

Address to the IAA Council Meeting – 12 October 2010

Peter Braumüller, Chair, IAIS Executive Committee

I am delighted to welcome the IAA Council to Vienna, my home town. I hope you are able to enjoy some of the delights that this beautiful city has to offer.

There are many challenges facing the global insurance sector. Today, I will focus mainly on regulatory challenges and how these are likely to unfold following the global financial crisis. We aim to be transparent in setting our strategic goals and work plans but the environment has become much more dynamic, since the financial crisis. Before dealing with these challenges, I will commence with some comments on how the IAIS regards its relationship with the IAA.

Throughout the IAIS's history, the IAA has played an important role and I expect it will continue to play an even more important role in the future.

Our two associations share a lot in common. Both our associations exist to serve the public interest and are closely involved with the global insurance sector. Both the insurance supervisory community and the actuarial community are vitally interested in the development and implementation of sound risk management principles, standards, guidance and practice. We have all seen the damage that can be inflicted on the financial sector and to the real economy when risks are not well managed.

The relationship between our two associations was formalised in 2000, when the IAA became an Observer of the IAIS and the IAIS became an Institutional Member of the IAA. In addition, there have been many individual supervisors involved in the IAA and many individual actuaries involved in the IAIS, including as members of our Executive Committee, Technical Committee, Financial Stability Committee and ComFrame Task Force. This cross fertilisation between our associations is very valuable and I'm sure it contributes to the strength of both associations.

In February, we had the pleasure to receive a presentation to the Financial Stability Committee from the President of the IAA, Mr Paul Thornton and from the Chair of your Enterprise and Financial Risk Committee, Mr Tony Coleman. In March, our two solvency subcommittees met jointly for the first time in Cape Town. These are tangible examples of the close working relationship between us.

At present, the IAIS has to deal with a whole set of important issues, both in the areas of standard setting, standard implementation and financial stability, as well as with a strategic review of the IAIS, including:

Comprehensive ICP review, group supervision, ComFrame Project, crisis management, systemic relevance, macroprudential surveillance and tools, MMoU, self assessment and peer review, education and training activities, financial inclusion and microinsurance, and IAIS' role and representation in relevant international and cross-sectoral fora.

For today's presentation I would like to concentrate on three of those topics: financial stability, strategic review and ComFrame.

The Global Financial Crisis and Emerging Regulatory Challenges

I will now turn to the global financial crisis and to the regulatory challenges for the insurance sector that are emerging.

Only a few years ago, the world was a very different place. Most economies were growing strongly, stock markets were booming, housing markets were still strong, the main fear of central bankers was the possible re-emergence of inflation and AIG was the largest insurance group in the world.

Today, the world is different! We have just experienced and survived the most serious economic downturn since the Great Depression. However, it is still too early to write the history books yet. The global economy is still very fragile, as was demonstrated in Dubai last year and in Greece this year. Some governments still need to support their banking systems and sustained recovery remains elusive. Interest rates are expected to remain low in many countries for some years and this will impact on those insurers which have offered long term interest guarantees.

Supervisors, policymakers, actuaries, academics and industry practitioners have applied enormous energy and enthusiasm to the task of identifying the causes of the financial crisis and hopefully learning lessons that could soften the next crisis. But the task of all those players is far from finished. Banking supervisors have already agreed to improve the capital and liquidity frameworks via Basel III proposals. Other supervisory reforms are expected to follow next year.

The G20 has issued many recommendations aimed at repairing the damage caused to the financial sector and economy from this crisis and putting policies in place to prevent future crises or at least mitigate them. The centrepiece of the new regulatory framework is the Financial Stability Board (FSB), whose mandate was agreed by the G20 last November.

The FSB has a number of Standing Committees and a working group on cross-border crisis management. The IAIS is involved in nearly all these groups.

Financial stability is now a major concern for all financial supervisors and policy development is expected to take some years. One of the most urgent tasks is to address the issue of systemically important financial institutions (SIFIs). The FSB is still reviewing how best to address the problems associated with SIFIs, which may include some insurers and other non bank financial institutions. It will make recommendations to G20 Leaders at the November Summit in Seoul covering the need for global SIFIs to have a higher loss absorption capacity; enabling the resolution of SIFIs without taxpayer solvency support; strengthening the intensity of SIFI supervision; and a peer review process to promote consistent national policies.

Based on the June interim report, the final report is expected to recommend:

- policy frameworks to reduce the moral hazard risks associated with SIFIs in their jurisdictions,

- effective resolution tools that enable the authorities to resolve financial firms without systemic disruptions and without taxpayer losses.
- prudential requirements on firms commensurate with their systemic importance,
- differentiated supervision requirements for institutions based on the risk they pose to the financial system,
- strengthened core financial market infrastructures to reduce contagion risk upon a firm's failure, and
- an ongoing peer review process to promote national policies to address the risks associated with SIFIs.

These are key issues for all those concerned about future global insurance regulation, so the IAIS would welcome input from the IAA as the process of implementing these decisions occurs over the next few years.

IAIS's Strategic Goals

The financial crisis and the evolving nature of the insurance sector prompted us to review our strategy and structure. We have proposed to our Members high-level goals in standard setting and implementation, financial and insurance market stability and external interaction. Let me put some of our high level goals into context with some of the IAA's objectives:

Our standard setting goal is to:

Promote effective and transparent supervision of insurance markets through global, sustainable and coherent supervisory principles, standards and guidance, while minimising opportunities for regulatory arbitrage.

This area has a significant overlap with your objective to promote common standards of actuarial education, common principles of professionalism and model standards of actuarial practice.

Our standard implementation goal is to:

Promote the development of fair, safe and stable insurance markets through the implementation of supervisory principles, standards and guidance, the assessment of their implementation, and cooperation among insurance supervisors.

Development of the actuarial profession in emerging markets is regarded by many as a pre-requisite to fair, safe and stable insurance markets.

Our financial and insurance market stability goal is to:

Contribute to global financial stability and foster stable insurance markets for the protection of policyholders.

Global financial stability is one area that would benefit from increased input of actuarial knowledge and skills.

Our external interaction goal is to:

Optimise the achievement of IAIS objectives and achieve recognition as the thought leader for insurance supervision by engaging with and managing relationships with external bodies.

The IAA's objective to "Identify, establish, and maintain relationships with key supranational audiences" is very complementary to our goal.

Consequently, I conclude that our strategic directions have many similarities. I expect we will have increased common interest in future and I expect there could be synergy in our associations working closely together with other relevant audiences.

Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame)

In July, I announced the development of a Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) had commenced. ComFrame should provide supervisors with a common language and structure to better assess and supervise IAIGs while insurers will benefit from improved supervisory efficiency and consistency. ComFrame is an important project for us that will increase the level of international regulatory and supervisory convergence. Introducing and implementing an internationally coherent, well aligned and efficient approach to supervising IAIGs is now a key issue for supervisors around the world.

By way of background, while Solvency II is nearing implementation and the US has commenced its Solvency Modernization Initiative, no internationally coherent framework is currently available. In light of this, we took stock and looked at some of the on-going work on group-wide supervision around the world and also shared various experiences amongst our Members. We agreed that there is still room for improvement on how we supervise and how groups manage their risks, many of which were magnified during the recent financial crisis. It also became clear that supervisors needed better approaches to understand how IAIGs actually organise themselves and operate.

Similarly, IAIGs would benefit from the establishment of a more concrete point of reference for the purpose of further building confidence amongst their various supervisors.

We also recognised that only a few IAIS Members are primarily home jurisdictions whereas a large number of IAIS Members are host jurisdictions for smaller or larger parts of IAIGs. A better structured approach to increase cooperation and information sharing between home and host supervisors is crucial to get a holistic picture of the group.

We are delighted that the IAA has formed a taskforce to provide input to our ComFrame project and look forward to working with that taskforce.

One of the issues of most significance in the ComFrame project is how we can reconcile the various different standards that already exist and are rapidly evolving. I refer to three sets of standards, all of which interact. These are supervisory standards, accounting standards and actuarial standards.

We will publish our global insurance supervisory principles, standards and guidance next February for consultation. The IASB and FASB will hopefully finalise global insurance accounting standards next year.

Having regard to the IAA's strategic objective to promote model standards of actuarial practice, I encourage the IAA Council to step up to the challenge of producing global actuarial standards to complement the global supervisory and accounting standards and to improve the transparency, reliability and comparability of the global insurance sector's financial and regulatory reporting.

Finally, let me thank you again for the kind invitation to speak to you today. The insurance sector faces many challenges, including the emerging regulatory challenges I have outlined today. However, I'm sure that they are better placed to face those challenges due to the existence and efforts of a strong global actuarial profession. I wish you well during the rest of your meetings. I trust they will be productive and successful. I look forward to joining many of you at the official dinner tonight and to continuing interaction over the months and years ahead.