

COMMITTEE ON INSURANCE REGULATION ACTIVITY REPORT MAY 2004 – OCTOBER 2004

Liaison with International Association of Insurance Supervisors (IAIS) and other international organizations

Luis Huerta, Paul McCrossan and Jukka Rantala participated in the IAIS Annual Meeting in Amman, Jordan, October 6-8, details are available in the attached [report](#).

Dave Sandberg gave a presentation of liquidity risk to a committee of the Joint Forum meeting in September 2004.

Peter Boller gave a presentation at an educational session organized by the Financial Stability Institute in Oslo, June 2004. Andreas Kull, on behalf of Peter as Chairman of the RISC, attended the Reinsurance Transparency Group meeting in Oslo in June 2004.

The report of the Insurer Solvency Assessment Working Party has been presented at several international meetings in the latter half of 2004:

- May 4, NAIC conference call, Dave Sandberg and Stuart Wason
- May 18, Colorado Springs, CAS Spring Meeting, Glenn Meyers, Allan Brender and Stuart Wason
- October 19, Rome, the 75th Anniversary Seminarium of the Istitute Italiano degli Attuari, Gennaro Olivieri
- September 28, Congress of Actuaries in China
- October 19, American Academy of Actuaries and the Conference of Consulting Actuaries
- November 10, IAA Financial Risks Seminar

The first feedback on the report was received in July from the Solvency and Actuarial Issues Subcommittee and the Technical Committee of the IAIS. They welcomed the report as a significant contribution in the area of insurer solvency assessment that will provoke debate on many important issues and promote further discussion towards an international insurance solvency framework.

The report is also frequently referred to in the working papers of the European Solvency II project.

The Solvency Subcommittee continued to work towards closer co-operation between the Groupe Consultatif and the IAA on the Solvency II project. The subcommittee welcomed new Vice-Chair, Rolf Stölting, and Helen Martin as IAIS observer. The subcommittee held its inaugural meeting in Stockholm. As a result of that meeting its members volunteered to participate in various interest groups (i.e. life, non-life, risk aggregation, asset risks, national issues, other risks etc). These interest groups have met via phone and email and are due to report back at the Washington meeting on their plans for 2005.

The IAA has been invited to nominate an observer to the IAIS Solvency Subcommittee.

The main activities of the Reinsurance Subcommittee were comments to the European Commission on the handling of fast track solvency requirements for life reinsurance. The Commission has in its latest proposal revisited the rules to a more risk-adequate approach with the consequence of a less onerous solvency requirement.

IAIS Enhanced Disclosure Subcommittee

Contact persons from the IAA will monitor the activities of this Subcommittee and use informal contact in the early stages of the process to provide relevant actuarial expertise in the initial drafting phase. The Subcommittee's mandate is to draft standards and guidance papers aimed at enhancing the standards of disclosure by insurers. Last year we provided extensive comments on the Draft Standard on Disclosures Concerning Technical Performance & Risks for Non-Life Insurers & Reinsurers, and now the Subcommittee has started to develop a standard on investment performance and risks.

Submissions

IAIS Draft Supervisory Standard on Suitable Forms of Capital

On May 3, 2004, draft comments prepared by the Solvency Subcommittee were forwarded to the IAIS. A vote by full member associations with a deadline of July 8, 2004 followed (see balloting results below) and extensive comments were received. A final response will be prepared by the Solvency Subcommittee, taking account of the comments received. The IAIS Solvency Subcommittee will still work on the Standard and a revised paper will likely be circulated for comment to IAIS members and observers in December 2004 – January 2005.

Approve:	37/114	66.07%
Against:	13/114	23.21%
Abstain:	6/114	10.71%
Total Voting Rights Cast:	56/114	49.12%

Consultation Paper on the Proposed IAIS By-Laws

This proposed amendment to the by-laws of the IAIS was circulated on April 21, 2004 with a request for input from committee members. The proposed amendments included the reorganization of their categories of membership. Draft comments were submitted on June 14, 2004, and it was put to a vote by Full Member associations with a deadline of September 12, 2004 (see balloting results below). A final response has not been issued. Our suggestions did not lead to any changes in IAIS membership criteria, but in the recent document "Draft Policy Statement on the Scope of Observers' Participation in IAIS Activities", our wishes have been taken notice of. E.g. the chairpersons of IAIS working parties may invite to participate at their meetings particular Observers who have specific expertise in the matter being discussed. Such Observers would include organizations which set and implement standards for professional work that insurance supervisors rely on to protect public interests.

Approve:	52/114	94.55%
Against:	0/114	0.00%
Abstain:	3/114	5.45%
Total Voting Rights Cast:	55/114	48.25%

IAIS Consultation Paper on the Draft Standard on Disclosures Concerning Investment Performance and Risks for Insurers and Reinsurers

The Enhanced Disclosure Subcommittee has issued this draft standard for comment with a deadline of December 20, 2004. We will issue a response using the new Fast Track Procedure for Making IAA Public Statements, the deadline for objection is December 15, 2004. Committee members are requested to submit their comments by October 25. The Insurance Accounting Committee has also been advised.

IAIS New Framework for Insurance Supervision

The IAIS requests comments by December 31, 2004. The Solvency Subcommittee will prepare a response to this submission using the fast track procedure, the deadline for objection is December 19, 2004.

Draft Policy Statement on the Scope of Observers' Participation in IAIS Activities

The IAIS requests comments by January 2, 2005. A response will be prepared using the fast track procedure, the deadline for objection is December 29, 2004. Committee members are requested to submit their comments by November 30, 2004, volunteers to draft the response are needed.

Committee Matters

The committee will begin the review of its two-year work plan.

Jukka Rantala, Chairperson

THE 11th IAIS ANNUAL CONFERENCE

The 11th Annual Conference of the International Association of Insurance Supervisors (IAIS) was held October 5 -7 in Amman, Jordan. The number of participants, around 360, was slightly less than last year. There may be two reasons for that: the number of attendees from the host country was less than last year and the venue may also have troubled some potential attendees.

IAIS has grown to an important standard setter organisation since its foundation ten years ago. The IAIS as such has no powers to reinforce its standards, but their role is nevertheless important, since the World Bank and the IMF use the IAIS standards in Financial Sector Assessment Programs. If the standards are not implemented in a particular country, it will be named and shamed.

The IAA was represented in the conference by our President, Luis Huerta, Paul McCrossan and me. In addition some IAA people attended the Conference in their capacity as supervisors.

In his opening speech, the Chairman of the IAIS, Manuel Agileira-Verduzzo mentioned two areas of special current importance to the IAIS: endeavour after international standard on solvency and international accounting standard; both central activity areas of the IAA too. These two areas and reinsurance (mutual recognition and transparency) were also highlighted in the General meeting, when the work plan for 2005 was discussed.

The general theme of the Conference was Globalized insurance markets. The program consisted of 11 panels ranging from “traditional” topical issues like accounting and solvency to more recent topical issues like corporate governance.

The conference was preceded by IAIS committee meetings. Paul McCrossan attended the Accounting Subcommittee meeting, where among other things he gave a presentation on the joint ACLI/IAA study on impacts of different accounting principles.

The panel on solvency (“Towards more risk based solvency”) was chaired by Rob Esson from the NAIC, as Wil Dullemond had to cancel his attendance. Mr. Karl Coredewener from the Basel Committee told about the development of the Basel II Accord, an over ten year project from the start to the final implementation (between 2006 and 2010). Victor Apps, the Asian leader of Manulife, expressed the industry view. He said that an introduction of a global RBC, is immature and senseless before harmonising valuation bases. As such he was in favour of harmonisation and international standard with stress on high prudence. In his words “RBC should have teeth”.

The IAA solvency report did not get much attention in the panel itself, but in informal discussions it was frequently mentioned. Good PR for the IAA. Some people, who had some critical comments on some parts of the report, said that the report is even achieving too authoritative a status! It seems that there are differing views in the IAIS Solvency Subcommittee

about the further use of the report and the IAA contribution to the future work, but as a whole attitudes are positive. This was also confirmed by the positive written response from the IAIS SSC in the summer. Very good news was that the IAIS is ready to invite an IAA representative as an observer in their Solvency Subcommittee (Helen Martin is the IAIS observer in the IAA Solvency Subcommittee).

The IAIS is also targeting the introduction of a “Framework for insurance supervision”, which in fact is meant to be the counterpart to the three Pillars in banking (press release attached). Obviously one of the purposes with the framework is to distinguish insurance from banking in terminology as well. Also the word “cornerstones” instead of pillars were used.

It is of course possible to classify the supervisory regime in many different and logical ways and certainly the draft “framework” is one of them. Its idea is to have three levels and on each level more detailed regulation. Level 1 is “preconditions”, which include basic conditions (legislation, economic conditions) for effective functioning of supervisory authority, insurance sector and insurance supervision. Level 2, regulatory requirements, includes three main areas financial requirements, corporate governance and market conduct (such as marketing and sales activities, functioning as an institutional investor). Level 3 consist of supervisory assessment and interventions.

The framework will be issued for public consultation and will be further developed by the IAIS Solvency Subcommittee in early 2005 with the target having it accepted by the Technical Committee in February 2005. The SSC also should draft a roadmap for development of a common structure and standards for insurer solvency. Finally the papers should be approved by the IAIS General Meeting in October 2005.

The General Meeting is the highest decision making body of the IAIS. This meant that a lot of routine matters were dealt with. The General Meeting also finally approves standards and guidance papers. This time five such papers were approved.

Alessandro Iuppa, Insurance Commissioner of Maine, was elected by the Executive Committee as the new chairman of the IAIS. Michel Flamee from Belgium was elected as the vice-chair of the Executive Committee. Tom Karp continues as the chair of the Technical Committee.

Jukka Rantala