

Address to the IAA Council

by Peter Braumüller, Chair of the IAIS Executive Committee

London – Saturday 13 September 2014

Draft of 10 September

Introduction

President, delegates, ladies and gentlemen,

Thank you very much for your kind introduction. This is my third and final address to the IAA Council as Chair of the IAIS's Executive Committee. It was a pleasure to receive your President's address to our Executive Committee in Quebec City in June and it is a pleasure to meet with you again to outline recent IAIS activities and to discuss ways to strengthen the IAIS/IAA relationship over the years ahead.

London is a very historic city in many ways. London is one of the birthplaces of modern insurance and also the birthplace of the actuarial profession. Property insurance as we know it today can be traced to the Great Fire of London, which in 1666 devoured more than 13,000 houses. The devastating effects of the fire converted the development of insurance "from a matter of convenience into one of urgency, a change of opinion reflected in Sir Christopher Wren's inclusion of a site for 'the Insurance Office' in his new plan for London in 1667" (*).

In the late 1680s, Edward Lloyd opened a coffee house on Tower Street in London. It soon became a popular haunt for ship owners, merchants, and ships' captains, and thereby a reliable source of the latest shipping news.

It also became the meeting place for those wishing to insure cargoes and ships, and those willing to underwrite such ventures. These informal beginnings led to the establishment of the insurance market Lloyd's of London.

Equitable Assurances was one of the first life insurers. Its founder, Edward Rowe Mores, specified that the chief official should be called an actuary - the earliest known reference to the position of the actuary. The first modern actuary was William Morgan, who was appointed in 1775 and served until 1830, an astonishing 55 years of service! In 1776 William Morgan carried out the first actuarial valuation of Equitable's liabilities and in 1781 the first reversionary bonus were subsequently distributed.

The Office of Assurances was established in 1575 in the Royal Exchange, at the instigation of the Privy Council, to co-ordinate and control the writing of insurance, which was primarily marine insurance. Rapid growth and the subsequent demise of a few high profile life insurance companies in the 1860s led to the first moves to establish a regulatory regime, the Life Assurance Act of 1870. This Act established the principle of separation of the assets of the life and annuity business into the "long-term business fund", which was subject to actuarial reporting and control.

But that's enough about the history in London of insurance, the actuarial profession and insurance supervision that followed. Today I will turn to the future of global insurance supervision and provide an outline of key IAIS activities, with a particular focus on where we expect and encourage interest and input from the global actuarial profession.

These activities are:

- significant progress on developing global insurance capital standards has been made over the past 12 months
- the IAIS will complete a comprehensive strategic review for the period 2015 to 2019 at our AGM in Amsterdam next month
- following consultation on the new IAIS stakeholder engagement process, we look forward to implementing this new process from January 2015
- other IAIS activities in 2013/14, including standard implementation activities and agreed improvements in the efficiency and effectiveness of our organisation and operations

Global insurance capital standards

Why is the IAIS committed to developing a global Insurance Capital Standard?

It is undeniable that the business of insurance is global, and global issues demand global responses. For this reason, in 2013, IAIS Members, who constitute nearly all of the world's insurance supervisors, committed to develop and implement the first-ever risk-based global Insurance Capital Standard, or ICS, by 2016. Full implementation of the ICS is scheduled for 2019, after two years of testing and refinement with supervisors and internationally active insurance groups (IAIGs).

This project is fully aligned with the IAIS mission “to promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders and to contribute to global financial stability”.

How can the IAA assist the IAIS in this major project?

Development of global actuarial standards is one major contribution that the IAA can make to the development of global insurance capital standards. I am very pleased to see that the process of development is well underway. Global actuarial standards will speed the process of achieving more effective and globally consistent supervision of internationally active insurance groups.

Indeed, earlier today I participated in the latest discussions on the draft statement of intent for International Standard of Actuarial Practice (ISAP 7) on “Current estimates” and other matters in relation to the IAIS capital standards. As indicated in our response, the IAIS welcomes this support and input from the IAA.

Provision of technical support in relation to the detailed design of measures to capture insurance underwriting risks and other risks where actuaries have relevant skills and experience would also be valuable. This issue was raised by the Chair of our Field Testing Task Force during the Presidents’ Forum earlier today.

Another immediate opportunity is participation in our dialogues with Stakeholders on the general direction of development of the ICS, starting with the Observer Hearing in Amsterdam next month. We invited Observers to prepare presentations on the “overall structure and nature of the ICS including valuation, capital resources and the capital requirement”. We also published ICS principles to steer the ICS development process and we would encourage the IAA to comment on those principles in due course.

Our Strategic review for the period 2015 to 2019 will conclude next month in Amsterdam.

The Review has focused on seven high level goals and a comprehensive set of strategies to achieve those goals. I will outline our thinking on three of those high level goals:

- The first goal I will mention today is for the IAIS to be the global standard setter for insurance. We aim to be recognised by all relevant stakeholders as the independent global standard setter in insurance through the development of sound principles and standards for globally consistent microprudential, macroprudential and conduct of business supervision of the insurance sector.

The strategies include Develop a Higher Loss Absorbency (HLA) requirement for Global Systemically Important Insurers by the end of 2015, developing a risk-based global Insurance Capital Standard as part of the Common Framework for International Active Insurance Groups within ComFrame by the end of 2016 and completing the Common Framework for International Active Insurance Groups by the end of 2018.

We will also review and revise the current IAIS Insurance Core Principles, Standards and Guidance, in particular on the basis of the feedback from assessments, in order to establish a revised set of Insurance Core Principles that lends itself to promote globally consistent and proportionate regulation of the insurance industry.

- Assessing and responding to insurance sector vulnerabilities is another key goal as it should steer the direction of our overall effort and activity.

We aim to be the thought leader in insurance supervision by proactively identifying risks and developments in particular in the economy and the financial sector that may affect the insurance sector, its business, insurance regulation and supervision as a basis for subsequently timely developing an appropriate forward looking policy response.

The IAIS is developing several key macroprudential surveillance initiatives, including continuing the Global Insurance Market Reports. We aim to collect and identify risks and developments; analyse the relevance and impact of these risks and developments; develop options and alternatives that address the consequences of the risks and developments; and discuss and decide an adequate response.

- The third goal that I will mention today is “Enhancing Implementation and Observance of Insurance Core Principles and Standards”. Based on a robust program for monitoring the IAIS aims to promote the observance of the Insurance Core Principles and Standards by all IAIS Members, and coordinating and facilitating initiatives that meet the capacity building needs of the IAIS Members of, in particular, less developed jurisdictions.

One of the key strategies is to put in place and maintain an effective outreach program with IAIS Members and regions in less-developed countries for the promotion of IAIS’ objectives and policies, establishing and maintaining an adequate understanding of IAIS Members’ and regional needs, facilitating implementation and capacity building support and dissemination of IAIS material including educational information.

We expect the IAA may be interested in capacity building activity, especially in relation to the need for more actuarial resources in many developing jurisdictions. The paper on Addressing the Gap in Actuarial Services in Inclusive Insurance Markets was a very useful contribution to our ongoing consideration of this issue. Its recommendations were discussed by our Financial Inclusion Working Group in June and further joint discussions are expected.

New stakeholder engagement process

Over the last 12 months, the IAIS carefully implemented a package of reforms designed to increase the effectiveness of its activities, ensure adequate coordination of standard-setting, standard-implementation and financial stability work and improve the process for obtaining and enhancing the quality of stakeholder input.

The IAIS has benefited greatly from the contributions of Observers and other interested stakeholders to its work in standard setting, standard implementation and financial stability. The IAIS conducts extensive consultations on draft papers with Observers and other stakeholders and is committed to continuing to consult widely on its draft work product, where appropriate, in order to achieve the best outcome.

While the IAIS has benefited from stakeholder input, the process for obtaining input could be more effective and efficient. Accordingly, the IAIS decided to update procedures so that stakeholder input would be received in a more effective, consistent, transparent and predictable manner.

Specifically, the IAIS Annual General Meeting will be asked to approve the establishment of a more open and transparent process in which any interested stakeholder can receive information and contribute to the IAIS's development of supervisory and supporting material without the necessity of formally becoming an Observer and paying a fee. If approved, this would result in the discontinuation of Observer status as of 1 January 2015.

In order to clearly define the IAIS' commitment to stakeholder consultation and engagement and the practices to be applied to ensure that consultations are as effective, consistent, transparent and predictable as possible, new draft policies and procedures for stakeholder consultation and engagement were released for public comment in August 2014. These policies and procedures include:

- special Executive Committee sessions
- Committee-level hearings
- greater publication of background documents
- use of conference calls at certain stages of policy development (e.g. a conference call at the launch of a public consultation to provide background and context on the matter being consulted).

Given these developments, the existing IAIS/IAA Memorandum of Understanding will need to be revised to strengthen the basis on which the IAIS/IAA relationship was formalized in 2012. The IAIS will initiate this review once our AGM has approved the proposed new stakeholder engagement process. Since the IAA has always been one of the most important partners in our global standard setting process we would like to define in more detail our future collaboration.

As part of the comprehensive reorganisation, the Solvency and Actuarial Issues Subcommittee was disbanded as of July 2014. The work undertaken by that Subcommittee on capital adequacy will be taken over by the Capital Development Working Group and Field Testing Working Group. When necessary, dedicated Task Forces will be established.

The IAA was a significant contributor to the Solvency and Actuarial Issues Subcommittee for over 10 years and these contributions were highly valued by the IAIS. From 2015, we look forward to ongoing contributions from the IAA to the Capital Development Working Group and to other IAIS committees and subcommittees whose mandates include activities of interest to the global actuarial profession.

Other activities in 2013/14

Endorsement of the Coordinated Implementation Framework (CIF) was a major achievement in the area of standard implementation this year. The CIF was designed as a strategic overlay to enhance the IAIS' current implementation commitment and strengthen delivery on existing strategies and activities.

Under the CIF, the IAIS has developed a robust programme of regional engagement and enhanced relationships with key implementation partners. The CIF has helped us focus resources, better coordinate and align our implementation activities and coordinate implementation perspectives into all standard-setting activities of the IAIS.

The IAIS is keen to explore how it can extend its relationships with key implementation partners to include the IAA, in relation to developing the actuarial capacity in emerging markets and developing economies.

Over the past year, the Financial Inclusion Working Group continued to provide a perspective on how to approach and address the question of financial inclusion and enhance access to insurance – in particular, how to give effect to the principle that the ICPs and standards should be applied in a way that is proportionate to the market and products. This work is critically important for supervisors grappling with new insurance products targeting low income segments of the population.

Concluding remarks

The IAIS has achieved a lot in its first 20 years but much more remains to be achieved. I will hand over my role as Chair of the IAIS Executive Committee next month with a clear strategy for the next 5 years. I fully intend to remain engaged with IAIS activities and to increase my involvement with the IAA, via my appointment to the IAA's Actuarial Standards Committee, which I consider as a great honor and pleasure. I look forward to increased IAA involvement with the IAIS over the next 20 years and beyond. Thank you for the opportunity to address you today.

(* Dickson, P. G. M *The Sun Insurance Office, 1710-1960: The history of two and a half centuries of British insurance* (1960)