



## International Association of Insurance Supervisors

### Press release

Press enquiries: Yoshihiro Kawai  
Secretary General  
Tel: +41 61 280 9135  
Mobile: +41 76 350 9135  
E-mail: [yoshihiro.kawai@bis.org](mailto:yoshihiro.kawai@bis.org)

21 October 2008

---

#### **Insurance supervisors enhance coordination efforts and develop supervisory standards amid financial crisis**

The International Association of Insurance Supervisors (IAIS) concluded its Annual Conference and General Meeting in Budapest, Hungary, with commitment from supervisors worldwide to further enhance coordination efforts and move forward in the development of supervisory standards.

“The IAIS has shown its ability to react quickly to the crisis by stepping up coordination efforts”, said Peter Braumüller, IAIS Executive Committee Chair. “The IAIS’ broad membership base, representing insurance regulators and supervisors from 140 countries around the world, places it in a unique position to provide a forum for insurance supervisors from around the world to share information and to prepare supervisory solutions, where appropriate, to market problems.”

The IAIS’s standard setting activities will continue to evolve and take into account the lessons being learned from the current financial market crisis, thereby reinforcing insurance supervisory systems worldwide, strengthening markets and promoting policyholder protection. An important area of focus is the development of supervisory papers on the supervision of globally active insurance groups. Issues to be further assessed include contagion effects in crisis situations and macroprudential issues such as transparency and risk management.

The theme of this year’s conference was *Insurance and the Globalisation of Financial Services: Challenges for Worldwide Regulation and Supervision*. The conference provided the opportunity for insurance supervisors and industry professionals to exchange views and discuss how to further enhance coordination efforts. The attached annex provides a summary of the annual conference panel discussions.

Given the current market conditions it is particularly important that the IAIS continue its standard setting work to help strengthen regulatory systems around the world, to enhance financial stability and increase protection for policyholders. To this end, ten supervisory papers were adopted at the General Meeting, including six supervisory papers on solvency assessment, two supervisory papers on group-wide supervision, a guidance paper on mutual recognition of reinsurance supervision, and a guidance paper on the regulation and supervision of captive insurers. The papers can be found at [www.iaisweb.org](http://www.iaisweb.org).

## IAIS 15<sup>th</sup> Annual Conference panel sessions: summary of discussions

### ***Cooperation and transparency in crisis situations***

The panel discussed the need for cooperation and transparency especially in the context of the current financial crisis. Financial markets, insurance groups and financial conglomerates have become increasingly global; at the same time consumer protection is primarily a jurisdictional responsibility. However, the response to crisis situations is needed at both the local and global levels.

The response to the current financial crisis was initially dealt with at the jurisdictional level, with a more coordinated approach being pursued more recently. Greater coordination between jurisdictions at an early stage will help to minimize the risk of local measures in one jurisdiction having unhelpful consequences in another. Looking ahead, various structural improvements need to be made at the global level to help avert crises in the future. Such initiatives include further development of supervisory colleges to help coordinate supervisory efforts as well as to improve the oversight of large groups.

The financial crisis has also highlighted the need for greater transparency. Two suggestions were that 1) better information on risks will promote better understanding and management of risk, and 2) ongoing dialogue and transparency between supervised entities and their supervisors should help mitigate market disruptions in the event of a crisis.

At this stage the lessons learned appear to be the over-reliance on ratings and models, risk management's failure to consider extreme exposures, and inadequate governance over investment activities. Measures which might help to prevent a future crisis include good risk management and early supervisory intervention. There should be greater emphasis on the independence of the risk management function and greater accountability for risks taken. Insurers should have a crisis management plan as part of ongoing business management – a concept which can also apply to supervisors – and this should enable a more proactive response in the event of a crisis.

### ***The impact of future solvency standards***

The Solvency II framework is nearing finalisation in the European Union and members of this panel presented solvency standard developments in their own jurisdiction and their views on the Solvency II framework. Panellists reflected on the challenges still being considered at national and regional levels, features of existing risk-based approaches, and the lessons to be learnt from the current market crisis. There was a general call for the development of a truly global solvency system which responds to these issues and can draw on the merits of many current approaches. A discussion of a global approach to solvency is an important element of enhancing the oversight of internationally active insurance groups.

### ***Cross sectoral convergence***

The panel commented on the basic differences between the risks undertaken by banks and insurers, and acknowledged that the boundaries between the two sectors were increasingly blurring. A key message was the need to understand the economic substance of transactions and products. The increasing complexity of financial transactions requires increased transparency and robust governance. Some transactions can involve multiple jurisdictions posing significant challenges to transparency. Good supervision should consider all the risks and assess off-balance sheet risks taking into consideration gross and net positions.

Innovation can benefit both policyholders and the industry, and there should not be artificial constraints to product development. However, it is critical that insurers and supervisors understand the products and the supervisory framework should be responsive to new

developments, with a principles-based approach focussed on identifying and understanding risks.

### ***Preconditions for standard implementation***

The panel discussed the importance of preconditions in the implementation of insurance supervisory standards. Standards must not only be put in place, they must also be implemented. The IAIS supports implementation in emerging markets through translation of supervisory papers and various training activities. The IAIS has led the way in recognizing the importance of preconditions in the Insurance Core Principles. Weak preconditions undermine regulation and prevent effective supervision. Particular weaknesses noted in emerging markets were the absence of actuarial and accounting standards and lack of market infrastructure.

### ***Reinsurance in modern finance***

A common theme which surfaced in the discussions was the need for an appropriate framework on the mutual recognition of reinsurance supervision. In this regard, the IAIS Guidance Paper on the Mutual Recognition of Reinsurance Supervision, as adopted at the Annual Conference in Budapest, was highly appreciated. Moving forward, both industry representatives and IAIS members encouraged the IAIS to continue its efforts to identify and to facilitate steps towards concrete recognition agreements. Reinsurance is a critical risk mitigation tool for insurers and therefore supervisory approaches should be improved in order to facilitate global diversification of reinsurance risk. In that respect, Joseph Fritsch from the New York Insurance Department emphasised that "mutual recognition for assessing regulatory effectiveness should be through an 'outcomes-oriented' approach" rather than applying restrictive equivalence tests.

### ***Supervision of insurance groups***

In the context of the ongoing market turmoil, panellists discussed current and possible future approaches to supervision of insurance groups. While capital assessment was acknowledged as a centrepiece of solvency assessment, several panellists cautioned on the dangers of not also considering the qualitative elements of any solvency assessment framework. Governance, risk management and internal controls were described as critical components of the early warning systems in supervision – especially in group supervision – and adequate attention to these elements is essential.

### ***Market Conduct***

The panel discussed the importance of sound market conduct practices in preserving consumer confidence in the insurance sector especially in times of market uncertainties. Insurance regulators are increasingly focused on developing market conduct regulatory frameworks which encompass issues such as enhanced financial literacy to empower consumers, efficient and effective dispute resolution frameworks, policyholder protection schemes and appropriate product disclosure and transparency. The Chair of the panel, in his summary, remarked that insurance supervisors should be cognisant that proper market conduct is indispensable especially when markets fail to function properly.

### ***Application of insurance supervisory standards in specific circumstances***

The panellists shared the view that international insurance regulatory standards and principles are sufficiently flexible to be adapted to the specificities of niche insurance sectors such as Islamic insurance - or takaful - and microinsurance, as well as for the emerging markets generally. The Insurance Core Principles form a common basis for these tailored supervisory standards which are essential for the orderly development of these markets.