



International Association for the
Study of Insurance Economics

Études et Dossiers

Extract from

Etudes et Dossiers No. 327

The 23rd PROGRES International Seminar
“Insurance Industry and Regulators in Search
of Modern Regulation”

Geneva, 22 - 23 March 2007

April 2007

Working Paper Series of
The Geneva Association

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

The Geneva Association - General Secretariat - 53, route de Malagnou - CH-1208 Geneva
Tel.: +41-22-707 66 00 - Fax: +41-22-736 75 36 - secretariat@genevaassociation.org - www.genevaassociation.org

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

The Standard-setting Work of the IAIS – Should the IAIS Be Restructured?

Michel Flamée

Chair, Executive Committee

International Association of Insurance Supervisors

22 March 2007

Ladies and gentlemen

Chairman,

1. Good afternoon. It is my pleasure to be invited to join with you today for this interesting and meaningful discussion about modern insurance regulation.
2. As you know, the IAIS objectives are:
 - to contribute to improved supervision of the insurance industry on a domestic as well as on an international level, in order to maintain efficient, fair, safe and stable insurance markets for the benefit and protection of policyholders,
 - to promote the development of well-regarded insurance markets, and
 - to contribute to global financial stability.
3. **Today, I would like to first give you a concise introduction consisting of an overview of recently adopted papers. After that, I will share with you some insight into the IAIS contemplated reform, which aims to prioritise its tasks, consolidate resources, and enhance the efficiency of the organisation.**

4. Papers adopted recently by the IAIS

Two standards and two guidance papers were adopted at the Annual General Meeting last October and in November 2006 the third “global reinsurance market report” was published.

5. As part of the IAIS work on supervision and assessment of insurance solvency, a **standard and supporting issues paper on asset-liability management** (ALM) were developed and adopted in October 2006.

6. The standard describes best practices for ALM that a well managed insurer would be expected to follow and identifies 11 minimum requirements that supervisors should ensure are being met by insurers in their jurisdiction. The ALM issues paper provides additional information on measurement techniques and definitions of ALM related terms.

7. The other standard, the **IAIS standard on disclosure concerning technical risks and performance for life insurers**, aims to enhance market transparency and to facilitate market discipline by setting minimum disclosure requirements for life insurers and reinsurers.

8. The revised **IAIS guidance paper on Risk transfer, disclosure and analysis of finite reinsurance** adopted in October 2006 outlines the background on the development of finite reinsurance and the uses of this product by insurers.

9. It highlights the issues in finite reinsurance that supervisors should be aware of/ and the various supervisory approaches taken to address these. The revision was needed to update the life insurance sections and to reflect the latest developments in accounting for reinsurance contracts.

10. The **Guidance paper on preventing, detecting and remedying fraud in insurance** provides guidance on identifying potential areas of “risk to fraud” by insurers with the aim of reducing this as far as possible.

11. In November 2006, the IAIS published its **third global reinsurance market report**, based upon 2005 data. The global statistics on which this report is based are made up of data provided by supervisors in seven jurisdictions –Bermuda, France, Germany, Japan, Switzerland, the UK and the US – in which the major significant reinsurance entities are domiciled and represents a continued drive by supervisors and the industry in participating jurisdictions to improve the transparency of the global reinsurance industry.

12. **The IAIS just had its Triannual Meetings in mid February, where the key paper on solvency was adopted: IAIS Common Structure for the Assessment of Insurer Solvency (Structure paper).** The paper is the third important step of the IAIS in formulating a more consistent, reliable and transparent approach to the assessment of insurer solvency worldwide.

13. The paper presents a coherent risk-based methodology for the setting of regulatory financial requirements. It describes the respective roles of technical

provisions and required capital and discusses the concepts that underpin the determination of these components in the context of a risk-based solvency regime.

II. Reform to enhance efficiency

14. Now I would like to spend the rest of my presentation on reforms that are being contemplated in view of a further enhancement of IAIS - efficiency.

15. Since its establishment in 1994, the IAIS has achieved a solid status in the international financial community, through its constant output of important papers and shown by the growing number of participants at its meetings.

16. In late 2006 the IAIS conducted a survey of IAIS Members and Observers to collect information on their views on the activities of the association and their respective priorities.

17. The survey results indicate that Members and Observers have accorded the highest priority amongst standard setting activities for solvency, accounting and disclosure, reinsurance and financial conglomerates. Corporate governance, market conduct, pensions and revision of insurance core principles are also seen as areas of importance. Also standard setting, standard implementation and cooperation with Members and other organisations have a high priority. The survey results confirm the current priorities as expressed in the IAIS' Medium Term Working Plan, 2003 and the draft Work Plan and Financial Outlook 2008 - 2012.

18. In its last Triannual Meetings in February, the IAIS held a discussion dedicated to proposals for improving the IAIS efficiency. These proposals will be further elaborated and will be finalized in the upcoming meetings in the first semester of this year.

19. Given its unique status and significant role in the global insurance community, the IAIS needs to handle increasingly more work in the international standard setting of insurance supervision. The Organisation faces **the challenge of prioritizing its tasks, reviewing its working structure and taking appropriate steps to create a new mechanism to further enhance efficiency given the resources the IAIS has at its disposal and the expected growth in task to perform.**

20. The functioning in the future of the IAIS will be dictated by the following principles and measures:

19.1. A clear definition and delimitation of the objectives of the Organisation i.e. standard setting on the one hand, Convergence and education on the other hand

19.2. On the basis of these objectives, clear priorities will be identified. The focus will be on a number of selected major topics and clear and detailed mandates will be assigned to the Working groups and Parties that deal with these topics

19.3. The Working groups will function in a transparent way and will be structured in a sufficiently flexible way to ensure that the objectives as laid down in the mandates can be achieved.

19.4. There is a firm commitment to have a permanent dialogue with stakeholders through appropriate mechanisms and structures yet to be decided.

21. The in-depth and productive discussion within the IAIS reveals that the organisation faces the following four key structural challenges.

- How to enhance the active participation of the members of the working parties,
- Reconsider the mandates of the working parties in view of the further enhancement of their efficiency,
- How to further raise the benefits of the diversity of membership within IAIS, and
- How to coordinate the two IAIS key activities, standard setting and standard implementation.

22. Some very first ideas on these challenges have already emerged.

23. Firstly, the IAIS is considering consolidating its working parties and revising the membership criteria for the working parties and the Technical Committee.

24. At present, the IAIS has 9 Subcommittees, Task Forces and Working Groups. So many working parties make it difficult to coordinate standard setting activities amongst them, even though they are often closely linked.

25. Merging related working parties may help to streamline the standard setting activities and may result in a more efficient allocation of resources. Of course, should this materialise, it goes without saying that such implementation will be gradual to ensure a smooth transition.

26. Already it was decided to **merge the Accounting Subcommittee and the Enhanced Disclosure Subcommittee** into one single Accounting Subcommittee to consolidate the resources and to enhance efficiency. Now the IAIS has two accounting-related subcommittees left: the Insurance Contract Subcommittee and the Accounting Subcommittee.

27. Adjusted membership criteria for the working parties will contribute to the successful fulfilment of the mandate of the working parties. Adjusted membership criteria for the technical committee envisages the improvement of the effectiveness of the decision making process.

28. The second key draft proposal aims to bring to bear the diversity of the IAIS membership.

29. As is known to you all, the IAIS has some 180 Members from more than 120 jurisdictions around the globe. The IAIS cherishes the diversity within its membership, as we believe it should contribute to building a rigorous debate, which in turn should help develop solutions that can achieve worldwide acceptance. However, in most recent cases, IAIS standard setting activities are carried out by a too limited number of Members who participate in the IAIS Triannual Meetings where most of the key issues are discussed. The challenge is to make members from emerging markets participate in the IAIS meetings regularly and actively in order to enhance their contribution to the process.

30. Last but not least, there is the proposal to substantially increase the practical implications of IAIS papers on insurance supervision in its member jurisdictions.

31. The fundamental goal of IAIS standard-setting activities is to create good supervisory papers that will be implemented in all jurisdictions. Standards and guidance papers are of little value if they remain unimplemented. Therefore, the IAIS will make efforts to generate sufficient coordination between setting standards and their implementation.

32. There are several ways to enhance the practical implications of IAIS papers. We will continue to encourage our Members to conduct the self-assessment programme of IAIS standards, which will help jurisdictions to review the stage of incorporating IAIS standards into their national regulations. In addition, the IAIS will start to develop teaching notes on new standards to be developed. The global seminars back-to-back with IAIS Triannual Meetings will continue to provide excellent opportunities for jurisdictions to learn more about the new standards from the drafting experts. The IAIS also consider developing an e-learning platform to help insurance regulators learn IAIS principles and standards as well as key regulatory and supervisory issues from their office in a most cost efficient manner.

33. Ladies and Gentlemen,

34. The global insurance market has been demonstrating increasing complexities, which require supervisors in all jurisdictions to observe appropriate supervisory standards and practices.

35. The IAIS work will continue to contribute to improved supervision of the insurance industry on both the domestic and the international levels for the benefit and protection of policyholders.

36. The envisaged reforms, aimed at enhancing efficiency, imply that the IAIS will play an even more important role as the international standard-setter thus contributing to a more sound global insurance supervision and promoting the development of well-regarded insurance markets.

I wish you all a very pleasant stay in Geneva and thank you very much.