



International Association for the  
Study of Insurance Economics

# Études et Dossiers

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Extract from

## **Études et Dossiers No. 341**

**5<sup>th</sup> Chief Communications Officers Meeting  
of The Geneva Association**

Munich, 13-14 December 2007

**&**

**10th Meeting of The Geneva Association's  
Amsterdam Circle of Chief Economists**

Amsterdam, 7-8 February 2008

February 2008

**Working Paper Series of  
The Geneva Association**

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Layout & Distribution: Valéria Kozakova

# Some Key Issues in Global Regulatory and Government Affairs

Alastair Evans

## Contents of Presentation

1. Scope of talk
2. Some key regulatory and government affairs themes
  - A. Increasing convergence of rules governing the industry
  - B. Modernisation of financial and accounting rules
  - C. Regulatory efficiency
  - D. Mutual recognition and equivalence
  - E. Reinsurance
  - F. Miscellaneous debates
3. Influencing decision makers
4. Concluding comments

## 1. Scope of talk

- Regulatory, not commercial, issues
- Non-life, principally commercial risks
- International debates
- List not exhaustive
- Personal views only

3

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## 2. Some Key Regulatory and Government Affairs Themes

- A. Increasing convergence of rules governing the industry - largely a consequence of work of global and regional bodies
- Evident across various debates (see beyond).
  - Logically, international convergence of rules and their application should lead to greater harmony and hopefully greater of national rules, trust and co-operation between regulators
  - But:
    - not all regulators have same starting points or competencies;
    - perspectives vary (parochial/international);
    - 'all politics is local': the protection of national supervisory powers and policyholders;
    - progress not achievable overnight;
    - trust takes time and is easily lost;
    - fear of what happens in a crisis.

4

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## 2. Some Key Regulatory and Government Affairs Themes

### B. Modernisation of Financial and Accounting Rules

#### Solvency

#### i. Solvency II debate

- Align capital better with risk
- Risk-based economic approach
- Reward more sophisticated risk monitoring and risk management tools
- Internal/standard models
- Recognition of diversification effects
- Group supervision
- Equivalence of third countries
- More level playing field

5

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## 2. Some Key Regulatory and Government Affairs Themes

### B. Modernisation of Financial and Accounting Rules

#### ii. IAIS

- Developing global solvency rules.
- Guidance notes recently adopted on
  - Structure of regulatory capital requirements
  - Enterprise risk management for capital adequacy and solvency requirements.
  - Use of internal models
- Further work envisaged.

6

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## 2. Some Key Regulatory and Government Affairs Themes

### B. Modernisation of Financial and Accounting Rules

#### Accounting

- Market consistent valuation techniques for assets and liabilities.
- The advance of International Financial Reporting Standards.
- IASB Phase 2 work on insurance liabilities.
- SEC

#### Guarantee Funds

- The EU debate on national insurance guarantee funds will recommence shortly following release of Oxera consultancy study.

## 2. Some Key Regulatory and Government Affairs Themes

### C. Regulatory Efficiency

#### I. Better Regulation Agendas

- National and international debates (e.g. EU and OECD).
- A reaction to legislative and regulatory overload?
- The EU Financial Services Action Plan, 2000-2005 (42 measures).
- More cost/benefit analysis of proposed and existing law.
- Better enforcement of existing law.
- Use of alternative policy instruments.
- Is it just rhetoric?

## 2. Some Key Regulatory and Government Affairs Themes

### C. Regulatory Efficiency

#### ii. Principles v rules-based approach to regulation

- A live debate.
- Principles-based regulation:
  - focus on high level outcomes rather than detailed processes
  - making senior management responsible, to deliver high level outcomes;
  - encouraging market solutions as far as possible.

## 2. Some Key Regulatory and Government Affairs Themes

### D. Mutual recognition and Equivalence

- Mutual recognition is the cornerstone of the EU regulatory system (insurance and reinsurance).
- IAIS issues paper on mutual recognition of reinsurance regulatory regimes.
- What is needed for mutual recognition?
- Exact identity or broad equivalence of supervisory financial and legal rules?
- What does mutual recognition mean in terms of realignment of supervisory duties between regulators?
- Is unilateral recognition of foreign regimes an alternative approach?
- The need for equivalence decisions (Reinsurance Directive, Solvency II, the NAIC port of entry proposal etc.)

## 2. Some Key Regulatory and Government Affairs Themes

### E. Reinsurance

- Increasingly on national and international agendas:
  - The EU Reinsurance Directive;
  - Solvency II
  - Mutual recognition of regulatory regimes.
  - IAIS standards.
- Statutory collateral requirements: US and elsewhere.

11

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## 2. Some Key Regulatory and Government Affairs Themes

### F. Miscellaneous Debates

- Insurability of risks.
- The compensation culture.
- The role of public and private sectors in insurance provision (terrorism, flood etc).
- Liberalisation of markets (WTO and regional trade agreements).
- The use of competition law to open markets and correct behaviour.
- Increasing broker regulation.
- Consumer protection.
- How should regulation be organised nationally (integrated financial services regulators/Federal v State etc.).

12

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### 3. Influence Decision-Makers

- These debates are too important to be left to legislators.
- Insurance industry needs to be very actively engaged in these debates, nationally and internationally, to influence decision makers.
- Importance of early lobbying/well reasoned arguments.
- International debates require international responses (the role of international trade associations like the CEA and thought leaders like the Geneva Association) in co-ordinating positions and lobbying.
- Regular attendance at IAIS and other international policy-making meetings.
- Co-ordination of Government affairs and Press messages.

13

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### 4. Concluding Remarks

- Industry currently faces a number of key regulatory debates.
- Outcome of these debates will determine the national and global regulatory environments in the coming years.
- Industry must maintain a high level of engagement in these debates.
- The more messages and lobbying can be co-ordinated across the industry internationally, the better.
- Communication of consistent messages to the media to reinforce the lobbying of policymakers is vital.

14

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