Developing Issues in Insurance Regulation Globally

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Presentation Points

- **Key developments (capital and risk management)**
  - IAIS Insurance Core Principles
  - Solvency II
  - RBC
  - Own Risk and Solvency Assessment

- **Regulatory authority structures**

- **Insurance data collection and dissemination**
  - National and market levels

- **Concluding remarks**

Capital Requirements and

(Enterprise/ORSA) Risk Management

IAIS Initiatives

- **Insurance Core Principles (ICPs), including:**

  - ICP 3 (Information Exchange)
    - Multilateral Memorandum of Understanding (MMoU)
    - Bilateral Memoranda of Understanding (MoU)
    - Supervisory colleges

  - ICP 9 & 16 (Supervisory Review/Reporting; ERM)
    - Risk-based approach to supervision, covering:
      - Financial statements
      - Data collection and dissemination
      - Market analyses, internal models, insurers' own risk and solvency assessments (ORSA)
    - Enterprise risk management

IAIS Initiatives

- ## ICP (continued)

  - **ICP 14 & 15 (Valuation and Investment)**
    - **Substantial consistency in valuation methodology desirable, thus needing financial reporting standards**
      - **International Financial Reporting Standards (IFRS)**
      - **International Accounting Standards Board (IASB)**
    - **Stress and scenario testing**

  - **ICP 20 (Public Disclosure)**
    - **Disclosure of relevant, comprehensive and adequate information timely**
    - **Information presented in any generally accepted national and international standards and practices so as to aid comparisons between insurers**

IAIS Capital Requirements

- **Global Systemically Important Insurers (G-SIIs)**
  - Two requirements
    - Basic Capital Requirements (BCR) by November 2014
    - Requirement for Higher Loss Absorption (HLA) by yearend 2015
  - Application to G-SIIs from 2019

Solvency II

- **Pillar 1**

  - Adequate financial resources to meet all liabilities
  - Solvency Capital Requirement (**SCR**) covering 12 months with a 99.5% probability
  - Minimum Capital Requirement (**MCR**) as a floor to cover risks

- **Pillar 2**

  - Governance and risk management framework → **ORSA** for 3-5 years
  - Measurement of risks against which capital must be held

- **Pillar 3**

  - Disclosure, reporting and transparency requirements regarding capital and risks

NAIC

- ## Risk-Based Capital (RBC)

  - The minimum capital to support the insurer's overall business operations in consideration of its size and risk profile

- ## NAIC Solvency Modernization Initiative (SMI)

  - In response to ORSA developments but relatively non-descriptive
  - Focused on capital requirements, governance and risk management, group supervision, statutory accounting and financial reporting and reinsurance
  - Insurers required to conduct it from 2015
    - Insurers (annual direct written premiums > $500M)
    - Groups (annual direct written & assumed premiums > $1B)

Own Risk and Solvency Assessment (ORSA)

- **Promoted by the IAIS and likely accepted globally**

- **Insurer's own assessment of its current and future risks through an internal process , demonstrating its ability to withstand financial stress.**

- **Variations in approaches and application**

Regulatory Authorities

Structural Differences I

- **Government agency**
  - Commonly as part of Finance/Commerce Ministry
  - For example: Belgium (Office de Contrôle des Assurances), Argentina (Superintendencia de Seguros de la Nacion) and Nepal (Insurance Board)

- **Quasi-government agency**
  - Quasi-independent and not part of a Ministry
  - For example: India (Insurance Regulatory and Development Authority)

Structural Differences II

- **Single agency for the entire financial services sector**

  - For example: UK (previously, Financial Services Authority) and Japan (Financial Services Agency)

- **Single agency for selected industries**

  - For example: Australia (Prudential Regulatory Authority) and Peru (Superintendencia de Banca y Seguros)

- **Central bank as regulator/supervisor**

  - For example: monetary authorities

Structural Differences III

- **Twin peaks**

  - Separation of prudential concerns from financial examination and market conduct regulation

  - Frequently the central bank as a prudential body but exceptions exist

    - For example: UK (now, Financial Conducts Authority (FCA) and Prudential Regulation Authority (PRA))

- **Kwon (2013)**

  - A negative impact of the single agency structure

  - A positive impact of regulation by two or more agencies in the life insurance market

Insurance Data Issues

Insurance Data/Statistics Issues I

- Scope and quality of data
  - Collection cost incurred by the regulator
  - Compliance cost incurred by the regulated

- Dissemination
  - Raw data vs. summary data
  - Hardcopy vs. online
  - Consistency across countries

Insurance Data/Statistics Issues II

- **Timeliness in data collection**

- **Scope and quality of data**
  - Collection cost incurred by the regulator
  - Compliance cost incurred by the regulated

- **Dissemination**
  - Raw data vs. summary data
  - Hardcopy vs. online
  - Consistency across countries

Public Data Accuracy: Asian Countries

Number of Licensed Insurance Companies

	AXCO as of September 10, 2010					ISIS as of September 2010					Government and Association				
	L	N	C	R	TOTAL	L	N	C	R	TOTAL	L	N	C	R	TOTAL
Bangladesh	21	44	0	0	65	60	16	44	0	120	19	43			62
Brunei Darussalam	3	5	3	0	11	2	1	1	0	4	No Subtotal Provided				
Bhutan	N/A					N/A						2			2
Cambodia	0	5	0	0	5	6	0	6	0	12		5		1	6
China	56	47		9	112	122	62	58	2	244	61	52		8	121
Hong Kong	46	107	19	0	172	102	22	78	2	204	45	92	14	19	170
India	23	22	1		46	46	22	24	0	92	23	24			47
Indonesia	45	90	0	4	139	47	7	40	0	94	46	28		4	78
Japan	45	27	0		72	116	62	54	0	232	47	28		2	77
Korea	22	23	0	0	45	39	16	23	0	78	23	21		9	53
Laos	0	1	0	0	1	1	0	1	0	2		5			5
Macau	N/A				0	8	3	5	0	16	11	12		11	12
Malaysia	9	24	18	7	58	70	11	44	15	140	9	24	7	7	47
Mongolia	1	15			16	N/A				0		5			5
Myanmar	1				1	N/A				0		2			2
Nepal	8	16	1	0	25	17	4	13	0	34	9	16			25
Pakistan	10	30		1	41	44	7	37	0	88	9	59			68
Philippines	32	87	3	1	123	125	34	90	1	250	30	81	4	1	116
Singapore	18	45	5	23	91	44	9	33	2	88	11	45	6	25	87
Sri Lanka	1	4	14		19	19	3	6	10	38	2	5	11		18
Taiwan	25	24		1	50	41	19	22	0	82	30	22		3	55
Thailand	25	72			97	52	8	44	0	104	25	48			73
Vietnam	11	27			38	8	0	8	0	16	10	24			34
Total	402	715	64	46	1227	969	306	631	32	1938	410	643	42	80	1187

- The findings are preliminary and subject to minor counting error. AXCO does not directly collect this information.
- **Bangladesh** (The life insurance data by AXCO includes three takaful companies.); **Brunei** (All composite insurers reported by AXCO are takaful companies.); **Japan** (The 27 companies by AXCO include 18 foreign branches and 3 insurance holding companies. AXCO also reports that there are 59 co-operative insurance carriers and 64 "short-term small-amount (SSI)" insurance carriers.); **Malaysia** (The reinsurance data by AXCO includes five nonlife insurers). **Pakistan** (AXCO quotes that eight for life insurance includes two health insurers. It also quotes two life and three nonlife takaful insurance companies.); and **Taiwan** (The number for nonlife includes one co-operative company.)
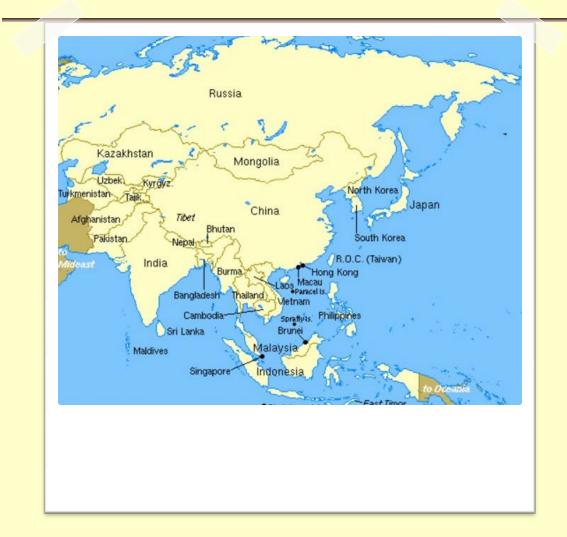- Of the 969 companies it reports, the Fitch rating information is provided for 532 companies (or 54.9% of the sample).

Data Collected from the Private Sector

The ISIS Case – Data Availability Based on a Reporting Basis

Country	Total	Reporting Basis		Report Unavailable	Percentage Available
		Consolidated	Unconsolidated		
Bangladesh	60	1	13	46	23.3%
Brunei Darussalam	2	0	2	0	100.0%
Cambodia	6	0	2	4	33.3%
China	122	8	112	2	98.4%
Hong Kong	102	18	41	43	57.8%
India	46	1	15	30	34.8%
Indonesia	47	10	37	0	100.0%
Japan	116	27	74	15	87.1%
Korea	39	1	38	0	100.0%
Laos	1	0	1	0	100.0%
Macau	8	0	3	5	37.5%
Malaysia	70	15	52	3	95.7%
Nepal	17	0	0	17	0.0%
Pakistan	44	0	41	3	93.2%
Philippines	125	5	39	81	35.2%
Singapore	44	12	31	1	97.7%
Sri Lanka	19	6	9	4	78.9%
Taiwan	41	2	31	8	80.5%
Thailand	52	0	52	0	100.0%
Vietnam	8	2	6	0	100.0%
Total	**969**	**108**	**599**	**262**	**73.0%**

2011 OECD Survey:

19 Asian Countries

Based on W. Jean Kwon (2012), OECD Asia Regional Expert Seminar in Bangkok, Thailand

2013 OECD Survey:

16 ASSAL Member Countries

Based on OECD (2013) at Latin American Seminar on Insurance Statistics, Montevideo, Uruguay

Key Findings

- **Key findings for improvement**
  - Timeliness
  - Accuracy
  - Data Collection efficiency
  - Standardization
  - Regional/Global coordination

- **Suggestions**
  - Accounting principle and codification
  - Data scope, insurer compliance, and quality control
  - Technical and IT support

OECD Global Insurance Statistics (GIS)

- **Being expanded to include non-OECD countries**
  - Hong Kong, Indonesia, Malaysia, Singapore
  - South Africa
  - Brazil, Columbia, Costa Rica, Cuba, El Salvador, Guatemala, Nicaragua, Panama, Peru, Uruguay

- **To be revised for more variables**

- **A new round of survey in 2014**
  - Also to examine and understanding key statistical and financial methodologies governments use for insurance regulation/supervision
  - Expected to be available yearend 2014

Concluding Remarks

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- **More layers of regulation**

  - Vertical (FIO vs. NAIC/states in the US)
  - Horizontal (intergovernmental and regional agencies)
    - IAIS, EIPOA, OECD, IMF, World Bank…
    - ASEAN for regional market initiatives in 2015
    - Asociación de Supervisores de Seguros de América (ASSAL)

- **Capital and risk management regulation**

  - Government-imposed and self-regulation

- **Insurance data/statistics**

  - Codification and standardization

Thank You!