



International Association for the
Study of Insurance Economics

Études et Dossiers

Etudes et Dossiers No. 313

**The 22nd PROGRES International Seminar
“The Changing World of Insurance Regulation
and Supervision”**

Geneva, 30 - 31 March 2006

May 2006

Working Paper Series of The Geneva Association

© Association Internationale pour l'Etude de l'Economie de l'Assurance

The Geneva Association Working Paper Series “Études et Dossiers” appear at irregular intervals about 10 - 12 times per year. Distribution is limited.

The “Études et Dossiers” are the working paper series of The Geneva Association. These documents present intermediary or final results of conference proceedings, special reports and research done by The Geneva Association. As they contain work in progress or summaries of conference presentations, the material must not be cited without the express consent of the author in question.

Layout & Distribution: Valéria Kozakova

“International Cooperation-the Key to Regulation of Global Financial Markets”

Alessandro Iuppa

Good Morning. It is an honor to be here today with such a distinguished audience representing such an impressive cross section of the financial services world. As we know, the integration of global economies and financial markets is increasing at a rapid pace. Now more than ever, this dynamic requires a sound, strong and efficient regulatory framework to sustain economic growth and promote open markets.

To meet the challenges of a globalizing financial services sector, it is imperative that we work to raise the level of international cooperation among regulators as well as the industries we regulate. Regardless of our domicile, our first responsibility as insurance regulators is to protect the interests of insurance consumers. To adequately meet the growing needs of customers in today’s world, regulators must understand how international markets work, how they affect local markets and how they are supervised.

This morning, I want to share my thoughts as to why international collaboration is important for the regulation and supervision of global financial markets and how we are integrating that collaboration in our daily activities. As a US regulator, I will use our efforts at the National Association of Insurance Commissioners (the NAIC) as a proxy for demonstrating our commitment to international regulatory cooperation. In large measure I suspect that you can say the same for many of the developed countries. But for today I will do use the US model and focus on 3 key areas: *standard setting, global economic security and technical expertise.*

Standard Setting

International standards in the financial sectors are not new, the Basel Committee on Bank Supervision (BCBS) and International Organization of Securities Commissions (IOSCO) have been in place for many years. For insurance the history of standard setting is less well established but nonetheless the International Association of Insurance Supervisors (IAIS) has made remarkable progress since its founding in 1994.

I am pleased to say that the US is a founding member of the IAIS. The IAIS is made up of approximately 180 members representing close to 120 jurisdictions throughout the world, from both developed and developing markets. In addition, since 1999 the IAIS has welcomed insurance professionals as Observer members. At present we have more than 100 Observers representing industry associations, professional associations, insurers and reinsurers, consultants and international financial institutions.

The IAIS issues global insurance principles, standards and guidance papers, provides training and support on issues related to insurance supervision, and organizes meetings and seminars for insurance supervisors. We also work closely with other financial sector standard setting bodies and international organizations to promote financial stability.

US regulators are actively engaged in the work of many of the committees and subcommittees of the IAIS. We currently serve as Chair of the Executive Committee, the Reinsurance Subcommittee and the Insurance Contracts Committee. We have committed significant resources, both personnel and monetary, towards the work streams being developed by the Technical and the Solvency committees.

This high level of participation provides us with the opportunity to influence major initiatives such as the Solvency Framework project and other standards, which have the potential to transform the supervision and regulation of insurance. And perhaps more importantly allows us to do while interacting with our colleagues.

Through the plethora of meetings, conferences and seminars the IAIS functions as an excellent incubator where supervisors and industry participants from around the globe can come together to exchange ideas, concepts, problems and solutions.

Yet despite all the meaningful progress that the IAIS has achieved during its short lifespan the IAIS is still seeking to achieve the standard setting credibility of its sister organizations. So, how can this parity be achieved?

While no single act will result in the desired parity I believe that the establishment of an open and transparent standard setting process will generate progress towards that goal. But the spirit of transparency must translate to practical application; it must not be transparency in word only! Nor should a single jurisdiction, albeit one representing the largest market of insurance consumers, be the sole advocate for such a process.

Consultation with IAIS members and industry participants must be an integral part of the process. It is not sufficient to draft a standard or principle and then issue it to the financial world. Consultation should occur early in the development process and at subsequent significant milestones.

Standards and principles should not be developed behind closed doors but should be exposed to the sunshine of open meetings to the fullest extent possible. I know that some of my colleagues in the IAIS think that such a process results in the ceding of decision-making authority from supervisors. Nothing could be further from reality; what it does mean is that standards and principles will have the benefit of more comprehensive consultation and a fuller understanding of the implications affiliated with the new standard or principle.

Just last month at the NAIC's International Symposium, Roger Ferguson, Vice Chairman of the Federal Reserve and the Chair of the Financial Stability Forum (FSF) said, "Transparency and public disclosure are essential for the efficient functioning of the markets". He continued his discussion by noting "that the FSF is promoting the development of high standards for accounting, auditing, the establishment of public-interest bodies to oversee the standard setters' work, and the development and adoption of best-practice disclosure".

The drive for transparency and accountability is by no means limited to the FSF, in a recent paper on supervisory agency governance from the IMF it listed four essential components "which together underpin good governance: independence, accountability, transparency and integrity. These components reinforce and hold each other in balance". The IAIS would do well to ensure that its governance practices are comparable to those supervisors seek from regulated entities.

Further to regulated firms, I believe that the time has come for the IAIS to develop and adopt an International Standard on Administrative Procedures. This would go a long way towards the establishment of consistent jurisdictional procedures to deal with public information, the interaction between the supervisors and the regulated entities, open meetings, and rule making requirements. Absent these critical pre conditions it is difficult to describe markets as open, vibrant and efficient.

Global Economic Security

In addition to our work at the IAIS, NAIC members are increasingly involved in other international organizations. The Joint Forum, Financial Stability Forum, the OECD, and International Accounting Standards Board are just a few that come to mind.

The Joint Forum was established in 1996 under the aegis of the IAIS, Basel Committee, and IOSCO to address issues common to the insurance, banking, and securities sectors, focusing initially on the regulation of financial conglomerates. The Joint Forum comprises an equal number of senior insurance, banking and securities officials representing each supervisory constituency. It works in cooperation with other international bodies on issues where it shares a common interest. Much of the output of the Joint Forum takes the form of papers on general, often principles-based, guidance for supervisors or financial firms on sound risk management practices. The NAIC has been well represented in the activities of the Joint Forum through the work of key individuals from the Florida, New York and Iowa insurance departments.

As chair of the IAIS Executive Committee for the past 18 months I have had the pleasure of representing the IAIS at the Financial Stability Forum. The FSF was convened in April 1999 to promote international financial stability through information exchange and international co-operation in financial supervision and surveillance. The Forum brings together on a regular basis national authorities responsible for financial stability in significant international financial centers, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The FSF seeks to co-ordinate the efforts of these various bodies in order to promote international financial stability, improve the functioning of markets, and reduce systemic risk. Over the past three years the FSF has taken

particular interest in the insurance sector, especially in the areas of reinsurance, finite reinsurance, disclosure and credit risk transfer.

Most recently, the FSF members convened in Sydney, Australia to discuss risks and vulnerabilities in the international financial system and reviewed ongoing work to strengthen resilience. Significant time was devoted to the risks to the insurance sector associated with an avian flu pandemic as well as a daylong meeting with financial authorities from the Asia-Pacific region. As the representative of the insurance regulatory community I am in a unique position to educate the FSF members about the insurance sector, in particular from the US perspective.

At the OECD, the NAIC participates in the activities of the Insurance and Private Pensions Committee. We do so as a technical resource to the US Department of Commerce, together with industry representatives. Most recently the NAIC provided technical expertise during the committee's discussions on the management of losses from terrorist events and mega-catastrophes, medical malpractice insurance and reinsurance issues.

As financial markets expand globally, the demand for international consistency in accounting and auditing standards has also increased. The International Accounting Standards Board (IASB) is committed to developing a single set of high quality, and enforceable global accounting standards that require transparent and comparable information in financial statements. The NAIC has been monitoring and providing input to the IASB since its early stages. Some have even suggested that the regulators had a "seat at the table" before the insurance industry had become engaged.

The membership of the NAIC and the IAIS is well represented at the IASB by Rob Esson, who will be speaking to you as part of the next panel. In fact, he has spent so much time at in London that he has lost his American accent. But all kidding aside, the NAIC and to a lesser extent the IAIS have been in a position to provide formal comment on IASB proposals and engage in discussions with board members. All this activity has further enhanced the NAIC presence as a technical resource to the IASB, in particular with respect to the Board's work towards a phase 2 Insurance Contract Standard as well IASB/FASB convergence efforts. Our official positions as a "participating observer" on the IASB Insurance Working Group and the IASB Financial Instruments Working Group make this level of input possible.

Regulatory Dialogue

Since 1999, the NAIC has sought to develop bilateral relationships with countries around the world. The first was the establishment of a twice a year regulatory dialogue with the European Commission and its member country regulators to better understand our respective regulatory systems.

The US-EU Dialogue has developed into a recognized forum of structured exchange between regulators and supervisors on both sides of the Atlantic. It has significantly increased the knowledge of our respective supervisory and regulatory systems for both the Europeans and the Americans. Over time the dialogue has enabled detailed discussions of very complex issues and fostered closer cooperation between the US and the EU in international organizations such as the IAIS.

Most recently, the NAIC endorsed a model Memorandum of Understanding (MOU) designed to facilitate information exchange between U.S. and European insurance supervisors. This MOU had already been approved on the European side by CEIOPS at its Members' Meeting in February. The MOU will provide U.S. insurance regulators and European supervisors with a valuable tool for addressing the proper supervision of members of transatlantic insurance groups.

The US-EU discussions now include European “supervisors” from the aforementioned CEIOPS and EU “regulators” from the European Insurance and Occupational Pensions Committee (EIOPC), together with representatives of the European Commission Internal Markets Directorate General – Insurance Unit. The next dialogue meeting is scheduled for the fall of 2006.

With the proposed Solvency II Directive scheduled for completion by mid-2007, CEIOPS has organized “calls for advice” on the technical aspects of the proposal. US insurance regulators have agreed to follow up with comments on CEIOPS’ answers to the second “calls for advice” on technical aspects of the proposal. As part of this effort the EU has urged the US to share our experience with our risk based capital system and to comment on ways in which Solvency II might be made more compatible with the US approach.

We believe that it is imperative that US insurance regulators participate to the extent possible in the “calls for advice” on technical aspects of Solvency II. Further we believe that it is imperative for the US insurance industry to also be engaged. One word of caution from US regulators is the importance for EU policymakers to recognize the unique aspects of insurance business especially when compared to banking and that the EU not simply replicate the Basel II regime for the banking community.

Technical Expertise—Emerging Markets

With 135 years of experience in insurance regulation it is not uncommon for other countries, especially from the emerging markets, to reach out to the NAIC and its members for technical assistance as they seek to design and build a regulatory framework. As a result, we continue to advance our relations with foreign markets by emphasizing the exchange of regulatory technology and knowledge. I am confident that our efforts to bring technical assistance to emerging market countries is helping to establish a base-line of regulation that will assist with the opening of markets, establishing demand for foreign capital, and allowing insurance entities to be established.

To meet the growing requests for assistance the NAIC in 2005 created a formal internship program for non-US regulators. The program is designed for professional staff members, who meet specific qualifications. The interns participate in a 4-day training session at the NAIC headquarters in KC and then are posted to a state insurance department. The program seeks to promote the transfer of applied regulatory knowledge to practical applications in their home country. Last fall, we hosted interns from China, Korea, Brazil, India and Vietnam. The development of the international internship program has drawn even more attention to the NAIC’s valuable resources.

We have already entered into Memoranda of Understanding with China, Vietnam, Brazil, Russia, and Iraq and are working towards similar engagements with Hong Kong and ASSAL. In the case of China, the MOU extends to the establishment of a Joint Working Group with China’s Insurance Regulatory Commission (CIRC) to address issues of mutual interest to both CIRC and the NAIC and as a forum for discussing areas of regulation and supervision. We are not limited to these dialogues and routinely engage in bi-lateral regulator-to-regulator dialogues with our colleagues from the UK-FSA and FSA-Japan.

Technical Expertise—US Government

As I'm sure you no doubt know the regulation of insurance in the United States is done at the sub-federal level, with no federal regulator. As a result, NAIC members are often called upon to assist the US Government, in particular, the US Trade Representative, the Treasury Department and Commerce Department. In the trade arena we have been asked to provide input and expertise on the new round of world trade services negotiations under GATS, and regional and bi-lateral agreements.

Transportation of goods between the US and Mexico has presented significant challenges to the full implementation of the NAFTA. In that situation we have worked with the governments of Mexico and the US to facilitate a solution.

Conclusion

I hope I successful in conveying to you the importance and efficacy of international cooperation in the development of global financial markets. As you have heard working with regulators from around the world, NAIC members participate in, and in many cases lead, the global spread of sensible regulatory practices in financial services.

Effective and regular communication among the market participants, consumers, lawmakers, and regulators from around the world goes a long way to ensuring that market participants have a basic understanding of the market, market dynamics, the resultant new financial products, and what is necessary for new markets to flourish.

As emerging global markets present new challenges and opportunities, international cooperation is the one component that can and should remain consistent.

Again I want to thank the Geneva Association for the invitation to participate At the 22nd

PROGRES seminar.