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Assessing Contractual Savings and Insurance: Purpose and Results

Craig Thorburn



First, a note on scope

- Large parts, if not all, of the financial sector is assessed.
 - linkages can be examined
 - Organisational links
 - Cross exposures
 - Securities markets and institutional investors
 - etc.
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Coverage can include

- Monetary policy transparency
- Banking supervision
- Stress testing the banking sector
- Securities markets
- AML/CFT
- Corporate governance
- Bankruptcy
- Corporate sector
- Housing and housing finance
- Payments systems
- Credit unions
- Insurance
- Pensions
- etc. etc.



Purpose

Vulnerability

- Linkages
- Exposures
- Solvency
- Stress

Development

- Within sector
- Capital Markets
- Product Mix
- Technical Skills
- Regulatory and Market Constraints

Observance



Vulnerabilities

- To what extent are there sources of vulnerability in the sector?
 - To what extent would vulnerabilities elsewhere be magnified?
 - What are the key risks facing the sector?
 - Are they material in the context of the financial sector as a whole?
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Results - Vulnerabilities

- Solvency / Inadequate provisioning / capital
 - Significant ownership links to other parts of financial sector
 - Incomplete resolution mechanisms
 - Inadequate risk management
 - Excessive fronting
 - Poorly managed high growth
 - Expected consolidation / irrational competition
 - Lack of fitness and propriety, criminal links, AML, material incompetence
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Development

- Does the sector make a contribution to the long term development of the financial sector, the economy, and the well being of the population?
 - Can it sensibly make a larger contribution?
 - What are the handbrakes?
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Results – Development

- Long term investment contribution constrained
 - Liability side, for example
 - Low per capita income
 - Crowding out by official pension system
 - High levels of protection provided by social norms / cultural systems
 - Asset side, for example
 - Lack of supply of quality assets
 - Lack of development of wholesale market instruments
 - Operational issues
 - Head Office Delegations
 - Lack of asset management skills
 - (Rarely) Regulatory constraints
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Results – Development (cont.)

- Lack of competition
 - Lack of product range / innovation
 - Poor distribution practices
 - Products that do not meet customer needs
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Results - ICP Assessments

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|--|---|
| <ul style="list-style-type: none">• Regulatory Gaps• Often include<ul style="list-style-type: none">– Governance– Solvency / liabilities– Fit and proper reach– Change of control oversight– Supervisory independence | <ul style="list-style-type: none">• Supervisory gaps<ul style="list-style-type: none">– Staff numbers and skills– On site inspection capacity– AML oversight– Market Analysis– Supervisory cooperation– Observance and enforcement |
|--|---|

Transparency



FSAP Follow-ups

- FSAP continues to identify the need for improvements in the insurance sector
 - At the international level, information exchange, solvency and supervisory independence and transparency remain key challenges.
 - FSAP often followed by technical assistance activity and Article IV process
 - FSAP often provides focus for action
 - Follow-up assessments demonstrate improvements are made in fact.
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