in which it engages in the actual business of selling insurance products has been sometimes given little weight. While the ability to manage a company’s assets, liabilities and investment portfolio are highly important, the ability of senior executives to effectively manage the insurance business functions and operational risk have been sometimes less valued by some analysts. However, the 2006 independent study conducted by Georgia State University’s Center for Risk Management and Insurance Research affirmed that companies that are IMSA qualified have demonstrably better financial performance than non-IMSA companies. Though not establishing a causal relationship, the findings are clear that life companies that maintain a “culture of compliance” by satisfying the requirements of IMSA perform better financially according to numerous financial indicators. A summary of those findings are set forth below.

**Executive Summary Table 1**

<u>IMSA Membership is Associated with</u>		<u>Effect of IMSA Membership on Variable of Interest</u>
Higher	AM Best Ratings	Almost Two Rating Levels Higher (i.e. an A- to an A+)
Higher	Return on Equity*	Members have a 4% Higher ROE
Higher	Cost Efficiency**	Members have an 8% increase in cost efficiency
Higher	Revenue Efficiency***	Members have a 3% increase in revenue efficiency
Lower	Lapse Ratio*	Members have a 3.2-4.0% lower lapse rates
Lower	Justified Complaints**	Members have a 150% lower Justified Complaint Index
Lower	Unjustified Complaints**	Members have a 10% lower Unjustified Complaint Index
Lower	Discipline Rate***	Members have a 10% Lower Rate of Regulatory Discipline
Lower	Expenses Ratios****	Members have lower % of total costs devoted to Underwriting and Settlement Expenses

\* ROE is the ratio of net income to surplus.

\*\* Cost Efficiency is an index of firm cost relative to the most efficient insurer.

\*\*\* Revenue Efficiency is an index of firm revenue generating capacity relative to the most efficient firm.

\*\*\*\* Expense ratios are the ratio of the various lines of expenses, defined as the expense for a particular item as a ratio of total expenses.

Source: Georgia State University Center for Risk Management and Insurance Research, 2006

**Executive Summary Table 2**

<u>Description</u>	<u>% Cost Difference</u>	<u>Avg. Expenditure</u>	<u>Mean Firm</u>
Legal Fees and Expenses	-27%	\$ 809,970.70	\$ (217,221)
Medical Examination Fees	-32%	\$ 754,872.00	\$ (242,933)
Inspection Report Fees	-71%	\$ 102,473.10	\$ (73,215)
Fees of Public Accountants and Consulting Actuaries	-24%	\$ 569,431.20	\$ (134,584)
Expense of Investigation & Settlement of Policy Claims	-88%	\$ 719,547.30	\$ (632,602)

Source: Georgia State University Center for Risk Management and Insurance Research, 2006

### III. INSURANCE MARKET CONCENTRATION AND COMPETITION ANALYSIS – COULD IT INFORM MARKET ACCESS AND FINANCIAL STABILITY CONSIDERATIONS?

by Sebastian von Dahlen\*

*Abstract: A recent World Bank Policy Research Working Paper by Craig Thorburn displays initial observations regarding concentration and competition measures for (re-)insurance markets. Our paper provides preliminary considerations on how the results of his analysis could inform regulators. In the light of ongoing liberalization approaches (for example Brazilian efforts to open the reinsurance market for foreign companies in 2008) we focus on the issues of market access and financial stability.*

**Keywords:** market access, free trade, competition, concentration, country assistance, reinsurance regulation, macroprudential, microprudential, financial stability

#### Reinsurance, regulation, supervision and financial stability

This column focuses on aspects of reinsurance, regulation and supervision in the light of financial stability considerations. Each upcoming edition features a specific topic and comprises four sections: **Interview**, **Description**, **Exemplification** and each edition also aims at an indication concerning the 'long term reinsurance market stability' (REST INDEX).

Only very senior representatives within the field of reinsurance will become interview partners. Persons who may potentially be consulted include individuals who are affiliated with: industry, organisations concerned with financial stability, and academia.

#### I. Interview: Craig Thorburn<sup>1</sup> on concentration and competition



Craig Thorburn,  
World Bank

**Why do you consider a cross-country data set of concentration and competitive measures as relevant in the light of financial stability considerations?**

I started putting this data set together when I got a question from a client country about their expectations in a liberalizing market. Many countries are in the situation where their market has either less or more than the consensus number of market players. Either they say, we expect more new entrants or they expect consolidation. But there is precious little guidance for analysis with respect to how much or how fast this transition will take and when it will end.

Instead, there are many expectations of change that are based on little more than 'gut feeling'. Rational analysis needs more than 'gut feeling'. So I sought to put together this extensive data set and do some analysis on it so I could answer the questions. The data set provides a benchmark that did not exist before. Now, analysts can determine where they are against the normal levels.

'Normal levels' have some definition that they did not have before. And there are some nice examples in the data set that give guidance on how fast change occurs.

The International Association of Insurance Supervisors (IAIS) introduced a core principle on market analysis. The prospects for concentration and competition are part of a sound market analysis. If a market is going to consolidate over time then supervisors should take the effects of this into account when they consider their approach to the risk inherent in the market along with other issues. For some

\* Principal Administrator at the IAIS Secretariat.

<sup>1</sup> Craig Thorburn is a Senior Financial Sector Specialist in the Finance and Private Sector Development Vice Presidency at the World Bank, Washington, DC.

markets, the analysis can also suggest how the risk associated with the larger and smaller players can be assessed. All of this should, if done well, inform the supervisory stance and the key priority areas for supervisory attention in the market.

It can also inform the regulatory reform priorities. When reforms are recognised as needed, a market expecting consolidation would focus on making sure that the merger, acquisition, and transfer rules are clear. The potential for excess irrational price cutting wars would also be relevant and so pricing adequacy and profitability would be something to give attention to. When increased competition is expected as a natural point, then market entry barriers, licensing rules, and such would be the focus instead.

**Which criteria** should guide the **further development** towards a countrywide data set of concentration and competitive measures?

The data set is, as you suggest, a first step. The analysis has suggested a number of areas where future work and revision would be worth pursuing. The current work can and has been used successfully for benchmarking purposes and to provide a preliminary hypothesis to be validated with market participants. So far, the hypothesis has been well validated so that gives me great comfort that the data set and its analysis are predictive in practice. But there is more that can be done.

I plan to do some more work on the effects of regulatory entry barriers on the levels of concentration and competition. Over the longer term, politically motivated limits erode market pressure, but shorter term differences may well be explained. It will also provide information on issues as diverse as the absolute minimum level of capital, market allowance of branches and other forms of insurer, and the development of matters such as microinsurance and access to insurance for the poor.

**Where** should **supervisory resources**, if any, be allocated concerning a countrywide data set of concentration and competitive measures?

Supervisors would allocate their resources reflecting their relative concerns, particularly if they explicitly adopt a risk-based approach. If you can identify and measure the position of the market in an agnostic way, then this should be part of the process. As we have seen so many times, due to the inverted production cycle, excessive price cutting can become evident in insurance markets as players seek market share. The agency problem exacerbates this problem. Some companies lose the price war and can erode further to cash flow underwriting desperation and eventual insolvency. This is a critical issue for supervisors as the beginning of the trend can be anticipated as well as the end if it ends in distress for policyholders – something supervisors are there to minimize. So it has a direct involvement.

Similarly, if markets are more concentrated than they need to be, we see that many stakeholders suffer from the lack of innovation and creativity. Prices tend to be higher than they should be. The product range available to customers is more limited. Companies have little incentive to innovate and do not develop, to the extent that they would otherwise, the ability to manage risk. This is a prudential concern to supervisors as well as to policymakers, policyholder welfare and development.

**What** is your **expectation regarding the resilience** of the global reinsurance market within the next 3 to 7 years?

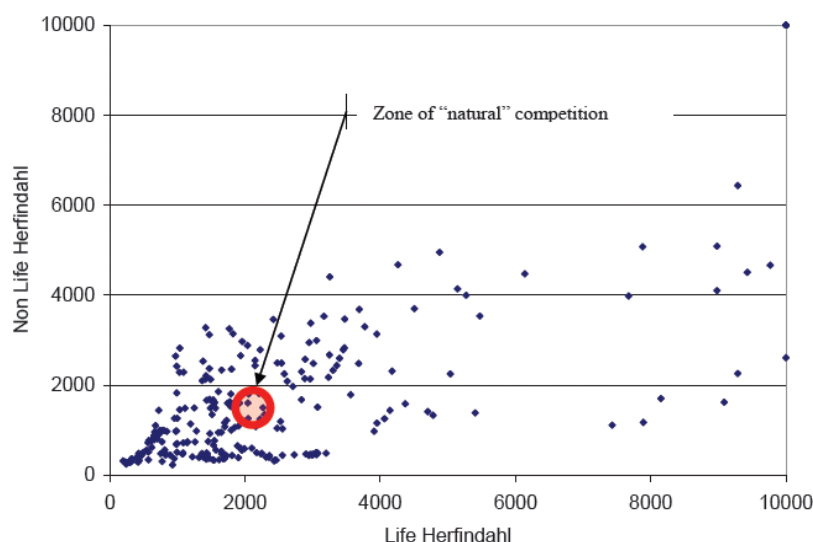
We see that the global markets have been enduring the soft insurance markets for some time now. Overall, the possibility is that we are getting to the bottoming of the market in the next 12 months but, within that, some classes and geographic regions will still see different trends. Overall, however, the outlook for pricing is positive in the medium term in our view.

That said, there is also the effects of the cat risk season on markets and the continuing impact of the financial market turmoil. We think the turmoil impacts have still some way to play out. Insurers, collectively, have avoided material effects from the credit market turmoil but they have not been exempt from it. Some insurers have been affected more than others as well.

## II. Regulatory frameworks in light concentration and competition

Consumer protection and financial stability are typically regarded as key to justify regulation of insurance and reinsurance companies, if any. However, ramifications of regulation can influence prevailing (re-)insurance market structures, including varying degrees of concentration and competition. As indicated in the above interview, Thorburn applies the Herfindahl-Hirschman Index, a commonly accepted measure of market concentration, to identify a zone of “natural” competition for insurance markets.

**Graph 1:**<sup>2</sup> Zone of “natural” competition in selected markets (Thorburn Zone)



As a preliminary finding, Thorburn displays some evidence that the competitive environment of insurance markets develops towards this ‘natural’ zone of competition. This development occurs either via liberalization or via consolidation, depending on the characteristic of a specific market.

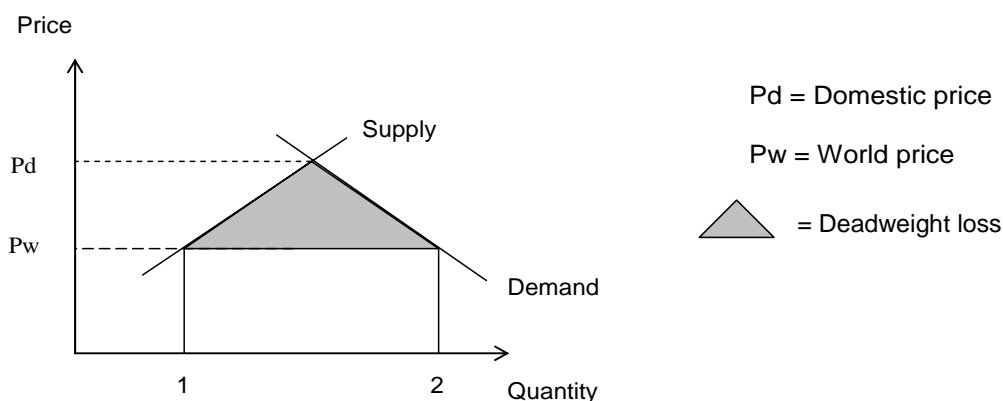
The highlighted zone in Graph 1 indicates averages of around 1,200 to 1,500 points for non-life insurers and 2,000 to 2,200 points for life insurers. According to Thorburn’s hypothesis, most liberalization or mergers & acquisition activity is to be expected in those markets outside the zone. However, markets in which the Herfindahl-Hirschman Index (HHI) is above 1,800 points are usually regarded as concentrated. Considered to be moderately concentrated are markets with an HHI between 1,000 and 1,800 points.<sup>3</sup> Therefore, it remains to be seen whether the zone of ‘neutral’ competition should be lower for non-life insurers.

## III. Free market access and financial stability

A most recent example is the successful Brazilian effort to open the reinsurance market for foreign companies in 2008. Competition typically decreases prices for reinsurance protection and hence insurance customers receive better value for money. Free market access increases the shock absorption capacity, since local reinsurers sometimes lack the scale and cannot offer sufficient capacity to meet all their cedants’ needs. Moreover, due to their worldwide scope and experience, a reinsurer would be able to assist a primary insurer with risks that occur very infrequently. Graph 2 summarises all kinds of (re)insurance related trade gains.

<sup>2</sup> See also, Thorburn (2008), *Insurers: Too Many, too Few, or “Just Right”?* - Initial Observations on a Cross-Country Dataset of Concentration and Competition Measures, *Policy Research Working Paper, 4578*, The World Bank, p. 9.

<sup>3</sup> For example Guidelines issued by the U.S. Department of Justice and the Federal Trade Commission, cf.: <http://www.usdoj.gov/atr/public/testimony/hhi.htm> (last visited 10 November 2008).

**Graph 2:** Positive welfare effects of reduced trade restrictions (increased free trade)

Trade restrictions have the potential to induce a higher domestic price ( $P_w < P_d$ ). Access to lower world market prices due to reduced trade restrictions could eliminate the so-called **deadweight loss**. A deadweight loss indicates the possible benefit for consumers that simply evaporated because of an existing trade barrier.<sup>4</sup> Further contributions to the positive welfare effects that arise from reduced trade restrictions include improved financial and economic stability.

- **Economic stability.** Reinsurers enable primary insurers to absorb peak risks. Adequate insurance protection is essential to the rapid rebuilding of the infrastructure of a country that has been struck by a natural or man-made catastrophe. Studies indicate that a slow recovery from a major disaster impairs economic growth.
- **Financial stability.** Strong (international) reinsurers are typically capable of supporting not only solvency and liquidity but also enhanced risk handling capabilities at primary insurers. This may contribute to both the microprudential and the macroprudential dimension of financial stability. Moreover, reduced trade restrictions increase, *ceteris paribus*, the availability of reinsurance protection and lower the price for primary policyholders in a given country.

In assisting the mutual recognition of reinsurance supervision, the IAIS aims at facilitating these benefits. Therefore, the IAIS supports a system “that would more easily facilitate market participation of reinsurers in individual jurisdictions.”<sup>5</sup>

#### IV. Long-term reinsurance market stability

As a leitmotif or recurrent theme, which somehow connects envisaged consecutive PROGRES columns on ‘reinsurance, regulation, supervision and financial stability’ we aim at introducing a long term “reinsurance market stability Index” (REST INDEX), that aims at summarising the stability relevant content of our ongoing PROGRES column. This column indicates that ongoing liberalization attempts, such as the Brazilian efforts to open the reinsurance market for foreign companies in 2008, will most likely improve resiliency and stability at both national and international levels.

Therefore our current REST INDEX specification reads: “ongoing resilience amid the current financial market turmoil; increased market access contributes, by all means, to a positive mid- and long-term outlook”.

#### About author

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<sup>4</sup> For further elaborations on the deadweight loss, compare for example Skipper and Kwon (2007) *Risk Management and Insurance: Perspectives in a Global Economy*, Malden/Oxford/Victoria, pp. 60-62.

<sup>5</sup> IAIS Guidance Paper on the Mutual Recognition of Reinsurance Supervision (2008), p. 6.

## IV. CREATING AND MAINTAINING SOUND INSURANCE MARKETS

by Carolyn Cobb and Marike Fleur Komen Brady

### Introduction

Calls for a new architecture of financial supervision will undoubtedly increase as our global economy begins the process of recovery from the recent financial turmoil. Michel Flamée's closing remarks to the IAIS Annual Meeting in Budapest noted that recent events in the financial sector have put regulation and supervision back high on national, regional and international agendas. He said that "an adequate alignment of regulation and supervision with financial and economic developments is a *conditio sine qua non* if one is to minimize the risk of financial instability." We understand him to mean that minimising the risk of financial instability will require that insurance regulation and supervision must be done in economic context, with sufficient attention to investors' needs for transparency, due process, and impact analysis in the regulatory process itself.

### Initiative—'Sound Insurance Markets'

IAIS's goals encompass more than the technical solvency of individual insurers. They focus instead on 'insurance markets' and 'global financial stability'. That is why we call our initiative 'Sound Markets'—we think it encompasses IAIS goals. In beginning this initiative, we hope to focus attention on the viability of insurance markets themselves and how regulatory and supervisory process can either diminish that viability or contribute to it. This initiative is supported by the American Council of Life Insurers (ACLI), the American Insurance Association (AIA), the Canadian Life and Health Insurance Association (CLHIA), the Comité Européen des Assurances (CEA), the Federación Interamericana de Empresas de Seguros (FIDES), the Property Casualty Insurers Association of America (PCI), and the Reinsurance Association of America (RAA)—all IAIS observers committed to IAIS goals.

### Sound Insurance Market

A sound insurance market finances personal and commercial risks with private capital. It promotes economic growth, allocates capital effectively and efficiently, reduces volatility in capital flows, encourages investment and savings, and contributes to global financial stability. A sound insurance market balances consumers' need for reliable, best-in-class protection with insurers' need to attract and retain capital to finance that protection. A sound insurance market promotes timely innovation by insurers to provide best-in-class products to meet consumer and business needs and assures that purchasers may rely on that protection. A sound private insurance market has many social benefits, including financing loss from private rather than public funds; creating economic incentives for improving health and safety; providing public education and advocacy about loss prevention; and infrastructure investment.

Technical solvency of individual insurers is a precondition to a sound insurance market, but it does not alone create one. Economists have recently been focusing on the quality of a nation's institutions as a fundamental precondition to national economic growth and financial stability. They believe that good governance on the part of financial sector supervisors is closely linked to financial stability and growth. The International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD), and the World Bank each has comprehensive programmes to encourage and support governments in developing, articulating and adhering to recommended principles of regulatory governance.<sup>6</sup> According to the World Bank, governance "consists of the traditions and institutions by which authority in a country is exercised".<sup>7</sup> It is the whole range of societal, agreed-upon principles for the relationship between the public and the private sector. Regulatory and supervisory governance is

<sup>6</sup> See, e.g., <http://www.imf.org/external/np/mae/mft/code/index.htm>; [http://www.imf.org/external/pubs/cat/shortres.cfm?TITL=&auth\\_ed&subject=Reports+on+the+Observance+of+Standards+and+Codes&ser\\_note=All&datecrit=During&YEAR=&Lang\\_F=All](http://www.imf.org/external/pubs/cat/shortres.cfm?TITL=&auth_ed&subject=Reports+on+the+Observance+of+Standards+and+Codes&ser_note=All&datecrit=During&YEAR=&Lang_F=All); <http://www.oecd.org/dataoecd/24/6/34976533.pdf>; and [http://info.worldbank.org/governance/wgi/pdf/booklet\\_decade\\_of\\_measuring\\_governance.pdf](http://info.worldbank.org/governance/wgi/pdf/booklet_decade_of_measuring_governance.pdf)

<sup>7</sup> <http://info.worldbank.org/governance/wgi2007>.

thus key to a sound insurance market.<sup>8</sup>

### Panel Discussion on Creating and Maintaining Sound Insurance Markets

As part of this initiative, the above mentioned IAIS observers organised a distinguished panel held in conjunction with the IAIS Annual Meeting to discuss the importance of sound process to sound markets. The panel moderator was Professor Jan Monkiewicz, Vice Secretary General of The Geneva Association. Panelists were: Mr. Karel van Hulle, Head of Unit, Insurance and Pensions, Internal Market DG, European Commission; Mr. Alessandro Iuppa, Senior Vice President, Government and Industry Affairs, Zurich; Mr. Frank Swedlove, President, Canadian Life and Health Insurance Association; and Dr. Rodolfo Wehrhahn, President of FIDES and Managing Director, Transamerica (AEGON). Each panelist addressed these questions:

- How can government policies support the development and growth of the private insurance sector?
- How does insurance regulation impact the growth of the private insurance sector?
- What are the defining characteristics of 'good regulation?' Can we agree on principles of good regulation and sound supervision?

Discussion between and among the attendees and the panelists was lively and wide-ranging. The panel was well attended, and supervisory and industry attendees reported that the subject was important and welcome.

These experienced insurance experts, from a wide range of backgrounds, agreed generally on the critical properties of a supervisory system — independence, accountability, transparency, integrity and market responsiveness. They also agreed generally on several principles of sound supervision and regulation, as outlined below. We believe that these principles are fundamental to sound insurance regulation and supervision. We also believe that further discussions are needed about how to apply these principles to the processes of regulating and supervising life and non-life insurers. We are encouraging IAIS to begin those discussions. We believe they are necessary to supporting IAIS members' needs in the short and longer term.

### Principles for Promoting Sound Insurance Markets

As further support for the effort to articulate the principles that promote sound insurance markets, our associations have circulated a *Discussion Draft of Principles for Promoting Sound Insurance Markets*. We set out the draft *Principles* here to foster that discussion:

**Principle 1:** Government policies should be supportive of the growth of the private insurance sector.

Insurers are financial intermediaries that use private capital to finance consumer and business risks of financial loss, for a profit to the providers of that capital. Insurers compete with each other and with other types of financial intermediaries for that investment capital.

Governmental or regulatory policies that discourage capital inflow to private insurers, or raise their costs relative to other financial intermediaries, reduce private insurers' capacity to meet consumer and

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<sup>8</sup> The core principles of governance that underpin any effective regulatory institution, are according to the OECD:

- “Adopt at the political level broad programmes of regulatory reform that establish clear objectives and frameworks for implementation;
- “Assess impacts and review regulations systemically to ensure that they meet their intended objectives efficiently and effectively in a changing and complex economic and social environment;
- “Ensure that regulations, regulatory institutions charged with implementation, and regulatory processes are transparent and non-discriminatory;
- “Review and strengthen where necessary the scope, effectiveness and enforcement of competition policy;
- “Design economic regulations in all sectors to stimulate competition and efficiency, and eliminate them except where clear evidence demonstrates that they are the best way to serve broad public interests;
- “Eliminate unnecessary regulatory barriers to trade and investment through continued liberalization and enhance the consideration and better integration of market openness throughout the regulatory process, thus strengthening economic efficiency and competitiveness; and
- “Identify important linkages with other policy objectives and develop policies to achieve those objectives in ways that support reform.” See [www.oecd.org/dataoecd/19/51/37318586.pdf](http://www.oecd.org/dataoecd/19/51/37318586.pdf).

business needs for risk financing. Such policies dampen economic growth and reduce financial security.

Governmental and regulatory policies that promote capital inflow to private insurers, or level their capital costs relative to other financial intermediaries, promote private insurers' capacity to meet consumer and business needs for risk financing. Such policies promote economic growth and financial security.

It is therefore critical that insurance supervisors:

- recognise the macroeconomic effects of their decisions;
- eliminate unnecessary regulatory barriers to trade;
- implement a non-discriminatory regulatory framework;
- create incentives for desired behaviours;
- facilitate data collection and sharing among insurers; and
- promote public financial education.

**Principle 2:** An insurance supervisor should work to establish effective and efficient insurance regulation.

Regulation is a dynamic, long-term, multi-disciplinary process, with the goals of improving a nation's economy, enhancing its ability to adapt to change, and securing its citizens' financial well-being. A sound regulatory policy complements a nation's economic and competition policy and, in doing so, promotes the public interest.

Insurance supervisors do not generally have the authority to establish economic or competition policy for their governments. Their governments' policymakers and financial regulators do, however, require their informed input on promoting sound insurance markets. In particular, insurance supervisors should advocate policies that permit insurers to attract and retain capital as well as policies that allow purchasers to rely on their insurance.

It is therefore critical that insurance supervisors:

- Assist their governments in designing insurance regulation attuned to basic principles of economics and insurance; and
- Conduct open, transparent, ongoing and meaningful consultation with industry and other stakeholders, routinely.

**Principle 3:** An insurance supervisor should have clearly articulated processes and procedures, based on best practices.

The international community has emphasised the important role of international standards in strengthening the international financial architecture. Such standards not only help jurisdictions identify weaknesses that may contribute to economic and financial vulnerability but also foster market efficiency and discipline. They ultimately contribute to a global economy that is more robust and less prone to crisis. At the national level, international standards provide a benchmark that can help guide policy reform.

The quality of regulatory governance is key to attracting and retaining capital investment in the private insurance market. Transparency is an essential feature of good regulatory governance. Both the IMF and the OECD have programs to promote transparency as a policy objective.

The IMF and OECD have articulated other principles of regulatory governance, in addition to transparency. They include consideration of alternatives to regulation, such as self-regulation; regulatory impact assessments; cost-benefit analysis; public registries of regulations and business formalities; prospective enforcement; and abundant public input.

It is therefore critical that insurance supervisors:

- ensure that the formulation and implementation of insurance regulatory policy, as well as the supervisory process itself, are transparent and non-discriminatory;

- use best-in-class quantitative and qualitative practices for regulatory impact analysis and cost-benefit analysis;
- articulate any standards or expectations clearly and well in advance of their application;
- administer proportionate and prospectively oriented enforcement;
- assure notice and reasonable opportunity to comment, as well as the right to review by an independent third party;
- disclose all activities (other than those related to the financial distress of a particular insurer); and
- hold themselves accountable to their stakeholders as well as their governments.

We would welcome any feedback that readers may have on these draft *Principles*. Our goal in circulating them is to foster discussion on the process of regulating and supervising, with the goal of promoting sound insurance markets.

Insurers do not want to “get rid of regulation”, as is sometimes said. Rather, they need regulation because they need consumers to know that purchasing insurance has real value. ‘Good regulation’ does not mean ‘no regulation’—it means smart regulation, regulation formulated in consultation with the capital markets and insurers as well as consumers and according to best practices in regulatory and supervisory governance. As it becomes ever more apparent that regulatory content cannot remain static, the process of formulating or changing it becomes even more important. ‘Good regulation’ means sound process as well as sound content, and both are preconditions to sound insurance markets.

### Next Steps

The soundness, stability, and viability of insurance markets is the key challenge for IAIS in the coming decade. We urge IAIS members to begin to address that challenge—that is, how to promote and maintain a sound insurance market that can meet consumer and business needs in the future. In particular, in the short term we urge an expansion of the Insurance Core Principles with respect to regulatory and supervisory processes. We also urge, among other things, that the Core Curriculum materials and related training materials be similarly expanded. In the longer term, we will urge IAIS to endorse guidance and standards on best practices in supervisory processes for insurance, to reinforce its content standards and to assist its members in practical implementation. We believe our recommendations are fundamental to the current and near term IAIS work stream. IAIS members, in the survey for the current Roadmap, said they wanted IAIS to focus on practical application of its standards and guidance, on implementation impacts, and on preconditions to good supervision. The current Roadmap begins to address those member needs. We believe that further discussions about the processes of regulating and supervising are key to supporting IAIS members’ needs in the future.

## V. SUPERVISORY LESSONS FROM THE CURRENT FINANCIAL CRISIS: INITIAL OBSERVATIONS FROM THE UNITED STATES

*by Kermitt Brooks\**

The current global financial crisis has often been depicted as the worst since the Great Depression or the panics of the early 20th century. Given the seemingly unending stream of bad economic news, it is easy to understand the basis for this historical comparison. Throughout this period, the New York State Insurance Department (Department) has played an important role, from tackling the problems of the financial guaranty companies, also known as bond insurers or monolines, to its involvement in the bailout of American International Group, Inc. (AIG), to confronting the pernicious role that unregulated credit default swaps have played in the financial problems of many companies.

The Department’s involvement in many of these issues fits its role as an insurance regulator. A primary goal of insurance regulators has always been to protect policyholders by ensuring that providers of

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\* First Deputy Superintendent, New York State Insurance Department.

insurance are solvent and thus, able to pay claims on policies they issue. Throughout this crisis, the Department has always been mindful of this clear mandate.

What follows is a brief summary of the issues we have confronted over the past year, the role the Department has played and the lessons we have learned.

### **Financial Guaranty Insurers or Monolines**

New York is the primary regulator for many of the financial guaranty companies, which, in the United States, are regulated by states under their respective insurance laws. There are two groups of policyholders: municipalities, states or other public entities that have issued debt, and banks and securities firms that have purchased insurance on mortgage-backed and other asset-backed securities. States, municipalities and other public entities purchase the insurance because it enhances the creditworthiness of the bonds they issue, which in turn increases the market for their bonds and lowers the net cost of borrowing. Before the crisis, the financial guaranty companies insured about half of the outstanding municipal bonds in the United States, providing them with a triple-A credit rating, which they would not have had without the insurance.

The current financial situation began with the subprime mortgage crisis. Homeowners began to default on their mortgages at unprecedented rates following the bursting of the housing market bubble. In recent years, the financial guaranty companies had strayed from their initial mission of insuring municipal bonds to guaranteeing more risky structured products that were often backed by such residential mortgages. One result of the deterioration in the subprime market was that the credit rating of the bond insurers' was threatened. If the bond insurers were downgraded, the municipal bonds they insured would lose their sterling triple-A rating. In addition, if a security guaranteed by a financial guarantee insurer was downgraded, the insurer would have to increase the capital backing the guarantee.

Thus, the exposure to subprime home mortgage losses 'toxified' the books of the financial guaranty insurers.

Earlier this year, to address such problems, the Department implemented a three-point plan: (1) to attract additional capital and bring new, healthy guarantors into the marketplace, (2) to protect policyholders and deal with the distressed companies, and (3) to rewrite the regulations for bond insurance to prevent companies from taking on inappropriate risk in the future. In other words, to develop stronger new 'rules of the road'.

To date, the Department has facilitated capital infusions totaling \$11 billion into the bond insurers as well as the entry of new, unencumbered insurers backed by Berkshire Hathaway and the Macquarie Group.

One of the lessons we learned is that while there is nothing inherently wrong with loan securitization – it can be a valuable tool for raising capital and spreading risk – any large scale transfer of risk can pose serious moral hazard problems as the loan underwriting process moves farther and farther away from the ultimate holder of default risk. In addition to much needed reform in the origination and underwriting of mortgage loans, there must be increased transparency and risk controls for securitization so that underwriters, credit rating agencies, bond insurers and investors all understand the actual risk and decision making that has gone into that securitization.

As mentioned above, a primary goal of an insurance regulator is to ensure solvency of insurers and protect policyholders, not necessarily to ensure a specific rating. At the same time, the reality in the financial guaranty business is that rating agencies can determine the viability of a financial guaranty insurer because what a financial guaranty insurer is ultimately selling is its rating. Thus, it is of utmost importance that the conflicts of interest inherent in their business model be managed and that the information that credit rating agencies disseminate into the marketplace be accurate and properly take into account the different strengths and weaknesses of companies, and their unique sets of issues. It is also clear that complete and unquestioning reliance on credit rating agencies is not prudent. The financial guaranty insurers all have different investors, owners, deal with different counterparties

(banks, broker dealers, investment banks, hedge funds) and have varying degrees of risk exposure. The loss of a bond insurer's triple-A rating can, in some instances, put the insurer in a 'run-off' mode and trigger crippling (and perhaps unintended) consequences.

### **Credit Default Swaps**

Credit default swaps were a major contributing factor in the financial problems of many companies, including Bear Stearns, Lehman, AIG and the financial guaranty insurers. Since its inception, the market for credit default swaps has experienced extraordinary levels of growth. To date, estimates of the market have ranged between \$55 trillion and \$62 trillion.

Traditionally, the role of insurance has been to help businesses and individuals manage risk and thereby encourage economically beneficial risk taking. Over time, instruments such as credit default swaps and other derivatives were engineered to create the same type of beneficial risk transfer.

A credit default swap is a contract under which the protection seller, for a fee, agrees to make a payment to the protection buyer in the event that the referenced entity, usually a company or other issuer of some kind of bond, experiences any number of various 'credit events', such as bankruptcy, default, or reorganisation. Originally, credit default swaps were used to transfer and thus reduce or mitigate risk for the owners of bonds. Literally the protection buyer 'swaps' risk of default with someone else. If the issuer of a bond defaults, then the owner of the bond has suffered a loss and the swap provides recovery for that loss.

When used as described above, the swap may be referred to as covered or 'sartorial', and can be treated as insurance. A second type of swap is little more than a gamble on the value of a particular reference obligation. Speculators realised that they could bet on the financial health and creditworthiness of a company even if they did not own the particular reference obligation. In May 2008, the Department began using the term 'naked credit default swaps' to describe these swaps. In fact, these naked credit default swaps should not even be called swaps because there is no transfer or swap of risk. Instead, risk is created by the transaction.

Ordinarily, this type of naked speculation would be regulated under state gambling or bucket shop laws or traded on an organised securities or commodities exchange. However, on 21 December 2000, the federal government enacted into law the Commodity Futures Modernization Act of 2000 (CFMA), which created a 'safe harbour' by (1) preempting state and local gaming and bucket shop laws except for general antifraud provisions, and (2) exempting certain derivative transaction on commodities and swap agreements, including credit default swaps, from regulation by the Commodities Futures Trading Commission or Securities and Exchange Commission.

The CFMA amended the Securities and Exchange Acts of 1933 and 1934 to make it clear that the definition of 'security' does not include certain swap agreements, including credit default swaps. Thus, the Securities and Exchange Commission is prohibited from regulating those swap agreements, except for its anti-fraud enforcement authority.

Prior to the CFMA, there was uncertainty as to whether certain derivatives, including credit default swaps, violated state bucket shop and gambling laws. Thus, the CFMA stated: "This Act shall supersede and pre-empt the application of any state or local law that prohibits or regulates gaming or the operation of bucket shops."

Gambling and bucket shop laws in New York have evolved over time.

'Bucket shops' arose in the late 19<sup>th</sup> century. Customers 'bought' securities or commodities on unauthorized exchanges. The bucket shop was simply booking the customer's order without executing on an exchange. In fact, they were simply throwing the trade ticket in the bucket, which is where the name comes from, and tearing it up when an opposite trade came in. The bucket shop would agree to take the other side of the customer's 'bet' on the performance of the security or commodity. Bucket shops sometimes survived for a time by balancing their books, but were wiped out by extreme bull or

bear markets. When their books failed, the bucketeers simply closed up shop and left town, leaving the 'investors' holding worthless tickets.

New York passed its anti-bucket shop law in 1908. The law, New York General Business Law Section 351, made it a felony to operate or be connected with a bucket shop or 'fake exchange'.

Anti-bucket shop laws essentially prohibit the making or offering of a purchase or sale of security, commodity, debt, property, options, bonds, etc., upon credit or margin, without intending a bona fide purchase or sale of the security, commodity, debt, property, options, bonds, etc. – which sounds a lot like a naked credit default swap. Hence, one of the lessons learned is that even 100 years ago, there was an understanding of the inherent risks and potential instability that come from gambling on securities prices.

More recently, in 2000, the Department was asked to determine if certain credit default swaps were insurance and said no. That decision only considered naked credit default swaps. Since then, as discussed above, we have determined that covered credit default swaps are insurance.

Until the financial crisis spread across many industry sectors and the role that credit default swaps played was unearthed, few were troubled by the rapid growth of this unregulated market. However, once various triggers were set off and counterparties demanded payment or collateral to secure potential future payments, it was discovered that writers of credit default swaps had inadequate capital to meet these obligations.

A bad situation only got worse because no one had any idea how many swaps had been written on a specific company or by whom, creating uncertainty as to the capital strength of market participants and the potential for runs on these banks and other entities.

On 22 September, New York Governor, David A. Paterson, announced that beginning in January, New York State would begin regulating transactions that fit our definition of insurance – namely the covered credit default swaps. As a first step towards that goal, the Department issued Circular Letter No. 19, which sets forth best practices for financial guaranty insurers and makes it clear that New York would begin regulating covered credit default swaps in 2009. The purpose of regulating these swaps is not to stop sensible economic transactions, but to ensure that sellers have sufficient capital and risk management policies in place to protect the buyers (who are in effect policyholders) and to ensure transparency for the general public.

Recently, the New York Federal Reserve began a series of meetings to discuss various methods of regulating the market in its entirety. The proposals include establishing an exchange, a central counterparty and a clearinghouse for credit default swaps. We recognise that a segmented market is not the ideal solution for anyone. Thus, the Department would support a holistic solution to regulating this market in its entirety. Any effective solution should include mechanisms to bring much needed transparency to this market, capital requirements to ensure that there is sufficient capital and liquidity, and a security or guarantee fund to manage counterparty default. Finally, we recognise that there is a legitimate role for credit default swaps in our financial system, but it cannot come with unacceptable risk to the economy as a whole.

### **American International Group, Inc.**

AIG is a global financial services holding company with 71 U.S. based insurance companies and 176 other financial services companies, including non-U.S. insurers. The parent holding company is headquartered in New York.

Under the Consolidated Supervised Entities Program, AIG was able to choose a regulator for its parent holding company. It selected the Federal Office for Thrift Supervision. Meanwhile, AIG's 71 insurers are regulated by the states, including New York.

As with many other companies, the mortgage crisis and credit default swaps were major contributors to AIG's current financial problems. AIG was heavily invested in subprime mortgages. In addition, AIG's

Financial Products unit, a non-insurance company, sold hundreds of billions of dollars of credit default swaps and other financial products.

As the credit crisis spread, there was a great deal of fear of possible defaults and volatility in the trading of these swaps in the marketplace. Pursuant to accounting rules, AIG had to mark its positions to market. By marking to market, AIG suffered and announced losses – which kept growing. This, in turn, unnerved investors and AIG's stock price dropped dramatically.

On 15 September, the credit rating agencies downgraded AIG. The downgrade triggered immediate collateral calls. AIG had to post additional collateral against its credit default swaps and its guaranteed investment contracts. This created an immediate liquidity problem for AIG because, although it had sufficient assets to provide collateral, they were illiquid and thus not immediately accessible.

In addition, there was great concern about the ramifications of a failure of AIG because not only did many financial institutions and other counterparties buy credit default swaps from AIG but also because no one knew how many in-credit default swaps had been written on AIG itself.

The problems at AIG are a stark example of how activities occurring at the holding company level or non-insurance units could detrimentally affect the entire system.

Working under Governor Paterson's direction, the Department, in consultation with AIG, developed a proposal to permit the company to access \$20 billion in liquid assets from its insurance companies and replace them with the more valuable, but less liquid, ownership interest in AIG's U.S. life insurance operations. This transaction was contingent on a significant capital infusion from the private sector. It was immensely clear to all the parties involved in seeking a solution to AIG's liquidity problem that the policyholders would be protected. Once it became clear that no private sector solution was feasible and that AIG needed more money, the Treasury proposed the \$85 billion bridge loan.

We believe that the bailout of AIG was necessary. As discussed above, the systemic risk of allowing AIG to file for bankruptcy would have been great. Moreover, the bailout provides AIG with additional time for an orderly restructuring of many of its operations.

It is clear that the financial problems that AIG is facing originated at its parent holding company level and its non-insurance operations. There are those who have used AIG's problems as an argument for optional federal charter for insurance companies. We believe that recent events support the contrary conclusion. That is, they support the strength and effectiveness of state regulation as evidenced by the solvency of insurance companies, not the opposite.

## **Conclusion**

There is a plethora of lessons that we have learned from this financial crisis. One such lesson is that, although each aspect of the crisis we addressed had its own unique set of issues, there was a common thread – the problems that ineffective risk management and a lack of transparency in the marketplace created.

Another is that it was not about how laxly or strictly we regulated, or about how easy or hard we enforced, but rather about what we chose not to regulate. In future, we must be mindful of this but also recognise that simply more regulation does not necessarily 'fix' the situation or create a better regulatory system if it does not provide for transparency, ensure capital adequacy and require effective management of risk.

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**VI. SUPERVISORY LESSONS FROM THE CURRENT FINANCIAL CRISIS**

*by Thomas Steffen \**

**Introduction**

What lessons have we learned from the current financial turmoil? The financial crisis that began in the middle of 2007 has, indeed, proven to be one of the greatest challenges for global supervisory authorities and more importantly for the worldwide financial industry than we could have possibly imagined. This is a truly global phenomenon, which does not stop at anyone's borders and, thus, requires supervisory action from many different national and supranational authorities, including international standard-setters such as the IAIS as a global institution and CEIOPS<sup>9</sup> in the European Union. The problems we are currently facing are far from simple. It will take a tremendous amount of work and effort to draw and implement the appropriate lessons and this is definitely not to be done overnight. After all, Rome was not built in a day either.

Not only banks have been affected by the financial crisis. Insurers and pension funds have been affected by it more indirectly due to several different contagion lines. One is, for example, by being a part of a financial conglomerate or by having exposure to distressed banks and other troubled institutions. Furthermore, insurance companies invest in equities and when international equity markets head downwards, they are also affected. This is why we as insurance supervisors cannot stand on the sidelines, we have to be on the playing field as well and take the right actions.

Before trying to find the right solutions to at least some of our current problems, we should briefly look at the origins of the crisis. Many people tend to forget that the crisis was a housing bubble in the first place which was able to spread to large parts of the financial sector via new forms of financial innovation. The bubble was induced by low interest rates over a prolonged period of time and the extension of mortgages to people who traditionally could not afford them in the United States. Fannie Mae and Freddie Mac, government sponsored enterprises, were at the forefront in creating the market for subprime mortgages. Then there were other phenomena that further strengthened this trend, which resulted in our current difficulties. Many banks employed an originate-to-distribute model where risks were passed on to others via off-balance sheet vehicles and many agents had perverse incentives to do so. Generally, the financial services industry became more and more leveraged. It was via securitisation that these mortgages were packaged as asset-backed securities (ABS) and other instruments, and were able to spread globally and act as contagion lines from one financial sector to another, including parts of the insurance industry and institutions for occupational retirement provision (IORPs). Credit rating agencies acted as if they were able to assess these structured products like ordinary corporate bonds even though they did not have the same amount of data history or expertise in this area.

As soon as the housing bubble burst and more and more borrowers defaulted on their mortgage payments, the problems were no longer restricted to the United States where they had originated, at this point they had already expanded globally. This is why we need to find global answers for this global problem. However, at the same time we encounter the difficulty that there is no global consumer. There are only national consumers. National supervisors have to protect these national policyholders as best as possible. At this point we are facing a trade-off between national policies and global answers. Crisis management has been mostly national until now. Nonetheless, we can be certain that we need to make global efforts as well and have to coordinate our actions accordingly.

**Lessons learned**

Having reminded us of this, what lessons can we actually take away? International standard setters have been trying to find answers over the last months. The Financial Stability Forum (FSF) has a key

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\* Chairman CEIOPS, Chief Executive Director of Insurance Supervision at BaFin.

<sup>9</sup> Committee of European Insurance and Occupational Pensions Supervisors.

role in this and has done a great deal of work to provide us with recommendations over the last year and a half. I think that we really should take these recommendations to heart. These recommendations provide very good guidance for supervisory action. There are also other standard-setters that have provided us with invaluable input. In addition, national supervisors do not stand idle, we have also been working on these issues and are at the forefront in dealing with this crisis. I want to point out my thoughts on some of these lessons learned and elaborate on them.

### *Information sharing*

It is clear that we need to coordinate our national crisis management efforts in order to prevent regrettable outcomes, which could possibly result in a beggar-thy-neighbour policy, as economists would put it, and would not yield the best result for the whole group of jurisdictions. Our efforts need to be coherent and fast enough at the same time, which is not an easy task to solve. That could be one of the reasons why we see efforts among supervisors to sign more and more Memoranda of Understanding (MoUs) with each other in order to enhance their ability to exchange information effectively. In the IAIS the Multilateral Memorandum of Understanding (MMoU) is likely to become operational soon and will hopefully have more signatories over time and provide insurance supervisors with an effective multilateral framework for information exchange.<sup>10</sup> Indeed, it can form an information gateway for insurance supervisors around the world. Having said that, I was surprised to see that in some recent cases, cooperation efforts among supervisors were more flexible than I had expected. An increasing number of supervisors is aware of the fact that they need to cooperate and work together in order to solve these huge problems.

### *Effective and efficient colleges of supervisors and convergence*

One thing that really surprised many of us, and which might provide a good case study for supervisors and, thus, lessons to be learned, is AIG. Who would have thought that such a massive company with total assets of about US\$ 1 trillion could run into such severe problems and would have to be effectively nationalised? One of the main things we can learn from AIG, arises from looking at the origins of their problems. Interestingly they did not stem from the regulated parts of AIG's insurance business but from the largely unregulated financial products unit. AIG engaged in the trading of credit risks and in securities lending. Businesses that are not usually at the heart of an insurance company and something where one might say: "A cobbler should stick to his last." We really should not meddle with things we do not understand. A lesson AIG had to learn the hard way.

The holding company was, and still is, an extremely complex structure and many supervisory authorities are responsible for the monitoring of AIG. Still, one could get the impression that an overall view of the company was missing. Without such a view it is extremely difficult to see where problems might arise and what interrelationships exist within such a group. What this teaches us is that we need a holistic approach towards supervision and need to have the whole picture. Again, this calls for rapid exchange of information between supervisors and a mechanism to collect this information and draw appropriate lessons from it. This is not just a lesson to be learned for certain parts of the world, but for all players in a globalised frame.

Companies like AIG are anything but restricted to one jurisdiction. Therefore, we need to act globally and establish global mechanisms for the supervision of such companies. It is clear to see that we need effective and efficient colleges of supervisors, which are able to appropriately oversee large and complex financial businesses. These colleges need to take the aforementioned holistic approach. We need to strengthen the role and responsibility of the home supervisor while fully taking into account the competences and responsibilities of the host supervisor. Colleges are also important because they can prevent companies from engaging in regulatory arbitrage. We need to achieve a higher level of coordination and supervisory convergence. That way, we can combat regulatory arbitrage and build a global financial system, which is more stable and resilient.

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<sup>10</sup> The IAIS-MMoU was mentioned by the FSF in its paper "Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience: Follow-up on Implementation", [http://www.fsforum.org/press/pr\\_081009f.pdf](http://www.fsforum.org/press/pr_081009f.pdf), last retrieved 29/10/2008.

These colleges are not just necessary in times of crisis. They are probably even more important when no crisis is around and everything is in a good and healthy state. Ongoing dialogue must be the aim of group supervision. That is one of the key factors to safeguard against possible difficulties. Effective supervisory cooperation in the day-to-day business is therefore fundamentally important in preventing any kind of future crisis.

#### *Market observation*

One thing I have realised is that this crisis works through channels one might not be aware of. The failure of a foreign bank or other financial institution, even in very remote places like Iceland, might very well have an effect on your own jurisdiction. This entity might be a stakeholder in one of the companies you supervise and the connection may not always be obvious, as today's companies tend to become increasingly complex. It is, therefore, very important to closely follow market developments, including those that may not be obviously related towards your jurisdiction but might work through other channels. Furthermore, supervisors should try to strengthen their early warning capabilities and have well functioning warning systems in place that detect worrisome trends. For this, we need the appropriate reporting tools and even better data availability.

#### *Risk management and good corporate governance*

Concerning insurance companies, one lesson to take away from this crisis is that they need to improve risk management processes. We have to keep a close eye on the correct measurement and control of credit and liquidity risks. There seems to have been an over-reliance on external ratings. It is clear that internal expertise has to grow further. Good corporate governance and risk management processes are key factors for sound insurance businesses. The aim has to be a better overall risk management with a high-quality internal governance structure, reliable and well-functioning control processes and comprehensive disclosure requirements.

The risk function in a company is of crucial importance and needs to be independent from others in order to work effectively. Boards of directors and other committees within a firm must be fully aware of their risk management function. Internal control mechanisms need to be further strengthened. In addition, structured products might require the application of internal models, subject to an approval process from their supervisors in order to ensure their viability and credibility. Supervisors should further employ stress and scenario tests. These are able to provide us with a notion of which insurance companies are in a rather weak position to resist large crises. The current developments at the global equity markets show us that our scenarios may seem unrealistic in normal times, but are more than appropriate in times of stress. In my experience, this has proven to be very useful and should be done by more supervisors with the purpose of enhancing overall financial stability.

#### *Transparency*

Transparency is another factor that has shown itself to be of tremendous importance. In order to restore market confidence, the insurance industry and supervisors should aim for improvements in this area. In the banking industry off-balance sheet vehicles did everything but contribute towards transparency. Supervisors must be able to oversee the whole market, including off-balance sheet vehicles, such as structured investment vehicles (SIV) and special purpose vehicles (SPV). That way, we can be able to detect developments which might have negative outcomes.

It is also important to provide better information to policyholders, in particular in the area of unit-linked products, to avoid misinformation or even mis-selling practices that harm confidence in the insurance sector. Overall, we should aim for robust and comprehensive disclosure requirements with reliable and appropriate accounting rules properly reflecting the business model and the long-term nature of insurance business processes. It is a direct way to counter any mistrust in the market place, because with increased disclosure requirements everyone would need to come clean about his exposure towards certain products or distressed financial institutions.

#### *Liquidity risks*

Traditionally, many of us have always thought that it is nearly impossible or at the very least unlikely for insurance companies to run into severe liquidity problems since they have the advantage of receiving

steady inflows of premiums from policyholders. This crisis has shown that even this wisdom does not need to be true in all cases. In the insurance business, liquidity still is not as big an issue as it has become for the banking industry, however, we need to address it as well. Again, AIG provides us with an example. AIG has run into immense liquidity problems due to some, in retrospective, rather poor business decisions over the last few years. Further liquidity problems arose from the requirements made on them by possible credit rating downgrades, which were coupled to the posting of additional collateral. In some rare and special cases, other insurers have been affected because they were part of a financial conglomerate where the banking arm of that conglomerate ran into trouble and had to tap the liquidity of the insurance arm. This is a completely new phenomenon and we should learn that we need to monitor intra-group liquidity transfers very closely in order to protect policyholders. We have to work on this issue and increase our understanding of this, also with respect to markets that have become illiquid over the last months.

### *Insurance guarantee schemes*

Another important lesson we should learn is to have effective guarantee schemes in place for insurance in order to provide policyholders with increased security and strengthen their confidence. For the insurance industry there is some risk of policyholder cancellations. It is much smaller than the probability of bank runs, but it exists. In Germany, we do have a safety net for life- and health-insurers.<sup>11</sup> How important confidence is, can be seen by looking at what happened in the banking industry. In the last months we saw that one country after another had to increase deposit insurance schemes. The fear was that, if one did not do that, it might have led to bank runs. Ideally, these schemes should not be set up or strengthened during a crisis but in advance. One lesson to learn here is to set up such schemes sooner rather than later. These schemes are crucial in building market trust. They should comprise all policyholders regardless of their nationality or residential address.

### *Role of the government*

Another lesson we might take away from this crisis is that state interventions might be necessary under extreme circumstances. We saw market failures over the last months, a complete loss of confidence due to asymmetric information causing severe liquidity problems among banks and other financial institutions. However, it needs to be clear that state interventions can only be a policy of last resort. It would have been far more preferable to find other solutions but exceptional circumstances may call for more than extraordinary measures. At the same time, supervisors should not be under the impression that they are the better business managers or that they are better informed. This is not the case. Civil servants do not know more than the industry and than free markets do when they function properly.

### *Procyclicality and further issues*

One issue I have barely touched upon so far is procyclicality. Some accounting rules might have unintended effects in markets which have, in some cases, ceased to exist. Also prudential requirements may have certain drawbacks. The design of a solvency framework needs to adequately address potential adverse macroeconomic trends and systemic risks. Supervisors will need to reflect further on this issue to get things right.

## **Conclusions**

We have many lessons to learn and I am sure that there might be even more areas that I have not been able to mention at this point. This crisis is extremely complex and provides us with vast challenges. We are living in historic times. More rapid mechanisms for information sharing, effective and efficient colleges of supervisors, increased supervisory convergence, close market observation, better risk management, good corporate governance, enhanced transparency requirements, monitoring of intra-group liquidity transfers and the installation of insurance guarantee schemes are just some of the lessons we should take away.

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<sup>11</sup> "Protector" for life-insurance and "Medicator" for health-insurance.

At this point, I also want to make it clear that I am deeply convinced that a project like Solvency II is the right way forward for both the insurance industry and insurance supervisors. Solvency II is a crucial project and must not be stopped. That is why we need to adopt the Solvency II framework directive as soon as possible. CEIOPS has welcomed this approach for the supervision of insurance undertakings and considers that the current crisis proves the suitability of this approach. CEIOPS also starts to reflect on its own lessons to be learned for the proposed Solvency II regime and will provide advice (“implementing measures”). This will be with a view to any strengthening of the focus on financial stability.

The tasks the crisis has provided us with are far from easy and will keep us busy for a prolonged period of time. It is also clear that the value of cross-border and cross-sectoral supervision is enormous, as shown in my discussion of colleges of supervisors. To quote Bob Dylan, the “times they are a-changin’”. We still do not know what the final outcome of the crisis is going to be and how exactly the future world of financial regulation will look like. Politicians and supervisors are on the hunt for global answers for global problems. It is clear that we all need to work with each other and be flexible. It is important to combine a global regulatory regime with the advantages of free capital markets. We should not forget that financial innovation can and has contributed to economic growth in the past. My advice is not to rush things but to define the appropriate global principles and then do things step-by-step. We need evolution instead of revolution. Then we can probably prevent the next crisis and safeguard a more robust financial system. We need to define the ground rules by which everyone has to play on a global level. That is, and always has been, the role of supervisors as well as regulators and so it will be in the future.

## **VII. SERVICES IN THE WTO DOHA DEVELOPMENT AGENDA ROUND OF TRADE NEGOTIATIONS**

*Julian Arkell reviews the position reached – with a focus on insurance services*

### **A. The Negotiating Process**

It is now 15 years since the Uruguay Round Trade Negotiations were concluded in December 1993, and almost 13 years since the WTO entered into force on 1 January 1995, and with it the General Agreement on Trade in Services (GATS).

Importantly, the GATS included an “Annex on Financial Services” and in addition there is a separate “Understanding on Commitments in Financial Services” as agreed at Marrakech. The Annex defines the coverage of financial services and their suppliers and excludes “measures taken for prudential reasons” (the prudential carve-out) while providing for the mutual recognition of such measures. The Understanding provides an alternative approach for making specific commitments at a higher standard of liberalisation, including for example a standstill, the removal of monopoly suppliers, national treatment, a right to establishment and access for managers and specialists under Mode 4. To date some 30 countries have adopted this higher standard, though it has not yet been formally ratified by Brazil.

The Marrakech agreement mandated that the GATS set up a Committee on Trade in Financial Services and that fresh liberalisation negotiations be started in 2000 – the first of future periodical rounds. The traditional GATT negotiating “request and offer process” is the method for the confidential conduct of negotiations.

### **B. The Doha Development Agenda Round**

WTO Ministerial Meetings are held every other year. In Doha, Qatar, in December 2001, when the Doha Development Agenda Round (DDA) was launched, it was decided to incorporate the services negotiations within a so-called “single undertaking” under which all elements in the wide range of

market access and associated rules have to be agreed together so that “nothing is agreed until everything is agreed”. This has meant in practice that the services negotiations, as during the Uruguay Round, have taken a lower precedence to the negotiations on market access for agricultural and industrial goods (or non-agricultural market access – NAMA). An important impetus for opening negotiations in late 2001 was the feeling of support for the U.S. following the attack on the World Trade Centre on 11 September 2001.

The Ministerial Meeting in Cancun, Mexico in September 2003 ended without an agreed position on the market access negotiations generally and thus no forward movement was recorded on services. The Ministerial Declaration included the following paragraph:

“All participants have worked hard and constructively to make progress as required under the Doha mandates. We have, indeed, made considerable progress. However, more work needs to be done in some key areas to enable us to proceed towards the conclusion of the negotiations in fulfilment of the commitments we took at Doha.”

A significant feature of the Hong Kong Ministerial Declaration of December 2005 was its so-called Annex C on Services which formed part of the “Doha Work Programme”. This closely fought text, presciently tabled by the Chair of the GATS Council for Trade in Services, Special Session (Ambassador Fernando de Mateo of Mexico), set quite a high standard of ambition for the liberalisation to be included in specific commitments by the end of the DDA Round. It also set deadlines for revised offers of specific commitments to be submitted by 31 July 2006 and final draft schedules of by 31 October 2006. Accordingly many offers by Members were tabled in 2006, but due to the extended negotiations on market access for agricultural and NAMA products the concluding stage of negotiations on these offers, and any revisions, has not yet taken place.

Since 1995, more than 20 developing countries have acceded to the WTO, and due to the very tough negotiations for their entry, their GATS specific commitments have significantly more sector coverage and a higher degree of liberalisation of market access than their counterparts had undertaken in the Uruguay Round. In addition they have inscribed a higher number of Annex II MFN (most-favoured-nation) Exemptions, which indicates that their preparation for entry was preceded by a more thorough assessment of regulations affecting their various service sectors.

The services negotiations, although positive, continued to take a back seat during 2007 and the first half of 2008 due to the heavy weather being experienced in the agricultural and NAMA negotiations. There were high hopes by July 2008, when the Chairman of the Council for Trade in Services (CTS) Special Session reported to the WTO General Council that there could be a positive outcome to the services negotiations on commitments.

### **C. The Services Signalling Conference**

A special Ministerial Meeting was held in Geneva later in July and also a services “Signalling Conference” with 31 countries participating at Ministerial level (counting the European Commission (EC) as one) chaired by the WTO Director General. The following is an extract from his summary:

“In financial services, there were many indications of new and improved commitments. These positive signals appear significant, given the importance of financial services in supporting trade in other products and services.

In insurance, several participants were prepared to make new or improved commitments. With respect to cross-border supply, one participant signalled its willingness to make overall improvements. Another specified his intention to expand the coverage of insurance intermediation to include reinsurance brokers in modes 1 and 2.

With respect to insurance supplied through *commercial presence*, one participant signalled the removal of a joint-venture restriction, while another was willing to remove a prior authorisation requirement for companies and their branches. Some participants indicated improvements of commitments in non-life insurance and insurance intermediation under mode 3. Others were

prepared to upgrade their commitments for insurance services under this mode. Another indication of commitments was made by one participant in relation to reinsurance.

More generally, some participants indicated their intention to liberalize insurance broking and agency services, and other auxiliary services. One participant signalled the removal of restrictions on non-life insurance premiums.

Another participant was ready to remove or narrow limitations at sub-national level, and to commit its current domestic ownership framework for financial institutions across all financial services.

Participants frequently expressed their desire for others to make or improve commitments in financial services. Some stressed the need for significant progress in this sector. Specific areas where improvements were sought included the reduction of foreign equity limitations, and commitments on cross-border provision of asset management for sophisticated consumers and securities-related services.”

The Signalling Conference provided a strong “comfort factor” in that it gave indications of the extent of final offers from many key players, and this despite the ongoing credit and liquidity crisis in the financial markets. It showed that services were ahead of the other market access negotiations. It also built firmly upon the level of the Hong Kong Annex C thus justifying the position taken by the Chairman of the CTS Special Session in the run up to Hong Kong Ministerial. His July 2008 draft text on “Elements required for the completion of the services negotiations” still stands showing that Members “recognise that an ambitious and balanced outcome in services would be integral to the overall balance in the results of the DDA single undertaking”. It only needs the dates for revised offers and final draft schedules of specific commitments to be inserted.

Once the final set of market access offers has been tabled, there would follow the last set of bilateral negotiations, arising from which the most aggressive demandeurs will have to accept positions probably short of their expectations, the most contentious likely to involve the movement of natural persons (Mode 4).

Even though the Least-Developed Countries (LDC) are not expected to make offers on services liberalisation, they must be persuaded to remain engaged in the GATS process so planning for the day when their regulations are in place and they can inscribe further specific commitments in their schedules.

However, the July special Ministerial Meeting failed to agree on the Special Safeguard Mechanism for poor farmers in developing countries and subsidies to cotton farmers and this brought the negotiations to an abrupt halt.

#### **D. GATS Rules**

Negotiations on the outstanding rules issues have produced an acceptable, if weak, text for the disciplines on Domestic Regulation under GATS Article VI:4 (though not addressing the extent of the necessity test nor a provision for “prior comment”<sup>12</sup>). However, there is as yet no real outcome on the contentious and overly-complicated issue of Emergency Safeguard Measures (Article X) and on Government Procurement for services, mainly on issues of transparency and the extent to which any rules would apply at lower than federal levels (Article XIII). On subsidies (Article XV) attention might be postponed until after the DDA.

WTO Members intend to construct a waiver mechanism to permit them to offer preferential treatment for market access from LDC suppliers which would otherwise contravene the general MFN obligation

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<sup>12</sup> The necessity test could ultimately require that any measure affecting trade in services be the “least trade restrictive” and the concern of many WTO Members is that this would be too invasive of sovereign policy objectives. Prior comment is the public process of obtaining stakeholder reactions to proposed new or altered regulations, which many countries normally find essential to institute before finalising legislation, but many developing countries say it is beyond their resources to commit to.

under GATS Article II paragraph 1. Presumably this would be similar to that provided for under Article IX *Decision Making* of the WTO head agreement.

### **E. Concluding the DDA Round**

Since July, the WTO Director General, Pascal Lamy, has been relentless in his advocacy of the positive contribution a successful DDA outcome could make to the world economy now sliding into recession due to the severe financial turmoil, and his optimism that it can be achieved. It would act as an "insurance policy against protectionism".

The Director General has sent out invitations to trade Ministers to meet in mid-December for the final push on settling the so-called modalities (or coverage) of the agriculture and NAMA negotiations, and the tabling of services offers. Given the intransigent positions taken in July, it appears rather a tall order to bridge the gaps in the few days before this Ministerial.

The political situation forming the wider backdrop to the WTO negotiations is difficult to interpret. The change of U.S. President in late January and his appointment of a new US Trade Representative are significant. There is an upcoming general election in India; both of these events render their current negotiating positions uncertain. In the EC, the Trade Commissioner has recently been replaced and the composition of the Commission is due to change in the summer of 2009.

The recent meeting of the G20 nations called by U.S. President Bush stressed that a final effort must be made to complete the DDA, and presumably the special Ministerial Meeting in December will take full account of this. The G20 statement included the following:

"We are determined to enhance our cooperation and work together to restore global growth and achieve needed reforms in the world's financial systems. [§1]

We underscore the critical importance of rejecting protectionism and not turning inward in times of financial uncertainty. In this regard, within the next 12 months, we will refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing World Trade Organization (WTO) inconsistent measures to stimulate exports. Further, we shall strive to reach agreement this year on modalities that leads to a successful conclusion to the WTO's Doha Development Agenda with an ambitious and balanced outcome. We instruct our Trade Ministers to achieve this objective and stand ready to assist directly, as necessary. We also agree that our countries have the largest stake in the global trading system and therefore each must make the positive contributions necessary to achieve such an outcome. [§13]"

Should the outcome of the December WTO special Ministerial Meeting not achieve a final position, and the negotiations have to be put on hold, it would seem likely that full attention will turn to preferential free trade agreements. However, few of the existing major regional agreements have so far made any real progress on services liberalisation. They must be shaped to provide GATS-plus liberalisation and not erode the core GATS general obligation of most-favoured nation treatment.

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### VIII. CONFERENCES ORGANISED AND / OR SPONSORED BY THE GENEVA ASSOCIATION

## 2008

### December

- |       |        |  |
|-------|--------|--|
| 8-9   | London | <b>5<sup>th</sup> International Insurance and Finance Seminar</b> of The Geneva Association                              |
| 11-12 | Rome   | <b>6<sup>th</sup> Meeting of The Geneva Association's Chief Communications Officers</b> hosted by Assicurazioni Generali |

## 2009

### January

- |    |          |   |
|----|----------|---|
| 13 | New York | <b>Joint Industry Forum for P&amp;C Insurance Industry</b> , co-sponsored by The Geneva Association                 |
| 16 | Paris    | <b>2<sup>nd</sup> Meeting of Chief Investment Officers in Insurance</b> , hosted by AXA ( <i>CIO members only</i> ) |

### February

- |     |           |   |
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| 5-6 | Amsterdam | <b>11<sup>th</sup> Meeting of the Amsterdam Circle of Chief Economists</b> , hosted by ING ( <i>ACCE members only</i> ) |
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### April

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|-----|----------|--|
| 6-7 | Montreux | <b>25<sup>th</sup> PROGRES Seminar on Insurance Regulation and Supervision</b> |
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### May

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|-------|-------|---|
| 11-12 | Milan | <b>13<sup>th</sup> joint Seminar of the European Association of Law &amp; Economics (EALE) and The Geneva Association</b> |
| 27-30 | Kyoto | <b>36<sup>th</sup> General Assembly of The Geneva Association</b> ( <i>members only</i> )                                 |

### June

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|-------|--------|--|
| 7-10  | Amman  | <b>The Geneva Association/IIS Research Award Partnership</b> |
| 29-30 | Warsaw | <b>7<sup>th</sup> Annual Round Table of CROs</b>             |

### September

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|-------|--------|--|
| 21-23 | Bergen | <b>36th Seminar of the European Group of Risk and Insurance Economists (EGRIE)</b> |
|-------|--------|--|

### November

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|-------|------------|---|
| 11-12 | Rüschlikon | <b>5th CRO Assembly</b> , jointly organised with Swiss Re |
|-------|------------|---|