



The annual Board of Directors and Board of Academic Advisors meetings were held in Washington October 28 - 29, 1999. A reception and dinner at the Hotel Sofitel honored retiring Chairman, **Ed Jobe**. The highlight of the occasion was a

signing ceremony when Ed and Deputy Assistant Secretary of Commerce **Everette James** signed the Memorandum of Understanding formalizing the International Insurance Technical Assistance Partnership. The Partnership, a two million dollar program, enables the IIF and the Department of Commerce to combine resources in developing technical assistance programs for emerging market regulators and executives. The following day LeBoeuf, Lamb, Greene & MacRae, LLP hosted the Board of Directors meeting, with World Bank Vice President of Financial Sector Operations **Manuel Conthe** as guest speaker.

Quarterly Report

Fall 1999

New Chairman Elected

The Board of Directors elected **Donald J. Greene** as Chairman of the International Insurance Foundation. Currently serving as Of Counsel assisting in insurance law matters, Mr. Greene was made Name Partner of LeBoeuf, Lamb, Greene & MacRae, LLP in 1993. The Firm is dedicated to service of the insurance industry, working towards the expansion of U.S. insurers to other parts of the world.

Mr. Greene is a recognized authority on insurance law, providing strategic counsel to senior management in all sectors of the industry as well as assisting regulators and legislators in developing policy and law. He has served as counsel to various State Insurance Commissioners in approving transactions which presented original questions of law in such areas as demutualization, merger and change of control. He frequently speaks on insurance topics before trade and professional groups throughout the United States and Europe and has received national and international recognition for his contributions.

A graduate of Fordham University and Columbia University Law School, Mr. Greene was admitted to practice in New York in 1961. In November 1998 he was invested as Honorary Commander of the Most Excellent Order of the British Empire by the British Ambassador, on behalf of Her Majesty and Her Majesty's Government, for his service to Lloyd's, the British insurance industry, and the community of international insurance and law. In addition to being a founding Director of the International Insurance Foundation, he is a Director of AXA Financial, Inc. and the Equitable Life Assurance Society of the United States and Trustee of The College of Insurance.

In addition to the Foundation's current projects, Mr. Greene promised to institute "a special education program; one-day seminars offered to Founding Members' international staff which will focus on one or more particular nations and the level of their evolving regulatory and legislative schemes."



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Board Honors Ed Jobe

Recognizing the outstanding leadership Ed Jobe provided during the IIF's formative stage, the Board passed the following resolution:

Therefore, be it resolved that the Board of Directors of the International Insurance Foundation expresses its profound appreciation to Ed Jobe for his vision, enthusiasm, and unselfish dedication to the creation of a robust and sound global insurance marketplace, and

Be it further resolved that Ed Jobe shall be the Chairman Emeritus of the International Insurance Foundation for life.

In addition, the Board approved the Foundation's Year 2000 budget, allowing the IIF to continue existing programs while developing the infrastructure for expanded technical assistance to emerging markets. In the new year, the IIF will seek to systematize its educational programs with more published materials and educational modules to be used in multiple settings. The IIF will continue its partnerships with the IAIS, the Department of Commerce, the World Bank, and the Financial Services Volunteer Corps and will strive to find additional partners among organizations pursuing international economic development.

The board also elected seven new Directors:

Mahmoud Abdallah, *President, International Operations*, American Re-Insurance Company

Peter Corrigan, *Chief Executive Officer*, GIO Australia Holdings, Ltd.

Peter Demmerle, *Partner*, LeBoeuf, Lamb, Greene & MacRae, LLP

Joseph Hamilton, *Senior Vice President*, Liberty International

Gary J. Owcar, *President & Chief Operating Officer*, CNA Global Operations

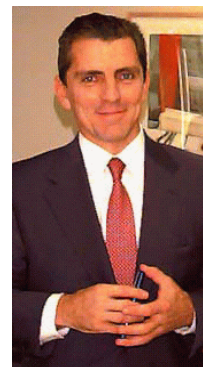
Robert M. Peduto, *Vice President, Global P&C Insurance*, Employers Reinsurance Corporation

Stewart H. Steffey, Jr., *Managing Director*, Reinsurance Australia Corporation

The Board of Academic Advisors, chaired by Norm Baglini, Ph.D., CPCU, CLU welcomed two new members, Mark Dorfman, Ph.D. of the University of North Carolina, Charlotte, and Ira Blatt, Senior Organizational Development Consultant from the Insurance Services Offices, Inc. The academic advisors reviewed the IIF educational programs to date and offered suggestions for future activities.

World Bank Vice President Addresses Board

During the IIF Board Meeting, **Manuel Conthe**, World Bank Vice President of the Financial Sector Operations was the featured speaker. Mr. Conthe joined the World Bank in April in a position created to strengthen the Bank's financial sector development efforts. He is responsible for the Financial Sector Board, Banking and Financial Institutions, Capital Markets Development Department, the Financial Strategy and Policy Group and the Special Financial Operations Unit. Prior to joining the World Bank, Mr. Conthe served as the Spanish Government's Deputy Minister for Economy and as Director General of the Treasury and Financial Policy. In that position, he played a leading role in modernizing and strengthening the domestic banking and financial markets and was closely involved in the design of the European Monetary Union.



In his presentation, Mr. Conthe stressed four reasons why the World Bank is interested in the insurance sector. The first is readily apparent in the wake of severe natural disasters hitting developing countries—earthquakes in Taiwan and Turkey and hurricanes in Central America, for example. The Bank works to promote loss mitigation plans as an integral part of disaster management. Secondly, through the investment aspects available through life insurance and pension plans, the insurance sector facilitates the capital accumulation necessary for economic development. Third, the World Bank assists developing countries as they proceed with pension reforms, moving from state-run systems to private systems, working to cut down on corruption, and improving transparency and efficiency. Finally, the Bank encourages supervisory training and global standards to prevent regulatory arbitrage in the financial sector.

Review Essay:

The Future of the International Financial Architecture: A Report

Few publications can claim as much influence as the Council on Foreign Relations journal *Foreign Affairs*. On the pages of *Foreign Affairs* the world first learned of George Kennan's strategy for containing Soviet expansion, of Willy Brandt's policy reversal regarding Germany's eastern neighbors, and of Richard Nixon's similarly dramatic reversal of China policy. The final 16 pages in the November-December 1999 issue of *Foreign Affairs* summarize the report of a task force on the future of the international financial architecture. Thus literally the last words for the millennium from this venerable oracle of world events portend major improvements in the behavior of the world economy.

In the wake of the Asian financial crisis the Council of Foreign Relations assembled an independent task force to study the international financial architecture. Two years of disruption following the devaluation of the Thai baht in July 1997 have triggered an intense reevaluation of the so-called Washington consensus that has guided the post-Cold War world toward fiscal discipline, shrinking public sectors, and progressive liberalization. The 32-member task force, a broad array of respected economists, political leaders, and business executives, augmented their own unparalleled knowledge by interviewing the IMF Director and Deputy, three Treasury Secretaries, and several finance ministers and central bank governors. The full report, *Safeguarding Prosperity in a Global Financial System*, is available on the Council's website www.cfr.org or from the Institute of International Economics [150 pages, \$16.95].

Commendably the report asserts its relevance up front. Financial stability is not only good for the world, it is in the American national interest. "The more successful Americans are in reducing the frequency and severity of financial crises, including in the emerging economies, the better are the

chances of safeguarding America's jobs, savings, and national security as well as of promoting global prosperity."

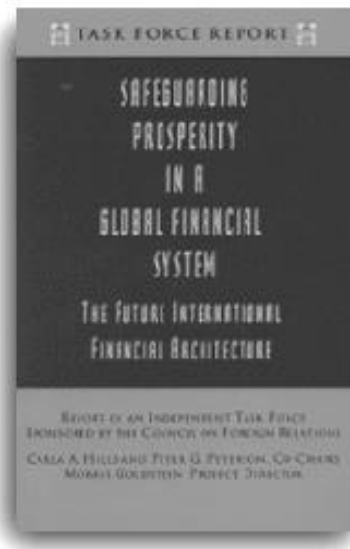
The longest section of the full report analyzes the roots of the recent financial crisis in remarkably cogent, informed, and readable fashion. Since the report was drafted by Morris Goldstein, already the author of the most learned diagnosis of the Asian crisis, and most contenders for that accolade also served on the task force, the virtuosity of this section comes as no surprise. If you read only one thing on the subject, let this be it.

Key points are that every crisis is different, they have occurred throughout history, and still they are dangerous. Had the American economy not been so robust when the Asian crisis occurred, the effects could have been far worse. Rather than accept the inevitability of periodic crises, the Task Force urges specific

steps to limit their recurrence:

- greater rewards for countries that put their houses in order with sound macroeconomic policies and strong banking systems
- limitations on short-term, but not long-term, capital flows
- promotion of market discipline and private sector sharing in crisis resolution
- avoidance of pegged exchange rates
- smaller, but more effective, IMF bailout packages
- refocusing the roles of the IMF and The World Bank
- efforts to generate more political support for these reforms

Although these recommendations have a familiar thrust, the task force gives greater emphasis than most to market discipline and political support. It is freer to criticize the IMF and The World Bank [although it suggests that they should not criticize each other], but it also strongly



Robert Gibbons is Executive Director and President of the International Insurance Foundation.

endorses the function of the World Bank: “one should remember that financial stability is not an end in itself but rather a means to a broadly shared global prosperity—and that it is a fantasy to believe that financial stability can be maintained without attention to the social aspects of development.”

The question of fixed or flexible exchange rate regimes occupies considerable space in the report, although it leads to no more satisfying resolution than elsewhere in the extensive literature on the subject. A third of the Task Force members consider an end to exchange rate volatility a prerequisite to other meaningful reforms.

Aside from the ongoing debate over currency regimes, the report heralds a reaffirmation of the Washington consensus. After an intense re-examination, it concludes that the Bretton Woods system may not be perfect, but it is better than any of the alternatives. Neither abolition of the IMF nor the creation of a global central bank are serious possibilities. The Task Force recommendations amount to a renovation of the international financial architecture, not its reconstruction. Weaknesses have appeared; they must be fixed. Some elements must be modernized, taking account of powerful lessons gleaned from the experience of the last two years. The basic structure integrating the global economy, however, is sound.

Thus the oracle reflects a vision of a magnificent international financial architecture, but key elements remain unshaped. The task force report conceives the international financial system too narrowly. Non-bank financial institutions are rarely mentioned, and the contributions of financial services to economic development are largely ignored. Although unspecified in the report, the potential welfare gains from global risk-sharing represent the most exciting promise of this future international financial architecture.

Ironically since the study was funded by the C.V. Starr Foundation, the word insurance appears relatively few times in the full report, compared to 377 references to banks. Most of the report's references to insurance are to bank deposit insurance, something that most emerging markets do not have and should. Three references are to a vague concept of protection, and one is a skimpy and unduly optimistic allusion to progress toward

international supervisory standards.

In only one place does the report mention insurance as a business enterprise providing needed financial services. Neglecting the diversity of financial services obscures a fundamental link between financial stability and global prosperity. With the waning of ideological conflict, the main threat to stability now comes from the difficulty in knowing the future. The international financial architecture must weave a rich tapestry of financial services not only to make prudential supervision a level playing field, but also to give developing countries access to the full range of financial services needed to manage risks and surmount income volatility.

A mature financial sector facilitates growth. Lower transactions costs and improved opportunities to protect assets from accidental loss, enhance credit, invest savings, smooth income flows, provide retirement income, and secure health care can raise productivity of most emerging economies significantly. With more transparency, market discipline can provide incentives for sound decisions. With better information, markets allocate resources more efficiently, and the adjustment process is smoother. For example, the task force properly argues that deeper bond markets in developing countries would evaluate credit risk better and allocate capital accordingly. The same logic applies to other types of risk. Financial markets can provide price signals to manage risks at all levels, from the insolvency of institutions to the accidental losses of individuals and firms. With appropriate price signals, emerging economies can design safety nets that are both effective and affordable. When that happens, political support for an integrated international financial system will not be hard to find.

The Council on Foreign Relations task force has thankfully ended the debate on the design of the future financial system. Now it is time to make the repairs, fill in the missing parts, and let it work. If that future financial system allows risks to be priced commensurately with actual exposures, both stability and prosperity will follow in due course.

Argentina's Solvency Monitoring Analyzed

On November 11, 1999, IIF Research Director **Ian Webb** presented the IIF's assessment of the capitalization of the Argentine insurance industry. Over fifty people representing insurance trade associations, insurance companies, actuarial and auditing firms, and regulatory officials attended a seminar in Buenos Aires organized by **Alejandro Quiroga**, Undersecretary for Banking and Finance in the Ministry of Economy. The Argentinean government commissioned the IIF study, using funds from a World Bank structural loan. Following Ian's presentation, **Don McIsaac**, Principal Specialist from the World Bank Financial Sector Development Department, explained the importance of an effective solvency monitoring system and described Canadian capital requirements.



The IIF study compared Argentina's solvency monitoring and minimum capital standards with international best practices. On the basis of 17 interviews with insurance executives, auditors, actuaries, and officials from the insurance superintendency in Buenos Aires, the report highlighted concerns regarding solvency of Argentinean insurers. A very competitive environment exists in the Argentinean insurance industry, fueled by many new foreign players and a soft reinsurance market. Low capital levels are particularly troublesome in the property-casualty market, which is characterized by inflated expenses and cash-flow underwriting practices. Past problems with IndeR (the state reinsurer that is undergoing liquidation), inadequate reserving practices in auto lines, and the hyperinflation of the last decade have resulted in many insolvencies, quickly reducing the number of insurers in the market. The superintendency appears to lack an adequate early-warning and on-site inspection system, placing too much confidence upon the solvency margin as both a guarantee of solvency and an indicator of financial trouble.

The report recommends improvements in the solvency monitoring framework and capital standards necessary to move Argentina closer towards integration with global financial markets. It analyzes the advantages and disadvantages of EU-style solvency margins compared to U.S./Canadian-style RBC requirements and suggests a broader, more balanced solvency monitoring framework for Argentina. Several of the report's recommendations have been incorporated into proposed insurance legislation in Argentina.



Latin American Regulators Come to Hartford

The Connecticut Insurance Department, the Department of Commerce, the International Insurance Foundation, and the University of Connecticut Law School joined forces to organize the Conference for Latin American Regulators in October. The Law School's idyllic campus and a gorgeous New England fall provided the perfect setting for this gathering of regulators from 14 countries throughout the Americas. Connecticut Insurance Commissioner and NAIC

President **George Reider** conceived this event two years ago when he recognized the need in emerging markets for the technical knowledge and experience abundant in his own state.

U.S. Deputy Assistant Secretary of Commerce **Everette James** delivered an outstanding keynote address highlighting the linkage between sound regulation and the healthy development of insurance markets. IAIS Chairman **Hanley Clark** presided over a panel inventorying key regulatory issues in Latin America. IIF Research Director **Ian Webb** contributed to a panel discussion of solvency regulation, joined by Maine Commissioner **Al Iuppa** and Mexico's **Armando Venegas**. Iowa Commissioner **Terri Vaughan** and Canada's **John Thompson** discussed the regulation of financial conglomerates. Other panels addressed regulation of emerging products in Latin America, safety nets for insurance and banking, and additional regulatory concerns. Participants from Argentina, Brazil, Mexico, Venezuela, Panama, Costa Rica, El Salvador, Guatemala, Honduras, Bolivia, Uruguay, and Peru briefed the audience on the challenges facing them as insurance supervisors.

IIF Founding Member **Aetna International** hosted a dinner for the delegates at the Wadsworth Atheneum, and The Hartford and Citigroup also hosted dinners. The Conference culminated with a visit to the Connecticut

Insurance Department, providing the delegates a rare opportunity to compare specific regulatory methods and approaches with their counterparts.

New Founding Member

The International Insurance Foundation welcomes **AXA Financial, Inc.**, as a founding member, supporting our efforts to build a sound global private insurance market.

FUNENSEG Seminar

September marked the fourth annual Brazilian international executive development seminar co-sponsored by IIF and Brazil's national insurance school FUNENSEG and hosted by American Re-Insurance Company in Princeton, NJ. From over forty applicants, FUNENSEG selected the twenty-five participants on based professional qualifications and English language ability. The objective of this two week seminar was to expose Brazilian insurance executives to the practices and products of the U.S.



insurance market, thus providing them the necessary skills and concepts to develop a robust and efficient private insurance industry in Brazil. Representatives from the Foundation's member companies led discussions ranging from life and P/C insurance and reinsurance to rate-making and loss reserve calculations. Presenting companies included American Re, Employers Reinsurance Corporation, Lincoln Reinsurance Company, Ernst & Young, Arthur J. Gallagher, Sul America Aetna, Insurance Services Office, Inc., Standard & Poor's, LeBoeuf, Lamb, Greene & MacRae, and A.M. Best. Although their schedule was full, extra activities included an historical tour of Princeton, an evening trip organized by the participants to Atlantic City, and two days in New York City.

IAIS Education Program

The IIF continues to support the educational program of the Insurance Association of Insurance Supervisors (IAIS). Earlier this year the IIF collaborated with the IAIS, the OECD, and the Monetary Authority of Singapore to organize a seminar focusing on crisis prevention from the insurance supervisory perspective. In May 1999, the IIF and IAIS co-sponsored the XV Conference of European Insurance Supervisory Services in Warsaw, Poland. In July IIF consultant **Gail Burns** co-chaired the IAIS African Education Conference in Pretoria, South Africa. Attendees discussed liberalization and privatization, licencing, on-site inspections, rating agencies, asset valuation, and investment risk management among other topics.

For the year 2000 the IAIS Education Committee has tentatively scheduled the following educational conferences:

March 30-31	Lima, Peru	Latin American Regional Seminar
May	Tokyo, Japan	Asian Seminar for Insurance Supervisors
June	South Africa	African Regional Seminar for Directors
July	Warsaw, Poland	Eastern European Executive Regional Seminar
September	Mexico	Latin American Executive Regional Seminar
December 4-8	Vienna, Austria	Eastern European Executive Regional Seminar for Directors

In addition the IAIS Annual Conference will be in Capetown, South Africa, October 8-13, 2000.